

MILWAUKEE COUNTY
INTEROFFICE COMMUNICATION

DATE: June 26, 2014

TO: Supervisor Marina Dimitrijevic, Chairwoman, County Board of Supervisors
Supervisor Willie Johnson Jr., Co-chair, Committee on Finance, Personnel and Audit
Supervisor David Cullen, Co-chair, Committee on Finance, Personnel and Audit

FROM: Amy Pechacek, Director of Risk Management

SUBJECT: Request for Renewal of Liability Insurance Program

POLICY HISTORY

Resolution File No. 93-168 requires that the Risk Management Division of the Department of Administrative Services solicit Requests for Proposals (RFPs) for insurance purchases. This resolution also specifies that Risk Management shall prepare a formal report to the Committee on Finance, Personnel, and Audit establishing a schedule of all insurance policies; that property insurance be placed on a three year renewal cycle, and requires County Board approval prior to the purchase of any insurance coverage.

BACKGROUND

Milwaukee County has six separate liability insurance policies for protection against potential damages and claims of various types. For fiscal year 2013, Risk Management solicited RFPs for the six lines of liability coverage currently in place:

- 6742 Public Entity Liability
- 6743 Airport Liability
- 6744 Property Insurance
- 6745 Fiduciary (*Employees' Retirement System of the County of Milwaukee*)
- 6746 Energy Systems / Boiler & Machinery
- 6747 Crime / Fidelity

The RFPs sought insurance brokers who were assigned to particular markets to respond with proposals from their respective market. After all submitted proposals were assessed and scored, the recommendation was made by the Risk Management Department to move the Public Entity Liability and Energy Systems / Boiler & Machinery coverage from the two incumbent carriers and place the coverage with new insurers under new policy form. The Committee requested the Comptroller's office examine the process used by the former Risk Manager and the RFP review panel to evaluate the proposals. The Comptroller's office opined, in a report dated December 20, 2012, that the RFP process was not compliant with the 1993 resolution and identified five other areas of concern with respect to the panel's approach and evaluation. As such, the recommendation for placement was partially accepted and partially rejected. During the 2014 renewal period, the Risk Management Director position was vacant and the liability policies were renewed under the same terms as the prior year with the existing carriers:

Broker/Carrier	Insurance Coverage	2014 Premium
HNI/ACE	Airport Liability	\$ 190,963
Aegis/County Mutual	Public Entity Liability	\$ 717,950
ASU / LGPIF	Property Insurance	\$ 563,384
AON/Great American	Fidelity/Crime	\$ 35,937
AON/Chartis/Chubb/Axis	Fiduciary	\$ **319,300
Robertson Ryan /Cincinnati	Energy Systems	\$ 51,976

** Paid by ERS / Pension

ANALYSIS

The current Director of Risk Management was appointed less than six months ago, and in this timeframe, a thorough assessment of the current policies including form, exclusions, endorsements, limits, and potential coverage gaps in relation to all organizational exposures could not be completed. Further, without an existing sanctioned process for solicitation of insurance procurement or vetted RFPs to use as a foundational basis, a good faith RFP effort for six distinctive lines of coverage is implausible given the renewal deadlines. Lastly, any significant recommendation for change to the existing program made under the present time constraints could not accurately contemplate the complex potential organizational and liability impacts. As such, the incumbent carriers were solicited for static renewal terms, with the following insurers extending matching coverage terms with no premium variation:

Broker/Carrier	Insurance Coverage	2015 Premium
HNI/ACE	Airport Liability	\$ 190,963
Aegis/County Mutual	Public Entity Liability	\$ 717,950
AON/Great American	Fidelity/Crime	\$ 35,937
AON/Chartis/Chubb/Axis	Fiduciary	\$ **319,300
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RECOMMENDATION

The recommendation is to renew with the carriers captioned in the chart above for an additional consecutive year, which is consistent with the three year policy term recommendation as outlined in Resolution File No. 93-168 that established the requirements for retaining insurance coverage.

The only incumbent carrier to extend renewal terms with a variance from the 2014 policy form is the Local Government Property Insurance Fund (LGPIF). Although the 2015 policy terms have not been finalized, the County has been advised that the \$250,000 aggregate deductible and subsequent \$500 per claim deductible will be raised to a \$1,500,000 aggregate deductible and a subsequent \$5,000 per claim deductible. This increase is attributed to several severe losses affecting LGPIF in recent years. The premium is also estimated to increase at a capped rate of approximately five percent. Milwaukee County is the largest insured in LGPIF with over \$1.5 billion in property assets. The County's insurance relationship with LGPIF has been in place since 1938, with no recordable bids received from competitive carriers on the coverage in the past two decades. Coverage with LGPIF has historically been extremely beneficial for the County, as LGPIF operates without a profit motive and extends relatively lenient coverage terms in comparison to the commercial market. With the County's property loss history totaling in excess of \$34,000,000 over the past five years, the recommendation is to keep coverage with LGPIF at this time and retain the assistance of a licensed insurance broker to shop the global market for any terms that could be

considered competitive for policy year 2016. A broker will also be able to assist in loss pick insurance techniques, alternative risk financing, and explore other highly specialized industry options for more economical coverage alternatives that may be available to Milwaukee County in the event LGPIF terms continue to decline and the policy form and premium changes become financially unsustainable or cost prohibitive.

CC: Chris Abele, County Executive
Raisa Koltun, Interim Chief of Staff, County Executive's Office
Don Tyler, Director of Administrative Services
Patrick Lee, Procurement Director
Paul Bargren, Corporation Counsel