School Insurance 101

Practical Insurance Guide

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Our first installment of the series, **School Insurance 101**, will provide readers a strong grasp of the insurance landscape.

FFB Insurance

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Introduction

In order for your organization to maximize the benefits of your insurance program there should be someone on staff who has an understanding of your coverage, the areas within your program that might need more attention and your responsibilities as a policyholder.

This is why we have developed our new Practical Insurance Guide series. The series will include three installments moving from the basics of insurance, to insurance procurement, and then finally the concept of risk management.

Our first installment of the series, School Insurance 101, will provide readers a strong grasp of the insurance landscape.

How well do you understand your current insurance coverage? Are you aware of any areas in your policy that need more attention? How closely should you work with a broker? Often times, questions such as these are not even considered by policyholders until they need to make a claim – and, at that point, it can sometimes be too late.

What Is Risk Management?

The central function of risk management is to protect your school, students, and staff as well as reduce the chance of loss for your organization.

There are five main principles of risk management:

A Risk Identification

Understanding the risks facing your school is the most important element of risk management. While schools share many challenges, every school has a unique set of circumstances that result in different levels of risk.

B Risk Analysis

What is the worst that could happen? In risk analysis you determine which risks are common (high frequency) and which are infrequent but carry severe repercussions if they were to occur.

C Risk Control

With risk control, you decide how to best manage the risk that has been identified and analyzed. Most common risk control techniques are risk avoidance, risk prevention/management, and risk transfer. Risk transfer is the contractual transfer of risk, usually to an insurance company. This is where insurance contracts (policies) come in to play. Risk transfer can also be completed contractually (i.e. landlord transfers risks of loss at a property to their tenant).

D Risk Financing

How will your organization pay for loss events? There must be financing for uninsured or underinsured losses.

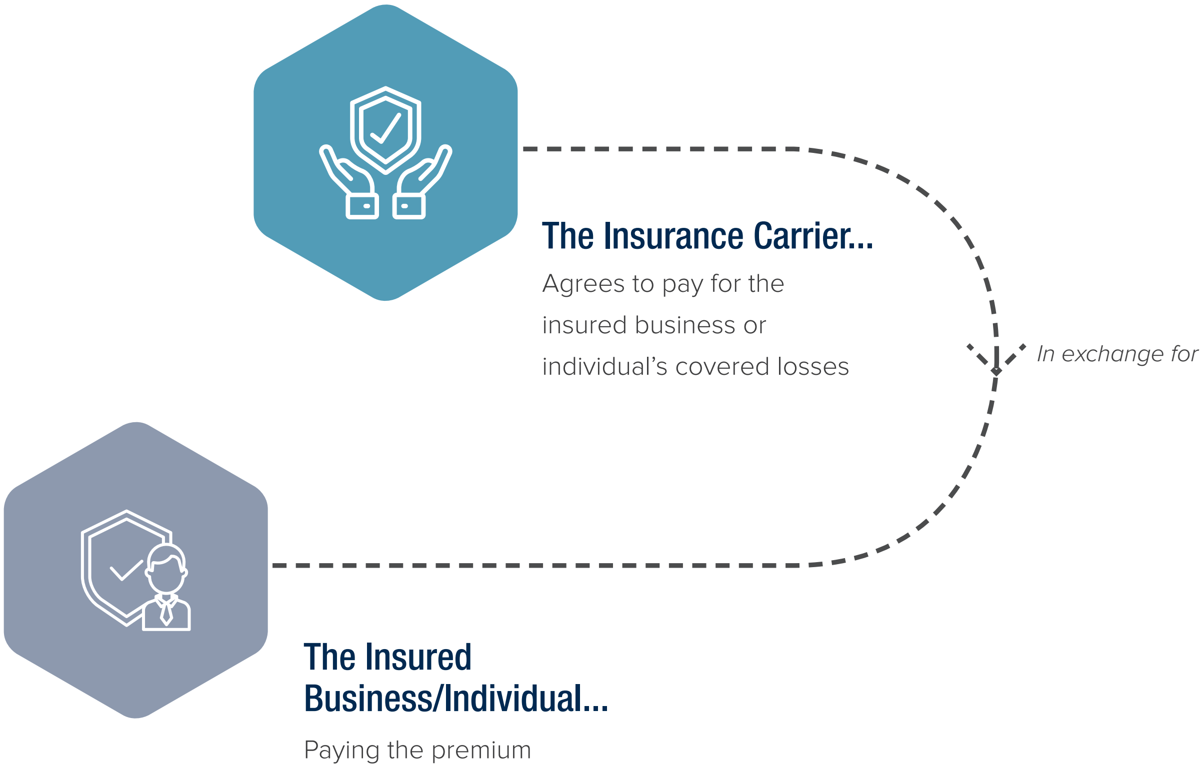
E Claims Management

What to do when an incident occurs or a claim is filed. This will have both insurance program and risk management components.

What Is Insurance?

Insurance is a form of risk management; it is the transfer of risk to an insurance company using an insurance policy.

It is an agreement between two parties, the insurance carrier and the policyholder (also known as insured), that promises a certain action. The insurance contract, at its basic level, looks like this:



In other words, you and/or your school (policyholder) make an agreement to pay a set insurance premium to your carrier, and in return the carrier agrees to pay for any losses you incur that are covered by your insurance plan.

It is important to know that carriers want to help you manage risk. By insuring the policyholder, the carrier has contractually assumed liability and is responsible for making payouts in the event of a loss. This is why they ask you to complete applications informing them about your organization and conduct loss control visits to your schools.

Insurance Roles and Responsibilities

There are three key stakeholders in the insurance transaction: the insured (the school), the broker (or agent), and the insurance company. Below we will review each role as well as a number of other parties you will need to interact with when managing your insurance program.

The Insured

The insured, aka policyholder, is the holder of the insurance policy. The insured (with representation by their broker) negotiates and selects the appropriate policies to procure from insurance carriers. The Insured is responsible for paying the insurance premiums and is the primary benefactor of the policy unless specified otherwise (more on this later).

The insured is also responsible for meeting the conditions of the policies in order for the coverage to be afforded per the terms of the insurance policy. The conditions section of a policy outlines how quickly a potential loss or claim must be reported to the carrier, how a loss can and should be reported, as well as any other steps needed to ensure the correct steps are taken for coverage to be afforded (i.e. one cannot admit liability, etc.). Some policies may also have specific conditions such as maintaining certain heat levels for property coverage to apply, or requiring written contracts with vendors or contractors for liability coverage to apply.

It is important for the insured to ask questions. The insured needs to understand what is and what is not covered by the insurance policies procured. For perils that are not covered, appropriate measures need to be put in place, whether avoidance, risk reduction or other. Ultimately, it is your responsibility to understand what protections are in place and which are not.

It is important for the insured to ask questions. The insured needs to understand what is and what is not covered by the insurance policies procured.

The Insurance Carrier

The insurance carrier makes up the other half of the insurance contract. The carrier will underwrite one or more coverages and will offer terms that often times can be negotiated and molded to fit the insureds specific needs. Once the insured selects the appropriate programs and binds the coverages, both the insured and the insurance carrier will have obligations and responsibilities based on what is agreed to in the policy.

There are several types of insurance terms you may come across upon, so we'll highlight the most common ones here:

- **Standard lines** carriers, also known as admitted carriers, are licensed to operate and sell specific coverage lines in particular states. These carriers are subject to the regulations of the state in which they operate. The benefit of being subject to state regulation is that the state then guarantees that insured claims will be covered (up to a certain amount per claim as determined by the state) in the event a carrier is unable to pay claims due to insolvency. All things being equal, procuring coverage through admitted carriers is preferred.

- **Excess Lines** (aka Surplus Lines) are not subject to state regulation and therefore are not guaranteed by the state's insolvency fund. Excess lines carriers have more freedom to adjust pricing and coverages at renewals and are often associated with higher risk categories which admitted carriers may choose not to insure. When procuring coverage through an excess lines insurer, it is important to review their financial ratings. Banks generally do not accept carriers that maintain a rating that is lower than A- VII by A.M. Best Company - which is the leading insurance rating organization. With the excess lines programs, your broker may ask you to sign state disclosure documents to confirm your understanding that the coverage is not admitted in the state and the applicable taxes and fees for the policy are paid on top of the policy premium (usually 3%-5% depending on the state).

There are many insurance carriers who serve the education space.

Larger carriers include Markel, United Educators, Philadelphia, Utica National, Hartford, Hanover, GuideOne, Arch, and Munich Re.

Though some insurance marketing campaigns may try to claim otherwise, there is no one company that is "the best."

- **Captive companies** are those that are owned by the insured or jointly owned by several insureds to self-insure certain risk. Captives are usually reserved for larger organizations, which are able to absorb large retentions and have the ability to effectively control losses.

- **Stock companies** are general for-profit insurance companies.

- **Mutual Companies** are owned by the policyholders. In theory, policyholders can (and do) receive dividend distribution payments when the carrier's board decides that it has surplus funds. There are several mutual companies participating in the education space.

- **Risk Purchasing Groups** (RPG) are legal entities that group unassociated insureds together for the purpose of scale to negotiate terms and pricing of certain insurance coverages. The policies offered to the insureds can be separate and/or grouped. Favorable rates and coverages are negotiated based on the overall size of the purchasing group.

- **Risk Retention Groups** are in essence an insurance carrier where the policy holders are the members and owners of the carrier. Members of RRG share in the upside as well as downside of risk of the insurer. If the RRG has excess surplus, it can return it to its members or lower the premiums for subsequent years. However, when there is a shortage of capital to pay claims, the RRG goes back to its members for capital calls. There are many successful RRG's in the marketplace today, and there are many that are not, and there are those that have failed over the years leaving members with millions of dollars of unexpected liability. If you are considering joining an RRG, please be extra diligent in reviewing the financial strength of the entity.

There are many insurance carriers that serve the education space. Larger carriers include Markel, United Educators, Philadelphia, Utica National, Hartford, Hanover, GuideOne, Arch, and Munich Re. Though some insurance marketing campaigns may try to claim otherwise, there is no one company that is "the best." For the most part, carriers offer somewhat similar products at fairly similar price points. Carriers may offer more aggressive pricing in some years, in certain territories, for some type of risks while other times they can be more restrictive or exit an area or segment altogether. Some may have stronger customer service, some may have robust loss control expertise, and others may have fantastic claims departments. Carriers may be great in one area and terrible in another. The coverage boils down to the contract you have purchased. Choosing the carrier should not be based on price alone. Your broker should be able to walk you through the advantages and disadvantages of the carriers that you are considering.

It is likely that you will maintain policies with multiple carriers at the same time as no single carrier will offer all of the coverages that you will need to procure.

The Broker

The broker is your representative who assists in securing, negotiating, and servicing insurance policies on your behalf. The broker should be your trusted adviser and will guide you through the entire insurance experience.

Common services provided by brokers typically include:

- Assistance with risk assessment
- Presentation of your account to insurance carriers, securing and negotiating insurance terms, providing proposals with options, advice, and recommendations
- Responsive customer service – policy reviews, contract reviews, certificates issuance, claims assistance and management
- Availability. The very best brokers are those that are knowledgeable and can be reached any time day or night.

Why Use a Broker?

Insurance brokers will help you understand the insurance industry by providing you with their knowledge and experience of new programs and offerings. Additionally, they can be a thought partner on how to minimize your risk and (potentially) lower your premiums. Finally, brokers will handle the communication between carriers submitting proposals on behalf of the school.

Think of your broker as an extra employee who isn't on your payroll. He or she works on behalf of your organization to provide you the best possible coverage and ensure your policy meets your insurance needs. Brokers with a niche in education can be trusted to understand the specific needs of your school.

There are different types of brokerage firms with which you can choose to work.
Larger brokers can provide an excellent solution for very large organizations, but many struggle to provide adequate service especially to midsize networks or smaller schools. They generally have the advantage of good systems, templates, procedures, relationships with carriers, and have in house expertise in almost any insurance field. However, they tend to pass along your account to be managed by younger, less experienced staff who are not able to add the same value provided by more experienced brokers. Some of the larger brokers with education practices include Marsh & McLennan, Aon, and Gallagher.

Mid-size and niche brokers, will generally provide more services than those provided by larger brokers and will tend to have education accounts handled by senior/experienced staff or directly by agency principals. These brokers are likely to spend more time on your account and can often provide significant value in terms of marketing results, personal connections, education on the process, guidance, and overall delivery of service. Some of the mid-size and niche brokers in the education space are First Fidelity Brokerage, Crystal & Company, and Horace Mann.

The very small brokers, with some exceptions, may not have the expertise and resources to handle educational institutions. Finally, it is important to remember that the broker works for you. You should not hesitate to ask questions to ensure their services meet your needs. As a school, you ideally want a broker with a niche in the education space to ensure he or she has the necessary expertise and access to all the insurance products available to schools.

Other Parties

There are parties who can be involved or influence the insurance processes, including:

- **Banks/Lenders/Funding sources:** If you receive funding or financing, the lender will have specific insurance requirements that will need to be met.
- **Consultant:** Some organizations may work with a consultant for advice on insurance procurement or risk management.
- **Grantor/Municipality:** Specific insurance requirements may be required by school grantor or the city or municipality in which it operates.
- **Landlords:** Landlords will also have specific insurance requirements that will need to be met.

Conclusion

Schools and school networks/systems have a lot at stake. Now, you have a fundamental sense for how insurance works, the concept of risk, your role as a policyholder, what kind of brokerage firm will best suit your needs, and the benefits of working closely with a broker.

With this new understanding, we hope that you feel equipped to get the most out of your policy.

You can begin to see how to take full advantage of all the resources available to you, how to best navigate the industry, strengthen loss control, and create a comprehensive plan to fully protect your school or network, its assets, and its students and staff. Although you have gained a grasp on the basics, there is much more information available that can further prepare you as a policyholder. We look forward to sharing additional thoughts in the near future.

Common Insurance Terms

- **Actual Cash Value (ACV) Valuation** – A method of valuing insured property, or the value computed by that method. ACV is computed by subtracting depreciation from replacement cost.

- **Business Income Coverage** – Protection against loss of income or profits, in which the policy-holder has suffered a covered property loss or damage.

- **Claims-Made Basis** – A policy form that provides coverage during the policy period or during the extended reporting period of the policy, but not after any lapse in coverage. For example, a former employee files against fellow teachers, the principal, and the board of trustees for wrongful termination, but only a year-and-a-half later. The policy that is currently in place will cover this claim. The policy that was in place when that individual was terminated is off the hook.

Leader Tip:

If changing claims-made insurers, make sure that the new company agrees to pick up the incidents that have occurred during previous policy periods. This is known as the retroactive date, which should be the date the school purchased its very first claims-made policy. Most professional liability, directors and officers, employment practices liability, errors and omissions, and fiduciary liability policies are written on claims-made forms.

- **Coinsurance Penalty** – A penalty imposed on the insured by the insurance carrier for underreporting/underinsuring the value of the tangible property or business income.

- **Conditions** – The rules of the insurance policy that outline the rights afforded to both the insurer and the policyholder. They also describe the duties each is required to fulfill under the terms of the insurance contract.

- **Deductible** – A defined amount of money that the insured must pay before an insurance company will pay a claim.

- **Extra Expense Coverage** – Pays for additional costs in excess of normal operating expenses that an organization incurs after a covered loss.

- **First-Party Coverage** – A policy type under which the insured (the first party) is paid by his or her carrier in the event of an accident, injury, or loss, whether caused by itself or someone else (the third party) to owned property or that which is its care.

- **Occurrence Basis** - A policy form that provides coverage for any covered incident that occurred during a policy period, even if that policy was not renewed (or has been cancelled). For example, a third-party slips in the school but files a claim two years after the fact. The policy that was in effect when that fall occurred will respond for defense and indemnity. Most general liability, workers compensation, and automobile coverages are written on occurrence forms.

- **Premium** – The amount of money that an individual or business must pay for an insurance policy.
- **Replacement Cost Valuation** – The actual cost to replace an item or structure at its pre-loss condition. This may not be the "market value" of the item, and is typically distinguished from the "actual cash value" payment which includes a deduction for depreciation.
- **Risk** – The likelihood that an insured event will occur, requiring the insurer to pay a claim.
- **Retention** – A defined amount specified in a policy that must be paid by the insured before the carrier will cover a loss.
- **Special Coverage Form** – Coverage that protects property against any source of loss that is not specifically excluded. Under this form, the carrier can only deny a claim if it can prove that the source of loss is specifically excluded.
- **Statutory Coverage** – Insurance that the insured is required to buy under a country, state, or federal law.
- **Third-Party Coverage** – A policy type under which the insured (the first party) is protected against the claims of another (the third party).

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Eugene Podokshik has consulted, structured, and administered insurance programs since the early 2000's for numerous schools and school networks. Podokshik graduated from NYU with a BS in Economics and a BA in Political Science, and holds the CPCU and the CRIS designations. Podokshik serves as Board President of CIDNY- ILS, a New York City not-for-profit Home Care Agency with over 700 employees, and is Treasurer of the Brighton Ballet Theater, one of the nation's largest children's ballet schools. He is also the founder of Emergency Risk Management Association, a 501 c(3) nonprofit dedicated to helping organizations prepare for unwelcoming events.

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Mark Muscatiello brings almost fifteen years of school operations and management experience to his role at FFB. Prior to joining FFB, he spent eight years in school operations leadership at the Charter Management Organization Uncommon Schools, ending his tenure with the organization as Associate Chief Operating Officer. Before joining Uncommon Schools, Mark was a founding member of the Urban Assembly Academy of Government and Law, a traditional public high school in New York City, where he served as Dean of Students. Mark holds a School Building Leader Certificate from Canisius College, a M.A. in Political Science from the Rockefeller College at the University at Albany and a B.A. in Political Science from the University at Albany.

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About FFB

First Fidelity Brokerage (www.ffbinsurance.com) is a full-service risk management/insurance brokerage with a specialty niche in education. The FFB team provides a full spectrum of risk management services, including insurance placement, program development and administration, risk management and loss control consulting, claims administration, and proprietary consultation services. FFB manages a Risk Purchasing Group exclusive to the education industry, which delivers group members improved policy benefits at reduced costs. For more information, **contact Mark Muscatiello, Managing Director, Education, at markm@ffbinsurance.com or (212) 933-9050 ext. 1818.**