



COMMERCIAL

MORRIS & REYNOLDS INSURANCE PRESENTS

WINTER 2011

PRIVATE SCHOOLS FACE INCREASED RATES



INCREASED RATES FOR PROPERTY COVERAGE

Shirl Hedges quickly ticks off the top three coverage problems faced by risk managers at private elementary, secondary and higher-education institutions.

“It’s property, property, property,” says Hedges, underwriting manager for schools at Philadelphia Insurance Cos. of Bala Cynwyd, Pa.

Other insurance executives dealing with private schools concur: Property coverage tops everyone’s list of concerns, with nothing else even a close second.

Angela TennisIndeed, for some schools, the tightening property market has impacted more than risk management; it already has restricted the amount of resources they will be able to devote to programs for students.

What’s behind this tightening trend, of course, is catastrophes. “You’re just seeing a lot more cat claims, which are totally going to drive rates,” says Hedges.

Through the first half of the year, catastrophes caused \$70 billion of insured property damage, more than twice as much as during 2010’s first half, according to a September Swiss Reinsurance Co. report. Those losses already make 2011 the second-worst year for insured losses and put it on track to eclipse 2005’s record of \$120 billion, Swiss Re notes.

“Some carriers were looking for 10-percent increases at renewal for all property” after the first quarter following the earthquake and tsunami losses in Japan, says Angela Tennis, a Hershey, Pa.-based vice president and the COO for the Higher

Education Alliance at Aon Risk Solutions, a unit of Aon Corp.

But flood and earthquake risks typically are covered by separate policies, including difference-in-conditions coverage, “so we’ll be seeing a tightening of that market, too,” Tennis predicts.

“We see property rates firming up across the board for educational institutions,” which is no different than for any owner of real estate, says Deb Denker, the Hartford, Conn.-based educational-institutions industry director in the commercial accounts division at Travelers Cos.

Deb DenkerBut some educational institutions, just like other real estate owners, might not face a substantial rate hike, Denker points out.

A school’s exposure to catastrophic events, its experience and its expiring rate will all be big factors in their rates at renewal, explains Mark Turkalo, a New York-based senior vice president and the national education practice leader at Marsh Inc.

Also figuring into the pricing picture are risk-modeling revisions. For example, Hedges says Philadelphia Insurance is already updating its modeling of risks along all the coasts. “Our costs to reinsurers have already gone up dramatically,” she says. “It costs us more to write cover on some property than the premiums that are being paid.”

THE CAPACITY PICTURE

Market executives are not seeing any drop in capacity, however.

For example, Denker says Travelers is not reducing its property capacity for schools and does not anticipate that other insurers will pull back the amount of limits they will write.

“There’s no shortage on our end,” adds Hedges. “But there are some areas, depending on their location, where wind and hail capacity would become an issue very quickly” and might have to be underwritten separately, Hedges said.

Turkalo estimates that colleges and universities could line up \$300 million of limits—and that even small school districts that purchase coverage through a consortium comprised of at least 10 entities could find \$200 million or more of limits.



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Miami, Florida 33176



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A crucial test for capacity will come at the end of year, as insurers' reinsurance treaties renew Jan. 1, Turkalo says. "What that means, we honestly don't know yet."

NON-PROPERTY COVERAGE

Other lines of coverage for schools, in general, are stable, market executives say. So schools should not expect any material rate increases or reductions in capacity in areas such as general liability, excess liability, commercial automobile, workers' compensation and educators' legal liability.

But there are a couple trouble spots that concern some market executives.

Mark TurkaloThe casualty-insurance market for schools is somewhat competitive, "but it's not great," says Marsh's Turkalo. The problem is that "few markets know and want this business," he said.

Large schools with 2,000 students or more, with on-campus dormitories and with sports stadiums can purchase \$75 million to \$200 million of general-liability limits, Turkalo says.

Still, there can be trouble spots within some coverages, according to Turkalo.

For example, for K-12 schools—but especially for Division I colleges and universities—many insurers are attempting to tighten general-liability coverage by imposing sub limits for losses arising from athletic competition, Turkalo says.

If schools agree to those sub limits, then they risk losing additional coverage for those losses under their umbrella or excess coverages, he says.

And auto liability is beginning to concern Philadelphia Insurance because of the increase in multi-claimant accidents involving school buses and under-insured and uninsured motorists, Hedges says.

Market executives are closely monitoring a few other areas where recent trends in claim frequency, severity or both are troubling.

For example, colleges and universities face an increasing number of age-discrimination claims in denying tenure, as those institutions work on slashing their budgets, said Aon's Tennis.

Continuing losses in that area could tighten the institutions' employment-practices-liability market, says Tennis, who advises colleges and universities to consult attorneys before—rather than after—denying tenure to ensure the institutions are complying with their own employee handbooks, as well as to make certain the handbooks are up to date.

Because of the increase in frequency and severity of those claims—as well as harassment, wrongful termination, "failure to educate" and "failure to place in a job" claims—"rate increases could be expected" for educators' legal liability by both K-12 schools and institutions of higher education, says Travelers' Denker.

But Marsh's Turkalo isn't so sure rates will be headed up any time soon. "It appears so far that most [of the losses] are contained within the retention," he says.

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