

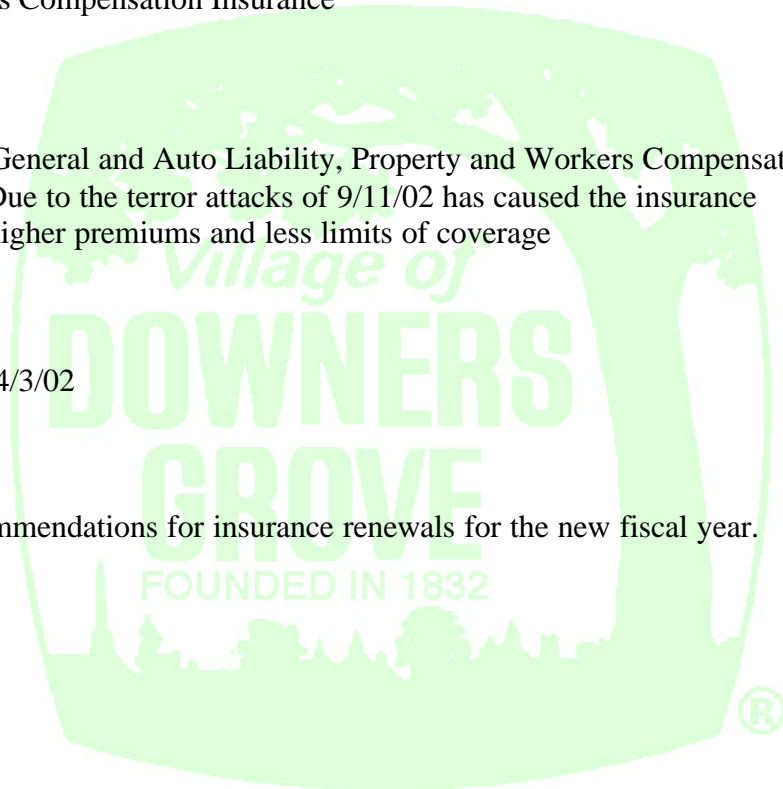
## COUNCIL WORKSHOP ITEM

**ITEM:** Recommendations for the Village's Insurance Renewals for 2002/2003  
**DATE:** 4/9/02  
**PREPARED BY:** Dennis E. Burke, Risk Manager  
**PURPOSE:** To renew the Village's Excess General & Auto Liability , Property and Workers Compensation Insurance

**DISCUSSION:**  
The Village's existing Excess General and Auto Liability, Property and Workers Compensation Insurance expires on 4/30/02. Due to the terror attacks of 9/11/02 has caused the insurance market to become very rigid. Higher premiums and less limits of coverage

**ATTACHMENT:**  
Memo to the Village Manager 4/3/02

**RECOMMENDATION:**  
To accept Risk Managers recommendations for insurance renewals for the new fiscal year.



**DATE:** April 3, 2002  
**TO:** Riccardo Ginex, Village Manager  
**FROM:** Dennis E. Burke, Risk Manager  
**SUBJECT:** Insurance Renewals for FY 02/03

Pursuant to the Village's Broker of Record agreement, Marsh USA went out to the insurance market to obtain quotes for the renewal of expiring General & Auto Liability and Property insurance. The concern expressed at the Council Workshop of 2/12/02 has come to fruition in finding a rigid market due to the terror attacks of September 11, 2001 combined with the declining stock market.

#### General & Auto Liability

The Village of Downers Grove currently has \$50Million in limits of liability, along with an aggregate stop loss of \$2Million. *In this marketplace the carriers are no longer quoting the aggregate stop loss. The aggregate stop loss coverage provided the Village with a cap of \$2,000,000 out of pocket in an insurance year and the excess insurance would pay from first dollar on the existing and new claims made during the premium year.* Also, the insurance carriers are now restricted in the limits of liability that they can quote. These restrictions are being imposed upon them by their reinsurers. The Village's total of \$50,000,000 excess General/Auto Liability insurance is currently provided in 2 layers. Insurance Co. of the West (ICW) provides the first \$20,000,000 of claims in excess of the Village's \$1,000,000 Self-Insurance Retention (SIR). The St. Paul & Marine Insurance Company covers the next \$30,000,000 in excess of the \$20,000,000 provided by ICW. These carriers, like the other insurance carriers will not offer limits of coverage as high as the expiring year. Therefore, the Village will have to purchase coverage by the layer to reach desired limits of liability coverage. The cost will be the determining factor for purchasing the same level of coverage as with the expiring insurance policies.

Marsh USA has been able to secure firm quotes providing a total of \$20 million in limits of liability. The minimum premium, (for the first layer of excess insurance above the Village's SIR) is a stumbling block for many carriers. This is basically why there were no options for the lead quote. Once they learned that the incumbent carrier was quoting \$100,000 for \$5Mil excess \$1Mil SIR, they closed their files and did not release quotes. With the volume of submissions now being received, once they determine they are not competitive enough, the carrier just moves on to a better opportunity.

Marsh anticipates receiving quotes from ACE and Royal Insurance offering excess coverage at \$10,000,000 limits incrementally above the 1<sup>st</sup> 3 layers of insurance totaling \$20 million. Purchasing these additional layers of insurance would bring the total amount of excess coverage to \$40,000,000. However, these two companies can not release their quotes until they have completed their treaty negotiations. Once their treaties are renewed we are confident we could obtain additional excess limits. The premium quotes are not secured but the indication is that each additional layer of \$10,000,000 will cost approximately \$40,000 each. All insurance carriers have reinsurance treaties. Insurance companies share the risk they insure with the reinsurance markets. Unlike the primary insurance companies, of which there are many, the reinsurance markets is limited. All insurance companies use the same reinsurance carriers. When the reinsurance treaties are being negotiated, the rating structure, limits, sublimits, coverages and exclusions are discussed

The companies that were contacted by Marsh USA for the Village insurance renewal is as follows:

Munich Re - Minimum premium for the lead \$10Mil limit excess \$1Mil SIR is \$150,000 - Not competitive. Closed their file. Did not release a formal quote.

AMS (all lines aggregate) Exposures are not large enough for their program. Premiums would not be competitive. Did not release a formal quote.

Coregis - Could not be competitive with renewal pricing. Minimum premium for \$5Mil excess \$1Mil is more than \$100,000. Did not respond with a formal quote.

GenStar, Gulf and St. Paul Surplus (not to be confused with St. Paul) are other possibilities on the excess layers. However, due to minimum premiums they could not be competitive as the lead carrier.

St. Paul was the Village's expiring program (\$30Mil excess \$20Mil excess \$1Mil SIR) non-renewed the Village's insurance because their umbrella market has changed. They no longer quote public entity business.

The St. Paul public entity section, which is different than the umbrella department. However, they declined because given the limited timeframe to quote they did not feel they had sufficient time to do loss control and fully understand your exposures.

Royal - The reinsurance treaty for Royal has not yet been renewed as of 4/1/02. Therefore, they can not release a quote. (Note: for excess coverage over \$20 Million only)

and agreed upon. In this hard market it is the reinsurance markets that are determining what can and can not be done. An insurance company can not quote contrary to their treaty.

The property values for the Village of Downers Grove increased 8.2%. However, the property rate increased 59%, from .041/\$100 to .065/\$100. Although this is significant, in today's market a .065 rate is still very competitive. However, in addition to the rate increase the Travelers' quote also provides coverage restrictions. In particular, blanket cover is no longer being offered. The limits applicable to each location are in accordance with the values provided on the Statement of Values, along with a 110% margin endorsement. The overall policy limit is \$50,000,000. New to the policy this year is the terrorism exclusion and the fungus coverage endorsement.

For the Property Insurance Marsh USA went to the following companies:

Insurance Company	Quote For Property Insurance
Travelers	\$32,900
Chubb	\$42,851
Affiliated FM	\$50,000
St. Paul	Declined (not writing public entity property)
Hartford	Declined (not writing public entity property)

In both the property and liability insurance renewals there will be an exclusion for terrorism. In the event of any incident of terrorism that is not subject to the Terrorism Exclusion, coverage doesnot apply to any element of loss or damage that Is otherwise excluded under this policy.

### Terrorism Exclusion

*The Company will not pay for loss or damage caused directly or indirectly by terrorism, including action in hindering or defending against an actual or expected incident of terrorism. Such loss or damage is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the loss.*

For the Crime Insurance Marsh USA went to the following companies:

Insurance Company	Quote For Crime Insurance
AIG	\$1,984
Chubb	\$3,822
Hartford	\$2,900

### **Workers Compensation**

Currently, the Village maintains a Self-Insured Retention of \$300,000 per employee and purchased Excess Workers Compensation Insurance up to \$1,000,000. This coverage is in place for each occurrence with an aggregate of \$750,000. After the aggregate, the excess carrier pays first dollar expenses incurred. The "specific excess limit" is Statutory, meaning whatever amount an employee may be awarded by the Industrial Commission or Circuit Court. Custard Claims Management Services (CCMS) is the broker for excess workers compensation quotes. The agreement with CCMS (expiring next year) sets a low fixed rate for Village Workers Compensation, General & Auto claims administration. CCMS went out into the market for quotes to renew the Village's program.

Of the 5 carriers in Illinois that write excess workers compensation insurance, the following is the response to the Village's application:

Company	Quote	SIR	Specific Excess	Aggregate
Safety National	\$60,991	\$300,000	Statutory	\$ 1,000,000
Employers RE	\$67,891	\$350,000	\$25,000,000	\$1,800,000
*AIG	Declined			
*General RE	Declined			
*Legion	Declined			

\* Will not quote public Entities

The incumbent carrier is Safety National Insurance Corporation and the Village was charged a minimum deposit premium of \$41,280 on the expiring policy. They have quoted a premium of \$60,991 for renewal. This represents an increase of \$19,711 or a 47.75% increase. However, this is the lowest quote and maintains the current program with an increased aggregate of \$350,000

The workers compensation insurance market has suffered enormous loss due to the high number of deaths and injuries to firefighters and police officers on 9/11/01. Because of the severity of loss and the tremendous costs incurred many of the workers compensation carriers are not quoting on agencies that have police officers and/or firefighters.

In summary, the Village will have to renew insurance coverage on May 1, 2002 and pay higher premiums for, in the case of General & Auto Liability, less coverage limits. As of the date of this

report, Marsh has quotes from three carriers that will provide layered coverage up to \$20,000,000 above the \$1,000,000 Self-Insured Retention (SIR). Currently the Village has \$50,000,000 in excess General & Auto Liability. Though Marsh will forward the quotes from those companies having to settle their treaty agreements with the re-insurers, and I will provide these quotes at the Village Council Workshop on 4/9/02.

The question which will prevail is, how much insurance coverage is enough. The only answer is the amount of coverage that provides an acceptable comfort level for the Village. Excess insurance is purchased to be prepared for a catastrophic event that will incur excessive claims. When the insurance industry was in a soft market, the Village was able to purchase \$50,000,000 of excess liability because it was realatively inexpensive. Now that the insurance market has become extremely rigid this year the limits of excess insurance coverage needs a closer review.

The following is the claims history for all the coverage the Village purchases excess insurance:

### General Liability

Claim Years	No. of Claims	No. Closed	No. Open	BI Liability	PD: Liability	Expense	Legal.	Reserve	Recovery
05/01/01 to 01/31/02	30	19	11	\$16,851	\$4,762	\$617	\$0	\$52,011	
05/01/00 to 04/30/01	21	18	3	\$10,972	\$4,269	\$1,172	\$7,879	\$15,358	
05/01/99 to 04/30/00	36	35	1	\$1,000	\$16,980	\$289	\$0	\$1,001	
05/01/98 to 04/30/99	37	36	1	\$3,536	\$29,977	\$21,327	\$57,213	**\$517,956	
05/01/97 to 04/30/98	34	32	2	\$324,893	\$10,156	\$10,509	\$135,537	\$27,011	

\*\* Disputed

### Automobile Liability

Claim Years	No. of Claims	No. Closed	No. Open	BI Liability	PD: Liability	Expense	Legal.	Reserve	Recovery
05/01/01 to 01/31/02	12	5	7	\$0	\$12,638	\$453	\$0	\$18,299	\$0
05/01/00 to 04/30/01	20	20	0	\$10,000	\$20,314	\$781	\$0	\$0	\$3,420
05/01/99 to 04/30/00	13	12	1	\$620	\$34,500	\$1,838	\$12,142	\$5,049	\$0
05/01/98 to 04/30/99	20	20	0	\$9,005	\$32,736	\$920	\$0	\$0	\$0
05/01/97 to 04/30/98	11	11	0	\$1,330	\$14,309	\$131	\$1,890	0	\$7,000

**Workers' Compensation**

Claim Years	No. of Claims	No. Closed	No. Open	BI Liability	PD: Liability	Expense	Legal.	Reserve	Recovery	Total Incurred
05/01/01 to 01/31/02	44	13	31	\$99,238	\$939	\$0	\$0	\$51,203	\$0	\$151,380
05/01/00 to 04/30/01	63	51	12	\$244,494	\$90,712	\$3,035	\$2,309	\$106,360	\$3,423	\$443,487
05/01/99 to 04/30/00	66	63	3	\$189,256	\$56,092	\$0	\$3,262	\$47,701	\$3,617	\$292,694
05/01/98 to 04/30/99	81	77	4	\$299,496	\$170,704	\$35,458	\$28,388	\$280,441	\$14,577	\$799,910
05/01/97 to 04/30/98	99	99	0	\$112,297	\$77,114	\$11,028	\$8,207	\$0	\$264	\$208,382

**Property**

Claim Years	No. of Claims	No. Closed	No. Open	BI Liability	PD: Liability	Expense	Legal.	Reserve	Recovery	Total Incurred
05/01/01 to 01/31/02	0	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
05/01/00 to 04/30/01	0	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
05/01/99 to 04/30/00	0	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
05/01/98 to 04/30/99	0	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
05/01/97 to 04/30/98	0	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

The 5 year claims history reflects the Village has been significantly under the SIR for any of the reported years. The higher years General Liability 98/99 reflecting a total incurred of \$630,009 is disputed due to the high reserve set for outstanding claims during that insurance year. The Workers Compensation 98/99 reflecting a total incurred of \$799,910 will be reduced due to anticipated settlements at lesser amounts.

The Village has a broad liability exposure with operating a Police Department, Fire Department, Public Works and Transit System. Of these departments the larger exposure would befall the Transit System due to the numbers of people that could be involved in a catastrophic event. However, as the 5 year history reflects, the transit division has had no claims made other than extremely minor events. I made a request to Marsh USA to go back to the lowest quote (Kemper) and ask how much premium deduction the Village would get if the transit system was eliminated. I was advised the premium would go down \$6,000 (6%) without the system. The Village has been quoted a wholesale price for the G/L & A/L Excess Insurance. In fact, Kempers first quote to Marsh USA was \$119,000 for the 1<sup>st</sup> \$5,000,000 of insurance and Marsh USA tenaciously negotiated in the Village's behalf to reduce that quote to \$100,000.

Having the \$50,000,000 excess has been comfortable for the past 5 years. This year the focus has to be on comfort and expense. By continuing with the Transit System I would recommend that the Village carry no less than \$30,000,000 of excess coverage.

I recommend the following for the 2002/2003 insurance renewal:

<b>General &amp; Auto Excess Liability:</b>	<b>Premium</b>
Excess Liability (SIRPRO/Kemper) \$5Mil xs \$1Mil SIR	\$100,000
Excess Liability (Commonwealth) Ins./North River Insurance Co. \$5Mil xs \$5Mil xs \$1Mil SIR	\$40,000
Excess Liability (Market Group/ Evanston Insurance Co.) \$10Mil xs \$10Mil xs \$1Mil SIR	\$50,000
<b>Property</b> Travelers Insurance Co.	\$32,900
<b>Crime</b> AIG Insurance Company	\$1,984
<b>Worker Compensation</b> Safety National Insurance Company	\$60,991
Broker Fee	\$15,000
<b>Total:</b>	<b>\$300,875</b>

When I receive the quotes for the additional layers of General & Auto Liability, I will bring these to the Village Council. If it is prior to the 4/9/02 Council Workshop I will distribute them at that time.

If I can answer any questions or provide additional information regarding these renewals, please contact me immediately.

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Dennis E. Burke  
Risk Manager