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Title: CONSIDER RENEWAL OF EXCESS LIABILITY, EXCESS WORKERS COMPENSATION, ALL-RISK PROPERTY, AUTO PHYSICAL DAMAGE, INLAND MARINE EQUIPMENT INSURANCE, EARTHQUAKE, CYBER LIABILITY, VOLUNTEER ACCIDENT, DRONE INSURANCE, CRIME INSURANCE, STORAGE TANK LIABILITY AND FIDUCIARY LIABILITY INSURANCE FOR FY 2023/24 (CITY COUNCIL)

Sponsors:

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Attachments: 1. Carson Executive Summary - Year Over Year as of 6.1.22 for SR v2.pdf

Date	Ver.	Action By	Action	Result
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Report to Mayor and City Council

Tuesday, June 06, 2023

Consent

SUBJECT:

CONSIDER RENEWAL OF EXCESS LIABILITY, EXCESS WORKERS COMPENSATION, ALL-RISK PROPERTY, AUTO PHYSICAL DAMAGE, INLAND MARINE EQUIPMENT INSURANCE, EARTHQUAKE, CYBER LIABILITY, VOLUNTEER ACCIDENT, DRONE INSURANCE, CRIME INSURANCE, STORAGE TANK LIABILITY AND FIDUCIARY LIABILITY INSURANCE FOR FY 2023/24 (CITY COUNCIL)

I. SUMMARY

Presented for City Council’s consideration is the annual renewal of the following insurance policies: 1) Excess Liability; 2) Excess Workers’ Compensation; 3) Property Insurance; 4) Auto Physical Damage; 5) Earthquake, 6) Cyber Liability; 7) Volunteer Accident Insurance; 8) Drone Insurance; 9) Crime Insurance; 10) Storage Tank Liability; 11) Fiduciary Liability; and 12) Equipment Insurance; for FY 2023/24. The estimated premium cost for these policies is NOT-TO-EXCEED \$1,565,220.

- The year-over-year increase of \$438,082 is due to the City’s loss experience in the

liability and workers compensation lines, and the hardening insurance markets across nearly every coverage line. The factors that fuel the hardening market conditions have resulted in more and larger claims - frequency of severity. Public entities across the board have experienced dramatic increases in adverse loss development and this trend has had an adverse impact on the PRISM Insurance Pool and the Alliant Property Insurance Program which the City is a member of. Another factor impacting the liability premium is the City's loss ratio, the ratio of paid losses to premiums, which is now 113%; meaning PRISM is paying 1.13 times more in claims than it collects in premiums from the City. The City's broker marketed the renewal to ensure that the quoted rates are competitive. The recommended program is the best price and coverage option.

- Property insurance markets are less volatile than the casualty markets but recent large catastrophic losses are resulting in rate hardening of 15-20% for the non-challenged exposures such as the City. Though there are still ample markets writing property insurance, there were none that could compete with the City's current program, Alliant Property Insurance Program, APIP. It is estimated that the City's property insurance premium rate will increase by 15-20%, consistent with market trend. Additionally, the insured values are adjusted annually to account for increased cost of construction.
- The Cyber insurance premium is expected to increase due to hard market conditions. Prism advised insured accounts with no claims activity to prepare for a 35-75% premium increase and accounts with claims activity to prepare for a 50-75% increase. Ransomware, social engineering/business email compromise, attacks on organizations with systemic reach and other attacks have left no class of business immune to the attacks and the hard market conditions. The current estimate of \$35,000 is a 65% increase over the expiring premium. The City's broker marketed the coverage to obtain lower premium quotes but no markets could compete with the incumbent program in terms of coverage and price.
- The increase in the excess workers compensation premium is due to pressure on the market as a result of claims frequency and severity as well as the impact of COVID-19. The City participates in the PRISM pool for Excess Workers' Compensation coverage. The renewal premium estimate reflects an increase of \$32,828 over expiring.

II. RECOMMENDATION

TAKE the following actions:

1. APPROVE PRISM's GL1 Program to provide coverage for the City's Excess Liability Insurance for FY 2023/24, at an overall not-to-exceed cost of \$1,048,000.

2. APPROVE PRISM to provide coverage for the City's Excess Workers' Compensation Insurance for FY 2023/24, at an overall not-to-exceed cost of \$159,000.
3. APPROVE the City's insurance broker, Alliant Insurance Services, to place all risk property insurance through the Alliant Property Insurance Program ("APIP"), including terrorism, and pollution, for FY 2023/24, at an overall not-to-exceed cost of \$282,242.
4. APPROVE the City's insurance broker, Alliant Insurance Services, to place physical damage Insurance for City's automobiles with Alliant Mobile Vehicle Program (AMVP) for FY 2023/24, at an overall not-to-exceed cost of \$12,000.
5. APPROVE the City's insurance broker, Alliant Insurance Services, to place Parametric Earthquake coverage with Fair American Select Insurance Company for FY 2023/24, at an annual premium of \$5,911.
6. APPROVE PRISM to provide Cyber Liability Insurance for FY 2023/24, at an overall not-to-exceed cost of \$35,000.
7. APPROVE the City's insurance broker, Alliant Insurance Services, to place Volunteer Accident Insurance with The Hartford Insurance Company for FY 2023/24, at an annual premium of \$340.
8. APPROVE the City's insurance broker, Alliant Insurance Services, to place the City's Drone Insurance with Global Aerospace Insurance Company for FY 2023/24, at an annual premium of \$1,715.
9. APPROVE the City's insurance broker, Alliant Insurance Services, to place Alliant Crime Insurance Program (ACIP) to provide the city's crime coverage for FY 2023/24, at an overall not-to-exceed cost of \$3,500.
10. APPROVE the City's insurance broker, Alliant Insurance Services, to place Storage Tank Liability Insurance with ACE American Insurance Company for FY 2023/24, at an annual premium of \$2,058.
11. APPROVE the City's insurance broker, Alliant Insurance Services, to place Fiduciary Liability coverage with Hudson Insurance Company for FY 2023/24, at an annual premium of \$6,855.
12. APPROVE the City's insurance broker, Alliant Insurance Services, to place Inland Marine (Contractors Equipment) coverage with Travelers Insurance Company, or other insurance company if cost-effective, for FY 2023/24, at an annual not-to-exceed premium of \$11,000.

III. ALTERNATIVES

1. DO NOT APPROVE the policies. If Council chooses not to approve, critical insurance

coverages including general liability, auto liability, workers compensation, employment practices liability, cyber liability and property coverages for the city will be uninsured and the City will have 100% exposure for all claims including prior unreported employment claims and catastrophic events. This will also impact the City's ability to fulfill its contractual requirements.

2. TAKE any other action the City Council deems appropriate.

IV. BACKGROUND

The City's broker of record, Alliant Insurance Services, solicits renewal quotations for our insurance coverages. FY 2023/24 renewal recommendations are the best coverage and price combination available in the marketplace.

Policies that are placed with PRISM are invoiced directly by PRISM. Other insurance policies are invoiced and paid through the broker, Alliant Insurance Services. However, premium payments flow through Alliant to the insurance carrier. Premiums that flow through the broker have no impact on Alliant's contract fees.

Excess Liability Insurance

The City self-insures its third-party liability exposures up to \$250,000 per occurrence. Losses exceeding the \$250,000 self-insured retention (SIR) are covered under the excess liability insurance policy. Since 2017 the City has been a member of PRISM excess liability insurance pool. The proposed (and expiring) GL-1 program provides a total limit of \$24,750,000 over the SIR.

The FY 2023/24 premium estimate reflects an increase of up to \$309,514 over the expiring premium. The increase in the number and size of large liability claims continues to create very difficult market conditions. The liability insurance marketplace is seeing significant increases in high dollar liability claims, plaintiff demands, and jury verdicts. These factors are depleting the market's surplus, capacity and available reinsurers; pushing the industry into a "hard market". Indeed, municipalities with law enforcement exposures and those with a history of high claim frequency are experiencing even higher rate increases. Additionally, the City's loss ratio is over 100%, i.e. claims costs exceed paid premiums, which results in underwriting surcharge until the loss ratio falls below 100%.

City's insurance broker, Alliant, marketed the renewal but was unable to obtain a better option.

Staff recommends that the City renew the Excess Liability coverage effective 7/1/2023 - 7/1/2024 with incumbent PRISM at an annual premium of not-to-exceed \$1,048,000.

Excess Workers' Compensation Insurance

The City self-insures its workers compensation exposure up to \$750,000 per occurrence. Losses exceeding \$750,000 are covered under an excess workers compensation policy. The excess insurance policy is required because it protects the city from catastrophic employee injuries or illnesses. By statute, workers compensation liability is not capped. In other words, a catastrophic event may expose the City to unlimited liability over many years following the event. The proposed excess policy will protect the City from such catastrophic liability.

The proposed renewal premium estimate reflects an increase of up to \$32,828 due to market conditions.

Staff recommends to renew the Excess Workers Compensation insurance effective 7/1/2023 - 7/1/2024 with the incumbent PRISM at an annual premium of not-to-exceed \$159,000.

Property Insurance

The City purchases property insurance that provides coverage on a replacement cost basis. This insurance covers all city buildings and contents (including parks), City Hall office equipment, electronic data processing hardware and software, valuable papers, inventory and exhibitions (fine arts), boiler and machinery. Licensed vehicles and city-owned heavy equipment (e.g., forklifts, generators, etc.) are currently covered at Actual Cash Value.

Overall, the City's property insurance estimate reflects an increase of up to \$77,499 due to a 7.24% increase in replacement values, up to 35% rate increase due to hard market conditions, and the possible addition of flood insurance coverage for larger facilities.

Alliant marketed the renewal and though there are still ample markets writing property insurance, there were none that could compete with the City's current program.

Staff recommends renewing the APIP property insurance program effective 7/1/2023 - 7/1/2024 through Alliant Insurance Services at an overall not-to-exceed cost of \$282,242.

Auto Physical Damage

While automobile third-party liability exposures are covered under PRISM's excess liability coverage, physical damage to City's vehicles is covered under Alliant Mobile Vehicle Program (AMVP).

Staff recommends to renew the Alliant Mobile Vehicle Program (AMVP) for the period 7/1/2023-7/1/2024 with a \$5,000 deductible at an annual premium of \$11,301.

Earthquake Insurance

The City's Parametric Earthquake insurance provides up to \$100,000 to reimburse for losses, with \$0 deductible.

Staff recommends the proposed Parametric Earthquake insurance effective 7/1/2023 - 7/1/2024 at an annual premium of \$5,911.

Cyber Liability Insurance

Cyber and Data Breach is one of the fastest growing and greatest risks facing public entities and private companies. The City's incumbent carrier has indicated that the premium will increase up to but not-to-exceed \$35,000.

Staff recommends that the City renew the Cyber Liability insurance effective 7/1/2023 - 7/1/2024 with the incumbent carrier PRISM at an annual premium of not-to-exceed \$35,000.

Accident Insurance for Volunteers

Volunteers provide a valuable service to the city. Volunteers are not covered under the City's worker compensation program. Consequently, a Blanket Accident Insurance is provided for this group. This insurance covers medical expenses for injuries that occur while the volunteer is at City premises and under City supervision.

Staff recommends renewing the program through Hartford or another carrier recommended by Alliant Insurance Services, effective 7/1/2023 - 7/1/2024 at an annual premium of \$340.

Drone Insurance

Drone Insurance covers the City's liability arising out of the operation of the City's drone. This coverage was first placed in April of 2019. This year the City purchased 2 additional Drones for a total of 3. The increase in premium is due to this change.

Staff recommends renewing this coverage through Alliant Insurance Services, effective 7/1/2023 - 7/1/2024 with Global Aerospace Insurance Company, or another company if recommended by Alliant at a premium of \$1,715.

Crime Insurance

Crime Insurance covers employee theft, robbery, computer and identity fraud as well as other types of fraud, inside and outside the premises.

Staff recommends renewing the Alliant Crime Insurance Program (ACIP) program effective 7/1/2023 - 7/1/2024 through Alliant Insurance Services at an annual premium of \$3,136.

Storage Tank Liability

The Storage Tank Liability insurance provides coverage for scheduled tanks only. The city currently schedules one tank that stores fuel. The limits are \$2,000,000 per tank and \$4,000,000 aggregate.

Staff recommends renewing this coverage through Alliant Insurance Services, effective 7/1/2023 - 7/1/2024 through Alliant Insurance Services at an annual cost of \$2,058 reflecting an increase of \$157 due to age of the tank.

Fiduciary Liability Insurance

Fiduciary Liability insurance provides coverage for claims alleging wrongful acts in administering the City's pension and 457 plans as well as claims alleging errors and omissions in administering the City's benefit plans.

Staff is recommending that the City renew the coverage through Alliant Insurance Services, effective 7/1/2023 - 7/1/2024 at a premium of \$6,855.

Inland Marine (Contractor Equipment)

The Inland Marine insurance policy covers loss to City's equipment. The types of equipment insured under this policy include turf carts, blowers, generators, skid steer, etc.

Staff recommends to renew the Inland Marine (Contractor Equipment) insurance policy through Travelers or another insurance company recommended by Alliant, at an overall not-to-exceed cost of \$12,000.

V. FISCAL IMPACT

Funds for the insurance coverage renewals are included in FY 2023/24 general fund budget.

VI. EXHIBITS

1. City of Carson -
Executive Summary Schedule of Insurance
Prepared by: Roobik Galoosian, Risk Manager