



Legislation Details (With Text)

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Title: Approve the recommendation by Alliant Insurance to award Property, Cyber Liability, and Pollution Liability insurance coverage through the Alliant Property Insurance Program for an amount not to exceed \$1,125,106 and for a one-year term

Sponsors:

Indexes:

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Attachments: 1. City of Naperville Renewal Summary 7.1.2023

| Date | Ver. | Action By | Action | Result |
|-----------|------|--------------|----------|--------|
| 6/20/2023 | 1 | City Council | approved | Pass |

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Approve the recommendation by Alliant Insurance to award Property, Cyber Liability, and Pollution Liability insurance coverage through the Alliant Property Insurance Program for an amount not to exceed \$1,125,106 and for a one-year term

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

In 2022, the City awarded RFP 22-072, Insurance Brokerage and Professional Consulting Services, to Alliant Insurance Services, Inc. As the City’s insurance broker, Alliant works on behalf of the City to procure options on various insurance policies before providing a final recommendation to the City for approval.

The City’s current property insurance and related policies will expire on July 1, 2023. As an Alliant client, the City has access to the Alliant Property Insurance Program (APIP), which is a comprehensive policy structured through a group purchase program providing coverage for the following:

1. All-risk, flood and earthquake insurance for the City’s buildings, infrastructure, and vehicles
2. Boiler and machinery insurance
3. Cyber liability insurance

4. Pollution liability insurance

APIP covers up to \$1 billion under a layered and shared framework, which combines the services of more than 20 property insurance carriers to reduce costs while maintaining a sufficient level of protection.

As part of APIP, Alliant also provides the City with two additional policies for cyber liability and pollution liability as an underwritten component. Beazley Group (Lloyd's) will serve as the cyber liability carrier and Ironshore Specialty Insurance Company will serve as a pollution liability carrier.

DISCUSSION:

Over the past several years, very challenging market conditions have persisted across the insurance industry resulting in significant increases in insurance premiums. Insurers continue to experience significant losses because of catastrophic weather and other events across the nation, including hurricanes, wildfires, tornados, and severe winter storms. While the City has experienced minimal losses in recent years, insurance claims across the industry are impacting all policyholders. As a result, the City's 2023 property insurance rate per \$100 of insured value increases by 28%.

Additionally, the current inflationary environment is driving up construction costs and property values are being adjusted accordingly to ensure that policies adequately cover the cost of reconstruction. The 2023 renewal includes an 11% increase in the total insured value (TIV) of City property covered under our policy. Part of that increase is the result of property added to the statement of insured values. A recent audit revealed that two significant properties, Fire Station 10 and the Van Buren Parking Deck, were missing from the statement. New buildings at Naper Settlement were also added.

These factors result in a proposed property insurance premium of \$1,091,891, which is a 45% increase over last year's premium.

While the annual cost of cyber liability insurance has risen significantly in recent years, the 2023 premium decreases by 6% to \$27,440. Government organizations remain a primary target for cybercriminals, and this coverage remains a vital part of the City's risk management program.

Pollution liability coverage increased by 24% but remains a relatively small portion of the City's insurance coverage at \$5,775.

A year-over-year comparison of the City's property TIV, property insurance rate, and policy premiums is provided below:

| | 2022/23 | 2023/24 | Change |
|---------------------------------|------------------|--------------------|------------|
| Total Insured Values (TIV) | \$605,355,539 | \$671,798,051 | 11% |
| Account Rate (per \$100) | \$0.130 | \$0.167 | 28% |
| Property Annual Cost | \$754,217 | 1,091,891 | 45% |
| Cyber Liability Annual Cost | \$29,141 | 27,440 | -6% |
| Pollution Liability Annual Cost | \$4,649 | \$5,775 | 24% |
| Total Annual Cost | \$788,007 | \$1,125,106 | 43% |

Alliant did test the market for the 2023 renewal and sought quotes for property insurance from

multiple vendors. Two vendors, Liberty Mutual and CNA, submitted quotes that were more favorable from a pricing perspective but had significant limitations on coverage. Of particular concern was the limit for high-hazard flood insurance, which was capped at \$5 million. Alliant estimates the City's insured value of assets in a flood zone exceeds \$200 million, and APIP offers \$50 million in flood coverage. The Liberty Mutual and CNA quotes also did not provide coverage for cyber liability or pollution liability, which would force the City to seek additional coverage. It is unlikely that those coverages could be secured before the expiration of the current policies.

Staff recommends approving the APIP coverage for a one-year term effective July 1, 2023, through July 1, 2024, to avoid any lapse in coverage, which may expose the City to significant financial liability should a catastrophic event occur. The proposed policy terms and conditions remain predominately the same as the existing policy. Alliant reviewed any proposed changes with City staff and none pose any significant concerns.

FISCAL IMPACT:

CIP: N/A

Premium payments for property insurance are expensed to the Premiums/Property Insurance account listed below. After experiencing significant increases over the past two years and understanding that market conditions remained unstable, staff budgeted \$945,600 for the 2023 policy renewal, an increase of 20%. The proposed premium of \$1,125,106 exceeds the approved budget by \$179,506. The variance can be accommodated within the budget as self-insurance expenses on the whole are trending under budget through May.

| Account Number | Fund Description | Total Budgeted Amount |
|-----------------|------------------|-----------------------|
| 60101600-524203 | Self-Insurance | \$945,600 |