



## SCHOOL INSURANCE NEWSLETTER

*February 2017*

### **TAPS Risk Pool Announces Negative Fund Balance of \$1,800,000**

Late last week TAPS advised its members of a 10% assessment to offset its negative member equity. They have trimmed their staff, discharged the executive director and moved its San Antonio office to Boerne. The letter to agents states that exclusive of re-insurance increases, next year's rates will be flat to a 10% increase. We feel that is overly optimistic based on what we are seeing in the marketplace. The assessment applies to the 2015-16 premium. The TAPS interlocal allows for a 60 day notice of cancellation, subject to a short rate penalty (about 10%).

#### Questions:

1. The assessment only equals the amount of the Fund Balance. Hail season is coming. What will happen if storms, or other losses, negatively impact loss estimates?
2. Will TAPS have enough funds to pay for the District's current and future claims?
3. Will they have enough funds to reimburse unearned premium?
4. How can they rebuild the fund balance with no increase or a 10% increase?
5. What about future assessments? As a risk pool, districts are responsible for any shortfall.
6. Should you cancel now? The assessment (TAPS calls it a Loss Fund Charge) will be applied to any return of unearned premium, subject to the short rate penalty.
7. Was it your responsibility to analyze financials?
8. Did your agent warn you of the decreasing fund balance?

Readers know how strongly we stress the analyzation of audited financial documents. We have been warning our clients of the shrinking fund balance for TAPS (and other risk pools) for the past three years. TAPS retains \$500,000 of each hail occurrence. If a risk pool's fund balance is \$1,800,000, four hail claims could bankrupt them. Well, it happened.

Risk pools are not insurance companies. Risk pools assume a level of risk which is shared by the members. Above that level, insurance is purchased; think of the assumed risk as a large deductible. Districts are the owners. Pool employees are their employees. Would you have ownership of a business without monitoring the financial results and the board who manage the company?

### **Insurance Market Update**

Be prepared for double digit increases in all of your insurance rates – not just Property. While seacoast Property rates are still flat, inland Property insurance premiums and deductibles are increasing dramatically. Districts that purchase their Property insurance from risk pools will not be affected as much as those that purchase coverage on the open market, but we see the risk pools beginning to make a move in the same direction. Separate Property insurance may still be the best option.

Travelers has all but withdrawn from the school market. Affiliated FM suffered badly from hail losses, particularly in San Antonio. Just this week we have seen one of their renewals increase premium by 23%, without losses. However, the Wind/Hail deductible changed from a flat \$50,000 to 5% of the damaged values (not 5% of the claim). The minimum deductible increased to \$100,000 per building, with an unlimited maximum. A risk pool's proposal for the same District had a \$250,000 Wind/Hail deductible.