

June 20, 2002

Honorable Mayor and Members of
The Hermosa Beach City Council

City Council Meeting of
June 25, 2002

| |
|---|
| Report on 2002/2003 Renewal of Various Lines of Insurance Coverage |
|---|

Recommendation

Staff recommends that the City Council approve the following:

1. Renew the City's Property Insurance and Auto Physical Damage Insurance as quoted through the Independent Cities Risk Management Authority.
2. Purchase excess workers' compensation insurance in joint program with selected cities as proposed by Wexford Insurance and pursue a pooled self-insurance option through the Independent Cities Risk Management Authority.

Background

Each year the City of Hermosa Beach participates in a joint purchasing program with the Independent Cities Risk Management Authority to purchase Excess Liability, Property, Automobile Physical Damage, and Excess Workers' Compensation Insurance. Normally, these are automatically renewed. This year, due to the nature of the insurance market, cities are faced with significant increases in premiums, particularly in the property, auto, and excess workers' compensation lines of coverage.

Last year we saw the insurance market hardening with increases of approximately fifteen percent. Beginning in the second quarter of 2001, financial results in the industry showed record low investment yields, record high natural catastrophe losses, declining policyholder surplus, and continued high loss costs. This combined with the catastrophic events and associated losses of September 11 have pushed the insurance industry into a chaotic state.

The renewal proposals were presented to the cities at the ICRMA Governing Board meeting of Wednesday, June 12, 2002. Quotes for renewal of the City's property and auto physical damage insurance are 49% and 45%, respectively, over last year's premiums. The renewal for the excess workers' compensation insurance resulted in several significant issues beyond an exorbitant premium increase.

Analysis

Property and Auto Physical Damage

While the increases for the property and auto physical damage insurance are significant, the premiums are not significant enough to have a great financial impact. The premium quote for the property insurance is \$21,897 and the premium quote for the auto physical damage insurance is \$12,042. The premium paid this year was \$14,662 for property and \$8,280 for auto.

Excess Workers' Compensation

The broker for ICRMA solicited proposals from 18 carriers for the excess workers' compensation insurance. Only two companies provided quotes and were willing to write this type of coverage for the twenty-nine cities. Only one of these is a real viable option due to the coverage limitations of the quote submitted by AIG Insurance. Wexford Insurance, a division of Continental Casualty and the current provider, is recommended.

Currently the City has a self-insured retention limit of \$325,000. The minimum available now is \$500,000. This means that the City is responsible for paying all claim costs up to the retention limit of \$500,000 per claim. Originally, Wexford proposed a minimum premium of \$100,000 per city. The premium this year was \$12,047. However, in looking at data from each of the 29 cities, they identified six that they were willing to pick and group together offering a lower premium. These cities are Bell, Glendora, Hermosa Beach, Indio, Lynwood, Manhattan Beach, and San Fernando. Under this small group proposal, the premium for the City of Hermosa Beach would be approximately \$53,000. Obviously, this is a significant cost savings from the \$100,000 minimum originally proposed. These cities were selected primarily because of their smaller size and therefore, less loss exposure.

Another option for providing excess workers' compensation that is currently being explored by ICRMA is to pool together all of the cities and fund a self-insurance excess coverage program. This would be similar to the way we currently participate with the other cities in risk sharing for general liability claims. However, this will take some study by the pool and cannot be completed prior to the expiration of the current policies on June 30, 2002. If this option appears to be viable, staff will report back to City Council. The Wexford policy could then be cancelled subject to an 8% penalty.

Conclusion

Staff has also explored purchasing insurance for any one or all of these lines of coverage independent of other cities. As of the drafting of this report, information has not been received as to the feasibility of this option. It is highly unlikely that the excess workers' compensation coverage will be attainable independently. Should this be an option for the property or auto coverage, then this information will be presented at the

City Council meeting. Also, information on available alternatives appears to be changing daily as the broker scrambles to try to find other options for cities. These too will be presented to the City Council at the meeting should they be more attractive possibilities.

Therefore, it is recommended that the City Council approve the recommendations above. At this time, we are not recommending any changes to the 2002-2003 budget. It is anticipated that the current conditions in the insurance market will be short-lived. The brokers are anticipating that they could soften in time for next year's renewal.

Respectfully Submitted:

Concur:

Michael Earl
Personnel & Risk Management Director

Stephen Burrell
City Manager