

MILWAUKEE COUNTY
INTEROFFICE COMMUNICATION

DATE: November 2, 2020; **UPDATE:** December 4, 2020

TO: Supervisor Marcelia Nicholson, Chairwoman, County Board of Supervisors

FROM: Megan Rogers, Director of Risk Management

SUBJECT: Request for Approval to Bind Coverage for Milwaukee County's 2021 Property and Casualty Insurance Program

REQUEST

The Director of the Risk Management Division of the Department of Administrative Services requests approval to authorize Aon Risk Services to bind the 2021 property and casualty insurance program for Milwaukee County by purchasing the following insurance policies with an effective date of January 1, 2021:

- Public Entity Liability: Wisconsin County Mutual Insurance Corporation - \$1,165,724
- Cyber Liability: Axis - \$57,510*
- Property: Travelers Insurance - \$2,050,754*
- Energy Systems: Liberty Mutual - \$93,223*
- Auto Physical Damage: AIG - \$304,673*
- Fine Arts: AXA - \$83,008
- Airport Liability: AIG - \$208,290*
- Fiduciary: AIG (primary) - \$255,190*
- Chubb (1st XS) - \$96,622*
- Axis (2nd XS) - \$44,460*
- Fidelity / Crime: Great American - \$48,743*

Estimated insurance program premium total: **\$4,408,197**

*Please note, due to the extreme volatility in the insurance markets in 2020, these insurance carriers are not willing to provide quotes more than 30 days before the renewal effective date. These are premium projections based on indications we've received so far and may fluctuate as we solidify program structures between today, November 2, 2020 and the December County Board Committee Meeting. Any updates will be provided as soon as they are known.

UPDATE, as of December 4, 2020:

The following list of property and casualty insurance policies have been updated to reflect carrier premium quotes that were recently received. Auto Physical Damage and some fiduciary excess layers are still projections based on current market indications.

- Public Entity Liability: Wisconsin County Mutual Insurance Corporation - \$1,165,724

- Cyber Liability: Axis - \$125,000
- Property: Travelers Insurance - \$1,919,976
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- Fiduciary: RLI (primary - \$5M) - \$105,000
 - AIG (1st XS - \$5M) - \$73,500
 - Hudson (2nd XS - \$5M) - \$51,450
 - Axis (3rd XS - \$5M) - \$40,000*
 - TBD (Axis, Chubb, Hudson) (4th XS - \$5M) - \$35,000*
 - TBD (AIG) (5th XS - \$5M) - \$30,000*
- Fidelity / Crime: Great American - \$48,517

Estimated insurance program premium total: **\$4,071,714**

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BACKGROUND

The year 2020 has been filled with many challenges for Risk Management, including turnover and job vacancies, paired with the additional need to support the pandemic response through involvement with the Emergency Operations Center and Re-Opening Steering Committee. Despite the challenges, there have been a few successes in the County's Property and Casualty Insurance program that are worth highlighting. In May, Risk successfully completed a strenuous RFP for the County's risk and brokerage consultant, which was awarded to incumbent, Aon Risk Services (Aon). WCMIC and Corporation Counsel's office continued to work diligently to resolve open liability lawsuits, which results in a reduction in future claim liabilities for the County. And finally, the Claims Program Manager position was filled and will directly oversee the P & C insurance claims program in order to support timely and effective resolution of the County's claims.

Unfortunately, global and U.S. insurance markets have faced many challenges as well. Starting in 2019, the insurance markets saw large domestic and global losses and began tightening their underwriting with the outcome being higher 2020 premiums. This is called market "hardening." Continuing into 2020, three main market drivers are causing the U.S. insurance market to continue deteriorating, the COVID-19 pandemic, storms and wildfires, and social unrest. Underwriters are unwilling to accept as much risk in their book of business in order to avoid further losses, therefore, conducting a more rigorous underwriting, which may result in more coverage exclusions, increased deductibles and premiums, or refusal to continue providing coverage to certain insureds with poor loss histories.

Milwaukee County has had its share of losses, with some coverage lines worse than others, but overall, is not a poor insurance risk. Generally, when the insurance market is hardening, and a long-term relationship exists with carriers, it is often best to remain with those carriers and leverage the relationship to minimize premium increases. However, for the 2021 insurance renewal, County Risk Management and its advisor, Aon, agreed that it was necessary to seek alternative insurer quotes wherever possible in order to fully understand options in such volatile market.

INSURANCE PROCUREMENT

Risk Management is responsible for procuring the property and casualty insurance program that protects the County against unexpected losses, damages, claims, and lawsuits. The current insurance coverages in place expire on January 1, 2021.

Resolution File No. 15-405, approved by the Committee on Finance and adopted by the County Board on June 25, 2019, granted the Risk Management Division of the Department of Administrative Services authority to renew the liability insurance program for Milwaukee County with the assistance of our broker Aon. This resolution specified that Risk Management will prepare a report to the Committee on Finance establishing a schedule of all insurance policies and obtain County Board approval before any insurance coverage is bound.

Having property and most casualty program renewals (WCMIC excepted) under a single broker (Aon) results in more comprehensive coverage, higher insurance coverage limits, lower deductibles, and mostly lower premiums. This is because a broker works for the insured/County and not the insurance companies. Also, gaps in coverage are more efficiently eliminated and services are provided by Aon, including assistance in contract reviews and claims advocacy. For the 2020 renewals, Aon helped us minimize the impact of the hardening market in our insurance lines, resulting in less than industry premium increases in many of our coverages.

The 2021 property and casualty insurance program recommendations are as follows:

PUBLIC ENTITY LIABILITY

Public Entity Liability (PEL) insurance covers the County in areas of general liability, employment practices liability, auto liability, law enforcement liability, errors and omissions, public officials' liability, and cyber liability. Milwaukee County has obtained this coverage through an ownership agreement with Wisconsin County Mutual Insurance Corporation (WCMIC) since 1997 with the payment of an annual premium. The current PEL coverage limits are \$10,000,000 per occurrence, with a \$1,000,000 each occurrence deductible, and \$3,000,000 aggregate deductible. Prior to 2014, the policy had a \$1,500,000 aggregate deductible.

WCMIC provides a bundled scope of services with the cost of the premium that is not solely insurance coverage related. Within the annual premium amount, WCMIC also provides full third-party claim administration services, loss control services (such as Lexipol and "Road-eos"), accounting and actuarial services, on-demand reporting, and allows Milwaukee County's Corporation Counsel the opportunity to defend claims as panel counsel. Corporation Counsel's Office may invoice their defense costs to claim expense costs, which is applied towards the County's deductible or paid by WCMIC when the deductible has been met.

WCMIC has offered static policy terms for the 2021 policy year, however, there is a 12% premium increase of \$126,310 for the policy issued to Milwaukee County. This brings the annual premium, inclusive of the services described above, to \$1,165,724. This is the fourth year Milwaukee County has experienced a premium increase, although there have only been five changes in premium on this policy since 1997, one reduction and four increases. The fourth increase this year is due primarily to the development of major losses within the last five years, which has increased our experience rating. The liability insurance market overall is experiencing anywhere from 10% to 50% rate increases, depending on loss history, therefore a 12% increase is very reasonable given market conditions.

The Risk Management Division will continue to research alternative options that not only addresses insurance, but also loss control, and claims handling. We will continue to monitor alternatives to this structure. Aon approached the commercial marketplace for the 2019 renewal to determine any viable PEL alternatives for the County's consideration. A quote was obtained from Old Republic Insurance Company. The quote had a price tag of \$1,200,000 without loss control, TPA services or guarantee the right to defense.

The recommendation is to renew with WCMIC for the quoted \$1,165,724 annual premium.

CYBER LIABILITY

Risks related to cyber events (hacking, ransomware, phishing, malware) have been increasing significantly in the U.S. for the past 10 years. Beginning on January 1, 2019, the County's Cyber Liability coverage provided through an endorsement under the WCMIC policy was limited. The limitation was continued in 2020.

The County and Aon reviewed the coverage provided by the WCMIC endorsement and found it inefficient in terms of its \$1,000,000 deductible and the relatively low limit at \$1,000,000. Risk Management had a meeting with the County's Chief Information Officer (CISO) in February 2020 to discuss the proposal for cyber insurance coverage as well as the risks facing the County. After review of the proposal, benchmarking for similar organizations and the overall risk exposure, the County decided to purchase the coverage from Axis in May 2020. The policy contains a \$5,000,000 limit, with a \$100,000 retention and renews on January 1, 2021.

The recommendation is the renew the current policy terms with Axis for a projected premium of \$57,510, an 18% premium increase.

UPDATE as of December 4, 2020: The public entity market for Cyber Liability insurance has aggressively deteriorated over the last year, and even within the last 30 days. Many carriers have pulled out of the market altogether. Unfortunately, incumbent carrier Axis decided to follow suit and make a significant change in its book of business by seeking to reduce its capacity in the public entity market.

Axis offered a significantly higher rate at \$125,000, an approximate 150% rate increase, and increased the retention from \$100,000 to \$1,000,000. We currently have no alternative market willing to provide a quote, although indication Chubb may offer the same \$5,000,000 limit policy with a \$500,000 retention for \$150,000 - \$175,000.

It should be noted that WCMIC will continue to provide a Cyber endorsement within the cost of their public entity liability policy that provides coverage with \$1,000,000 limits, although there is a \$1,000,000 retention. We explored increased limits under WCMIC's endorsement for additional premium, however, WCMIC's reinsurer also declined to provide additional limits due to market conditions.

The recommendation is to renew coverage with Axis for \$125,000. This is the only quote that is above projection, however, the increase is generally offset by the remainder of the program. We will continue to explore all options for Cyber Liability.

PROPERTY / ENERGY SYSTEMS

Property insurance provides coverage for our buildings, scheduled equipment, animals, and property out in the open.

Milwaukee County's property asset portfolio is approximately \$3 billion dollars. Aon approached 50 insurers to market the property program for the 2016 policy year. The carrier that presented the most comprehensive coverage for the least amount of premium in 2016 was Travelers Insurance, which has an A++ Superior financial rating. Travelers Insurance has been Milwaukee carrier since and still offers excellent coverage at affordable rates.

In 2019, the Business Interruption (BI) coverage within the Travelers' property insurance policy was evaluated by the County and Travelers. Through a comprehensive analysis, the County determined the largest exposure is an extended BI loss at the airport. The County chose to include a blanket BI limit of \$100,000,000 within its Travelers policy. Considering the economic impacts of the pandemic, the County and Aon is re-evaluating the BI limit and may potentially reduce it in 2021 to more accurately reflect the County's BI exposure, which may result in a reduced premium cost.

Through Q3 in 2020, property insurance renewals in the general insurance market were routinely seeing an average rate increase of 33% for large organizations. Due to the current hard market conditions, the best option is to continue negotiations with the incumbent Travelers, who has a long-term relationship with the County's property risk program. Travelers has surveyed many County properties and is great partner in providing loss control resources to help control specific risk exposures noted during surveys.

For 2021, there is a projected 22% premium increase of \$372,559, with the renewal cost of \$2,050,754. The coverage limits remain at \$500,000,000 per occurrence for replacement cost, with various deductibles that apply to different categories of property. Mitchell Parks Domes remain covered solely at actual cash value versus replacement cost in the event of a loss. The recommendation is to renew property insurance with Travelers at the projected premium.

Energy Systems coverage, also known as Boiler and Machinery or Equipment Breakdown coverage, is a type of property coverage that insures the machinery systems in buildings, such as electrical transformers, boilers, and heating, ventilation and air conditioning. We have experienced several boiler claims in the past few years, which along with market conditions, has impacted this renewal.

For the 2021 renewal, it is recommended the County renew the energy systems policy with Liberty Mutual with a projected 20% premium increase at a total premium of \$93,223.

UPDATE as of December 4, 2020: Aon approached multiple property markets for both a single carrier and layered carrier structure, but many declined to quote for various reasons. Incumbent Travelers offered a much better than expected rate of \$1,919,976, a 14% increase from 2020 rates. Most of the policy terms remain the same, outside of a few potential sublimit changes.

Liberty Mutual's quote for energy systems also came in lower than projected with a 7% increase to \$83,025.

Travelers and Liberty Mutual, both incumbent carriers on property and energy systems, respectively, have provided extremely competitive quotes indicating a strong desire to continue their relationship with the County, despite the property market average rate increases between 30-40%.

The recommendation is to renew property coverage with Travelers for \$1,919,976 and energy systems with Liberty Mutual for \$83,025.

AUTO PHYSICAL DAMAGE

Auto Physical Damage (APD) is first party insurance that provides property damage coverage for the County's fleet vehicles, including Milwaukee County Transit buses. Prior to 2020, this coverage was included as a sublimit under our Travelers Property Insurance. Travelers declined to renew this coverage in the 2020 property policy due to the hard market and two bus losses in 2018 and 2019.

The County's total fleet value is approximately \$88,000,000, including \$67,000,000 worth of MCTS busses. Most vehicles and buses are kept only in a few locations, therefore, if there is a catastrophic loss, such as a fire, there is a large risk exposure. In advance of the 2020 insurance renewal, Aon immediately approached the market for stand-alone APD coverage due to the total risk exposure for the County. The County obtained coverage from AIG with a \$25,000,000 limit per occurrence with a \$25,000 deductible for vehicles and \$50,000 deductible for buses.

APD coverage is a property-type coverage and is experiencing similar increases in a hard market. The projected premium for renewal of the County's current policy with AIG is \$304,673, a 10% increase of \$27,697.

FINE ARTS

Fine Arts coverage protects the County's arts, collections, and museum contents. The County has obtained coverage with AXA Insurance Company since 2016 that provides blanket coverage for all fine arts at any location owned, operated, or occupied by Milwaukee County with a coverage of \$150,000,000 with no deductible. The advantage of this policy is that it provides coverage for items that may not be individually listed on a current statement of values. This was important to the County because the County previously had incomplete schedules of artifacts and art, which is potentially a barrier in the marketplace. In recent years, Risk has been working with stakeholder departments to collect more accurate collection schedules to provide while marketing this program. Despite experiencing four claims, AXA's program structure and premium have remained relatively flat over the past five years.

The fine arts insurance market for 2021 is similarly situated to the rest of the property market, therefore is not immune to the hard market experienced by all property lines. The average rate increases for Fine Arts policies are between 5% and 15% for programs with a good loss history. AXA has indicated renewal terms remain identical to previous year's terms with a 10% premium increase.

The recommendation is to renew with AXA at a premium projection of \$83,008.

UPDATE as of December 4, 2020: The fine arts market continues to see dramatic rate increases, along with the general property market. However, our incumbent carrier, AXA, quoted a lower rate than 2020 premium due to their desire to continue their relationship with the County. The quote was \$68,289, or a 10% decrease.

There is one change in coverage for "acts of terrorism" that removes a broad definition under the policy, leaving only TRIA coverage for acts that are certified by Congress. All other prior terms remain in place, including a \$0 deductible.

The recommendation is to renew with AXA at the quoted premium of \$68,289.

AIRPORT LIABILITY

The Airport Liability policy specifically protects General Mitchell International Airport and Timmerman Airport for both airside and landside operational liabilities. Coverage was first placed in 2016 with AIG providing insurance limits of \$500,000,000 and a \$50,000 deductible, and coverage has remained with AIG since due to their consistently competitive rates.

Unfortunately, the airport liability market has not been immune from the hard market of 2020 and going into 2021 due to large losses experienced in 2018 and 2019 (e.g., the Boeing 737 Max 8 issues and pandemic economic effects). Many aviation liability carriers have completely withdrawn from the market. For carriers offering renewals in the market, the minimum increases are 30-40%. For 2021, AIG has indicated renewal at the same terms as expiring will incur a 50% increase. This is due both to the market conditions, as well as our claims history. Aon continues to seek alternatives.

With little other option at this time, it is recommended to renew the aviation liability policy with AIG for a total 2021 premium projection of \$208,290, an increase of \$69,430. Again, if any viable alternatives materialize, an update will be provided.

UPDATE as of December 4, 2020: Despite an average rate increases of 20-30% in the aviation market for 2020 Q3, incumbent AIG provided the County an extremely favorable quote of \$146,560, which is a rate increase of only \$7,700 or 6% from 2020. This is again an indication that the County is a preferred risk and AIG would like to continue its relationship.

The recommendation is to renew with AIG at the quoted premium of \$146,560.

FIDUCIARY

Fiduciary coverage affords protection for legal liabilities arising out of specified errors and omissions resulting from the County's operation of the Employee Retirement Systems pension benefit. Since at least 2016, Milwaukee County has had a layered program with three separate carriers providing a total of \$30,000,000 in coverage per occurrence (\$10M/\$10M/\$10M) with a \$150,000 deductible.

The 2021 Fiduciary insurance market has been particularly tough on public entities, with outright refusal of many carriers to offer coverage to programs such as Milwaukee County. Average market increases are between 25-35%. Due to a poor claims history and claims payments made by AIG, as well as the overall industry and the size of the plan, AIG declined to renew Milwaukee County's existing program within its existing structure, instead offering terms that were unfavorable.

For 2021, the recommended option is to bind insurance with the prior three-layer structure of \$30,000,000 in total limits and a \$250,000 deductible for an overall 30% rate increase. AIG would provide the primary layer of \$10,000,000 limit per occurrence for \$255,837, including a \$250,000 deductible. The second layer of \$10,000,000 with Chubb for a premium cost of \$96,622, and third layer of \$10,000,000 with AXIS for a premium cost of \$44,460.

It is recommended that the County renew under the same program structure with the incumbent carriers for an estimated total of \$396,272. Please note, the Employee's Retirement Services Division of Human Resources pays fiduciary premium directly from its budget. Risk and Aon will

present program options to the Pension Board at its December meeting, and will provide an update to this board.

UPDATE as of December 4, 2020: AIG declined to offer the full \$10,000,000 limit for primary coverage, due to a desire to reduce their book of business, and quoted \$5,000,000 for primary coverage with a \$250,000 retention. This resulted in the two excess layer carriers also declining to offer the full \$10,000,000 in excess limits.

Many alternative markets were approached, and only \$5,000,000 limits were offered for either primary or excess layers by a few carriers. This will result in a six-layer carrier structure to reach the \$30,000,000 program limits. Additionally, no carriers would offer the previous \$150,000 retention, instead requiring at least a \$250,000 retention.

RLI provided the lowest quote for primary coverage with \$105,000, and AIG quoting the first \$5,000,000 excess layer at \$73,500. The remaining four excess layers are expected as follows:

- Hudson (2nd XS - \$5M) - \$51,450
- Axis (3rd XS - \$5M) - \$40,000*
- TBD (Axis, Chubb, or Hudson) (4th XS - \$5M) - \$35,000*
- TBD (AIG) (5th XS - \$5M) - \$30,000*

The recommendation is to bind primary and first excess layers as quoted above, and 2nd through 5th layers as projected, for a total program cost of \$334,950, and increase of \$30,125 or 10%.

FIDELITY/CRIME

Crime coverage, also known as Fidelity coverage, protects the County generally against employee dishonesty that results in a loss, such as employee theft, forgery or alteration, robbery, and safe burglary. This coverage is especially important for any operations dealing with cash, such as our Parks, Recreation, and Culture Department, the Zoo, the County Clerk, and the Treasurer's Office. There is \$10,000,000 in coverage presently with a \$100,000 deductible.

The 2021 renewal program continues to include Social Engineering coverage at a \$250,000 limit, which protects the County in the event an employee becomes a victim of a "phishing" scam, where the employee provides funds to an imposter claiming to be a county official, client or vendor causing the country a financial loss.

It is recommended the County maintain coverage with Great American at the projected annual premium of \$48,743, which is an increase of \$3,390, or 7%.

UPDATE as of December 4, 2020: Great American's premium quote was as expected. The recommendation is to renew coverage with Great American for \$48,517, which is an increase of \$3,164, or 7%

MEDICAL MALPRACTICE

Medical malpractice is insurance that responds to professional liabilities arising from healthcare operations at the Behavioral Health Division (BHD). This exposure is one area where the County is fully self-insured. Risk Management has been exploring medical malpractice coverage over the past several years in this area with Aon, however, there have been several barriers to obtaining

coverage. In 2018, Aon approached seven carriers to quote the account. Six carriers declined to provide a coverage option and the one quote was cost prohibitive and not recommended.

Currently, recent press about potentially outsourcing the operations makes it difficult for underwriters to evaluate the account as there is a possibility that there will not be longevity in the insured relationship, which is a risk for carriers who rely on multiple years of premium to balance out potential large claim payouts. However, the upside to outsourcing operations, such as inpatient and emergency care, is that it provides the opportunity to explore alternative risk mitigation other than insurance. Risk Management continues to be involved in ongoing discussions regarding the changes in BHD operations for the purpose of evaluating these opportunities.

In the meantime, Risk Management will continue to work with the Comptroller's Office and the Office of Corporation Counsel to maintain a self-insurance reserve account to properly fund claims and expenses for the pending medical malpractice losses at BHD.

WORKERS' COMPENSATION

Another area where the County is fully self-insured and could potentially benefit from excess insurance coverage is workers' compensation. Workers' compensation covers liabilities associated with employee injuries. The County has been fully self-insured in this area for decades, and currently maintains full reserves to cover all associated liabilities. Coverage that may be beneficial is catastrophic excess coverage that would act as a stop gap in the event of a large-scale disaster.

Aon approached the market for workers' compensation excess insurance for the 2019 renewal, however, it was determined to be cost prohibitive. Because of the whole scale program changes implemented by Risk Management, Milwaukee County's workers' compensation claims experience improved dramatically since 2015. In November 2019, the County changed claims administration vendors to Sedgwick Claims Management and is expecting further reduction in experience following the close of the first contract year. Risk Management recommends seeking alternatives for excess workers' compensation coverage in 2021 for 2022.

RECOMMENDATION

The Director of Risk Management recommends approval of the attached resolution authorizing Aon Risk Services and the Risk Management Division of the Department of Administrative Services to bind the 2021 property and casualty insurance program for Milwaukee County as follows:

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FISCAL IMPACT

The premium projection totals for the property and casualty insurance program is \$4,408,197. The premiums for the fiduciary policies covering the pension are budgeted within the Employee Retirement Services Division of the Department of Human Resources. The estimated premiums presented above that are paid from the Risk Management budget total \$4,011,925. The new 2021 liability insurance program falls within the 2021 insurance budget projection of \$5,542,689. The remainder of the funding in this projection is required to fund the associated deductibles and loss fund accounts.

UPDATE as of December 4, 2020: The premium projection totals for the property and casualty insurance program is \$4,071,714, which is \$336,483 less than previously projected. The estimated premiums presented above that are paid from the Risk Management budget total \$3,736,764. The 2021 insurance program falls within the 2021 insurance budget projection of \$5,542,689. The

remainder of the funding in this projection is required to fund the associated deductibles and loss fund accounts.

Thank you,

Megan Rogers

Megan Rogers, Director, Risk Management

CC: David Crowley, County Executive
Mary Jo Meyers, Chief of Staff, County Executive's Office
Julie Landry, Director of Administrative Services
Sherry Jordan, Deputy Director of Administrative Services
Margaret Daun, Corporation Counsel
Scott Manske, Comptroller