

**CITY OF TEMECULA
AGENDA REPORT**

TO: City Manager/City Council
FROM: Isaac Garibay, Human Resources Manager
DATE: June 11, 2019
SUBJECT: Approve Annual Renewal of Various Insurance Policies

PREPARED BY: Roberto Cardenas, Risk Manager

RECOMMENDATION: That the City Council:

1. Approve the insurance policy renewal for Excess Liability insurance with AIX Specialty Insurance Company, in the amount of \$164,294.57, for the period of July 1, 2019 to July 1, 2020;
2. Approve the insurance policy renewal for Excess Workers' Compensation insurance with New York Marine and General Insurance Company, in the amount of \$50,054.00, for the period of July 1, 2019 to July 1, 2020;
3. Approve the insurance policy renewal for Property & Equipment Breakdown insurance with American Home Assurance Company, in the amount of \$101,000.00 for the period of July 1, 2019 to July 1, 2020;
4. Approve the insurance policy renewal for Difference In Conditions (Earth Movement and Flood) insurance with Arrowhead, in the amount of \$181,558.73, for the period of July 1, 2019 to July 1, 2020;
5. Approve the insurance policy renewal for Auto Physical Damage insurance with Hanover Insurance Company, in the amount of \$5,868.00, for the period of July 1, 2019 to July 1, 2020;
6. Approve the insurance policy for Cyber Risk insurance with ACE American Insurance Company (Chubb), in the amount of \$9,105.00, for the period of July 1, 2019 to July 1, 2020;
7. Approve the insurance policy for Crime insurance with Hanover Insurance Company, in the amount of \$2,548.00, for the period of July 1, 2019 to July 1, 2020;

8. Approve the insurance policy for Pollution/Environmental Legal Liability insurance with Indian Harbor Insurance (XL Catlin), in the amount of \$13,390.20, for the period of July 1, 2019 to July 1, 2020;
9. Approve the insurance policy for Volunteer Accident insurance with Berkley Accident & Health, in the amount of \$557.00, for the period of July 1, 2019 to July 1, 2020;
10. Approve the insurance policy for Standalone Terrorism Liability, Business Interruption, and Property Damage insurance with Lloyd's / Beazley, in the amount of \$8,276.64, for the period of July 1, 2019 to July 1, 2020.

BACKGROUND: In preparation for the July 1, 2019 expiration of the City's insurance policies, staff requested that the City's insurance broker, Arthur J. Gallagher & Company (AJG) market the City's insurance program, including Excess Liability, Excess Workers' Compensation, Property & Equipment Breakdown, Difference In Conditions (Earth Movement and Flood), Automobile Physical Damage, Cyber Risk, Crime, Pollution/Environmental Legal Liability, Volunteer Accident, and Standalone Terrorism coverage. In response, AJG obtained proposals from various insurance carriers. After accounting for broker fees and the addition of Standalone Terrorism Liability, Business Interruption, and Property Damage insurance, the insurance premiums represent approximately \$37,800.71 increase over the City's FY 2018/19 insurance premiums. The insurance premiums are listed below by category and in order of responsiveness:

Excess Liability Insurance

Carrier	Premium
AIX Specialty Insurance Company	\$164,294.57
Brit	Declined to Quote – Pricing Not Competitive
Chubb Group of Insurance Companies	Declined to Quote – Pricing Not Competitive
Euclid Specialty	Declined to Quote – Not Writing CA Business
Safety National	Declined to Quote – Pricing Not Competitive
Old Republic	Declined to Quote – Pricing Not Competitive

The premium amount of \$164,294.57 for Excess Liability Insurance represents a \$13,764.99 increase over the previous policy. The increase in premiums is primarily due to recent liability related claim activity and the current market conditions as a whole. The preferred proposal submitted by AIX Specialty Insurance Company provides coverage of \$10 million per occurrence with a self-insured retention of \$150,000. To ensure AIX Specialty Insurance Company has sufficient financial capacity to provide the necessary policy limits to insure the City's risks, AJG utilized the services of A.M. Best to assess their financial strength and creditworthiness. A.M. Best assigned a Financial Strength Rating of "A" (Excellent) to AIX Specialty Insurance Company based on their ability to meet their ongoing insurance policy and contractual obligations (after a comprehensive evaluation of their balance sheet strength, operating performance, and business profile). In addition, A.M. Best assigned AIX Specialty Insurance Company a Financial Size Category of "XV" (\$2 Billion or more) based on their policyholder's adjusted surplus.

Excess Workers' Compensation Insurance

Carrier	Premium
New York Marine and General Insurance Company	\$50,054.00
Chubb Group of Insurance Companies	Declined to Quote – \$200K Minimum Premium
Arch	Declined to Quote
Midwest Employers	Declined to Quote – \$1M Minimum SIR

As a cost saving measure, in 2014 the City incorporated a \$500,000 *Self-Insured Retention* into the City's Workers' Compensation insurance program. Therefore, rather than the City's insurance carrier covering the costs of employee related work injuries from the first dollar of loss, the City self-insures for the first \$500,000 of each occurrence, with the insurance policy covering costs in excess of \$500,000. The premium amount of \$50,054.00 represents a \$2,618.00 increase over the previous policy. A.M. Best assigned New York Marine and General Insurance Company a Financial Strength Rating of "A-" (Excellent) and a Financial Size Category of "IX" (\$250 Million to \$500 Million) based on their policyholder's adjusted surplus.

Property and Equipment Breakdown Insurance

Carrier	Premium
American Home Assurance Company	\$101,000.00
Chubb Group of Insurance Companies	Declined to Quote – Pricing Not Competitive
Zurich	Declined to Quote – Pricing Not Competitive
Travelers Companies, Inc.	Declined to Quote – Wildfire Exposure Too High

The premium amount of \$101,000.00 represents an \$8,000.00 increase over the previous policy due to a slight increase in both Total Insured Value and overall rate. The preferred proposal submitted by American Home Assurance Company provides coverage of \$170,000,000 with a \$10,000 deductible. A.M. Best assigned American Home Assurance Company a Financial Strength Rating of "A" (Excellent) and a Financial Size Category of "XV" (\$2 Billion or Greater) based on their policyholder's adjusted surplus.

Difference In Conditions: Earth Movement and Flood

Carrier	Premium
Arrowhead - Empire Indemnity Insurance Company	\$181,558.73
Ironshore	Declined to Quote – Pricing Not Competitive
RSUI	Declined to Quote – Pricing Not Competitive
Landmark	Declined to Quote – Pricing Not Competitive

The premium amount of \$181,558.73 represents a \$5,956.71 increase over the previous policy due to a slight increase in Total Insured Value. The preferred proposal submitted by Arrowhead

(Managing General Agent) includes \$35,000,000 in coverage with an earth movement deductible of 5% applied per unit subject to a minimum of \$50,000, flood inside high hazard zones deductible of 2% applied per location, subject to a minimum of \$500,000, flood outside high hazard zones deductible of \$100,000, and a deductible for all other insured perils of \$25,000. A.M. Best assigned Arrowhead’s Financial Strength Rating of “A+” (Superior) and above and Financial Size Categories of “XV” (\$2 Billion or greater) and above based on their policyholder’s adjusted surplus.

Auto Physical Damage & Contractor’s Equipment

Carrier	Premium
Hanover Insurance Company	\$5,868.00
Travelers Companies, Inc.	Declined to Quote – Cannot Match Expiring Terms
AIG	Declined to Quote – Pricing Not Competitive

The premium amount of \$5,868.00 represents a decrease over the previous policy. The preferred proposal submitted by Hanover Insurance Company provides coverage of \$2,132,623 (Catastrophic Limit) and \$407,610 Contractors Equipment with a \$5,000 deductible. A.M. Best assigned Hanover Insurance Company a Financial Strength Rating of “A” (Excellent) and a Financial Size Category of “XV” (\$2 Billion or greater) based on their policyholder’s adjusted surplus.

Cyber Risk Insurance

Carrier	Premium
ACE American Ins. Company (Chubb)	\$9,105.00
XL	\$8,127.00
National Union Fire Insurance Company of Pittsburgh, PA	\$9,144.63
Lloyd’s/Beazley	\$12,578.02

To protect the City against Internet-based risks, and more generally from risks relating to information technology infrastructure and activities (such as data destruction, extortion, theft, and hacking) the City opted to purchase Cyber Risk Insurance. The premium amount of \$9,105.00 represents a \$93.38 (slight) increase over the previous policy. The proposal submitted ACE American Insurance Company (Chubb) provides coverage of \$1,000,000 with a \$15,000 SIR. A.M. Best assigned Chubb Group of Insurance Companies a Financial Strength Rating of “A++” (Superior) and a Financial Size Category of “XV” (\$2 Billion or more) based on their policyholder’s adjusted surplus.

Crime Insurance

Carrier	Premium
Hanover Insurance Company	\$2,548.00
American International Group, Inc.	Declined to Quote – Pricing Not Competitive

Great American Insurance Company	Declined to Quote – Need Additional Application Completed
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The premium amount of \$2,548.00 represents a \$1,253.00 decrease over the previous policy. The preferred proposal submitted by Hanover Insurance Company provides coverage of \$1,000,000 with a \$10,000 deductible. In addition, the Crime insurance policy includes coverage for City Officials including, but not limited to, the City Manager, City Clerk, Finance Director, and City Treasurer. A.M. Best assigned Hanover Insurance Company a Financial Strength Rating of “A” (Excellent) and a Financial Size Category of “XV” (\$2 Billion or greater) based on their policyholder’s adjusted surplus.

Pollution/Environmental Legal Liability Insurance

Carrier	Premium
Indian Harbor Insurance (XL)	\$13,390.20
Illinois Union Insurance Company (Chubb)	\$11,077.00
JPRIMA	\$11,308.00

To address emerging trends (specifically release of pollutants), the City asked AJG to solicit proposals for Pollution/Environmental Legal Liability Insurance. After our coverage analysis, Indian Harbor Insurance (XL Catlin) provided more broadened terms over Illinois Union Insurance Company (Chubb). The preferred proposal submitted by Indian Harbor Insurance (XL Catlin) provides \$1,000,000 coverage with \$2,000,000 aggregate and a \$25,000 SIR. A.M. Best assigned Indian Harbor Insurance (XL Catlin) a Financial Strength Rating of “A+” (Superior) and a Financial Size Category of “XV” (\$2 Billion or more) based on their policyholder’s adjusted surplus.

Volunteer Accident Insurance

Carrier	Premium
Berkley Life & Health Insurance Company	\$557.00

To address emerging trends and to protect the City’s Workers’ Compensation SIR, the City asked AJG to solicit proposals for Volunteer Accident Insurance. Berkley Life & Health Insurance Company submitted the lowest quote. The insurance covers Accidental Death & Dismemberment and Accident Medical & Dental Expenses of City volunteers. The preferred proposal submitted by Berkley Accident & Health provides \$50,000 coverage with \$500,000 aggregate of AD&D at no deductible and \$100,000 of Accidental Medical & Dental Expense at no deductible. A.M. Best assigned Berkley Life and Health Insurance Company a Financial Strength Rating of “A+” (Superior) and a Financial Size Category of “VIII” (\$100 Million to \$250 Million) based on their policyholder’s adjusted surplus.

Standalone Terrorism Liability, Business Interruption, and Property Damage

Carrier	Premium
Lloyd’s / Beazley	\$8,276.64

To address emerging trends, AJG has provided the City with quote options for a standalone Terrorism Liability, Business Interruption, and Property Damage policy. After our coverage analysis, Lloyd's / Beazley is providing broader terms than the City's previous TRIA purchases, with a much less specific loss trigger. The preferred proposal submitted by Lloyd's / Beazley provides \$5,000,000 coverage with \$5,000,000 aggregate and a \$10,000 deductible. A.M. Best assigned Lloyd's of London / Beazley a Financial Strength Rating of "A" (Excellent) and a Financial Size Category of "XV" (\$2 Billion or more) based on their policyholder's adjusted surplus.

Cost for the standalone option versus current TRIA coverage includes:

- TRIA options for purchase (not included in any of the premiums shown above) = \$9,757.15
- Standalone Terrorism Liability, BI / PD option for purchase = \$8,276.64
- Total premium savings with Standalone Terrorism (including enhanced coverage) = \$1,480.51

Reasons a Standalone Terrorism placement is advantageous to purchasing TRIA coverage includes:

- Standalone option provides coverage for foreign or domestic terrorist activity such as: Boston Bombing, Orlando Nightclub Shooting, San Bernardino County Shooting
- TRIA only covers certified acts of terrorism that meet the following criteria:
 - Sustaining over \$5M in aggregate property and casualty losses
 - Agreed upon by three (3) high ranking members of the federal government (i.e. attorney general, secretary of treasury, secretary of homeland security)

To date, there has not been one incident that has met all of these criteria.

FISCAL IMPACT: Adequate funds have been budgeted in the Insurance Internal Service Fund (account 300.199.999.5204) and Workers' Compensation (account 305.199.999.5200) for this request.

ATTACHMENTS: Insurance Proposal