

Dear KERMP Member:

On behalf of the KERMP Board, the Gallagher Program Administration Team wanted to send a quick update that district staff can share with their Boards of Education about the state of the Kansas Educational Risk Management Pool (KERMP) and the partnership with KASB Risk Management.

In 2019 the insurance marketplace for schools went through significant changes that began during the end of 2018. Insurance companies across the entire industry evaluated their books of business and realized that they had been largely unprofitable. The simplest explanation is that insurance claims for public entities (school districts in particular) had far outpaced collected premiums for the last several years on a national scale. In addition, major global insurance events such as wildfires in California and Australia, increased significant hurricanes on the coast and a rise in Midwest flooding and wind/hail claims have cost the carriers that insure schools billions of dollars. Most property and casualty carriers for school districts haven't reported profits in several years.

The impact of these changes were felt in Kansas. One of the largest standard market carriers for school insurance, Wright Specialty, left the business of insuring Kansas school districts entirely. The Wright Specialty program was endorsed by KASB and had over 70 districts that would need to find a new home for insurance.

Shortly after KASB learned that Wright Specialty/Markel were no longer providing insurance for school districts in Kansas, KASB quickly approached the Kansas Educational Risk Management Program (KERMP), an insurance pool established by Kansas districts that was founded in 2015 with the help of Gallagher. The KERMP Board of Trustees, led by KERMP Chairman, Dr. Clint Schutte, Assistant Superintendent for Business at Haysville USD 261, held detailed conversations with KASB, KERMP, Gallagher and the current KASB insurance agencies that had represented the WSI program (Conrade and CBIZ). In the end KASB and the Board decided on forging a new partnership for KERMP to become the new endorsed Property/Casualty insurance program for KASB Risk Management.

At the 2019 program renewal, KERMP had 22 member districts in the pool. As of the writing of this letter there are 73 districts in the pool. The largest member has approximately 15,000 students and is one of the larger districts in the state. Our smallest members are rural districts of several hundred students and our Service Center Members such as ESSDACK and Smoky Hill who both sit on the KERMP Board of Trustees as elected by their peers. KERMP is a potential solution for all Kansas districts that are serious about their risk management and controlling long-term costs.

Growing the pool by such a large number was no small task and took true partnership between the KERMP Board, members, KASB, and the various vendors and partners that serve the pool. The growth of the program will only increase the benefits that all members enjoy both now and into the coming years. Examples would be KERMP's competitive pricing, advantageous coverage terms, and the potential for surplus. KERMP has netted over \$1,000,000 in surplus which can eventually be returned to members at the discretion of the KERMP Board. This comes in spite of having made over 600 claim payments totaling over \$3M to Kansas school districts.

The pool that your district participates in for coverage, KERMP, is built on a time-tested structure used by school insurance pools in other states since the 1980s. Pools like KERMP are actually the most common way that school districts purchase insurance nationwide. The flexibility of the pooled structure means that your district is no longer dependent on the underwriting whims of a single insurance

company which can change from year to year. The pool leverages its size and buying power as well as a limited degree of self-insurance to manage costs more effectively and sustainably over the long haul than a traditional insurance company.

Despite being a superior solution to traditional insurance, even pools aren't totally immune from changes in the global insurance market. The current 'hard market' cycle affects KERMP and its members, just to a lesser degree than districts buying insurance on their own. For budgeting purposes it's too early to know what our rates will look like for the 7/1/2021 renewal. However, based on what we are seeing in the market we anticipate that a best case scenario is that rates hold relatively steady. It's more likely that rates will continue to increase although the magnitude of those increases cannot yet be predicted. We cannot affect the global insurance market, but we are confident that no matter what happens in the insurance industry that KERMP will maintain its position as the premiere option for Kansas USDs to obtain coverage.

KERMP operates with a policy of full transparency and our bylaws, financials statements, and independent audit, and other important documents are available to anyone that wants to see them. The pool is regulated by the Kansas Department of Insurance in Topeka and must submit regular quarterly reports to regulators.

On behalf of the KERMP Board of Directors, we thank you for placing your trust in our mission of controlling insurance costs for school districts. We know your district will be well served by the pool and we look forward to working with you for years to come.

Best Regards,

KERMP Board of Trustees

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