School Protection Program Premium Allocation Q & A **November 1, 2024**

<u>Schools Protection Program Premium Allocation – Q&A</u>

1. Why is premium paid to Schools Protection Program?

Schools Protection Program (SPP) collects an annual premium from all 60 school districts to support the self-insurance programs which provide coverage for Property, Boiler and Machinery, Crime, General Liability and Directors' & Officers' (D&O) Liability claims as per the terms and conditions of the coverage agreements. Coverage is provided as follows:

- **Property and Boiler and Machinery coverage agreements:** protect all real and personal property of every kind and description owned by school districts, which is required for the provision of educational services and programs.
- **Crime coverage agreement:** protects school districts from the direct losses of money, securities and other similar property.
- **General Liability coverage agreement:** provides protection against liability imposed by law for damages to third parties arising from personal injury or property damage and all associated costs and expenses incurred in defense of a claim.
- **Directors' and Officers' Liability coverage agreement:** provides coverage in the event of legal action brought against a trustee, director or officer for an alleged wrongful act.

Claims under the Property and Boiler and Machinery Coverage Agreements are paid out of the property pool and claims under the Crime, General Liability and D&O are paid under the casualty pool.

2. What does the annual SPP premium consist of?

Premiums are itemized to provide as clear a view as possible of the costs to fund losses and program delivery costs, which include contracted services costs and other financial activity. Specifically, the annual SPP premium is made up of the following:

- Expenses Incurred to Deliver SPP, including:
  - Contracted Costs
    - Actuarially analyzed review of the premium amount required to properly fund the program (payable to Oliver Wyman Actuarial Consulting, Inc.).
  - Internal Risk Management Branch (RMB) Costs
    - Salaries and travel expenses for RMB employees.
    - Shared services costs (i.e. external legal services, document storage fees and financial fees).
    - Information systems (i.e. internal IT costs, iVOS).
    - Office expenses, amortization and overhead.

- Indemnity to fund the casualty pool: Premium required to be assessed in order to properly fund the program as per the actuary's annual review.
- APV 212 Purchased from ICBC: The ICBC premium for the purchase of Special Excess Automobile Liability policy.
- AD&D Coverage: The premium for the Accidental Death and Dismemberment policy (premium is allocated per individual school district applications).

3. How are the SPP premiums allocated?

- Liability premiums are allocated based on each school district's share of the total student FTE.
- Property premiums are allocated based on each school district's share of the total building (i.e. physical structures) values.

4. When are SPP premiums compiled and who calculates them?

This process is started in the summer months and is completed in October/November of each year. In order for the actuary to complete their annual report, SPP provides them with student enrollment numbers and current building values. Student data is collected and verified by the Ministry of Education and Child Care (ECC) from school districts on an annual basis. ECC also maintains a database of open and closed schools. As ECC receives information from school districts that may impact values, they update their database and recalculate building values. A formula using number of square metres X unit costs (per Ministry guidelines) is used to calculate building values. A spreadsheet is sent to SPP on an annual basis which provides current building values for active schools. Closed schools or those occupied by a tenant are not considered when calculating the premium. Upon receipt of the actuary's report, which includes the recommended premium, SPP allocates the premium amongst the school districts.

5. Who pays the annual premium?

RMB provides ECC with the total required SPP annual premium and school district allocation in the fall of each year. ECC recovers the appropriate amount from SDs accordingly and transfers these funds to RMB. RMB deposits the premium into the appropriate pools (i.e. liability and property) after deducting the amounts necessary to pay contracted and internal service costs, plus the ICBC premium.

6. What assurances do School Districts have that there are sufficient premiums in the pools to pay for known and unknown claims (i.e. claims that have yet to be reported)?

Reserving and forecasting practices for the pools are sound. The programs are actuarially analyzed each year to ensure premiums collected are sufficient to pay for known as well as future claims. RMB operates the Insurance and Risk Management Account (IRMA) as authorized under the Financial Administration Act (FAA). The account has statutory spending authority which allows it to spend whatever amount is necessary even if it is greater than the account. The casualty coverage agreements are indemnities, making them statutory payments which must be paid.

7. What is the actuarial process?

The major programs within IRMA (of which SPP is one) are actuarially analyzed yearly. Each year, the actuary assesses the claims reserving and payment histories of the programs as of March 31st and provides an opinion on:

(i) The expected present value of claims occurring in the next fiscal year (i.e. when the incident giving rise to the claim occurs, irrespective of when the claim is reported or is actually settled).
(ii) The amount of the premium required to be assessed in order to properly fund the program, and;
(iii) The adequacy of the balance in the risk pool to pay for outstanding losses.

This amount is known as the actuarial assumption and is booked as an expense in that fiscal year.

A smoothing of costs is achieved because an annual premium is charged to clients based on actuarially analyzing the past experience and making a prediction of what the future experience will be. The actuary also considers and estimates the existence of claims that have occurred, but are not yet reported. These claims need to be accrued as an Incurred but Not Reported (IBNR) claims expense, resulting in an increase to the IBNR liability.

The reason for an IBNR could be a delay in reporting, a delay in discovery (of the loss), or other adverse development. In some cases and types of liability it may take years for claims to be reported, making liabilities difficult to estimate. These funds are, therefore, recorded in the Special Account (i.e. IRMA) and, rather than lapsing at the end of the fiscal, they accrue and earn interest. Upwards volatility in expenditures is amortized over time rather than in the year it occurs. This is the same model that insurance companies use.

If you have any questions regarding this information, please contact:

SPP coverage details: SPP (protection.program@bcspp.org or ph. 250-356-1794)

Property estimates: Billal Adam, Capital Information Officer, Capital Management Branch, Ministry of Education and Child Care (billal.adam@gov.bc.ca or 778-405-1945)

Any other questions: Funding and Allocation Unit, Funding and Financial Accountability Branch, Ministry of Education and Child Care (FFAB.ECC@gov.bc.ca)