



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 renew the Excess Workers' Compensation Insurance Policy with Safety National for a one-year term with an annual premium of [\$299,446] and Property, Boiler & Machinery, Cyber Liability and Pollution Liability with the Public Entity Property Insurance Program (PEPIP) for a one-year term with an annual cost of [\$996,860], effective July 1, 2021 and authorize the Comptroller's Office to sign the applications and agreements necessary to bind coverage, funding from the Risk Management Fund source. (All Commission Districts).

SUMMARY

Seeking Board authorization to renew the policies for Excess Workers' Compensation Insurance and Property, Boiler & machinery, Cyber Liability and Pollution Liability Insurance for annual policy terms effective date of July 1, 2021.

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

PREVIOUS ACTION

On June 23, 2030, the Board authorized the renewal of the Excess Worker's Compensation Insurance Policy for the second year of a two-year policy term with annual premium installments and the renewal of Property, Boiler & Machinery, Cyber Liability and Pollution Liability Insurance Policy for a one-year term.

On June 25, 2019, the Board authorized the renewal of the Excess Worker's Compensation Insurance Policy for a two-year term with annual premium installments and the Property, Boiler & Machinery, Cyber Liability and Pollution Liability Insurance Policy for a one-year term.

AGENDA ITEM # _____

On June 19, 2018, the Board authorized the renewal of the above referenced policies for a one-year term.

BACKGROUND

The County's broker is USI Insurance Services (USI). USI acquired Wells Fargo Insurance Services in December of 2017 and maintained the same experienced personnel and local office. USI is one of the largest insurance brokerage and consulting firms in the world with local team members in Washoe County. They monitor changes in the marketplace and when appropriate, solicit bids from qualified insurers.

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

[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 Workers' Compensation Insurance. Washoe County has been self-insured for workers' compensation since July 1, 1981. Nevada law requires any self-insured employer for workers' compensation to maintain a policy of excess insurance to protect the employer from large or catastrophic losses (NRS 616B.300, 5).

In 2019, Safety National offered to renew the County's Excess Workers' Compensation policy with a two-year policy term with annual premium installments based on estimated payroll. The premium rate increased 6.5% and remained flat through the two-year term, expiring July 1, 2021. Safety National's renewal quote includes a 6% rate increase and 2% increase in estimated payroll, resulting in an overall increase of 8%.

The renewal policy maintains a self-insured retention of \$1.5 million per occurrence for all classes of employment, except for a self-insured retention of \$3.5 million per occurrence which applies to presumptive claims only. This has been increased from \$2.5 to \$3.5 million. The lower \$1.5 million retention will continue to apply to all other non-presumptive occupational injuries.

The coverage offered by Safety National includes several important endorsements and extensions including aviation coverage, no late reporting penalty and waiver of subrogation when required by written contract or agreement. Coverage will no longer include a limited Communicable Disease Endorsement that previously provided for just one retention if more than one person contracts the same communicable disease.

Safety National is a leading specialty insurance and reinsurance provider. Serving thousands of customers nationwide for over 75 years, the company offers specialized expertise, flexible program and placement design, and unique claims proficiency. Safety National is a member of the Tokio Marine Group and is rated A+ (superior), FSC XV by A.M. Best.

There are a very limited number of markets who will write Excess Workers' Compensation Insurance for public entities with presumptive benefits exposure. These markets continue to be unable or unwilling to provide quotes for accounts with these exposures. USI continues to monitor the markets so that the most competitive and stable options are provided to the County.

Property, Boiler & Machinery, Cyber Liability & Pollution Liability Insurance.

The County's current property, boiler & machinery, cyber liability and pollution liability insurance program is marketed each year and includes over thirty insurance carriers and reinsurers. Each program layer is negotiated to obtain the best terms, conditions, and pricing in the current insurance market.

USI Insurance also actively monitors the insurance marketplace to identify competitive markets and options. In 2018 and 2020, USI requested quotes from various carriers, including large and international property insurers, but none were able to provide competitive terms, conditions, and pricing.

Public Entity Property Insurance Program (Incumbent Program)

Due to challenging market conditions, the current program has quoted a rate increase of 23% for the County's Property, Boiler & Machinery, Cyber & Pollution Liability coverage at an annual cost of [\$996,860]. The County's insured property values increased

by 4.6% due to updates and increases in estimated replacement costs. Combined, these resulted in an increase of 27.7% or \$215,958 over last year's total cost of \$780,902.

Quotes for flood insurance for buildings and contents were reviewed in 2017; however, coverage was not purchased due to the high premium cost. In 2017, the additional premium to provide a \$20,000,000 per occurrence flood limit (subject to a \$5,000,000 sub-limit for locations in high hazard flood zones) would have cost an additional \$124,000. Flood coverage is provided in the renewal quote for flood damage to scheduled county vehicles, subject to an aggregate limit of \$20,000,000.

PEPIP is among the largest property insurance placements in the world. Formed by Alliant Insurance Services in 1993, PEPIP has grown from 65 members in one state and \$600 million in total insurable values to more than 8,700 members in 45 states and over 350 billion in total insured values. The program's tremendous growth is a result of highly competitive terms, comprehensive coverage, and, most importantly, working closely with members to get claims paid in a timely manner.

PEPIP is divided into tower groups which include various other public entities. The County has been placed in a tower with several other members. The insureds in each tower share a \$1 billion each occurrence limit for the all-risk coverage (i.e., fire). However, the earthquake limit of \$50 million is specifically purchased by and dedicated to Washoe County. Washoe County's tower does not include any other northern Nevada entities.

The program provides a broad manuscript form which includes coverage for all-risk property, terrorism, boiler and machinery and physical damage to scheduled vehicles (both on and off premise). In addition, the program includes limited pollution and cyber liability. Appraisal services for locations with over \$5 million in replacement value are available once every five years at no cost to the County. Claims will be paid through Alliant Insurance Services Inc., located in San Francisco.

Property, Boiler & Machinery, Cyber & Pollution Program Renewal Highlights

Coverage Description	2021/22
Per Occurrence Limit (Tower Members)	\$1,000,000,000
Per Occurrence Limit (Washoe County)	\$500,000,000
Earthquake Aggregate Limit	\$50,000,000
Flood Aggregate Limit (scheduled vehicles only)	\$20,000,000
High Hazard Flood Aggregate Limit	Not Covered
Business Interruption/Loss of Income	\$100,000,000
Extra Expense	\$50,000,000
Terrorism	Included

General Property Terms	2021/22
Covered Property	All Property
General Valuation	Replacement Cost
Vehicle Valuation	Replacement Cost

Scheduled Fire, Ambulance, Specialty Vehicles	Replacement Cost
Communicable Disease	Excluded

Property Deductibles	2021/22
General Deductible	\$50,000
Earthquake Deductible	2% min \$%100k
Flood Deductible	\$100,000
High Hazard Flood Deductible	Not Covered
Unscheduled Infrastructure	\$500,000
Time Element Coverage Waiting Period	24 hours
Vehicle Deductible	\$50,000
Mobile Equipment Deductible	\$10,000

Cyber Coverage	2021/22
Shared Aggregate Program Limit	\$40,000,000
Privacy or Security Liability Limit	\$2,000,000
Data/Cyber Security Assessments	Not Included
Cyber Coverage General Deductible	\$250,000
Retroactive Coverage Exclusion Date	7/1/2013

Pollution Liability Coverage	PEPID
Aggregate Program Limit	\$25,000,000
Each Incident Limit	\$2,000,000
Business Interruption	Included
Pollution Coverage General Deductible	\$250,000+
Retroactive Coverage Exclusion Date	7/1/2021

Nevada Public Agency Insurance Pool Option

USI Insurance Services also requested a quote option for membership including property, boiler & machinery, cyber and pollution liability. Subject to approval by the POOL's Executive Committee, the POOL provided an indication for coverage with an estimated annual cost of [\$1,093,336]. This quoted would increase the County's general property deductible to \$100,000 and provide access to shared earthquake and flood limits subject to \$250,000 deductibles.

After reviewing the quoted property coverage terms and conditions of both PEPID and POOL, staff recommends renewing with the existing PEPID program.

FISCAL IMPACT

The total annual cost for the recommended insurance renewals is:

Excess Workers' Compensation (Safety National): \$299,446

Property, Boiler & Machinery, Cyber & Pollution (PEPID): \$996,860

Total Annual Renewal Cost: \$1,296,306

The recommended renewal results in an increase of \$307,750 or 29% from FY 20/21 premiums.

FISCAL IMPACT

Sufficient budget authority for the renewal premium of [\$1,296,306] exists in fund 619.

RECOMMENDATION

It is recommended that the Board of County Commissioners authorize the Comptroller's Office to renew the Excess Workers' Compensation Insurance Policy with Safety National for one year at a premium of [\$299,446] and Property, Boiler & Machinery, Cyber Liability and Pollution Liability with the Public Entity Property Insurance Program (PEPIP) for a one-year term with an annual cost of [\$996,860], effective July 1, 2021, 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 renew the Excess Workers' Compensation Insurance Policy with New York Marine and General Insurance Company for one year at a premium of [\$299,446] and Property, Boiler & Machinery, Cyber Liability and Pollution Liability with the Public Entity Property Insurance Program (PEPIP) for a one-year term with an annual cost of [\$996,860] effective July 1, 2021 with funding from the Risk Management Fund.