



6/12/2023

Attn: Raymond Munch

Dear Raymond,

The City of Naperville (City) has several insurance renewals effective July 1, 2023. These include property, cyber, excess liability, and commercial crime insurance. We have recently received all of your renewal terms, and we wanted to release a memo as the premiums are higher than the expiring, but not to an extent beyond what has been previously discussed.

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General Market Overview

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The reason for the likely budget overage is the overall insurance market continues to be challenging to navigate. Prices are increasing, and terms and conditions are tightening. This is primarily because insurance companies pay more in claims than they collect in premiums. In 2022, insurance companies paid \$1.03 in claims and expenses for every \$1.00 collected in premiums. That type of ROI is unsustainable, and insurance companies continue to make significant changes to their underwriting. The first quarter of 2023 resulted in the worst underwriting loss since 2001 and continued pressure on the market. In addition, reinsurance capacity is scarce, resulting in insurance carriers' expenses increasing dramatically and having to take on significantly more risk than they had in the past. All of this makes the current marketplace "the hardest market in a generation." as noted in a recent *Advisen* article.

Property- While all lines of coverage are seeing an increase in claims activity, property insurance claims have seen a significant increase in frequency and severity making it one of the industry's worst-performing lines of coverage and making the City's property insurance renewal especially difficult. The current property marketplace has been described as "a lot like a combining of post-9/11 and post-Hurricane Katrina market conditions". For the first time in over 30 years, we are in a marketplace where prices are rising, and coverage options are scarce. Given the size, complexity, amount of high hazard flood exposure, and vehicle exposure, there currently are limited options outside of the Alliant Property Insurance Program (APIP) that could duplicate the broad coverage and large limits the City purchases. That said, the APIP renewal has come back at a 28.66% rate increase on top of their required 7.5% trend in the values due to labor shortages, inflation, and supply chain issues. A summary of the APIP renewal offering is below.

Item	2022	2023 Option #1 (28.66% rate increase)	2023 Option #2 (24.88% rate increase)
TIV	\$605,355,539	\$671,798,051	\$671,798,051
Premium	\$788,007	\$1,125,106	\$1,092,106
Rate	\$0.130	\$0.167	\$0.163
Deductible	\$100,000	\$100,000	\$250,000

In January, we had sent an article eluding to the potential of a 25% rate increase or higher, and that has proven to be true given the APIP renewal numbers. Given the marketplace we were anticipating, we conducted a full marketing effort to make sure APIP remained the most competitive program. Majority of the major insurance companies declined to quote due to the flood and/or auto exposure, or the company altering their stance on municipality accounts; however we did receive two alternative indications from Liberty Mutual and CNA. Below are summaries of those indications:

Carrier	Premium	Limit	Deductible	Notes
Liberty Mutual	\$625,000	\$500,000,000	\$50,000 AOP \$100,000 Flood \$500,000 High Hazard Flood \$100,000 Water Damage	Flood Limits vary from \$50 million for low hazard, \$25 million for moderate hazard, and \$5 million for high hazard
CNA	\$650,000	\$667,889,617	\$100,000 AOP \$250,000 Sub Stations (Boiler)	Flood Limits vary from \$50 million for low hazard, \$25 million for moderate hazard, and \$5 million for high hazard

We are intrigued by the Liberty and CNA options from a pricing perspective, but we are also very concerned with the low high hazard flood limit. We estimate the City's Zone A flood TIV to be north of \$200 million, so a \$5 million sub-limit may be far too inadequate. We could potentially find excess coverage, but it would be pricey. Both Liberty and CNA have advised they could build additional limit through the facultative market, but it would also swing the premium quite a bit, and they would likely max out at \$10 million.

Cyber Liability – Another advantage of APIP is its ability to offer the City competitive cyber liability coverage. We have actually experienced a slight premium reduction in the Cyber portion of the APIP renewal

Item	2022 Premium	2023 Premium
Primary (\$2 Million)	\$29,141	\$27,440

Note Cyber Premium Included in APIP Property Premium indicated above

One of the downsides of leaving APIP would be that there is no replacement for Cyber Liability in the immediate future. We will have to collect an application and place the coverage in the open market. Coverage in the open market is likely more favorable, but the premium would be a significant increase.

Pollution Liability – A second advantage of APIP is its ability to offer the City competitive pollution liability coverage. This premium is slightly up, but much less expensive than coverage on a stand-alone basis.

Item	2022 Premium	2023 Premium
Primary (\$2 Million)	\$4,649	\$5,775

Note Pollution Premium Included in APIP Property Premium indicated above

Like the Cyber coverage, a downside of leaving APIP would be that there is no replacement for Pollution Liability in the immediate future. We will have to collect an application and place the coverage in the open market. Coverage in the open market may be more favorable, but the premium would be a significant increase.

Excess Liability Insurance – The liability insurance market is less volatile than property, but still has significant pressure due to “social inflation” and real inflation. We have included below the premium we have received for the City’s renewal proposal and how that compares to the proposed budget.

Item	2022 Premium	Actual Renewal
Excess Liability	\$245,669	\$272,850

Governmental Crime Insurance – The Crime Insurance market has been relatively stable. Our renewal proposal reflects a flat renewal:

Item	2022 Premium	2023 Premium
Governmental Crime	\$13,222	\$13,220

Once again, this is turning out to be a complicated renewal primarily due to the market. However, we are confident the program we ultimately will present is the most competitive options available for the City. We truly appreciate the partnership and look forward to working with you and your team throughout 2023.

Sincerely,

Justin Swarbrick
Senior Vice President
Alliant Insurance Services