

Legislation Text

File #: BILL NO. 19-131, **Version:** 1

An Ordinance approving the FY2020 Property And Liability Insurance Program, authorizing the City Manager to enter into Agreements with CNA Insurance, States Self-Insurers Risk Retention Group, Glatfelter Insurance Group, Chubb Limited, Physicians Professional Indemnity Association, and Traveler's Insurance for the procurement of property and liability insurance coverage and related services for FY2020, and authorizing the City Attorney to approve individual claim expenses and/or settlements in amounts not to exceed \$20,000.00 per claim.

(Note: This was first read by Council on June 4, 2019 and passed by unanimous vote.)

Issue/Request:

An ordinance approving the FY2020 Property And Liability Insurance Program, authorizing the City Manager to enter into Agreements with CNA Insurance, States Self-Insurers Risk Retention Group, Glatfelter Insurance Group, Chubb Limited, Physicians Professional Indemnity Association, and Traveler's Insurance for the procurement of property and liability insurance coverage and related services for FY2020, and authorizing the City Attorney to approve individual claim expenses and/or settlements in amounts not to exceed \$20,000.00 per claim.

Key Issues:

- Each year the City Council considers and approves the City's property and liability insurance program.
- Overseen by the Law Department since 2012, the City has enjoyed reduced premium and claim expenses and has increased autonomy and flexibility in the claims management process.
- City's incumbent carrier since 2011 for liability insurance has been One Beacon Insurance.
- City is proposing carriers for its liability coverage from OneBeacon to States Self-Insurers Risk Retention Group, Inc. ("States") to reduce premium costs and give City more autonomy and involvement in claims management
- Based on FY2020 premium quotes, changing from OneBeacon to States insurance could result in a premium savings of approximately \$180,000 per year.
- States does not provide auto physical damage coverage, but the City received a proposal from Glatfelter Insurance Group to maintain the same amount of auto physical damage coverage the City had in FY2019 for a cost not to exceed \$40,000.
- City's incumbent carrier for property insurance, CNA, is being recommended for renewal with rate increase of 19%.
- Medical director coverage was only quoted by the incumbent provider, Physicians Professional Indemnity, and was quoted as a flat rate renewal.
- The City's incumbent carrier for crime insurance, Traveler's Insurance, and was quoted at a flat rate renewal.
- The total premium costs for FY2020 for all lines of relevant property and liability insurance would not exceed \$457,000.00, which is a total decrease of at least \$128,874.00 over FY2019 premiums. Continuing with OneBeacon would result in a total insurance premium of \$646,810.00, which is a total increase of \$60,936.00 over FY2019.
- Authority for the City Attorney to approve liability expenditures on a per claim basis in an amount not to exceed \$20,000.00. Expenditures for claims which exceed this amount would be taken to the City Council for approval.

Proposed City Council Motion:

I move for adoption of an ordinance approving the FY2020 Property And Liability Insurance Program, authorizing the City Manager to enter into Agreements with CNA Insurance, States Self-Insurers Risk Retention Group, Glatfelter Insurance Group, Chubb Limited, Physicians Professional Indemnity Association, and Traveler's Insurance for the procurement of property and liability insurance coverage and related services for FY2020, and authorizing the City Attorney to approve individual claim expenses and/or settlements in amounts not to exceed \$20,000.00 per claim.

Background:

Since 2012, the City of Lee's Summit has used risk management program for property and liability matters which is overseen by the Law Department. The program uses a broker relationship for the procurement of insurance products for the City, a defined methodology for requesting competitive quotes for insurance needs, and internal insurance claims management processes and procedures. In addition, the City has a self-insured retention program in lieu of a traditional deductible insurance program. This has resulted in both significant cost savings to the City as well as increased internal control of the City's risk and loss program, enabling broad internal handling and management of claims and claims processes, resulting in additional cost savings.

The City's property insurance carrier, CNA Insurance Companies, Inc., returned with an increase in premiums of approximately 19%, with no changes to the current terms and conditions of the insurance program. The total premium for FY2020 property insurance will be \$194,432.00, to insure the City owned property with a total reported value of \$180,602,601.00. The property insurance policy carries with it a \$50,000.00 deductible reimbursement amount.

Traveler's Insurance provides the City's crime policy, which is quoted for renewal at \$14,207.00. This is the same as the FY2019 premium. The Crime policy provides coverage for theft, dishonest acts, and similar incidents committed by employees and non-employees against the organization.

The City's cyber crime policy carrier, Chubb, provides coverage issues due to cyber crime, such as event management and mitigation costs, data recovery costs, cyber extortion costs, and business interruption costs. This coverage can be placed at any time and does not have to occur at renewal.

The carrier for the City's medical director liability policy, Physician's Professional Indemnity Association, which is coverage required in order for the Fire Department to maintain paramedic and EMT's has offered renewal at the current rate of \$5,780.00 for FY2020, this is the same as the previous year.

The City's incumbent carrier for liability insurance, One Beacon Insurance returned with a 9% increase in total premiums for FY2020 with no changes to the current terms and conditions of the insurance program. Currently, the City is under a \$100,000.00 per occurrence deductible reimbursement amount, with a Stop-Loss of \$500,000.00. The total premium cost for the general liability, automobile, umbrella, employment practices liability, public officials errors and omissions, and law enforcement legal coverage in FY2020 is quoted for renewal at \$428,204.00, which represents an increase of \$35,254.00 over last year's liability premiums. Over the past two fiscal years, the City's total premiums have increased by over \$80,000. The increase is due in part to price hardening in the overall market and the City's own adverse experience.

As such, the City looked at alternative insurance options for its public entity broad form liability that reduces its costs while still maintaining sufficient coverage to keep the City's risk management program financially viable. Public entity broad form liability encompasses general liability, employment practices liability, automobile liability, law enforcement liability and public officials error and omission liability. The City is proposing to change carriers from OneBeacon to States Self-Insurers Risk Retention Group, Inc. ("States").

States is a national insurance pool of public entities who self-insure a portion of their risk and supplement their limits of

insurance offered with the purchase of reinsurance. States provides the City with nearly the same coverage at a savings of \$200,000.00 for FY2020. While this option is by far the best priced option and there are a number of benefits to entering into a risk pool like the one States offers, it comes with some additional exposures that do not exist with OneBeacon.

Some of the benefits to States is the member ownership, which allows the City to proactively mitigate risks by learning from and relying on other members in the pool who regularly deal with the same issues. The City also has much more control over litigation that may result in an insurance payout, such as selected legal counsel and determining whether to settle, then it does with OneBeacon. Unlike OneBeacon, however, because States is meant to be excess insurance, each year a member renews, the self-insured retention increases by \$50,000 each year until the self-insured retention is \$250,000. With the increase self-insured retention, the premiums also decrease by approximately \$6,000 per year. OneBeacon also allows the City to carry Stop-Loss coverage of \$500,000, whereas States insurance does not offer Stop-Loss coverage and such coverage is not otherwise available on the market. Finally, States does not provide automobile comp and collision coverage, but the City obtained a quote for such coverage through Glatfelter Insurance Group ("Glatfelter") for an amount not to exceed \$40,000.00. The automobile coverage maintains the same deductible as the City had with OneBeacon.

City staff have discussed the States program with Lockton in detail, and reviewed States' policy information. Lockton is prohibited from endorsing, because they are a non-rated "insurer" (as they would with MOPERM, or MPR)- but they have other large Missouri cities in the Pool- Independence, Springfield, and Columbia. The policy is non-assessable, financially viable, and supported by strong reinsurance. States collects over \$12 million in premiums annually and carry a surplus of \$9.6 million. We have contacted references from other entities who are currently members, such as the City of Springfield and the City of Columbia who both noted how well the program treats its members and actively seeks to reduce risk exposure and ensure that a member is taken care of when incidents occur. Transitioning to the States would further reduced the City's risk management expenditures while maximizing autonomy and efficiency in the risk management process.

Lockton, the City's insurance broker, believes the States program is designed to benefit entities, like the City, that take an active role in managing risk and claims. The City's Law Department has actively managed third party claims since 2012 with success.

Finally, the City has used Thomas McGee to third party administrator services for the past year. Third party administrators frequently serve as claims processors and adjusters for organizations who maintain deductible reimbursement programs like the City's program. They generally handle large and complex claims that cannot be easily administered by Law Department staff.

If the proposed coverage is accepted, the total premium costs for FY2020 for all lines of relevant property and liability insurance would not exceed \$457,000.00, which is a total decrease of at least \$128,874.00 over FY2019 premiums. Continuing with OneBeacon would result in a total insurance premium of \$646,810.00, which is a total increase of \$60,936.00 over FY2019. Transitioning from OneBeacon to States and Glatfelter would save the City almost \$190,000.00 in premiums alone without increasing the City's deductible reimbursement amount which currently is \$100,000.00 for FY2020. Even when the deductible reimbursement amount increases to \$150,000.00 in FY2021, the City is still estimated to save approximately \$150,000.00 in premiums.

As with previous years, it is proposed that any savings realized between the budget and actual cost for premiums be re-allocated to the Claims and Damages Reserve Fund to continue to build the reserves so that the deductible reimbursement amount may be increased in the future, resulting in further cost savings and stabilizing the fund in the event of large claims.

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Daniel White, Chief Counsel of Management & Operations

Recommendation: Staff recommends approval

Committee Recommendation: N/A