

**MILWAUKEE COUNTY**  
**INTEROFFICE COMMUNICATION**

DATE: November 13, 2019

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

FROM: Chris Luttrell, Director of Risk Management

SUBJECT: Request for Approval to Bind Milwaukee County's 2020 Property and Casualty Insurance Program

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**REQUEST**

The Director of the Risk Management Division of the Department of Administrative Services requests approval to authorize Aon Risk Services to bind the 2019 property and casualty insurance program for Milwaukee County by purchasing the following insurance policies with an effective date of January 1, 2020:

- Public Entity Liability: Wisconsin County Mutual Insurance Corporation - \$1,039,414
- Property: Travelers Insurance - \$1,791,346
- Energy Systems: Liberty Mutual - \$68,432
- Airport Liability: AIG - \$138,739
- Fidelity / Crime: Great American - \$45,353
- Fiduciary: AIG (primary) - \$213,311
  - Chubb (1<sup>st</sup> XS) - \$85,313
  - Axis (2<sup>nd</sup> XS) - \$42,000
- Fine Arts: AXA - \$75,757

Insurance program premium total: **\$3,499,665**

**BACKGROUND**

The 2019 policy year has been filled with successes and challenges. The successes have been the cooperative resolution of multiple property claims including the Elephant exhibit at the zoo, several Airport claims, MCTS bus property claims and the decreasing of Workers Compensation claims. Challenges have included personnel resources and increase work including a very thorough Workers Compensation RFP which provides Milwaukee County with approximately \$300,000 in savings over the next five years.

The insurance markets have seen large losses and have tightened their underwriting with the outcome being higher premiums. Property insurance has been particularly difficult this year because of domestic and global losses. Insureds with bad claims history are subject to the highest increases. Milwaukee County has had its share of losses, with some coverage lines worse than others, but overall, we are not a poor insurance risk.

In times when the insurance market is hardening (higher premiums), and we have a relationship with current insurers, it is best to remain with those carriers and leverage the relationship to minimize premium increases. It was decided that we would approach incumbent markets for our coverages and barring any proposals which are outside the industry norm, we would minimize premium increases as well as changes to limits and language.

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, 2019.

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 subsequent property and casualty program renewals under the appointment of a single broker (Aon) resulted in more comprehensive coverage, higher insurance coverage limits, lower deductibles, and mostly lower premiums (this year being the exception). Several gaps in coverage were eliminated and other benefits were realized from Aon, including assistance in contract reviews and claims management practices. This is the last year of the Aon Broker contract and we will perform a Broker Request for Proposal with a contract date of July 1, 2020. Aon did help us in minimizing the impact of the hardening market in our insurance lines resulting in less than industry premium increases in many of our coverages. The 2020 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 an ownership agreement with 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, on-demand reporting, and allows Milwaukee County's Corporation Counsel the opportunity to defend certain 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.

WCMIC offered static policy terms for the 2020 policy year, however, there is a 15% premium increase, or \$135,577 on the policy issued to Milwaukee County. This brings the annual premium, inclusive of full claims handling and loss control, up to \$1,039,414. Milwaukee County has experienced only four changes in premium on this policy since 1997, two increases and one reduction. The increase this year is less than the 2019 increase reflecting the improvements in the Jail and House of Correction losses.

With regards to the Cyber Liability Endorsement, Risk Management has requested a review of increasing Cyber Liability coverage amounts to the Annual Policy Aggregate, and will continue to work with WCMIC on exploring options to provide more coverage for our Cyber Liability exposures.

WCMIC is exploring what is available to Milwaukee County through the reinsurance and alternate markets.

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.

WCMIC provides a bundled scope of services that is not solely insurance coverage related. The Risk Management Division will continue to research alternate options that not only addresses insurance, but also loss control, and claims handling. We will continue to monitor alternatives to this structure.

The recommendation is to renew with WCMIC at the \$1,039,414 annual premium.

### **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 offer excellent coverage at affordable rates. The current difficult property insurance market makes negotiations with our current carrier the best solution for this coverage.

Current property insurance renewals are routinely seeing 20% - 25% increases as well as some non-renewals. During these times the best results are for those with longer term carrier relationships and commitment to risk improvements

For 2020, there is a 15% premium increase, with the renewal cost of \$1,791,346, this is up \$233,654 over last year's premium which saw a 4% reduction. The coverage limits remain at \$500,000,000 per occurrence and provide coverage for the MCTS fleet, valued at over \$145,000,000. Various deductibles apply to different categories of property, and the 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 decreased premium of \$1,791,346.

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. We have experienced several boiler claims in the past two years which along with market conditions has impacted this renewal. For the 2020 renewal, it is recommended to renew the energy systems policy with Liberty Mutual with a 15% premium increase at a total premium of \$68,432.

### **AIRPORT LIABILITY**

The Airport Liability policy specifically protects General Mitchell International Airport and Timmerman Airport for operational liabilities. General Mitchell also presents our largest exposure of

lost income (Business interruption coverage). An extensive analysis project was completed which indicated a large loss potential, which we will address this coming year. For 2020, AIG offered renewal terms as expiring including business interruption coverage and the recommendation is to renew with AIG for a third year for \$138,739.

### **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. As a result of poor claims history and claims payments made by AIG, as well as the overall industry and the size of the plan, the primary option from AIG is a 15% increase over expiring. It is recommended that the County renew under the same program structure with the incumbent carriers for a total of \$340,626.

### **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.

The 2020 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 annual premium of \$45,353.

### **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 programs, with the best option for coverage offered by AXA Insurance. We have experienced three claims during the AXA coverage with essentially flat premiums. 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 which 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 a 3% premium increase. The recommendation is to renew with AXA at a premium of \$75,757.

### **MEDICAL MALPRACTICE**

Medical malpractice is insurance that responds to professional liabilities arising from healthcare operations at the Behavioral Health Division (BHD). This exposure area is one of three operational areas where the County is fully self-insured and may benefit from insurance. 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. Specifically, 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. In addition, lack of historical standardized data on prior claims presented an uncertainty for many carriers. Finally, press coverage and the existence of high-exposure litigation surrounding claims at BHD also presents challenges for underwriting. Last year, 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. Risk Management will continue to explore the market in future years for any reasonable coverage 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 and remains so at this point. Because of the whole scale program changes implemented by Risk Management, Milwaukee County's workers' compensation claims experience improved dramatically since 2015, however carriers typically analyze five-year averages when developing rates. This bodes well for placement of this coverage in 2021. 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.

### **RECOMMENDATION**

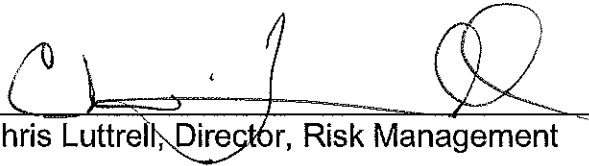
The Director of Risk Management recommends approval of the attached resolution authorizing Aon Risk Services and the Risk Management Division of the Department of Administrative Services to bind the 2020 property and casualty insurance program for Milwaukee County as follows:

- Public Entity Liability: Wisconsin County Mutual Insurance Corporation - \$1,039,414
- Property: Travelers Insurance - \$1,791,346
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**FISCAL NOTE**

The premium totals for the property and casualty insurance program equal \$3,499,665. 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 \$3,159,041. The new 2020 liability insurance program falls within the 2020 insurance budget projection of \$4,865,957. The remainder of the funding in this projection is required to fund the associated deductibles and loss fund accounts.



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Chris Luttrell, Director, Risk Management

CC: Chris Abele, County Executive  
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