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ABSTRACT

This report is concerned with criteria for purchasing school insurance on a bid basis. Evaluative factors are outlines for situations in which the bidding procedure may or may not be feasible, and some advantages to purchasing insurance on a bid basis are cited. Tables for bid tabulation and a list of books on insurance company ratings are included. [Not available in hard copy due to marginal legibility of original document.] (FS)

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BIDDING INSURANCE

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When to bid insurance:

- When your premiums are too high;
- When your retention factor is too high;
- When your losses compared to your premiums show you are on superior risk;
- When you have too many insurance policies or agents and want to reduce the number or eliminate them;
- When you have adequate knowledge of insurance;
- When you are capable of writing insurance bid specifications;
- When you are capable of analyzing insurance bids and determining the best buy;

When you sell your board of education on the advantages of bidding insurance;

When your board of education is ready and willing to bear the heat from the organized insurance pressure groups.

When not to bid insurance:

After large or severe losses;

When you are a poor or bad risk;

When you have little or no knowledge of insurance;

When you are not capable of writing insurance bid specifications (consider using standard bid specifications);

When you are not capable of analyzing insurance bids and determining the best buy;

When you cannot sell your board of education on the advantages of bidding insurance (you are a poor salesman);

When your board of education is not ready and willing to take the heat and pressure from special interest groups and/or organized insurance pressure groups;

When you want to take care of friends or play politics with taxpayers money.

Methods of purchasing or placing insurance:

In order of the best recommended practices, the procedures for purchasing or placing school insurance are:

1. Bidding insurance on exact specifications (takes knowledge of insurance).
2. Use an insurance broker (who takes competitive bids or quotations for the school and advises the school on best types and kinds of coverage).
3. Use local insurance boards or agents associations. (They are to advise and obtain the best coverage for the lowest cost.)
4. Placing insurance with individual agents (politics).

Placing insurance with individual agents on an individual basis is the lowest form of school insurance management. If the school district uses a local insurance board of agent's association, the school district has progressed up to the second rung on a four step ladder, but the school district still has a 50% improvement to make in school insurance management. Bidding on exact specifications is the preferred and most economical method of purchasing or placing school insurance.

Bidding Insurance

Contrary to what many boards of education and school administrators say, insurance is a commodity to be bought like any other large purchase. It is to be "bid out" on specifications and purchased from the best and lowest bidder.

A board of education would not think of buying five car loads of penmanship by letting the local paper dealers get together, decide the quality of the paper, the price, the paper mill from where to buy it, and then let all the paper dealers share in the profits. Then why do school boards purchase insurance like this?

Insurance is a commodity. Specifications can be written for it. In fact members of the Illinois, Maryland, and New York State Association of School Business Officials have written specifications for almost all types of school insurance together with bid forms. The author and Norman Schaeffer and Raymond Appler of the Illinois Association of School Business Officials have written and published insurance specifications and bid forms for:

1. P I P form (fire, extended coverage, vandalism, and malicious mischief insurance)
2. Boiler and machinery insurance
3. Comprehensive general liability insurance
4. Comprehensive automobile physical damage insurance
5. Comprehensive automobile liability insurance
6. Workmen's Compensation insurance
7. School treasurer's bonds
8. Public employee blanket position bonds
9. Money and securities broad forms
10. Builder's risk insurance
11. Inland marine property floater insurance
12. Professional malpractice liability insurance
13. Group life insurance
14. Comprehensive major medical insurance

Are there not state Bureau Rates for a specific area and risk, and do not all insurance companies have to use this rate to do business in the state? The answer is "No."

The Bureau Rate is the starting point, not the ending point. Public schools are superior risks. There are over 30,000 insurance rates filed with state insurance bureaus. Most of these are filed by deviate insurance companies or mutual insurance companies. Deviate insurance companies will deviate from 5% to 40% below state bureau rates. Mutual insurance companies will return as a dividend from 15% to 25% of the premium.

Savings by bidding. The amount that can be saved depends on the board of education and how serious they are about the open bidding of the school's insurance. Most school districts save from 10% to 50% of their premiums, the average being from 25% to 40% savings. Table No. 1 exhibits the savings accomplished by one school district by bidding its insurance.

Insurance companies will bid. Experience has shown that from five to 18 insurance companies will bid. The bigger and best insurance companies will be in the competition. The school district should be made aware though that as the school district continues to bid its insurance, the number will decline. The consistently higher bidders will finally give up and stop bidding.

Excellent service can be obtained from insurance companies that bid. If such services are written in the specifications. Inspections, safety engineering surveys, appraisals, 48 hour claim service, rate make-up books, fire maps, rating sheets, diagrams, pictures, and annual adjusted appraisals will be provided if specified in bidding and requested by the school district.

TABLE No. 1

Savings by Bidding

History of One School District's Fire Insurance Insurance Premium Costs and Insurable Values		
Year	Insurable Value of Property of Property Insured	5-Year Policy Premium Cost
1961	\$ 5,489,587 ²	\$ 18,268 ¹
1960	\$ 4,638,875 ²	\$ 23,598
1956	\$ 3,267,767 ²	\$ 18,471
1954 ⁴	\$ 2,751,860 ³	\$ 18,660

1 Property and Institutional Form Type Policy.

2 Replacement Cost Insurance

3 Depreciated Cash Value Insurance

4 Insurance not bid before this date

Basis for accepting bids and placing insurance are:

1. Broadest and best coverage offered;
2. Financial strength and sound management practices of the insurance company who will write the policy;
3. Service to policyholder – engineering services, loss prevention services, appraisals, inspections, claim settlement services, counseling services, etc.;
4. Price.

Advantages of Competitive Bidding are:

1. Eliminates favoritism to an agent, broker, or company.
2. It is sound business practice to obtain the lowest responsible bid.
3. Through the use of alternates, the cost of various types of coverages may be obtained.
4. Makes it possible to obtain additional information pertinent to the selection of the company best suited to meet local needs – for example, names and qualifications of safety engineers, location of claim offices, etc.

5. Board of education strengthen public relations by publicly opening bids, releasing to the public the school administrator's recommendations and analysis of bids.
6. Makes it possible to select companies that have excellent management qualifications and financial strength.
7. Reduces premium and insurance costs.

Usual pattern of bids. If insurance is placed on the open market and bid, the usual pattern of bids is as follows:

1. Deviate mutual insurance companies – lowest bidder;
2. Deviate stock or non-deviate mutual company – second lowest bidder;
3. Stock insurance companies – highest bidders.

TABLE No. 2 Usual Pattern of Bids

Workmen's Compensation Insurance (\$777,102 yearly payroll) ¹			
Best's Rating	Type of Insurance Company	Annual Net Premium Bid	Bid Rating 1 = low bid
A+:AAAA	Deviate Mutual Company	\$ 1,199.24	1 (low)
A+:AAA	Deviate Stock Company	1,537.67	2
A+:AA+	Mutual Company	1,538.87	3
A+:AAAAA	Mutual Company	1,577.00	4
A+:AAAAA	Mutual Company	1,597.22	5
A :AAAAA	Deviate Stock Company	1,638.81	6
A+:AAAAA	Deviate Stock Company	1,645.30	7
A+:AAAA+	Stock Company	1,751.24	8
A+:AAAAA	Stock Company	1,805.39	9
A+:AAAAA	Stock Company	2,033.44	10
A+:AAA+	Stock Company	2,119.43	11 (high)

1 Professional and Certified employees	\$ 653,062.00
Clerical employees	27,040.00
All other employees	<u>97,000.00</u>
TOTAL	<u>\$ 777,102.00</u>

Bid tabulations. When insurance is bid, bid tabulations usually range from manual rates by stock insurance companies to deviate mutual rates.

TABLE No. 3

Bid Tabulations on Fire Insurance¹

Best's Rating	Type of Insurance Company	5-Year Premium Bid on Public and Institutional Property Form. Fire and Lightning, etc.-- no deductible. Extended Coverage, Vandalism, and Malicious Mischief, deductible as listed below			Bid Rating 1 = low bid
		\$100 deductible per building and \$1,000 deductible per occurrence	\$500 deductible per building and \$1,000 deductible per occurrence	\$1,000 deductible per building and per occurrence	
A+:BB+	Deviante Mutual Co.	\$ 16,057.05	\$ no bid	\$ no bid	1
A+:BBBB	Deviante Stock Co.	17,193.40	no bid	no bid	2
A+:AAAA	Mutual Company	18,268.00	no bid	no bid	3
A :AAA+	Mutual Company	20,283.75	no bid	no bid	4
A :AAAA	Deviante Stock Co.	21,266.95	19,144.95	17,885.05	5 or 6
A+:AAAAA	Stock Company	21,491.75	19,021.40	17,786.25	5 or 6

¹ Eleven buildings at eleven different locations with a total replacement cost of:

11 Buildings	\$ 4,990,980.
Contents	<u>498,607.</u>
TOTAL	<u>\$ 5,489,587.</u>

TABLE No. 4

Bid Tabulations on Boiler Insurance¹

Best's Rating	Type of Insurance Company	3-Year Premium Bids			Bid Rating 1 = low
		\$25,000 per location	\$50,000 per location	\$100,000 per location	
A+:AAA+	Mutual Company	\$ 797.25	\$ 894.91	\$ 968.24	1
A+:AAAAA	Mutual Company	858.72	968.52	no bid	2
A+:AAAAA	Stock Company	1,084.10	1,234.65	no bid	3
A+:AAAAA	Stock Company	1,089.35	1,239.90	no bid	4
A :AAAA	Stock Company	1,173.56	1,351.33	no bid	5

¹ Ten boilers in nine schools

TABLE NO. 5

Bid Tabulations on School Treasurers \$100,000 Bond¹

Best's Rating	Type of Insurance Company	2-Year Premium Bid	Bid Rating 1 = low bid
A+:AAAAA	Deviante Mutual Company	\$ 276.82	1
A+:AAA+	Deviante Mutual Company	295.77	2
A+:AAAAA	Mutual Company	392.13	3
A+:AAAAA	Mutual Company	415.19	4
A+:AAAAA	Deviante Stock Company	592.00	5
A+:AAAAA	Stock Company	877.75	6
A+:AAAAA	Stock Company	878.75	7

1 Two year bond.

TABLE No. 6

Bid Tabulations on School Treasurers \$875,000 Bond¹

Best's Rating	Type of Insurance Company	1-Year Premium Bid	Bid Rating 1 = low bid
A+:AAAAA	Mutual Company	\$ 456.75	1
A+:AAA	Deviante Stock Company	499.16	2
A+:AAAAA	Deviante Stock Company	513.85	3
A+:AAAAA	Stock Company	1,087.50	4
A+:AAAA	Stock Company	1,087.50	5
A+:AAAAA	Stock Company	1,087.50	6
A+:AAAAA	Stock Company	2,800.00	7

1 One-year bond

TABLE No. 7

Bid Tabulations on 3-D Insurance¹

Best's Rating	Type of Insurance Company	Premium Bid for			Bid Rating 1= low bid
		1 year	2 years	3 years	
A+:AAAA+	Deviate Stock Company	\$ 290.86	\$ no bid	\$ 727.15	1
A+:AAAAA	Mutual Company	352.31	623.26	894.40	2
A+:AAAAA	Stock Company	1,023.87	2,005.53	2,708.17	3

1 Dishonesty, Destruction, and Disappearance Insurance (3-D) for
11 schools at 11 locations which include the following employees:

- 137 Teachers and Administrators
- 11 Cafeteria employees
- 21 Custodians
- 12 Secretaries and Bookkeepers
- 11 Bus Drivers

Insurance policy covered:

All school employees (except the School Board Treasurer) for \$10,000 loss
 Inside premises for \$ 3,000 loss
 Outside premises for \$ 3,000 loss

TABLE No. 8

Bid Tabulations on Fine Arts Floater Policy¹

Best's Rating	Type of Insurance Company	3-Year Premium Bid	Bid Rating 1= low bid
A+:AAAAA	Deviate Stock Company	\$ 24.46	1
A+:AAAAA	Mutual Company	32.79	2
A :AAA+	Deviate Stock Company	47.82	3
A+:AAAAA	Mutual Company	55.59	4
A+:AAAAA	Stock Company	80.78	5

1 Three-year policy covering:

10 paintings @750	\$ 7,500.00
1 painting @ \$250	250.00
1 painting @ \$150	150.00
1 bronze statute @ \$350	350.00
1 bronze statute @ \$325	325.00
1 bronze statute @ \$225	225.00

TOTAL \$ 8,800.00

Percentage of school districts bidding insurance. Research has shown that approximately 25% of school districts bid one or more forms of their school insurance. 50% of school districts who have board of education financed employee health insurance plans bid this type of insurance. Ten years ago research shows that only 10% of the school districts bid one or more forms of their school insurance. Within the next ten years, it is anticipated that 50% of all school districts will bid one or more forms of their school insurance.

Boards of education and school administrators owe a greater responsibility to all taxpayers than to a few profit motivated local insurance agents. Experience over the whole United States proves that if insurance is bid on:

- (a) Precise specifications,
- (b) Service, financial strength and stability of the insurance company, premium costs can be reduced.

Reference Books or Reports to use. When a school administrator is receiving quotations or bids on insurance he needs a source or reference with which to check the financial strength; efficiency of management; claim service, total gross premiums collected; amount paid out in losses, and amount kept as retention for various insurance companies. The following is a list of books or reports which will aid the school administrator in this task:

Casualty Insurance Companies:

*Bests Insurance Guide With Key Ratings*¹

*Spectator Casualty Insurance Index*²

*Spectator Fire Index*²

*Spectator, The Insurance Year Book*²

Life, Health, and Accident Insurance Companies:

*Argus Chart for Accident, Sickness, and Hospitalization*³

*Best's Life Insurance Reports*¹

*Spectator, Health Insurance Index*²

*Spectator Life Index*²

*Spectator, Life Insurance Volume*²

Unique Manual

The most frequently used reference book to check on the financial strength, sound management practices, and services to policyholders is *Best's Insurance Guide With Key Ratings*.

AAAAA	—	\$25,000,000 or more surplus
AAAA+	—	\$20,000,000 to \$25,000,000 surplus
AAAA	—	\$15,000,000 to \$20,000,000 surplus
AAA+	—	\$12,500,000 to \$15,000,000 surplus
AAA	—	\$10,000,000 to \$12,500,000 surplus
AA+	—	\$ 7,500,000 to \$10,000,000 surplus
AA	—	\$ 5,000,000 to \$ 7,500,000 surplus
BBB+	—	\$ 3,750,000 to \$ 5,000,000 surplus
BBB	—	\$ 2,500,000 to \$ 3,750,000 surplus

¹Published by Alfred M. Best Company, Inc., Best Building, 75 Fulton Street, New York 38, New York, Price \$8.75.

²Published by the Chelton Publishing Company, 360 N. Michigan Ave., Chicago 11, Illinois, Price \$3.00.

³Published by the National Underwriter Company, 420 East Fourth St., Cincinnati 2, Ohio, Price \$3.00.

BBB+	—	\$ 1,500,000 to \$ 2,500,000 surplus
BBB	—	\$ 1,000,000 to \$ 1,500,000 surplus
BB+	—	\$750,000 to \$ 1,000,000 surplus
BB	—	\$500,000 to \$750,000 surplus
CCC	—	\$250,000 to \$500,000 surplus
CC	—	\$250,000 to less surplus

Sound management practices. Best reviews the insurance company's underwriting practices; economy of management (ratio of expense to premiums); adequacy of reserves; net resources adequate to absorb unusual shocks; sound investments, diversification, and liquidity to arrive at the following ratings for sound management:

- A+ — Excellent
- A — Excellent
- B+ — Very good
- B — Good
- C+ — Fairly good
- C — Fair

The ratings are then combined and read as follows: A:BBBB+ would be read excellent management with a surplus of \$3,750,000 to \$5,000,000. It should be noted here that the size of insurance company the school district desires to do business with depends to a great extent on the size of insurance policy the school district desires to purchase. For a \$10,000 insurance policy an insurance company with a financial strength of "CC" or "CCC" would be satisfactory. For an insurance policy of \$10,000,000 nothing less than a financial strength rating of "AAAA" would suffice.