



**COMMISSION FILE NO:** 21-127-9 **DATE INTRODUCED:** September 13, 2021

**INTRODUCED BY:** Executive Director (Signature on File in the Office of the Commission)

**REFERRED BY COMMISSION CHAIRPERSON TO:** Policy, Finance, and Personnel Committee

**RELATING TO:** Insurance Coverage Purchase or Renewal for General Operations

**SUMMARY:**

The Commission is requested to authorize the Executive Director to renew, to purchase, or to direct the District's insurance broker to renew or purchase insurance policies for the policy period of October 1, 2021, through September 30, 2022, as shown in Table 1.

The pricing shown in Table 1 is tentative and based on the best information staff has in advance of the Commission meeting. Staff may provide a replacement Table 1 and replacement resolution on the day of the Commission meeting.

Insurance providers typically honor premium quotes for 30 days. Given the timing of Commission documents the data provided is greater than 30 days old. This timing issue has historically not been an issue; however, the tightening insurance market has increased the probability that the cost of a quote would increase from when first provided to when coverage is bound.

It may also be the case that additional edits will need to be made between the date of the Commission meeting on September 27, 2021, and the date of policy coverage on October 1, 2021; therefore, the resolution text also provides staff authority to deviate from policy pricing with notice to the Commission via email.

**ATTACHMENTS:** BACKGROUND  KEY ISSUES  RESOLUTION   
FISCAL NOTE  S/W/MBE  OTHER  \_\_\_\_\_

*PFPP\_2021InsuranceRenewalGeneralOperations\_legislative\_file.docx  
08-25-21*

**COMMITTEE ACTION:** \_\_\_\_\_ **DATE:** \_\_\_\_\_

**COMMISSION ACTION:** \_\_\_\_\_ **DATE:** \_\_\_\_\_

## SUMMARY (Cont'd)

### Insurance Coverage Purchase or Renewal for General Operations

<b>TABLE 1:</b> <b>Policy to Renew or Purchase</b>	<b>Proposed Insurer</b>	<b>Expiring Annualized Premium</b>	<b>Estimated Annual Premium</b>	<b>Increase/ (Decrease)</b>
Property/Equipment Breakdown	XL Insurance America, Inc. (AXA XL)	\$844,420	\$1,089,314	\$244,894
Excess Property/Equipment Breakdown	AIG Specialty Insurance Co.	150,061	\$170,297	\$20,236
Commercial Vehicle	EMCASCO Insurance Co. (EMC)	\$37,484	\$39,787	\$2,303
Excess Liability	Cincinnati Insurance Co.	\$10,941	\$12,226	\$1,285
Marine Protection & Indemnity and Hull	Atlantic Specialty Insurance Co. (Intact Insurance)	\$23,638	\$25,246	\$1,608
Excess Protection & Indemnity		\$6,068	\$6,371	\$303
Crime	National Union Fire Insurance Co. (AIG)	\$7,984	\$7,984	\$0
Cyber Liability	Homeland Insurance Co. of NY (Resilience)	\$19,122	\$72,100	\$52,978
Fiduciary Liability	Federal Insurance Co. (Chubb)	\$3,284	\$8,683	\$5,399
Employment Practices Liability	Ironshore Indemnity, Inc. (Ironshore, A Liberty Mutual Co.)	\$9,656	\$25,492	\$15,836
	<b>All Policies Above</b>	<b>\$1,112,658</b>	<b>\$1,457,500</b>	<b>\$344,842</b>

## KEY ISSUES

### Insurance Coverage Purchase or Renewal for General Operations

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The commercial insurance marketplace is experiencing increased premiums, stricter underwriting, and a reduction in capacity for almost all types of coverage. For the 2021 insurance year, the District program is seeing the impact of these changes. The policies where premiums are increasing over 20% are:

- **Property** – The hard property insurance market continues in 2021, as the property market has not had an underwriting profit since 2016. 2020 had 22 weather/climate disaster events with losses exceeding \$1 billion each, shattering the previous annual record of 16 events that occurred in 2011 and 2017.
- **Cyber Liability** – The cyber insurance marketplace has completely turned in the last six to eight months due to the high volume of cyber claims. Pricing and retentions are increasing substantially, and coverage is being trimmed. Underwriting is much more stringent. Underwriters are seeing thousands of cyber submissions a week and will only write those with proper controls in place.
- **Fiduciary Liability** – There is a limited pool of insurers interested in providing governmental sponsored fiduciary liability insurance programs. In addition, underwriters are carefully underwriting renewals and cautiously considering new business in certain niches.
- **Employment Practices Liability** – There are limited markets that will consider public entities due to the unique aspects of the class of business. In addition, the market has hardened due to increases in litigation and a surge in employment related matters due to the Coronavirus 2019 changes in the workplace. Increased rates and deductibles are common for all insurers and programs.

For the policies renewing October 1, 2021, placed by Hays Companies (Hays), the renewal premium is \$344,842 (31%) higher than the expiring premium. The largest premium is for the property coverage, where there was a seven percent increase in values. Of the above additional premium, property premium accounts for \$265,130 of the increase. All renewing policies have been marketed for the upcoming year, except for the excess liability policy.

For all policies subject to this resolution and shown in the premium charts, major terms and conditions, deductibles, and insurance carriers remain unchanged except as noted. The following is an explanation of the marketing results and changes in the estimated premium for these policies. A.M. Best Company, an insurance company rating agency, assigns all proposed carriers a rating of A or above (excellent).

## KEY ISSUES (Cont'd)

### Insurance Coverage Purchase or Renewal for General Operations

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**Property/Equipment Breakdown.** Property insurance is rated on reported property values, which the District increased by seven percent to reflect replacement cost trends and additionally identified or added insurable assets. Coverage is provided via a primary policy with AXA XL providing a \$750 million per occurrence limit and an excess policy with AIG providing \$250 million per occurrence limit, excess of AXA XL. AXA XL's primary policy rate per \$100 of insured value increased by 22%, which is in line with current market conditions for large commercial property accounts and accounts for a large open claim (October 2020 Dryer #1 fire). The AIG excess policy rate per \$100 of insured value increased by six percent, which generated a 13% increase in premium. Note that AIG's pricing is substantially less than competitors, which offered much higher premiums (+50%) for this excess layer. Overall property premium is up 26.67% over expiring, which reflects rate increases and an increase in the District's insurable values.

**Commercial Vehicle Physical Damage and Liability.** Commercial vehicle liability coverage includes a \$1 million limit with no deductible. Physical damage coverage is included with \$1,000 comprehensive and collision deductibles. The renewal premium quoted by the current carrier, EMC, reflects two less vehicles with annualized premium up \$2,303 (6.1%) due to a rate increase. Auto is not a policy type that insurers want to provide on a monoline basis. Five additional insurers were approached for this policy.

**Excess Liability.** This policy provides a limit of \$10 million above the primary automobile liability and employer's liability policies. The renewal premium quoted by the incumbent, Cincinnati, represents a \$1,285 (12%) increase in premium, due to a rate increase.

**Protection and Indemnity and Hull (Marine).** Premiums for marine liability are based in part on the size, type, and usage of the vessels, the number of crew members, and maximum number of passengers. The protection and indemnity limit of coverage is \$1 million with a \$5,000 deductible. Coverage is included for the three District vessels. Passenger coverage has been added for the Mallard. Hull premium is based on the values of the vessels insured. The renewal premium from incumbent insurer, Intact, is up \$1,608 (seven percent) compared to the expiring policy.

**Excess Protection and Indemnity (Marine).** Premium for excess marine liability is primarily based on the underlying policy premium. The limit of coverage is \$4 million. Renewal premium from incumbent insurer, Intact, is \$303 higher than expiring.

**Crime.** Crime coverage is provided by AIG with limits up to \$2 million with a \$150,000 deductible. Renewal premium is the same as expiring

## KEY ISSUES (Cont'd)

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**Cyber Liability.** The incumbent, Hiscox, chose not to renew based on their change in appetite. The District filed notice of a ransomware incident, but nothing was paid by the District nor the insurer. Hays approached 26 insurers, and one insurer, Resilience, offered a proposal. The expiring policy coverage limit was \$5 million with a \$50,000 retention. Resilience would only offer a \$3 million limit maximum with a \$250,000 retention for \$92,700. They provided a lower limits option with a \$2 million limit and a \$200,000 retention for a premium of \$72,100, which is what the District is seeking to bind. Using the \$2 million option, premium is up \$52,978. Expiring premium was \$19,122. Underwriting is still underway, which may affect the District's ability to actually bind this quote.

**Fiduciary Liability.** Fiduciary liability insurance protects benefit plan fiduciaries that may be held personally liable for losses to a covered benefit plan incurred as a result of an alleged error, omission, or breach of fiduciary duty. This policy also protects the plan sponsor, the Commissioners, and the District's directed deferred compensation plans. For 2021, the coverage is written on a new governmental policy form with a \$10,000 retention. The expiring policy had no deductible. Premium from the incumbent insurer, Chubb, for a \$2 million limit is up \$5,399.

**Employment Practices Liability (EPL).** EPL insurance provides protection from employment-related claims. The incumbent insurer is no longer writing standalone coverage for governmental entities. The District did have a claim, where the insurer paid three times more than the premium for that year. Hays approached over 14 insurers for quotes. Ironshore offered several options. For 2021, selecting limits similar to expiring but with an increased retention of \$100,000 (expiring year has a \$50,000 each claim retention, except that a \$75,000 retention applied to highly compensated employee claims) increases the premium by \$15,836.

## RESOLUTION

### Insurance Coverage Purchase or Renewal for General Operations

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**RESOLVED**, by the Milwaukee Metropolitan Sewerage Commission, that the Executive Director is authorized to renew, to purchase, or to direct the District's insurance broker to renew or to purchase the following insurance policies for the policy period of October 1, 2021, through September 30, 2022, in the following amounts:

- Property/equipment breakdown through XL Insurance America, Inc., for an estimated annual premium of \$1,089,314.
- Excess property/equipment breakdown through AIG Specialty Insurance Co. in an estimated annual premium of \$170,297.
- Commercial vehicle policy through EMCASCO Insurance Companies for an estimated annual premium of \$39,787.
- Excess liability policy through Cincinnati Insurance Co. for an estimated annual premium of \$12,226.
- Marine protection and indemnity and hull policy through Atlantic Specialty Insurance Co. for an estimated annual premium of \$25,246.
- Excess protection and indemnity policy through Atlantic Specialty Insurance Co. for an estimated annual premium of \$6,371.
- Crime policy through National Union Fire Insurance Co. for an estimated annual premium of \$7,984.
- Cyber liability policy through Homeland Insurance Co. of NY for an estimated annual premium of \$72,100.
- Fiduciary liability policy through Federal Insurance Co. for an estimated annual premium of \$8,683.
- Employment Practices Liability policy through Ironshore Indemnity, Inc., for an estimated premium of \$25,492.

**FURTHER RESOLVED**, by the Milwaukee Metropolitan Sewerage Commission, that in the event the District's insurance broker can obtain lower premiums from these or other insurance carriers for the same coverage and deductibles, the Executive Director is authorized to renew any of these policies with the lower cost insurance carrier.

**FURTHER RESOLVED**, by the Milwaukee Metropolitan Sewerage Commission, that in the event pricing changes between September 27, 2021 and October 1, 2021, the Executive Director is authorized to renew such policy after notice to Commissioners.