



MEMO

To: President and Members of Council

From: Town Manager

Re: Binding of Coverage for Property, Casualty, and Workers' Compensation Coverage

Date: December 18, 2020

The Town of Munster is self-insured with excess coverage beyond certain limits. Our program structure is illustrated in the attachment to this memo entitled "Program Structure." Funds are budgeted in the Liability Fund (580). Total expenses on this program are projected to rise by 8.62%. This cost may be lower because some costs are incurred as experienced - if we have a good year, we may end up paying less. Likewise, that could break the other way if we have a poor year.

I have attached the most important pages of our renewal for our 2021 renewal for your review. These include: a market review, a table illustrating our self-insurance exposures, a detailed program review.

The most responsive and competitive costs of coverage are as follows:

- AIX Specialty Insurance - Package
- Fireman's Fund Insurance Company (Allianz SE) – Excess Property
- Midwest Employers – Workers Compensation
- Lloyds of London - Property/Boiler & Machinery for Clubhouse and Amphitheater
- BCS Insurance Company – Cyber Liability
- Federal Insurance Company – Property /Liability for Methane Plant

A detailed summary of the cost of lines of service can be reviewed on the following page.

The only significant change in our lines of coverage is the increase of our self-insured retention from \$75,000 to \$100,000 for our casualty lines and from \$150,00 to \$200,000 for our workers' compensation line. An analysis of our claims shows that our historic exposure to this claim band has been limited. By increasing our retention, our premium only increases by approximately \$12,000.

An illustration of this is included in the figure below.

	Expiring	Renewal Options: Pre TRIA & SLT		
	Expiring: \$75K Casualty; \$150K WC	Option 1: \$75K Casualty; \$150K WC	Option 2: \$100K Casualty; \$200K WC	Option 3: \$125K Casualty; \$200K WC
Premium	\$204,713	\$267,794	\$216,541	\$208,107
Loss Fund	\$348,593	\$417,930	\$453,820	\$464,459
<i>Initial Quote</i>	<i>N/A</i>	<i>\$270,328</i>	<i>\$230,907</i>	<i>\$216,846</i>



Property, Casualty, and Workers Compensation Insurance Coverage Costs 2020:

	Expiring	Trended	Renewal	Change
	<u>Allianz</u>		<u>Allianz</u>	
Excess Property	\$52,940	\$58,740	\$63,166	\$10,226
Total TIV + BI	\$82,038,126	\$91,025,824	\$91,025,824	
Rate / \$100 TIV	\$0.065	\$0.065	\$0.069	8%
	<u>Midwest Employers</u>		<u>Midwest Employers</u>	
Excess Work Comp	\$75,502	\$75,502	\$75,502	\$0
Payroll	\$7,809,916	\$7,809,916	\$7,809,916	
Rate/\$100 Payroll	\$0.97	\$0.97	\$0.97	0%
	<u>AIX</u>		<u>AIX</u>	
Package - AIX	\$204,713	\$192,380	\$216,541	\$11,828
Liability Retention	\$75,000	N/A	\$100,000	
Work Comp Retention	\$150,000	N/A	\$200,000	
Vehicle Value	\$5,350,958	\$5,584,801	\$5,584,801	
Payroll	\$8,231,785	\$7,809,916	\$7,809,916	
Operating Expense	\$32,138,974	\$33,124,728	\$33,124,728	
Revenue	\$51,388,140	\$44,739,798	\$44,739,798	
Total	\$97,109,857	\$91,259,243	\$91,259,243	
Blended Rate	\$0.211	\$0.211	\$0.237	13%
Total Premium	\$333,155	\$326,621	\$355,209	\$22,054
Total Rate Change				8.75%
	<u>BCS Insurance Company</u>		<u>BCS Insurance Company</u>	
Cyber Liability	\$12,052	\$10,493	\$14,368	\$2,316
Revenue	\$51,388,140	\$44,739,798	\$44,739,798	
Rate/\$100 of Revenue	\$0.0235	\$0.0235	\$0.0321	37%
	<u>Beazley</u>		<u>Beazley</u>	
Club House & Amphitheater	\$45,249	\$45,249	\$49,046	\$3,797
TIV	\$15,704,336	\$15,704,336	\$15,704,336	
Rate/\$100 TIV	\$0.288	\$0.288	\$0.312	8%
	<u>Chubb</u>		<u>Chubb</u>	
Methane Plant	\$55,589	\$55,589	\$62,181	\$6,592
Building Limit	\$114,677	\$114,677	\$114,677	
Content Values	\$3,819,031	\$3,819,031	\$3,819,031	
Total	\$3,933,708	\$3,933,708	\$3,933,708	
Rate/\$100 of TIV	\$1.413	1.413	\$1.581	12%
TOTAL PREMIUM	\$446,045	\$437,952	\$480,804	\$34,759
Gallagher Fee	\$77,250	\$77,250	\$78,795	2%
TOTAL With Fee	\$523,295	\$515,202	\$559,599	\$36,304
Total Premium Change				6.94%
Total Rate Change				8.62%

For a fourth year we have been able to successfully split out coverage of Centennial Clubhouse and the Amphitheater into a separate line of property and casualty coverage through Lloyd's of London. Our costs for this separate line of coverage have been very stable – this year the cost of premium will increase by only \$3,797.



We are going into year three of our third-party claims' administration contract with Gallagher Bassett. Per our agreement, there will be a 2% increase in per-claims fees per year in each of these years. Staff has found Bassett to be diligent in their claims' management.

The Town has budgeted \$500,000 for paid claims in 2021. There are sufficient funds budgeted. If any year ends in surplus those funds stay within the insurance fund. Surpluses are accumulated to cover outstanding claim costs and reserves.

Recommendation

Authorize the Town Manager to bind coverage for liability insurance program as presented in the 2021 renewal package.

Exposures

Property Exposure	Expiring	Renewal	Change %
Building values - Excluding Methane Plant, Clubhouse & Amphitheater	\$51,973,643.00	\$51,973,643.00	0.00%
Content Values - Excluding Methane Plant, Clubhouse & Amphitheater	\$3,462,281.00	\$3,462,281.00	0.00%
Mobile Equipment	\$2,911,647.32	\$3,690,998.00	26.77%
Misc. Property	\$22,669,046.00	\$26,898,913.00	18.66%
Sub Total	\$81,016,617.32	\$86,025,835.00	6.18%

Business Income	\$3,097,964.00	\$2,853,967.00	-7.88%
Vehicle/Trailer Count	107	107	0.00%
Vehicle Value	\$5,350,958.43	\$5,584,801.00	4.37%
Property TIV - Clubhouse & Theater	\$15,347,802.00	\$15,347,802.00	0.00%
Methane Plant - Bldg Limit	\$114,677.00	\$114,677.00	0.00%
Methane Plant - Content	\$3,819,031.00	\$3,819,031.00	0.00%

Exposure Change Summary:

Exposure	Expiring	Renewal	Change %
Vehicle/Trailer Count	107	107	0.00%
Vehicle Value	\$5,350,958	\$5,584,801	4.37%
Payroll	\$7,809,916	\$7,809,916	0.00%
Population	23,608	23,608	0.00%
Full-Time Employees	117	118	0.85%
Part-Time Employees	93	92	-1.08%
Operating Expense	\$32,138,974.00	\$33,124,728.00	3.07%
Revenue	\$51,388,140.00	\$44,739,798.00	-12.94%

Market Review

We approached the following carriers in an effort to provide the most comprehensive and cost effective insurance program.

INSURANCE COMPANY	LINE OF COVERAGE	RESPONSE	PREMIUM
AIX Specialty Insurance Company	Package	Recommended Quote	\$219,039.00
Great American Insurance Agency, Inc.	Package	Declined to Quote - Pricing not Competitive	N/A
The Travelers Companies, Inc.	Package	Declined to Quote - Pricing not Competitive	N/A
RPS PSI (AMS)	Package	Declined to Quote - Does Not Fit Underwriting Requirement	N/A
Hartford Financial Services Group	Package	Declined to Quote – Cannot provide all coverages	N/A
Fireman's Fund Insurance Company	Excess Property	Recommended Quote	\$63,166.00
AXA Insurance Company	Excess Property	Declined to Quote – Pricing not Competitive	N/A
The Travelers Companies, Inc.	Excess Property	Declined to Quote - Does Not Fit Underwriting Requirement	N/A
Great American Insurance Agency, Inc.	Excess Property	Declined to Quote - Pricing not Competitive	N/A
Federal Insurance Company	Package (Methane Plant)	Recommended Quote	\$62,181.00
Underwriters at Lloyd's London	Property (Clubhouse)	Recommended Quote	\$47,500.00
BCS Insurance Company	Cyber Liability \$3,000,000	Recommended Quote	\$14,368.00
Midwest Employers Casualty Company	Excess Workers' Compensation (2 Year Policy)	Recommended Quote	\$75,502.00



Town of Munster

Property & Casualty Program

January 1st 2020-2021

Therese O'Brien, JoAnn Bonnevier, Michael McHugh

November 23rd, 2020

Arthur J Gallagher Risk Management Services, Inc.



Gallagher

Insurance | Risk Management | Consulting

Overview

Thank you for this opportunity to present your renewal proposal program options and recommendations. This Executive Summary is a shorter version of your proposal and is intended to summarize the highlights and point you to any decisions that need to be made prior to binding. We highlight each **CORE360™** cost driver, beginning with Insurance Premiums and ending with Contractual Liability.

This will not only organize the document but also ensure that we are deliberate in driving value to each of your six cost drivers which represent your total cost of risk. It also follows the decisions made and action items we discussed in our Strategic Review; which serves as the basis for this proposal.

We know that you have a choice and we appreciate your business and continued support.



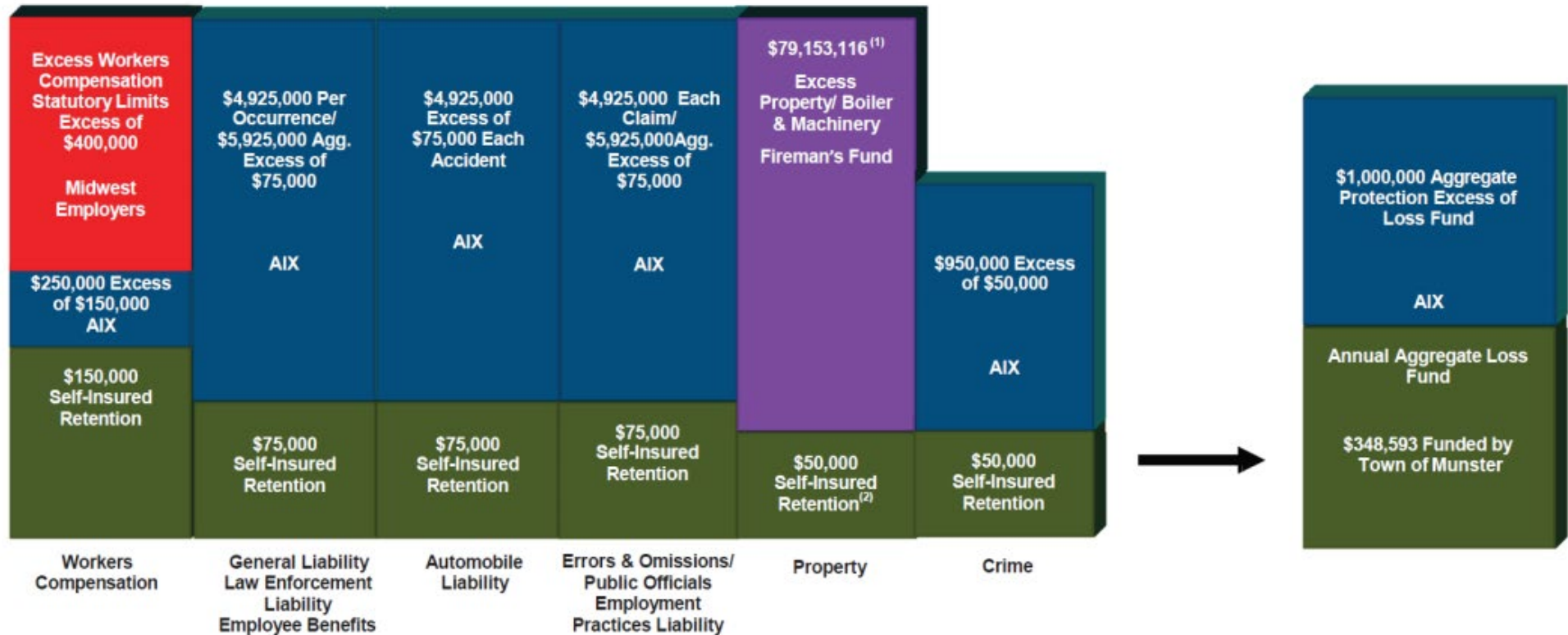
Service Team

Brokerage & Administration - Gallagher

Name/Title	Phone	Email	Role
Primary Service Team			
Therese O'Brien	262-792-2262	Therese_obrien@ajg.com	Account Lead
JoAnn Bonnevier	630-647-3082	Joann_Bonnevier@ajg.com	Service Lead
Michael McHugh	630-285-4373	Michael_mchugh@ajg.com	Senior Leadership
Claims			
Charrise Searer	574-307-7152	Charrise_searer@gbtpa.com	Liability Claims Manager
Gretchen Day	574-307-7151	Gretchen_day@gbtpa.com	Liability Resolution Manager
Dan Osterberg	770-280-2564	Dan_osterberg@gbtpa.com	Liability Claims Supervisor
Jim Krueger	847-620-2133	James_krueger@ajg.com	Property Claims Advocate
Loss Control			
Donna Settle	713.209.2803	donna_settle@ajg.com	Loss Control Consultant
Emily Wells	847-532-5959	Emily_wells@gbtpa.com	Loss Control Consultant

Expiring Program Structure - ALA

2020-2021 Package & Property Program – Self-Insurance Structure



(1) \$90,453,094.00 is the total reported TIV for the Town. Individual sublimits apply.

(2) High Hazard Flood deductible is \$100,000 per occurrence.

Please note that coverages are not drawn to scale and actual policy verbiage should be consulted for coverage terms and conditions

Expiring Program Structure – First Dollar

2020-2021 First Dollar Program Details



Please note that coverages are not drawn to scale and actual policy verbiage should be consulted for coverage terms and conditions

Renewal Strategy – Overall

Build a strong submission for all markets included the incumbents to assist with negotiations

Work with incumbent carriers to improve renewal projections on majority of coverages

Explore higher cyber limits

Explore retention/deductible options on the AIX package – use actuarial information to guide the decision

Renewal Results – Overall

	Expiring	Renewal	Change
Total Premium	\$446,045	\$480,804	\$34,759
Gallagher Fee	\$77,250	\$78,795	2%
TOTAL With Fee	\$523,295	\$559,599	\$36,304
		Total Premium Change	6.94%
		Total Rate Change	8.62%

Property

Public Entity/K-12 Market Update:

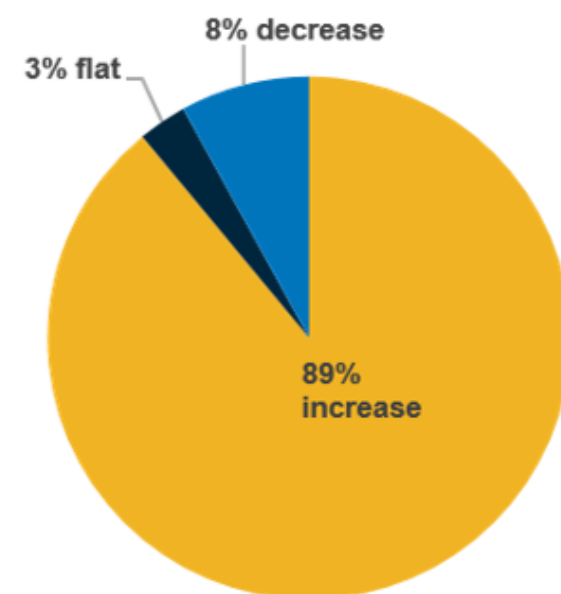
PROPERTY, INCLUDING BUILDERS RISK

- The pricing of this coverage continues its upward trend with most insureds seeing double-digit premium increases (on average 18% to 22%), year over year.
- Public Entities (including K-12 schools) continue to utilize deductible increases and reductions in limits to offset premium and rate increases.
- We expect this trend to continue, and recent storms and CAT losses will continue to put pressure on this line.

Renewal Strategy:

- Allianz – Excess Property – 12-15% increase
 - Crisis Management Sublimit lowering from \$50K to \$25K
 - Communicable Disease Sublimit lowering from \$1M down to \$50K
- Chubb – Methane Plant & Clubhouse – 10-20% increase
 - Have Clubhouse renovations/repairs started?
- Negotiate with incumbents where possible, but also deploy limited marketing effort to carrier that declined based on price last year – Great American, Travelers, Affiliated and Hartford

Q2 2020 Property Rate Changes
Gallagher – U.S. Clients



Property – Renewal Results



	Expiring	Renewal	Change
	<u>Allianz</u>	<u>Allianz</u>	
Excess Property	\$52,940	\$63,166	\$10,226
Total TIV + BI	\$82,038,126	\$91,025,824	
Rate / \$100 TIV	\$0.065	\$0.069	8%
	<u>Beazley</u>	<u>Beazley</u>	
Club House & Amphitheater	\$45,249	\$49,046	\$3,797
TIV	\$15,704,336	\$15,704,336	
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Methane Plant	\$55,589	\$62,181	\$6,592
Building Limit	\$114,677	\$114,677	
Content Values	\$3,819,031	\$3,819,031	
Total	\$3,933,708	\$3,933,708	
Rate/\$100 of TIV	\$1.413	\$1.581	12%

Coverage Notes – XS Property:

- Crisis Management Sublimit lowering from \$50K to \$25K
- Communicable Disease Sublimit lowering from \$1M down to \$50K
- Marketing Efforts: Even with the 8% increase in rate Great American, Travelers, Affiliated and Hartford declined to compete due to pricing

Coverage Notes – Club House:

- Subject to a loss control visit which Lloyds will arrange

Package

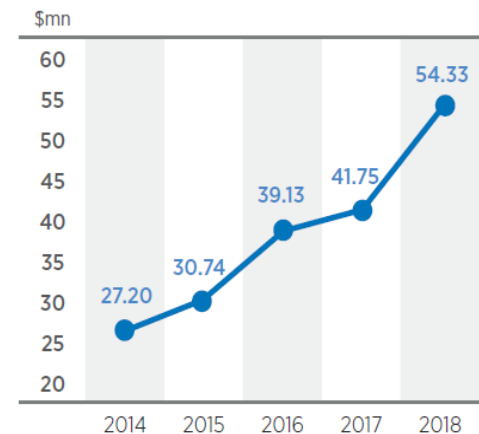
Market Conditions

- Despite several years of price increases in auto liability, rates continued to increase in Q1 as the price increases are still not keeping pace with the increases in claim frequency and severity.
- Law enforcement liability of particular concern amidst the social justice movement and overall civil unrest
- Social Inflation continues to be a concern to liability carriers
- Overall capacity and terms and conditions being reduced to help offset loss costs in addition to rate increases

Renewal Strategy

- AIX has been one of our most stable partners on self insured public entity renewals this year
- Projected about a 5-8% increase in rate
- Work with AIX as the incumbent carrier to negotiate a renewal on the lower end of this range
- Additionally we will look at different retention options to off set increases – our actuarial team is working on some loss projections for us as well in order to make an informed decision based on where AIX's options come in

MEDIAN AVERAGE: TOP 50 US VERDICTS



Source: Shaub, Ahmuty, Citrin & Spratt.
<https://mvvsp1.5gcdn.net/eac2fddf5b9b403c84c35ebc1bf20320>

Package – Renewal Results



	Expiring	Renewal Options: Pre TRIA & SLT		
	Expiring: \$75K Casualty; \$150K WC	Option 1: \$75K Casualty; \$150K WC	Option 2: \$100K Casualty; \$200K WC	Option 3: \$125K Casualty; \$200K WC
Premium	\$204,713	\$267,794	\$216,541	\$208,107
Loss Fund	\$348,593	\$417,930	\$453,820	\$464,459
<i>Initial Quote</i>	<i>N/A</i>	\$270,328	\$230,907	\$216,846

Notes:

- **Renewal:** AIX is pushing for retention increases on both the casualty lines as well as the workers compensation. They have wanted to increase these retentions for the last 2 years, but the off set in premium was never attractive enough. As you can see this year is a different story.
 - The push for higher retentions is due in part to market conditions, but also to Munster's historical loss experience. We negotiated with them on a couple of the carrier reserves in a few of your large losses (Shell, Blanco, Comandella, and Micka/Young) to bring down their initial quote offerings
- **Coverage:** Cyber exclusion – clarifying endorsement
- **Marketing:** PESLIC is a new program through RPS that we have had some recent success with. They were interested in Munster, but based on the renewal premium/structure with AIX, they cannot compete.
 - WC retention at \$250K and hesitant to extend coverage – especially with heavy policy exposure
 - Casualty premium is too low to support a healthy WC layer.



Package – Program Structure

Policy Year: Payroll (00)	1/1/2021 78,099	Work Comp	
Retention	ILF/DLF	Ultimate Loss	Loss Rate
150,000	1.000	122,000	1.56
200,000	1.059	129,000	1.65
250,000	1.101	134,000	1.72
500,000	1.204	147,000	1.88
1,000,000	1.267	155,000	1.98
Unlimited	1.325	162,000	2.07

Policy Year: Revenue (000)	1/1/2021 70,022	General Liability	
Retention	ILF/DLF	Ultimate Loss	Loss Rate
75,000	1.000	202,000	2.88
100,000	1.099	222,000	3.17
150,000	1.233	249,000	3.56
500,000	1.583	320,000	4.57
1,000,000	1.753	354,000	5.06
Unlimited	2.311	467,000	6.67

Policy Year: Vehicle Count	1/1/2021 100	Auto	
Retention	ILF/DLF	Ultimate Loss	Loss Rate
75,000	1.000	44,000	440
100,000	1.119	49,000	490
150,000	1.188	52,000	520
500,000	1.201	53,000	530
1,000,000	1.201	53,000	530
Unlimited	1.201	53,000	530

Option 2: \$100K Casualty; \$200K WC

Actuarial Projections:

- \$34,000 increase in Ultimate Loss
- 8.69% increase in Loss Rate

Renewal Analysis: (compared to option 1)

- Loss Fund increase - \$36,000 or 8.6%
- 20% Savings in premium

Option 3: \$125K Casualty; \$200K WC

Actuarial Projections:

- \$47,000 increase in Ultimate Loss
- 13% increase in Loss Rate

Renewal Analysis: (compared to option 1)

- Loss Fund increase - \$46,000 or 8.6%
- 22% Savings in premium

Recommendation: Option 2

To go to option 3 you only get a 2% premium credit to increase your loss rate almost 5%

Package – Historical Loss Analysis



Over the last 10 years, they have only been 2 work comp claims over \$150K and 4 Liability claims over \$75K.

Work Comp Losses Over \$150,000

Claimant	Status	Period (Jan 1 Policy Period)	Total Incurred	\$150,000 SIR	\$200,000 SIR
MILLER, DEAN	Open	01/01/2012 - 12/31/2012	339,609.00	150,000	\$200,000
COCHRAN, MARC	Closed	01/01/2014 - 12/31/2014	262,388.52	150,000	\$200,000
				300,000	400,000

Casualty Losses Over \$75,000

Claimant	Status	Period (Jan 1 Policy Period)	Total Incurred	\$75,000 SIR	\$100,000 SIR	\$125,000 SIR
COMANDELLA, MICHAEL	Open	01/01/2015 - 12/31/2015	110,000.00	75,000	100,000	110,000
YONAN, JOHN	Closed	01/01/2016 - 12/31/2016	329,948.05	75,000	100,000	125,000
SCHULTZ, NANCY	Closed	01/01/2016 - 12/31/2016	75,000.00	75,000	75,000	75,000
SHELL, TERRY	Reopened	01/01/2016 - 12/31/2016	150,000.00	75,000	100,000	125,000
				300,000	375,000	435,000

Workers Compensation – Renewal Results

Market Conditions

WORKER'S COMPENSATION – K-12/PUBLIC SECTOR

While this is currently the line of coverage with the least upward pressure, expect changes to come as covered COVID-19 claims increase. Laws extending the presumption of coverage continue to develop across the states.

Renewal Strategy:

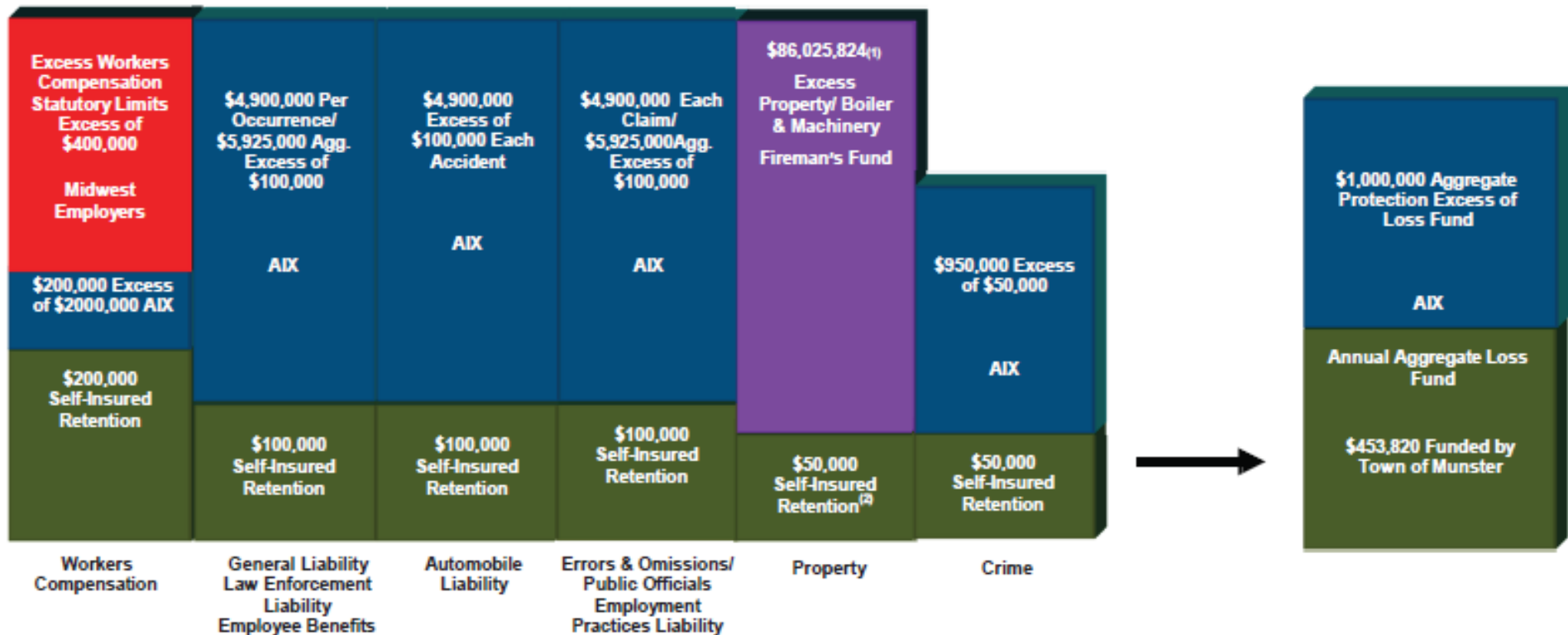
We locked in a 2 year rate guarantee last year for the excess workers compensation with Midwest which will really work to our advantage this year

Renewal Results:

	Expiring	Renewal	Change
	<u>Midwest Employers</u>	<u>Midwest Employers</u>	
Excess Work Comp	\$75,502	\$75,502	\$0
Payroll	\$7,809,916	\$7,809,916	
Rate/\$100 Payroll	\$0.97	\$0.97	0%

Renewal Program Structure - ALA

2021-2022 Package & Property Program – Self-Insurance Structure



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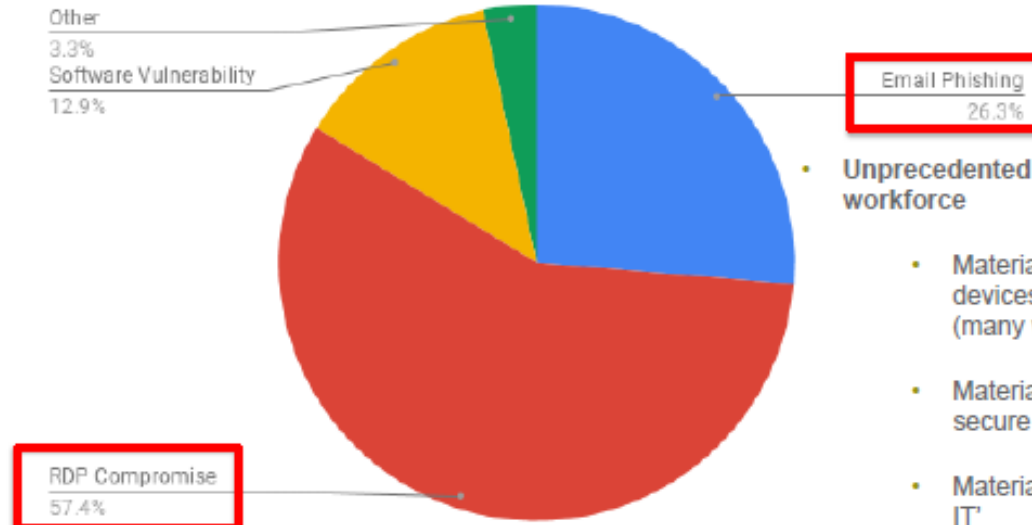
Cyber Market Conditions

Market Conditions

- Significant changes in the market place over the last 60 days for public entities – specifically due to COVID and the uptick in claims

Pandemic Cyber Issues

Most Common Ransomware Attack Vectors Q4 2019



- Unprecedented increase in the remote workforce

- Material increase in use of personal devices for business purposes (many w/o endpoint protection)
- Material increase in use of less secure networks – home / public wifi
- Material increase in use of 'shadow IT'

<https://www.coveware.com/blog/2020/1/22/ransomware-costs-double-in-q4-as-ryuk-sodinokibi-proliferate>

Coveware, Average Ransomware Payments by Qtr

[Coveware](#)



Cyber – Renewal Results

Renewal Strategy:

- Work toward a flat – 5% increase renewal with coverage enhancements
- Conduct limited marketing effort if needed – Beazley and Chubb
- Secure options for higher limits to consider given the rise in attacks and overall demands

Renewal Results:

	Expiring	Renewal	Change
	BCS Insurance Company	BCS Insurance Company	
Cyber Liability	\$12,052	\$14,368	\$2,316
Revenue	\$51,388,140	\$44,739,798	
Rate/\$100 of Revenue	\$0.0235	\$0.0321	37%

Thank You for Your Business

We have enjoyed our 30+ partnership and appreciate the continued time, support and confidence you have placed in us as your risk management team. We look forward to executing our renewal strategy to achieve the best possible results within the market place. Thank you 😊

Legal Disclaimer

Gallagher provides insurance and risk management advice that is tailored to our clients' risk transfer needs. Our review can include evaluation of insurance premium, risk transfer options, finance agreements, insurance limits, indemnification obligations, and contracts to ascertain appropriate coverage. We do emphasize that any risk management advice, insurance analysis, and limited review of contract terms and conditions, is only provided from an insurance/risk management perspective and is NOT legal advice. We do not provide legal advice and always recommend that our clients seek advice from legal counsel to become fully apprised of all legal implications from their business transactions.