

Legislation Text

File #: BILL NO. 22-125, **Version:** 1

An Ordinance approving the FY2023 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, and Traveler's Insurance for the procurement of property and liability insurance coverage and related services for FY2023, 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 6/6/22)

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 increase of 2%. The City's excess liability coverage will remain at \$10,000,000 in coverage.
- Glatfelter Insurance Group, the City's incumbent carrier for auto physical damage coverage with a rate of \$55,196.
- City's incumbent carrier for property insurance, CNA, is being recommended for renewal with rate per \$100 in property value increase of approximately 10%.
- The City's incumbent carrier for crime insurance, Traveler's Insurance, had a 4% decrease.
- The cost for cyber liability insurance throughout the market continues to increase substantially to catch -up with payouts, but the City's projected premiums are still below the budgeted amount.
- The total premium costs for FY2023 for all lines of relevant property and liability insurance would not exceed \$714,000.00, which is a total increase of about 9% over FY2022 premiums, most of which is attributable to the property insurance.
- 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 FY2023 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, and

Traveler's Insurance for the procurement of property and liability insurance coverage and related services for FY2023, and authorizing the City Attorney to approve individual claim expenses and/or settlements in amounts not to exceed \$20,000.00 per claim.

Proposed City Council Motion:

FIRST READING: I move for a second reading of an Ordinance approving the FY2023 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, and Traveler's Insurance for the procurement of property and liability insurance coverage and related services for FY2023, and authorizing the City Attorney to approve individual claim expenses and/or settlements in amounts not to exceed \$20,000.00 per claim.

SECOND READING: I move for adoption of an Ordinance approving the FY2023 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, and Traveler's Insurance for the procurement of property and liability insurance coverage and related services for FY2023, 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 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.

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 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 FY2023, the City's deductible reimbursement amount will increase from \$200,000 to \$250,000, which means the City is responsible to pay the first \$250,000 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 lawsuit awards and settlements

involving municipalities continue payout at historic amounts thereby increasing the cost of liability insurance, the City's successful loss history and risk management practices helped limit its premium increase to 2%. This premium amount includes the excess insurance the City purchases each year. 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 \$7,000 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 and its other options in the market.

The City's property carrier, CNA, increased its premium 10% per \$100 in property value. This is much lower rate increase than last year, but the overall premium increased to about \$390,000 because the City updated its existing property value resulting in a property value increase of over \$20,000,000 compared to FY22. Moreover, the labor and material costs to repair or replace the existing properties has increased significantly due the pandemic, supply chain issues, and inflation.

The market for Cyber Liability is continuing to go 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 \$22,950 to \$34,642. The City was prepared for a premium increase near \$75,000 or more. The carrier also required the City to increase its deductible from \$100,000 to \$150,000. This type of increase is occurring across all carriers and for all entities regardless of loss history.

Finally, the City intends to purchase \$10,000,000 of excess insurance, which is the same amount of excess insurance it carried last year. The market for excess insurance has become very costly due to a significant increase in litigation, jury verdicts and settlement amounts.

Dan White, Chief Counsel of Management and Operations