

**MILWAUKEE COUNTY**  
INTEROFFICE COMMUNICATION

DATE: May 26, 2015

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

FROM: Amy Pechacek, Director of Risk Management

SUBJECT: Request for Approval to Contract with Aon Risk Services for Liability Insurance Brokerage.

**REQUEST**

The Risk Management Division of the Department of Administrative Services requests the authority to enter into a contractual agreement with Aon Risk Services for liability insurance brokerage services for a three year term starting on July 1, 2015, for a flat rate fee of \$87,000 for year one, \$89,610 for year two, and \$92,298 for year three of the agreement.

**BACKGROUND**

Resolution File No. 93-168, approved by the Committee on Finance, Personnel, and Audit and adopted by the County Board at its February 18, 1993 meeting, states that the Risk Management Division of the Department of Administrative Services shall solicit Requests for Proposals (RFPs) for insurance purchases. This resolution also specifies that Risk Management is required to prepare a formal 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 purchased.

Risk Management has historically solicited RFPs for the following types of insurance:

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

The insurance industry has evolved in the 22 years since the County began the practice of insurance procurement through the RFP process. The standard and best practice mechanism for procurement of insurance policies now involves a licensed insurance broker accessing the global marketplace to obtain quotes from competing insurers and to actively negotiate policy terms, conditions, and rates on behalf of their client. Since insurance carriers deal exclusively with

insurance brokers and agents for sales, the practice of issuing RFPs for coverage over the past two decades has resulted in several different brokerage firms responding individually to each of the six major insurance coverage RFPs. The firms shopped the insurance market with no direct client representation for Milwaukee County. 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 flawed process has been a disjointed insurance program at Milwaukee County wherein the County has been forced to concede to whatever 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, unintended exposures, as well as double coverage.

The urgent need for an insurance broker to assist Milwaukee County is exacerbated by the Governor's proposed dissolution of Milwaukee County's current property insurer, the Local Government Property Insurance Fund (LGPIF). The State's Joint Finance Committee has proposed extending the dissolution of LGPIF until 2018, but with rate changes for the remaining members at up to an 85% increase. This equates to a projected annual premium for Milwaukee County's property policy of approximately \$3 million, compared to the current premium of \$1.6 million. Property insurance at this cost is financially untenable and nowhere in line with the current commercial property market, which is extending large capacity options for insureds and trending nationally at a 6-8% premium decrease from industry averages in 2015.

The 2015 Adopted Budget appropriated \$100,000 to Risk Management for annual insurance brokerage services and the rationale behind the budget increase was discussed during budget deliberations. The fees for annual brokerage services will likely be cost neutral, or provide cost savings, as all future premium quotes will be net commission, and reduced by the backend commission payments incorporated into the RFP bid premium amounts as described above. These fiscal benefits do not even factor the value added services available to Milwaukee County once broker representation is obtained.

Acquiring an insurance broker does not change the County Board's involvement in approving the final insurance program for the County, it simply represents a new method in which to obtain quotes and negotiate options for our insurance program and equates to a more robust and transparent way to recommend renewal of our liability coverages. The Director of Risk Management and Aon Risk Services (Aon) will be working together on a lean, sophisticated, and comprehensive 2016 liability insurance program.

## **REQUEST FOR PROPOSAL**

On March 25, 2015, Milwaukee County's Risk Management Department, in combination with Milwaukee County Transit System (MCTS) jointly issued a RFP for insurance broker services. Four bids were received. The review panel's scoring resulted in Aon as the top technical point scorer. The top three finalists were invited to give presentations and following the interviews, Aon remained the highest point earner for technical ability. Aon was the second highest point scorer for the cost proposal portion, and were within \$10,000 of the annual fees of the top point earner for the cost evaluation component. The two scores for technical ability and cost combined resulted in Aon being the top point earner.

Aon is the largest global broker which affords their firm with the strongest market leverage to most cost-effectively place insurance coverage for Milwaukee County and MCTS. Aon also has an

international network of subject matter experts on risk management issues and is easily accessible to Milwaukee County through their local office housed in the Research Park. Through the broker client relationship, Milwaukee County will be in direct contact with Aon's expert teams dedicated to the high exposure areas of aviation, transportation and fleet management, zoo operations, mental health, law enforcement, fine arts, and property. In addition, Aon already suggested potential synergies between the County and MCTS insurance programs that will likely afford even greater savings.

Numerous value added services were included in the Aon bid, such as analytics to help the County and MCTS determine areas where improved claim handling, safety initiatives, and workplace policy assistance may be beneficial for our long term goal of asset protection. Loss control assistance in the areas of property assessments, auditing, alternate risk financing exploration, and the availability of benchmarking data will also help Milwaukee County Risk Management and MCTS improve in all areas of risk performance and liability reduction. Importantly, Aon demonstrated a strong commitment to the County's mission of advancing Disadvantaged Business Enterprises (DBE) by partnering with Shanna Reid of Reid Consulting, a certified DBE firm, on the proposed Milwaukee County and MCTS engagement. This relationship is a hands-on mentoring partnership, as Aon has invited Reid Consulting into the Aon offices to interactively assist in facilitation and performance of the Milwaukee County brokerage placement services.

**RECOMMENDATION**

The Director of Risk Management recommends approval of the attached resolution authorizing the retention of Aon Risk Services for a three year term to provide liability insurance brokerage services to Milwaukee County.

**FISCAL NOTE**

The three year total fiscal impact is \$268,908. However, since previous insurance policies have been procured inclusive of non-disclosed commissions incorporated into the premiums and charged to the County, and whereas all insurance will now be transparently purchased net commission, this initiative is likely cost neutral and may result in additional cost savings. The actual savings cannot be quantified since broker commissions were previously embedded, at a non-disclosed rate, in the cost of insurance premiums.

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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  
James Martin, Director of Operations, MCDOT  
Dan Boehm, Executive Director, MCTS  
Marian Ninneman, Director, ERS