



WASHOE COUNTY

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STAFF REPORT

BOARD MEETING DATE: June 29, 2021

DATE: Thursday, June 24, 2021

TO: Board of County Commissioners

FROM: Doreen Ertell, Risk Management Division
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THROUGH: Cathy Hill, Comptroller
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SUBJECT: Recommendation to authorize the Comptroller's Office to place Excess Liability Insurance Policy with Safety National Casualty Corporation and Safety Specialty Insurance Company for an estimated annual cost of [\$310,144] effective July 1, 2021 and authorize the Comptroller's Office to sign the applications and agreements necessary to bind coverage, with funding from the Risk Management Fund. (All Commission Districts).

SUMMARY

Seeking Board authorization to renew the County's Excess Liability Insurance with the recommended insurance companies. The policy is written on an annual term with an effective date of July 1, 2021.

Washoe County Strategic Objective supported by this item: Stewardship of our Community.

PREVIOUS ACTION

On June 23, 2020, the Board authorized the placement of the County's Excess Liability Insurance with Peleus Insurance Company for an annual premium of \$212,812.

On June 25, 2019, the Board authorized the placement of the County's Excess Liability Insurance with Peleus Insurance Company for an annual premium of \$199,380.

On June 19, 2018, the Board authorized the placement of the County's Excess Liability Insurance with Peleus Insurance Company for an annual premium of \$189,881.

On June 27, 2017, the Board authorized the placement of the County's Excess Liability Insurance with Peleus Insurance Company for an annual premium of \$189,202.

On February 14, 2006, and annually thereafter, the Board authorized renewal of the Excess Liability Insurance with Insurance Company of the State of Pennsylvania for one-year terms.

AGENDA ITEM # _____

On May 23, 2006, the Board approved the appointment of Acordia of Nevada, Inc., a wholly owned subsidiary of Wells Fargo, as the broker of record for the County's property, liability and workers' compensation insurance programs. Wells Fargo subsequently changed the operating name from Acordia to Wells Fargo Insurance Services.

In December 2017, USI Insurance Services (USI) acquired Wells Fargo Insurance Services. USI maintained its Reno office and the same local team which continues to serve Washoe County. USI is one of the largest insurance brokerage and consulting firms in the world with local team members in Washoe County.

BACKGROUND

The Risk Management Division administers all liability claims filed against Washoe County, pursuant to Washoe County Code 65.020. Approved or settled losses, including judgments, are paid from the Risk Management Fund. To protect against large or catastrophic losses, the County purchases excess liability insurance to cover any loss exceeding a selected retention.

The County was insured by Insurance Company of the State of Pennsylvania (part of AIG) since 2003. USI marketed the coverage in 2017 to several insurance companies and received the most competitive quote from Peleus Insurance Company. Peleus provided broad coverage including General Liability, Auto Liability, Employee Benefits Liability, Law Enforcement Liability, Public Officials (Errors & Omissions) Liability and Employment Practices Liability. Coverage is provided with \$5,000,000 occurrence and aggregate limits separately for each coverage. No aggregate limit applies to Auto Liability. Coverage has been subject to a \$1,500,000 self-insured retention per occurrence.

Insurance Market Updates

The property & casualty insurance market continues to face challenges with respect to catastrophic losses, reduced investment income and the ongoing challenges of the COVID-19 pandemic.

Catastrophic losses in 2020 included at least 19 events with at least \$1 billion in direct insured losses in the U.S [1] and \$89 billion in insured catastrophic losses worldwide [2]. This follows record and above average catastrophic losses in recent years.

In 2019, the cyber insurance industry saw increased ransomware activity. In the fourth quarter of 2020, an unprecedented number of cyber incidents affected the insurance market, including the SolarWinds supply chain cyber event, a historical spike in ransomware attacks and cyber re-insurance challenges. Underwriters are reducing capacity, restricting terms, and increasing rates [3].

US P&C insurers combined ratio of incurred losses and expenses as a proportion of earned premiums is expected to increase to 99.3% in 2020 and 99.8% in 2021, according to a recent report by A.M. Best [4].

Underwriting and investment performance deteriorated in 2020, with projected reductions of insurer pre-tax operating income of 15% and net income of 21%.

The economic disruption and still unknown long-term financial impacts of the pandemic, along with natural catastrophes and civil unrest losses continue to weigh on insurers in 2021.

Rate increases, capacity reductions and tighter underwriting scrutiny are expected to continue throughout 2021 [5].

References:

[1] <https://www.globenewswire.com/news-release/2021/02/08/2171551/0/en/Property-Casualty-Insurers-Report-27-5-Drop-in-Net-Income-During-First-Nine-Months-of-2020.html>

[2] [https://www.businessinsurance.com/article/20210330/NEWS06/912340799/Insured-catastrophe-insurance-losses-\\$89-billion-in-2020-Swiss-Re-natural-catas#:~:text=The%20insurance%20industry%20covered%20%2489,Ltd.](https://www.businessinsurance.com/article/20210330/NEWS06/912340799/Insured-catastrophe-insurance-losses-$89-billion-in-2020-Swiss-Re-natural-catas#:~:text=The%20insurance%20industry%20covered%20%2489,Ltd.)

[3] <https://www.usi.com/siteassets/images/about/market-outlook-page-2020/addendum-to-q4-2020-2021-market-outlook.pdf>

[4] <https://www.businesswire.com/news/home/20210225005698/en/Best%E2%80%99s-Market-Segment-Report-Having-Weathered-2020-Similar-Challenges-Persist-for-U.S.-PropertyCasualty-Industry-in-2021>

[5] https://www.usi.com/siteassets/images/about/market-outlook-page-2020/2020_q4_property_and_casualty_market_outlook.pdf

Excess Self-Insured Liability Insurance

Coverage has been provided with Peleus Insurance Company (Peleus) through Trident Public Risk Solutions (TPRS). TPRS is a wholly owned subsidiary of Paragon Insurance Holdings, which specializes in specialty insurance solutions. Peleus is part of Argo Group International Holdings, Ltd., an international underwriter of specialty insurance and reinsurance products in the property and casualty market. Argo Group's insurance subsidiaries are rated BBB- by S&P and 'A-' (Excellent) by AM Best.

Due to changes in their reinsurance and underwriting structure, Peleus was not able to provide a renewal quote with the same coverage and limits. Coverage would have been reduced from \$5,000,000 to \$2,000,000 per occurrence and aggregate. Coverage for Abuse or Molestation would have been sub-limited to \$250,000 or excluded completely with the current insurer's renewal. The insurer also cannot provide law enforcement liability going forward in Nevada, due to adverse claims experience with other entities.

USI Insurance Services marketed the coverage through specialty programs and insurers to obtain the most competitive renewal option available.

Safety National Casualty Corporation provided indicative terms subject to underwriting approval and on admitted basis including coverage for General Liability, Auto Liability, Employee Benefits Liability and Law Enforcement Liability. Safety Specialty Insurance Company would provide coverage on a non-admitted, surplus lines basis for Employment Practices Liability and Public Officials (Errors & Omissions) Liability. Non-admitted insurers have more flexibility in policy wording but are not protected by the state insurance guaranty fund. Non-admitted premiums are also subject to surplus lines taxes and fees totaling 3.9%, which are included in the estimated amount. All the coverage listed above is currently written with Peleus Insurance Company on a non-admitted, surplus lines basis.

Coverage with Safety National and Safety Specialty would be subject the following limits and self-insured retentions, subject to underwriting approval and quote issuance.

Coverage	Each Occurrence/Act	Aggregate	Retention
General Liability	\$2,000,000	\$4,000,000	\$1,500,000
Employee Benefits Liability (Claims Made)	\$2,000,000	\$4,000,000	\$1,500,000
Auto Liability	\$2,000,000	N/A	\$1,500,000
Employment Practices & Public Officials	\$2,000,000	\$2,000,000	\$1,500,000
Law Enforcement Liability	\$2,000,000	\$2,000,000	\$1,500,000
Excess Liability	\$3,000,000	\$6,000,000	-

Safety National is a leading specialty insurance and reinsurance provider. With a culture built on relationships, and over 75 years of unique expertise, they specialize in providing long-term solutions to our valued customers. The insurer is rated A+ by A.M. Best with an adjusted policyholders' surplus of more than \$2 billion. Safety National is a subsidiary of Tokio Marine Holdings. With nearly \$200 billion in assets, Tokio Marine is among the top 10 insurance groups in the world and its companies are among the highest rated.

Safety National provides a suite of online risk control resources to help customers strengthen their safety and compliance programs. Safety National also currently provides excess workers compensation and employer's liability to Washoe County.

The total annual cost, including broker compensation, was \$212,812 in 2020/21. The annual cost for the renewal term is estimated at \$310,144 for 2021/22, an increase of 46%. The increase is due to insurance market conditions noted above and the increasing severity of claims facing governmental entities. The primary rating factors for this type of policy include population, employee count, vehicles, and payroll.

FISCAL IMPACT

Funding for the Excess Liability Insurance Policy renewal premium estimated at \$310,144 is available within the FY22 adopted budget in the Risk Management Fund (619).

RECOMMENDATION

It is recommended that the Board of County Commissioners authorize the Comptroller's Office to place the Excess Liability Insurance Policy with Safety National Casualty Corporation and Safety Specialty Insurance Company for an estimated annual cost of [\$310,144] effective July 1, 2021 and authorize the Comptroller's Office to sign the applications and agreements necessary to bind coverage, with funding from the Risk Management Fund.

POSSIBLE MOTION

Should the Board agree with staff's recommendation, a possible motion would be:

I move to authorize the Comptroller's Office to place the Excess Liability Insurance Policy with Safety National Casualty Corporation and Safety Specialty Insurance Company for an estimated annual cost of [\$310,144] effective July 1, 2021, and authorize the Comptroller's Office to sign the applications and agreements necessary to bind coverage, with funding from the Risk Management Fund.