

Legislation Text

File #: BILL NO. 21-125, **Version:** 1

An Ordinance approving the FY2022 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 FY2022, and authorizing the City Attorney to approve individual claim expenses and/or settlements in amounts not to exceed \$20,000.00 per claim. (F&BC 6/14/21)

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.
- In 2019, the City changed 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
- States is being recommend for renewal with a rate decrease of 1%. The City's excess liability coverage is being recommend to be reduced from \$12,000,000 to \$10,000,000 in coverage.
- Glatfelter Insurance Group, the City's incumbent carrier for auto physical damage coverage with a rate increase of \$43,279.
- City's incumbent carrier for property insurance, CNA, is being recommended for renewal with rate increase of approximately 25%.
- Medical director coverage was only quoted by the incumbent provider, Physicians Professional Indemnity, and was quoted at a flat rate renewal.
- The City's incumbent carrier for crime insurance, Traveler's Insurance, remained flat at approximately \$11,400.
- The total premium costs for FY2022 for all lines of relevant property and liability insurance would not exceed \$621,000.00, which is a total increase of about \$75,000.00 over FY2021 premiums, but still less than the City's FY2019 premiums.
- Authority for the City Attorney to approve liability expenditures on a per claim basis in an amount not to exceed \$20,000. Expenditures for claims which exceed this amount would be taken to the City Council for approval.

Proposed Committee Motion: I move to recommend to the City Council for approval an Ordinance approving the FY2022 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 FY2022, and authorizing the City Attorney to approve individual claim expenses and/or settlements in amounts not to exceed \$20,000 per claim.

Proposed City Council Motion:

FIRST READING: I move for a second reading of an Ordinance approving the FY2022 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 FY2022, and authorizing the City Attorney to approve individual claim expenses and/or settlements in amounts not to exceed \$20,000 per claim.

SECOND READING: I move for adoption of an Ordinance approving the FY2022 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 FY2022, and authorizing the City Attorney to approve individual claim expenses and/or settlements in amounts not to exceed \$20,000 per claim.

Background:

Since 2012, the City of Lee's Summit has used a risk management program for property and liability claims. The program is managed by the Law Department, and uses a broker relationship for the procurement of insurance products for the City. 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.

In 2019, the City transitioned from a traditional insurance carrier to States Self-Insurers Risk Retention Group, Inc., which is a national insurance risk retention group of public entities who self-insure a portion of their risk and supplement their limits of insurance offered with the purchase of reinsurance. The City made the change to reduce its costs while 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 coverage provided to the City is very broad compared to other market options available to municipalities.

During FY2021, the City had the same \$150,000 deductible reimbursement amount for liability coverage, which provided a premium reduction of over \$170,000 compared to its previous insurance provider. In addition to the significant premium savings, the City's membership in States 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 traditional insurance carriers. This control will increase even more as more litigation services are provided internally.

One way the States is able to provide such favorable premium rates is that the City's deductible

reimbursement amount increases each fiscal year. For FY2022, the City's deductible reimbursement amount will increase to \$200,000, which means the City is responsible to pay the first \$200,000 of each claim filed against it before the insurance company takes over. Based on the City's loss runs data, the City does not anticipate that this will result in a financial hardship. Although the market would dictate a premium increase, the City's premium for States is slightly less than in previous years, primarily due to the higher deductible reimbursement amount. The City continues to use the savings it generates each year to build up the Claims and Damages Fund so that it is capable of paying multiple major claims in a single year.

The City's auto property damage coverage increased by about \$12,500 because of the provider is still recouping its losses two large claims filed by the City in FY20. The overall cost for this coverage is still substantially less than what the City was paying OneBeacon.

The City's broker is also projecting a 25% increase in its property coverage because of the increase in large wind and hail claims within the state and other significant property damage in the country, such as the property damage to during the polar vortex in February. The City marketed this coverage in an attempt to get a better rate. The City's broker is still awaiting a response from the potential carrier but based on market conditions the broker does not anticipate that the rate from the potential carrier will be better than the rate from the City's incumbent carrier.

The market for Cyber Liability is also going through a market correction as carriers have determined that their premiums are not covering the losses they are paying out. The City's premium increased from \$10,620 to \$19,457. According to the City's broker, this type of increase is occurring for all carriers.

Finally, the City intends to purchase \$10,000,000 of excess insurance instead \$12,000,000 as it has in years past. The market for excess insurance has become very costly due to a significant increase in litigation, jury verdicts and settlement amounts, and the premium is cost prohibitive to keep the additional \$2,000,000.

Dan White, Chief Counsel of Management and Operations