

COMMISSION FILE NO: 16-123-9 **DATE INTRODUCED:** September 12, 2016

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 and Environmental Risks

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, 2016 through September 30, 2018, as shown in Table 1.

Further, 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, 2016 through September 30, 2017, as shown in Table 2.

Further, 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 November 1, 2016 through September 30, 2019, as shown in Table 3.

TABLE 1: Policy to Renew or Purchase	Proposed Insurer	Expiring Premium	Estimated Premium	Increase /Decrease
Property, Equipment Breakdown, and Pipeline	American Home Assurance Co. (AIG)	\$1,154,000	\$1,154,000	\$0

Note: The expiring premium represents one year of actual premium extrapolated for two years (the result of this action will be no change in the annual premium for three years, \$577,000 per year).

ATTACHMENTS: **BACKGROUND** ☐ **KEY ISSUES** ☒ **RESOLUTION** ☒
FISCAL NOTE ☒ **S/W/MBE** ☐ **OTHER** ☐ _____

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COMMISSION ACTION: _____ **DATE:** _____

SUMMARY (Cont'd)

Insurance Coverage Purchase or Renewal for General Operations and Environmental Risks

TABLE 2: Policy to Renew or Purchase	Proposed Insurer	Expiring Premium	Estimated Premium	Increase /(Decrease)
Commercial Vehicle	EMC Insurance	\$24,796	\$25,268	\$472
Commercial Excess Liability	Ohio Casualty (Liberty)	\$12,963	\$12,944	(\$19)
Commercial Crime	National Union First Insurance (AIG)	\$7,863	\$7,863	\$0
Excess Workers Compensation	Midwest Employers Casualty	\$62,462	\$64,105	\$1,643
Marine Protection & Indemnity and Hull	Atlantic Specialty Insurance (IMU)	\$20,263	\$19,788	(\$475)
Excess Protection & Indemnity	Atlantic Specialty Insurance (IMU)	\$4,975	\$4,961	(\$14)
Cyber Liability	Hiscox	\$19,842	\$19,726	(\$116)
	Total	\$153,164	\$154,655	\$1,491

TABLE 3: Policy to Renew or Purchase	Proposed Insurer	Expiring Premium	Estimated Premium	Increase /(Decrease)
Environmental Site Liability	Tokio Marine Specialty (Philadelphia)	\$207,716	\$131,296	(\$76,420)
Excess Environmental Site Liability	Allianz Underwriters Insurance Company	\$174,730	\$56,934	(\$117,796)
	Total	\$382,446	\$188,230	(\$194,216)

Note: The expiring premium is based on 36 months. The estimated premium is based on 35 months.

KEY ISSUES

Insurance Coverage Purchase or Renewal for General Operations and Environmental Risks

The insurance market currently offers stable pricing with rate changes generally flat or with slight reductions. Insurers continue to underwrite accounts based on the account's specific characteristics with well performing accounts being rewarded and poorly performing accounts being penalized with premium increases or changes in the structure of the insurance program, including higher deductibles and additional exclusions. Selective marketing of an account may be beneficial from a pricing perspective.

Hays Companies of Wisconsin (Hayes) negotiated with AIG to keep rates flat for the District's largest expiring policy (Table 1). By entering into a two-year contract and maintaining a loss ratio under 50%, there will be no premium increase for three years.

The remaining Hays-placed policies renewing October 1, 2016 (Table 2), the renewal premium is \$1,491 or 0.2% more than the expiring premium due to current insurance market conditions, changed rating bases, and negotiations with insurers. Various lines were marketed to assure both premium and coverage was at or better than market.

Hays also marketed two environmental policies renewing November 1, 2016 (Table 3). These expiring policies are three-year policies, which is common for this type of coverage. Hays received an attractive proposal from both a cost and coverage perspective that has been offered by Philadelphia (Tokio Marine) for the primary coverage and by Allianz on the excess policy. The premium difference by moving to a 35-month policy is \$194,216 or 51%.

For all policies subject to this resolution and shown in the premium chart, terms and conditions, deductibles, and insurance carriers remain unchanged except as noted below. 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 of the proposed carriers a rating of A or above (excellent).

- **Property, Equipment Breakdown, and Pipeline.** The District has \$1.6 billion in insurable values. Last year, the District moved away from the Local Government Property Insurance Fund to an AIG policy. In doing so, the District realized premium savings of \$76,547 and improved coverages. This year, AIG is offering a two-year policy. The premium would be payable in annual installments. The second year anniversary premium is subject to the following criteria: 1) that the preceding annual period loss ratio is below 50% and 2) that there is no material change in the risk. In addition, Hays negotiated eight additional policy enhancements. There have been no losses under the property policy during the expiring year.

KEY ISSUES (Cont'd)

Insurance Coverage Purchase or Renewal for General Operations and Environmental Risks

- **Commercial Vehicle Physical Damage and Liability.** Commercial vehicle liability coverage is 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 one less vehicle and a premium of \$25,268 which is an increase of \$472 or 1.9%.
- **Commercial Excess Liability.** Excess liability provides a limit of \$10 million above the primary automobile liability and employer's liability policies. The renewal premium quoted by the current carrier, Ohio Casualty, is \$12,944, which is a decrease of \$19.
- **Commercial Crime.** Crime coverage is provided by National Union Fire Insurance Company of Pittsburgh, PA (AIG) with limits up to \$2 million with a deductible of \$150,000. The renewal premium is the same as the expiring policy.
- **Excess Workers Compensation.** The District self-funds the primary workers compensation exposure and purchases an excess policy providing coverage excess of a \$450,000 per occurrence retention up to the Wisconsin statutory limits. The premium is based upon payroll level and employee job classification codes. The renewal premium from Midwest Employers Casualty is \$64,105 which is an increase of \$1,643 or 2.6%. The District's payroll level increased 0.6%.
- **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 limit of coverage is \$1 million with a \$5,000 deductible. Hull coverage is included for the three District vessels. Hull premium is based on the values of the vessels insured. The renewal from the incumbent insurer, IMU, is \$475 less than the expiring policy.
- **Excess Protection and Indemnity (Marine).** This policy was initially added on July 18, 2014 after a review of the river skimmer contract. Premium for excess marine liability is primarily based on the underlying policy premium. The limit of coverage is \$4 million. The renewal from the incumbent insurer, IMU, is \$14 less than the expiring policy.
- **Cyber Liability.** With no change in policy terms, coverage is \$5 million for business interruptions greater than 10 hours with a \$50,000 deductible. The renewal from the incumbent insurer, Hiscox, is \$116 lower than the annualized expiring premium.

KEY ISSUES (Cont'd)

Insurance Coverage Purchase or Renewal for General Operations and Environmental Risks

- **Environmental.** The District currently purchases environmental insurance limits of \$22,000,000 per contamination incident with a policy aggregate of \$32,000,000. The current program consists of two policies, an Environmental Site Liability (primary), written by Chubb/ACE, and an Excess Environmental Site Liability (excess), written by Ironshore. The District's environmental policies were issued with a three-year policy term which is common for this type of coverage. Policy limits apply across three years.

For the 2016 renewal of the environmental insurance, Hays aggressively marketed to nine insurers. These insurers were selected based on their strong financial ratings, broad coverage, and expertise in underwriting environmental insurance.

Based on this marketing effort, staff recommends that coverage be moved from Chubb/ACE on the primary and Ironshore on the excess to Philadelphia on the primary and Allianz on the excess. Furthermore, staff recommends that the policies be written from November 1, 2016 to September 30, 2019 to better align the renewal dates with the majority of the District's insurance policies.

The recommended policies include better coverage terms and a significant premium reduction. The expiring 36-month premium is \$382,446 versus the alternative program 36-month premium of \$193,817. This results in a premium savings of \$188,629 or 49%. The premium for the 35-month renewal policy will be \$188,320.

The recommended policies offer increased coverage over the expiring policies, with the following changes:

- The sublimit for Greenseams® properties is eliminated.
- The following exclusions are eliminated:
 - Discharge into Lake Michigan.
 - Sewer/drain backup and overflow.
 - PCB's in all sewer lines/tunnels and at most District locations.
 - Sediment in sewer lines.

KEY ISSUES (Cont'd)

Insurance Coverage Purchase or Renewal for General Operations and Environmental Risks

- The following locations are added to the policy; however, known contamination at these locations is excluded.
 - All detention storage basins disclosed in “StorageBasins.pdf” as on file with the Company
 - 164 N. 44th Street, Milwaukee, WI; however, PCB’s as documented in the Phase II on file and provided for 164 N. 44th Street, Milwaukee, WI are excluded.
 - 23 N. 25th Street, Milwaukee, WI
- The following underground storage tanks (UST’s) are now covered as “Scheduled UST’s”; however, contamination arising from, due to, or associated with removal or upgrade of any scheduled UST is excluded.
 - Three (3) UST’s for 123 N. 25th Street, Milwaukee, WI
 - Three (3) UST’s for South Shore Water Reclamation Facility

RESOLUTION

Insurance Coverage Purchase or Renewal for General Operations and Environmental Risks

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, 2016, through September 30, 2018, in the following amounts:

- Property/Equipment Breakdown/Pipeline insurance policy through AIG for an estimated premium of \$1,154,000.

FURTHER 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, 2016, through September 30, 2017, in the following amounts:

- Commercial Vehicle insurance policy through EMC Insurance for an estimated premium of \$25,268.
- Commercial Excess Liability insurance policy through Ohio Casualty for an estimated premium of \$12,944.
- Commercial Crime insurance policy through AIG for an estimated premium of \$7,863.
- Excess Workers Compensation insurance policy through Midwest Employers Casualty for an estimated premium of \$64,105.
- Marine Protection and Indemnity and Hull insurance policies through IMU for an estimated premium of \$19,788.
- Excess Protection and Indemnity insurance policy through IMU for an estimated premium of \$4,961.
- Cyber Liability insurance policy through Hiscox for an estimated premium of \$19,726.

FURTHER 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 November 1, 2016 through September 30, 2019 with the following insurers and in the following amounts (prepaid at policy inception):

- Environmental site liability insurance policy through Philadelphia (Tokio Marine) for an estimated premium of \$131,296.
- Excess environmental site liability insurance policy through Allianz for an estimated premium of \$56,934.

FURTHER RESOLVED, by the Milwaukee Metropolitan Sewerage Commission, that, in the event that 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.