



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 \$643,139.88 and for a one-year term

Sponsors:

Indexes:

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Attachments: 1. 7-1-2021 Naperville - APIP Proposal

| Date | Ver. | Action By | Action | Result |
|-----------|------|--------------|----------|--------|
| 6/15/2021 | 1 | City Council | approved | |

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 \$643,139.88 and for a one-year term

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

In August 2017, the City Manager awarded Contract 17-040, Insurance Broker Services, to Alliant Insurance Services (Alliant). As the City’s insurance broker, Alliant maintains the City’s insurance policies. In addition, Alliant works on behalf of the City of Naperville to procure options on various insurance policies before providing a final recommendation to the City for approval.

The City’s current property insurance policy will expire July 1, 2020. As a client of Alliant, the City uses 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; and
4. Pollution liability.

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 Syndicate at Lloyd's will serve as the cyber liability carrier and Ironshore Specialty Insurance Company will serve as pollution liability carrier.

DISCUSSION:

The proposed policy carries a premium of \$643,139.88, which is a 42% increase over last year's policy. The increase is primarily due to a jump in market rates.

The challenging market conditions that began in 2018 continued into 2021. Alliant believes the insurance market is nearing a peak, assuming no major catastrophe events occur in the next year. However, the property insurance renewal proved difficult, as 2020 was the fifth worst year in loss claims in the history of the insurance market. Last year included a record number of weather-related events incurring more than \$1 billion in damages each and 2021 will set a record for claims in the first quarter. Some of the notable events driving the market increase include hurricanes Harvey, Irma and Maria in 2017; the California wildfires in 2018, 2019 and 2020; Winter Storm Uri in 2021; and the ongoing Coronavirus pandemic.

The catastrophic events, along with increased attritional losses, resulted in another unprofitable year for most property insurers in 2020. The lack of profitability resulted in carriers continuing to re-evaluate their rates and terms, which resulted in increased prices and reduced coverages. The City benefited from having no significant losses in recent years but still received a 39.5% rate increase.

Another factor in the policy increase is the impact several cybercrimes had on organizations over the past year. Government organizations remain a primary target, which created an extremely volatile insurance market. Cybercrime is expected to reach \$6 trillion in losses this year. The annual cost for cyber liability included in this policy increased from \$3,512 to \$10,592.

Staff continues to work with Alliant to determine options the city may pursue to reduce future insurance costs. Upon the directive of City staff, Alliant marketed the insurance policy with options to adjust the City's \$2 million deductible. The result proved insignificant, as the City would only see between \$11,000 and \$17,000 in savings for each additional \$250,000 added in risk.

A three-year overview of the City's premium comparison is provided below:

| City of Naperville | 2019-2020 | 2020-2021 | 2021-2022 | Variance |
|----------------------------|---------------------|---------------------|---------------------|---------------|
| Total Insured Values (TIV) | \$566,982,417 | \$557,603,158 | \$568,036,679 | 1.87% |
| Account Rate (per \$100) | 0.0661241 | 0.0811349 | 0.1132215 | 39.55% |
| Earthquake TIV | \$566,982,417 | \$557,603,158 | \$568,036,079 | 1.87% |
| Earthquake Limit | \$50,000,000 | \$50,000,000 | \$50,000,000 | - |
| Total Annual Cost | \$374,911.86 | \$452,410.65 | \$643,139.88 | 42.16% |

The proposed policy remains predominately the same as the existing policy, however, some changes

have been made. The pollution coverage shifted to Ironshore Specialty Insurance after the previous carrier Allianz opted to not renew.

Staff recommends approving the APIP coverage for a one-year term effective July 1, 2021 through July 1, 2022 to avoid any lapse in coverage, which may expose the City to significant financial liability should an event occur.

FISCAL IMPACT:

CIP: N/A

Premium payments for property insurance are expensed to the property insurance premium account listed below. A total of \$543,000 is budgeted for the policy in 2021. Funding for the policy is provided through internal transfers from each department. If the coverage is not covered by underspend on other insurance items, staff will review the transfers to ensure the Self-Insurance Fund remains in balance and compliant with the approved budget.

| Account Number | Fund Description | Total Budgeted Amount |
|-----------------------|-------------------------|------------------------------|
| 60101600-524203 | Self-Insurance | \$543,000 |