

MILWAUKEE COUNTY
INTEROFFICE COMMUNICATION

DATE: November 17, 2016

TO: Supervisor Theodore Lipscomb, Chairman, County Board of Supervisors

FROM: Amy Pechacek, Director of Risk Management

SUBJECT: Request for Approval to Bind Milwaukee County's 2017 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 2017 property and casualty insurance program for Milwaukee County by purchasing the following insurance policies with an effective date of January 1, 2017:

- Public Entity Liability: Wisconsin County Mutual Insurance Corporation - \$717,950
- Property: Travelers Insurance - \$1,623,462
- Energy Systems: Liberty Mutual - \$59,505
- Airport Liability: AIG - \$120,643
- Fidelity / Crime: Great American - \$35,937
 - Social Engineering Endorsement \$3,500
- Fiduciary: AIG (primary) - \$140,398
 - Chubb (1st XS) - \$65,000
 - Axis (2nd XS) - \$32,000
- Fine Arts: AXA - \$77,750

Insurance program premium total: **\$2,876,145**

BACKGROUND

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 December 31, 2016. Prior to the 2016 policy year renewals, Risk Management procured the liability insurance program for Milwaukee County by issuing six separate Requests for Proposals (RFPs) for the following exposures:

- Public Entity Liability
- Property Insurance
- Airport Liability
- Fiduciary (*Employees' Retirement System*)
- Energy Systems / Boiler & Machinery
- Crime / Fidelity

The insurance industry has advanced in recent decades to a regulated market only accessible to licensed brokers. Using the RFP process to procure insurance was ineffective for Milwaukee County. Insurance carriers do not bid directly on accounts, and as such a variety of local brokers would respond to the RFPs, resulting in no market power for the County, no ability to negotiate terms, and no advocacy in the marketplace. In addition, the individual brokers earned commission from the carriers on the backend for placing the coverage, and therefore were incentivized to work solely in their best interest to place coverages with the highest commission rates with no regard for the interests of the County. The outcome of this process had been a disjointed insurance program at Milwaukee County wherein the County has been forced to concede to policy exclusions, conditions, premium amounts, and limits that the insurers chose to provide to the broker responding to the RFP without negotiation or direct representation for Milwaukee County. In addition, procuring six policies separate from each other has resulted in program gaps with uninsured exposures in certain areas as well as double coverage in other areas.

Resolution File No. 15-405, approved by the Committee on Finance, Personnel, and Audit and adopted by the County Board at its June 25, 2015 meeting, 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 Aon Risk Services (Aon), a broker that was selected through a formal bid process. This initiative also specified that Risk Management will prepare a report to the Committee on Finance, Personnel, and Audit establishing a schedule of all insurance policies, and obtain County Board approval before any insurance coverage is bound.

The 2016 property and casualty program renewal under the appointment of a single broker resulted in more comprehensive coverage, higher insurance coverage limits, lower deductibles, and lower premiums. Several gaps in coverage were eliminated and other benefits were realized from Aon, including assistance in contract reviews and claims management practices. In the second year of this partnership, Aon was able to competitively market the County's 2017 renewal at an overall flat rate. The 2017 property and casualty insurance program recommendations are as follows:

PUBLIC ENTITY LIABILITY

The Public Entity Liability (PEL) policy 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 Wisconsin County Mutual Insurance Corporation (WCMIC) since 1997. In addition to providing the public entity liability coverage, WCMIC also provides full third party claim administration services (TPA), loss control, and allows Milwaukee County's Corporation Counsel the opportunity to defend our claims. The current coverage limits are \$10,000,000 per claim, with a \$1,000,000 each occurrence deductible, and \$3,000,000 aggregate deductible for a premium of \$717,950. For policy year 2017, WCMIC has offered increased sub-limits of \$1,000,000 to the Cyber Liability Endorsement and Payment Card Industry coverage will be added. These enhancements were added at no additional cost and the renewal premium for 2017 remains static from the expiring term at \$717,950.

Aon approached the commercial marketplace for the 2016 renewal to determine any viable PEL alternatives for the County's consideration. A quote was obtained from Argonaut Insurance Company that included coverage for Milwaukee County Transit System. The quote offered \$10,000,000 in coverage for all current PEL exposures with sublimits of \$2,000,000 on the

employment practices coverage and a \$1,000,000 self-insured retention. The annual premium was quoted at \$500,540, which is lower than that offered by WCMIC. However, Argonaut would not provide any TPA services, loss control, or guarantee the right to defense. Given the scope of services included in the WCMIC quote and because the cost of separately contracting TPA services alone could likely exceed the reduction of premium, the County renewed with WCMIC for PEL coverage and the recommendation is to continue with this partnership in 2017.

PROPERTY / ENERGY SYSTEMS

Property insurance provides coverage for our buildings, scheduled equipment, animals, and property out in the open. Milwaukee County was formerly a member of the Local Government Property Insurance Fund (LGPIF), operated by the State. In 2015, Governor Walker proposed dissolution of LGPIF, which is in a tenuous financial position, as part of the State's biennial budget. As of November, 2016, LGPIF owes the County over \$2,000,000 in unpaid claim reimbursements from previous policy years.

Given Milwaukee County's property asset portfolio of nearly \$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 is offering renewal coverage in 2017 for slightly less premium, and is still extending limits of \$500,000,000 per occurrence and coverage for the MCTS fleet, valued at over \$145,000,000. The MCTS fleet was uninsured prior to 2016. The premium quoted for 2017 is \$1,623,462 which reflects a reduction in premium of \$8,005 from last year. Various deductibles apply to different categories of property. There is one notable coverage difference from last year in that Travelers Insurance is moving the Mitchell Parks Domes from standard replacement cost value to actual cash value in the event of a loss. This change in coverage is the result of the information developed in 2016 surrounding the current condition of the Domes and the publicly advertised large cost estimates associated with rebuilding the structures.

Energy Systems coverage, also known as Boiler and Machinery or Equipment Breakdown coverage, insures the machinery systems in buildings, such as electrical transformers, boilers, and heating, ventilation and air conditioning. In 2016, Milwaukee County moved this coverage from Cincinnati Insurance to Liberty Mutual for more comprehensive coverage terms. For the 2017 renewal, Liberty Mutual raised the policy deductible from \$10,000 to \$25,000 and the premium increased \$2,834, from \$56,671 to \$59,505 for this line of coverage. This is the result of a significant claim filed in 2016 due to an electrical issue in the Safety Building.

AIRPORT LIABILITY

The Airport Liability policy specifically protects General Mitchell International Airport and Timmerman Airport for operational liabilities. The County was previously insured with Ace for a primary layer and had excess coverage with Lloyd's of London for total limits of \$500,000,000 with a \$50,000 per claim deductible. Aon shopped the coverage for 2016 and was able to consolidate the primary and excess layers for the same total coverage of \$500,000,000 with matching policy terms, including the \$50,000 deductible, for a reduced premium compared to the Ace and Lloyd renewal quote. In 2016, the Airport Liability coverage was moved to AIG for a premium of \$120,643, realizing a total premium savings of \$63,120. AIG offered renewal terms as expiring and the recommendation is to renew with AIG for a second year, realizing a total premium savings of \$126,240 between 2016 and 2017 over the 2015 program.

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. Milwaukee County has a layered program with three separate carriers providing a total of \$30,000,000 in coverage per occurrence with a \$150,000 deductible. Aon approached the 2015 incumbent carriers; AIG, Chubb, and Axis, and negotiated premium reductions from all three carriers in 2016. For the 2017 program, Aon negotiated flat premium renewals with the excess carriers and obtained a \$302 premium savings on the primary layer. It is recommended that the County renew under the same program structure with the incumbent carriers for a total of \$237,398, saving \$212,302 in premium expense over the past two years.

CRIME / FIDELITY

Crime coverage, also known as Fidelity coverage, protects the County against 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 County Clerk, and the Milwaukee County Zoo. There is \$10,000,000 in coverage presently with a \$100,000 deductible. For the 2016 program, Aon approached the markets as well as the incumbent carrier, Great American, for quotes. Great American provided the same terms as expiring for 2017 with no premium increase or changes in the current coverage, and therefore the recommendation is to renew with Great American for \$35,937 in premium. An additional endorsement was offered to the County to expand the current coverage to reflect a trend in current crime schemes, called a Social Engineering endorsement. This endorsement offers coverage to the County in the event an employee is a victim of a "phishing" scam, where an imposter claiming to be a client or a vendor is able to obtain sensitive information that results in loss of funds. The additional coverage has a premium of \$3,500 and it is recommended the County bind the Social Engineering endorsement.

FINE ARTS

Fine arts coverage protects the County's arts, collections, and museum contents. Fine arts coverage was historically obtained via a limited endorsement to the LGPIF policy, which left large exposures in the County program. Milwaukee County has incomplete schedules of artifacts and art, which is potentially a barrier in the marketplace. Aon approached the global fine art market and obtained three competitive quotes for the 2016 program, with the best option for coverage offered by AXA Insurance. The largest benefit of the AXA policy is that this carrier blanket insures all fine arts at any location owned, operated, or occupied by Milwaukee County with coverage of \$150,000,000. This provides coverage for items that may not be individually listed on a current statement of values. There is no deductible on this policy and AXA provided renewal terms identical to those terms and costs that are expiring in 2016, even though the County filed one claim against the policy. The cost of this coverage is \$77,750.

WORKERS' COMPENSATION / MEDICAL MALPRACTICE / ENVIRONMENTAL

Three areas where the County is fully self-insured that could potentially benefit from insurance coverage are workers' compensation, medical malpractice, and environmental insurance. Workers' compensation covers liabilities associated with employee injuries, medical malpractice is insurance that responds to professional liabilities that may arise from healthcare operations at the Behavioral Health Division, and environmental insurance protects against specified pollution claims.

Aon approached the market for workers' compensation excess insurance for the 2016 renewal, however, it was determined to be premature to bind coverage for this exposures at the present. Milwaukee County's workers' compensation claims experience in 2015 and 2016 improved dramatically compared to the historical averages, however, carriers typically analyze five year averages when developing rates. As the market would respond more favorably to repeated years of positive experience, Aon will continue to monitor the potential to secure this coverage in future renewals.

With respect to the medical malpractice, the future scope of operations in the area is uncertain, as the Behavioral Health Division has been moving towards more community based treatment alternatives. Risk Management will continue to work with the Behavioral Health Division and Corporation Counsel in an effort to complete the needed information required to market the program in future years if the opportunity presents.

Another gap in the existing program that was identified is environmental coverage. Milwaukee County currently has 154 above and underground storage tanks of various age and condition, as well as other potential pollutant exposures, which are uninsured at the present. Aon approached four carriers in the environmental market for 2016, and was able to obtain quotes on the storage tanks, but were unable to secure a broader form environmental policy without a more comprehensive assessment on total environmental risks throughout the County. Risk Management will continue to work on surveying this exposure and explore coverage in future renewals.

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 2017 property and casualty insurance program for Milwaukee County as follows:

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FISCAL NOTE

The premium totals for the property and casualty insurance program equal \$2,876,145. The premiums for the fiduciary policies covering the pension are budgeted within the Employee Retirement Services Division of the Department of Human Resources. The insurance coverage premiums presented above paid from the Risk Management budget total \$2,638,747. The new

2017 liability insurance program has expanded coverage with new lines of insurance, and falls within the 2017 insurance budget projection of \$4,458,172. The remainder of the funding in this projection is required to fund the associated deductibles and loss fund accounts.

Amy Pechacek, Director, Risk Management

CC: Chris Abele, County Executive
Raisa Koltun, Chief of Staff, County Executive's Office
Teig Whaley-Smith, Director of Administrative Services