

COMMISSION FILE NO: 17-089-9 **DATE INTRODUCED:** September 11, 2017

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 Project Owners' Protection

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, 2017, 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 the Workers' Compensation Third Party Administrator contract for the policy period of October 1, 2017, through September 30, 2020, as shown in Table 2.

The Commission is also requested to authorize the Executive Director to renew, to purchase, or to direct the District's insurance broker to renew or purchase Project Owners' Protection insurance policy for the policy period of November 1, 2017, through September 30, 2020, as shown in Table 3.

Finally, the Commission is requested to authorize the Executive Director to renew, to purchase, or to direct the District's insurance broker to renew and extend the property insurance policy for the policy period of October 1, 2018, through September 30, 2019, as shown in Table 4.

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

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COMMITTEE ACTION: _____ **DATE:** _____

COMMISSION ACTION: _____ **DATE:** _____

SUMMARY (Cont'd)

Insurance Coverage Purchase or Renewal for General Operations and Project Owners' Protection

TABLE 1:				
Policy to Renew or Purchase	Proposed Insurer	Expiring Annual Premium	Estimated Annual Premium	Increase / (Decrease)
Commercial Vehicle	EMC Insurance	\$22,300	\$26,317	\$4,017
Commercial Excess Liability	Navigators	\$12,944	\$12,413	(\$531)
Commercial Crime	National Union Fire Insurance Co. (AIG)	\$7,863	\$7,882	\$19
Excess Workers Compensation	Midwest Employers Casualty	\$64,105	\$69,424	\$5,319
Marine Protection & Indemnity and Hull	Atlantic Specialty Insurance Co. (IMU)	\$19,788	\$19,788	\$0
Excess Protection & Indemnity	Atlantic Specialty Insurance Co. (IMU)	\$4,961	\$4,961	\$0
Cyber Liability	Hiscox (London Syndicate 3624)	\$19,726	\$18,256	(\$1,470)
	Total	\$151,687	\$159,041	\$7,354

TABLE 2:				
Policy to Renew or Purchase	Proposed Insurer	Expiring 36 Month Contract Fee	Estimated 36 Month Contract Fee	Increase / (Decrease)
Third Party Administrator for Workers Compensation	Gallagher Bassett	\$30,276	\$24,418	(\$5,858)

TABLE 3:				
Policy to Renew or Purchase	Proposed Insurer	Expiring 36 Month Premium	Estimated 35 Month Premium	Increase / (Decrease)
Project Owners' Protection	X.L./Catlin	\$193,125	\$242,300	\$49,175

TABLE 4:				
Policy to Renew or Purchase	Proposed Insurer	Expiring Annual Premium	Estimated Annual Premium	Increase / (Decrease)
Property, Equipment Breakdown, and Pipeline	American Home Assurance Co. (AIG)	\$574,433	\$574,433	\$0

KEY ISSUES

Insurance Coverage Purchase or Renewal for General Operations and Project Owners' Protection

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. Automobile pricing has been increasing for most insureds due to loss activity in the marketplace. Selective marketing of an account may be beneficial from a pricing perspective.

For the remaining Hays Companies of Wisconsin (Hays)-placed policies renewing October 1, 2017, (Table 1) the renewal premium is \$7,354, or 4.8%, 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 marketed and negotiated the Third-Party Administrator contract for Workers' Compensation Claim Handling renewing October 1, 2017 (Table 2). Seven companies were approached, and only two offered proposals due to the small number of claims and overall account size. The incumbent vendor, Gallagher Bassett (GB) offered the best terms for the District on a three-year contract basis. The District would change from a Life of Partnership (LOP) contract to a Handle to Conclusion (HTC) contract. The move to a HTC approach eliminates tail billings on claims open beyond three years of handling.

Hays also marketed the Project Owners' Protection policy renewing November 1, 2017 (Table 3). This expiring policy is a three-year policy, which is common for this type of coverage. Hays negotiated a rate reduction with the current insurer, but estimated construction values for the renewal period increased 48% over expiring. The premium difference by moving to a 35-month policy is \$49,175 or 25% higher.

Hays negotiated with AIG to keep rates flat for the District's largest expiring policy (Table 4). By endorsing the current policy to include a third year, and maintaining a loss ratio under 50%, there will be no rate increase for the three years, 2016-2019.

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. 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). The total change in premiums over expiring premiums is an increase of \$50,671.

KEY ISSUES (Cont'd)

Insurance Coverage Purchase or Renewal for General Operations and Project Owners' Protection

- **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 four additional vehicles, a 5% rate increase, and a premium of \$26,317 which is an increase of \$4,017 or 18%.
- **Commercial Excess Liability.** Excess liability provides a limit of \$10 million above the primary automobile liability and employer's liability policies. Coverage will be moving from Liberty to Navigators in 2017 due to an underwriting change at Liberty. The renewal premium quoted by Navigators is \$12,413, which is a decrease of \$531 or 4%. A total of 16 insurers were approached for this renewal.
- **Commercial Crime.** Crime coverage is provided by National Union Fire Insurance Company of Pittsburgh, PA, (AIG) with limits up to \$2 million with a \$150,000 deductible. Renewal premium is \$7,882 an increase of \$19.
- **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 \$69,424, which is an increase of \$5,319 or 8.3%. The District's payroll level increased 8%.
- **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 premium from the incumbent insurer, IMU, is the same as 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 premium from the incumbent insurer, IMU, is the same as the expiring policy.
- **Cyber Liability.** With no change in policy terms, coverage is \$5 million with a \$50,000 deductible. To trigger coverage for business interruption losses, the interruption must be greater than 10 hours. The renewal from the incumbent insurer, Hiscox, is \$18,256, which is a decrease of \$1,470 or 7%, lower than expiring.

KEY ISSUES (Cont'd)

Insurance Coverage Purchase or Renewal for General Operations and Project Owners' Protection

- **Workers' Compensation Third Party Administrator Agreement.** The District currently contracts with GB for third party administration services on a LOP basis. The agreement was marketed and staff recommends remaining with GB, but that a change be made from a LOP basis to an HTC basis.

Changing to an HTC basis will benefit the District in the following ways:

- The District will no longer pay any tail billings for open claims as they must under the LOP basis.
- If the District should decide to leave GB in the future, GB will handle any open claims that were set up after the HTC renewal date of October 1, 2017 at no additional per claim fee.
- MMSD has been able to gain the HTC basis through this negotiation at a reduced cost. Comparing 36 months of the LOP fees of \$30,276 against 36 months of HTC fees of \$24,418 the savings is \$5,858. Again, no additional tail billing applies to HTC years.

Staff recommends a three-year contract with GB on an HTC basis. Total contract cost is dependent on the number, type, and duration of claims experienced over the three years.

- **Project Owners' Protection.** The District currently purchases limits of \$10,000,000. The policy provides coverage for (i) loss and legal expense on behalf of the District in which the District becomes legally obligated to pay resulting from a negligent act, error or omission in design professional services, or pollution conditions arising out of contracting activities; (ii) the amount the District is legally entitled to recover from a design professional resulting from a negligent act in design professional services; or (iii) the amount the District is legally entitled to recover from a construction contractor as a result of a pollution condition arising from a contracting activity.

The current program was issued with a three-year policy term which is common for this type of coverage. Policy limits apply across three years. The deductible for coverage (i) above is \$1,000,000. Deductibles for coverages (ii) and (iii) above are \$0, but coverage is excess of the design professional and contractor's policies. Design professionals and contractors must maintain a \$1,000,000 limit of liability.

For the 2017 renewal of the project owners' protection insurance, Hays aggressively marketed to 14 insurers. These insurers were selected based on their strong financial ratings, broad coverage, and expertise.

KEY ISSUES (Cont'd)

Insurance Coverage Purchase or Renewal for General Operations and Project Owners' Protection

Based on this marketing effort, staff recommends that coverage remain with XL/Catlin. Furthermore, staff recommends that the policies be written from November 1, 2017, to September 30, 2020, to better align the renewal dates with most of the District's insurance policies.

The policies are rated on estimated construction values for the policy term. Those values increased from \$114 million on the 2014-2017 term to \$169 million on the renewal term. The rate is decreasing from 1.64 per \$1,000 values to \$1.39 per \$1,000 values. The 36-month premium is \$249,223 versus expiring 36-month premium of \$193,125. The premium for the 35-month renewal policy will be \$242,300. This policy is auditable based on actual construction costs. Terrorism coverage was and is included.

- **Property, Equipment Breakdown, and Pipeline.** The District has \$1.6 billion in insurable values. In 2016, 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. AIG offered a two-year policy in 2017 with premiums payable in annual installments. The second year anniversary premium rate would remain the same 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. At the 2017 renewal period, AIG offered to extend this policy for another year with the same criteria established in 2017. There have been no losses under the property policy during the expiring year. Values for this renewal dropped slightly, resulting in a premium decrease of \$2,567, but the rate remained the same.

RESOLUTION

Insurance Coverage Purchase or Renewal for General Operations and Project Owners' Protection

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, 2017, through September 30, 2018, in the following amounts:

- Commercial Vehicle insurance policy through EMC Insurance for an estimated annual premium of \$26,317.
- Commercial Excess Liability insurance policy through Navigators for an estimated annual premium of \$12,413.
- Commercial Crime insurance policy through AIG for an estimated annual premium of \$7,882.
- Excess Workers Compensation insurance policy through Midwest Employers Casualty for an estimated annual premium of \$69,424.
- Marine Protection and Indemnity and Hull insurance policies through IMU for an estimated annual premium of \$19,788.
- Excess Protection and Indemnity insurance policy through IMU for an estimated annual premium of \$4,961.
- Cyber Liability insurance policy through Hiscox for an estimated annual premium of \$18,256.

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 Workers' Compensation Third Party Administrator contract with Gallagher Bassett for an estimated three-year contract fee of \$24,418 for the policy period of October 1, 2017, through September 30, 2020.

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 Project Owners' Protection policy through X.L./Catlin for an estimated 35-month premium of \$242,300 for the policy period of November 1, 2017, through September 30, 2020.

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 and endorse Property/Equipment Breakdown/Pipeline insurance policy through AIG for an estimated annual premium of \$574,433 for the policy period of October 1, 2018, through September 30, 2019.

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.