

City of Norman, OK and Norman Utilities Authority

Executive Summary December 1, 2019-2020

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Gallagher

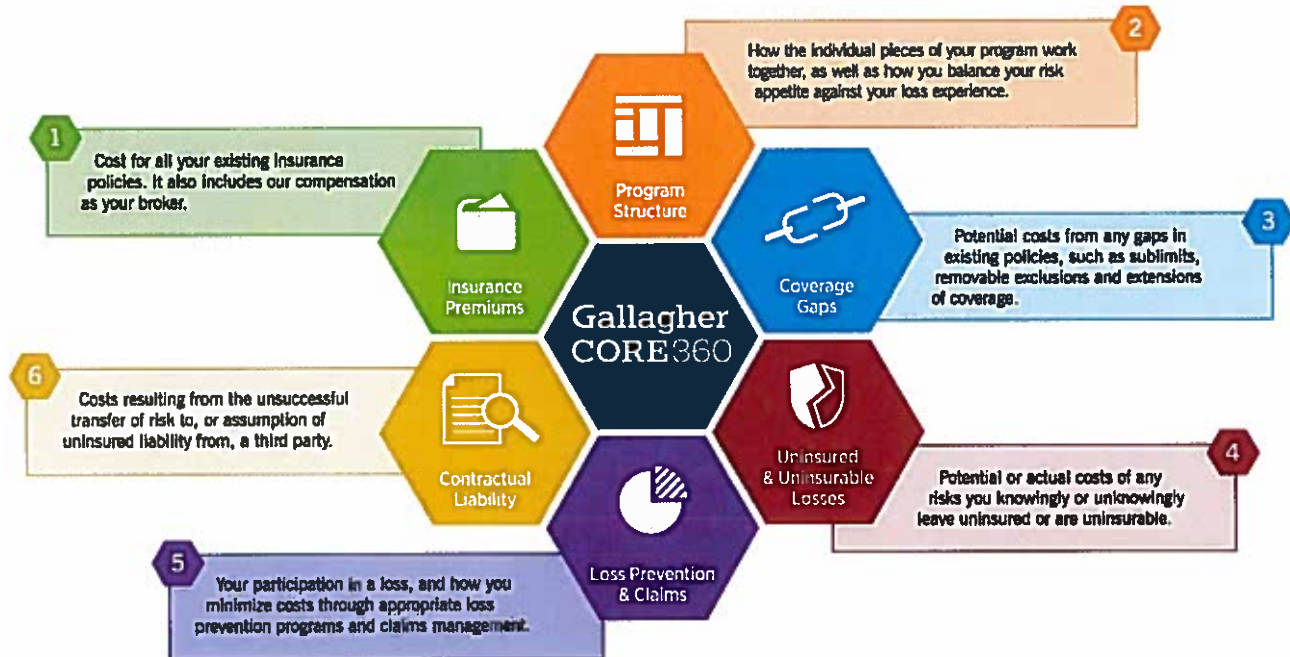
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Introduction

Thank you for this opportunity to present your renewal proposal program options and recommendations for your Property Insurance policies. This Executive Summary is a shorter version of your proposal and is intended to summarize the highlights and point you to any decisions that need to be made prior to binding. We highlight each CORE360™ cost driver, beginning with Insurance Premiums and ending with Contractual Liability. This will not only organize the document but ensure that we are deliberate in driving value to each of your six cost drivers which represent your total cost of risk. It also follows the decisions made and action items we discussed prior to renewal which serves as the basis for this proposal. We know that you have a choice and we appreciate your business and continued support.



Your Team

Your Gallagher team is a true partner. We have the expertise to understand your business and we're here to service and stay alongside you, every step of the way.

Name/Title	Phone	Email	Role
Primary Service Team			
Denise Engle	405-639-3816	Denise_engle@ajg.com	Broker/ Risk Mgt. Consultant
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Aaron Horton	405-639-3841	Aaron_horton@ajg.com	Area President
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Patrick Mikel	972-663-6118	Patrick_mikel@ajg.com	Claim Advocate Senior
Senior Resources			
Dorothy Gjerdrum	952-358-7551	Dorothy_gjerdrum@ajg.com	Sr. Managing Director, Public Sector
Scott Wightman	314-800-2211	Scott_wightman@ajg.com	Executive Area VP St. Louis, Public Entity

CORE360™ Executive Summary Scorecard

Your CORE360™ Executive Summary Scorecard has been developed for you to get a quick snapshot of how we've impacted your total cost of risk for the policies detailed in this proposal.



- ✓ Secured renewal from current insurance carrier in a very difficult hard market. Negotiated to hold the rate increase to 15% which is modest for the region in a hard property market.
- ✓ City of Norman's Property statement of values has expanded increasing values by 39% this year due to the continued completion of several capital investment projects.



- ✓ The deductible structure has changed for certain causes of loss: Wind /Hail per location is \$50,000 except at certain high value locations indicated in policy where it is \$100,000 per location but is capped at \$1,500,000 per occurrence.
- ✓ We will continue to work with the City of Norman in evaluating program structure as risk appetite and market conditions change



- ✓ The policy offered has a very broad suite of property coverages including earthquake, flood and cyber subject to policy terms and conditions. However, there are always areas of coverage where the policy may limit, sub-limit or exclude certain coverages. We encourage you to read the policy carefully and advise your broker of any areas of concern. Please note that many gaps in coverage may be addressed by endorsement or at an additional premium or by a separate policy.
- ✓ Business Interruption – Rental Income is excluded if this is a significant revenue source for the City of Norman then we recommend that coverage be requested



- ✓ Recommending full Cyber Liability coverage including first and third party liability
- ✓ Workers' Compensation – Recommend considering purchasing stop gap coverage to limit the financial impact of a catastrophic loss should one occur



- Loss prevention tools and claims support provided to the City of Norman
- ✓ Recommend implementing the Loss Control Portal (See Proposal)
- ✓ Recommend accessing tools and resources listed on the eRisk Hub (See Proposal)
- ✓ Claim Advocacy is available to assist the City any time you experience a claim



- Contractual review for insurance requirements and evidence of insurance
- ✓ Reviewed contractual insurance of vendors or suppliers requirements as requested.
- ✓ Issued 5 Certificates of Insurance during policy period

Strategic Results

In considering your renewal, we identified the following key areas impacting your program placement in 2019:

- The City of Norman has completed several capital improvement projects which brought significant increases to Norman's property schedule.
- Significant head winds in the property marketplace for the region and for especially municipalities due to concentration of risk and type of structures.

We were able to address these challenges and negotiate a solid property insurance renewal from an admitted market with a strong financial rating.

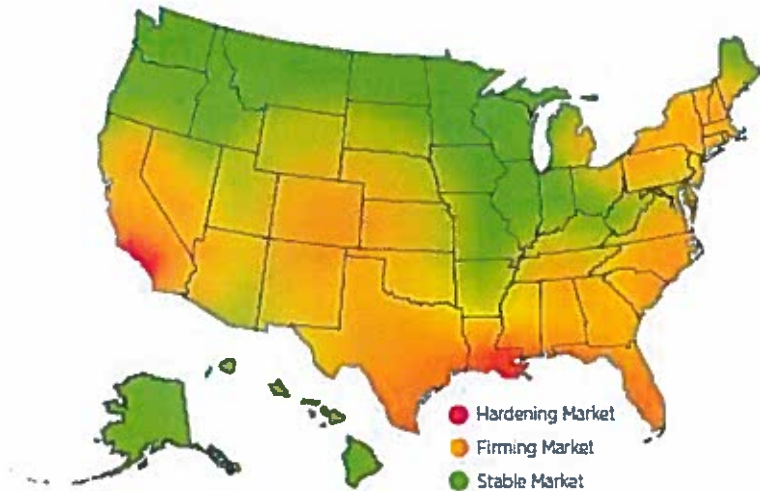
State of the Market

Fall Insurance Market Update – September 2019

The marketplace in 2019 has been dynamic, to say the least. We began the year seeing a relatively stable rate environment with firming in certain areas, a theme that prevailed throughout 2018.

This changed quickly in the 2nd quarter. Insurance carriers began taking a stronger and more disciplined stance on lower-performing risks and lines of coverage. As a result, client experiences have been mixed as it relates to renewal pricing and terms. This being said, we are seeing these general trends:

1. Property marketplace tightening at an accelerated pace
2. Ups and downs in the Casualty marketplace
3. Emerging disruption in the Umbrella Excess marketplace
4. Persistent hardening in the D&O marketplace
5. Flattening prices in the Cyber Liability marketplace



LINE OF COVERAGE	CURRENT MARKET PLACE (RANGE OF RATE INCREASES)
CAT Property	greater than +10%
General Property	+2% to +10%
General Liability	Flat to +5%
Umbrella	+5% to +15%
Management Liability (Private)	Flat to +5%
Management Liability (Public)	+10% to +20%
Auto	+5% to +15%
Workers Compensation	-5% to Flat

*CAT Property defined as a location portfolio with exposure to catastrophic loss (i.e., California EQ, Flood, Florida/Texas/Gulf Coast—wind/hail, the Carolinas, etc.)

Commercial Property: Tightening at a faster pace

The pace of change in the Property marketplace has been faster and more severe than many anticipated. Our own internal data shows that Property pricing has increased (on both a net rate and pure premium basis) every single quarter since Q2 2017 and this rate of change has only accelerated in 2019.

Historically, hard markets have been driven by reduced capital in the marketplace. As a result, all clients are adversely impacted. This marketplace is different—it's much more nuanced, and client results vary greatly based on industry segment, geography/catastrophe exposure, and loss history. We are seeing huge variations from the average with increases of 30% to 50% or more for clients with poor loss experience or located in CAT-exposed areas.

Underwriters are not only focused on pricing, but we have seen a drastic change in deductible structures (both CAT and non-CAT covers), limits, sublimits and other terms and conditions. In addition, underwriters are ensuring valuations are adequate and have a renewed focus on complying with engineering recommendations. Certain domestic carriers are making significant changes to renewal structures and, as a result, underwriters are flooded with submissions. Thus, it is important to start the renewal process as early as possible. Rate increases described above are expected to continue for the next quarter.

• **Casualty: Ups and downs in the marketplace**

Workers Compensation continues to be extremely competitive. Consider that in 2013, 74% of the NCCI states filed for a rate increase, as compared to 2018, where only one state filed for a rate increase (Louisiana). The number of accidents in the workplace continues to decline each year. Experts attribute much of that decline to more robust safety cultures, as well as an overall shift in the economy from hazardous jobs to service jobs. Desirable and well-performing risks can expect to see flat to decreased pricing on renewals in 2019.

General Liability loss costs have been rising as the overall legal landscape continues to change in the U.S. The primary change in the legal landscape has been an increase in the frequency of large judgments with punitive damages being the driving force (an increase in litigation financing, an empowered plaintiff bar and overall juror skepticism toward large corporations). Even though loss costs have been rising, there still remains plenty of capacity. We forecast pricing to be fairly stable—flat to single-digit rate increases on desirable and well-performing risks.

Auto Liability is consistently seeing sizable rate increases regardless of risk profile. While distracted driving continues to be a growing problem, also contributing to the increase in auto premiums is the improving economy—more people are driving more frequently and/or for longer distances. Additionally, loss costs continue to increase. The amount of technology added to vehicles in recent years has resulted in increased repair and maintenance costs. A fairly simple repair now often involves replacing cameras, sensors and other onboard technology.

• **Umbrella: The new disruption**

Umbrella Excess has quickly become the new disruption in the marketplace. Beginning with April renewals, we saw the market take a sharp turn. Concerned with a litigation environment being so favorable to plaintiffs and rising jury verdicts, carriers are taking numerous actions across their book including:

- **Lowering limit capacity:** Clients may require two to three carriers to fill out a lead \$25M limit that was previously assumed by a single carrier. Additionally, carriers are reserving higher limits for best in class clients and those where the carrier also writes the underlying coverage.
- **Increases in underlying limit requirements:** An executive underwriter with one of Gallagher's top carriers recently commented, "The days of attaching at \$1M may be coming to an end in the coming years." In many cases, carriers are now requiring underlying limits of \$2M on auto liability and \$2M on general liability.
- **Pushing on price:** Rate increases are being seen across the board. However, the sharpest increases are focused on our larger clients (those requiring limits >\$10M) and clients with heavy auto fleet exposure or operating in higher hazard industries.

We expect Umbrella Excess renewals to remain challenging for the remainder of the year and into early 2020.

• **Management Liability: Stiff headwinds continue**

Rates in the D&O market continued to increase in the first half of 2019, albeit at different levels between public and private companies.

The public company D&O market has experienced the stiffest headwinds in 2019. Higher-than-expected claim volume, larger settlements and rising rates of litigation have carriers responding with demands for higher premiums to stay profitable. We began seeing this shift in late 2018 and there are no signs that this headwind will subside. As a whole, we are seeing carriers seek 10%-20% increases on primary D&O with almost the same demands for lower excess policies.

The private company D&O market, on the other hand, remains fairly competitive with no shortage of capacity. Through the first half of 2019, we saw mainly flat to slight decreases. We expect this trend to continue.

- **Cyber: Healthy capacity and expanding coverage with increased claims frequency**

The cyber insurance industry continues to grow with overall premium trends showing flat to slightly falling pricing. Robust insurance carrier capacity, along with evolving and expanding policy coverage, are hallmarks to the current market conditions.

Coverage continues to evolve and expand in various ways:

- Several carriers are now offering coverage for the insured's lost income because of fraudulent electronic communications designed to impersonate the insured in invoice fraud scenarios.
- We're seeing broadening contingent business interruption coverage, where an insured can be covered for losses caused by accidental system failure, software patching, or software updates.
- Coverage for reputational harm has expanded, as losses due to fake news stories are now covered by at least one carrier.
- Insurers have issued endorsements to cover new attack trends, such as losses caused by cryptojacking, where a hacker uses a victim's networks to mine for cryptocurrency.

Claim trends continue to be led by ransomware and social engineering attacks and are documented in recent reports from Beazley¹, the FBI² and AIG³:

- The number of ransomware attacks increased by 105% in Q1 2019 when compared to the same quarter in 2018.
- There's been a 93% increase in the amount of ransom demanded over the same period, with the average ransom demand being \$224,871.
- Cyber losses were driven by social engineering attacks, specifically Business Email Compromise. These attacks doubled in 2018, compared to 2017.
- Overall cyber claims frequency nearly doubled between 2017 and 2018 – AIG recently reported that they received more cyber-insurance claims in 2018 than in 2016 and 2017 combined.

We expect the cyber insurance marketplace to continue to evolve and remain competitive. However and as the trends highlight, the threat continues to grow and this is a coverage our clients can no longer ignore.

- **Conclusion**

Our insurance carriers have said that this challenging market environment is not going away anytime soon. Our expectation is for the themes discussed in this update to continue into 2020. Despite these



Insurance Premiums

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- City of Norman's Property statement of values has expanded increasing values by 39% this year due to the continued completion of several capital investment projects.
- Marketed to seven additional property insurers who have declined to officially quote but indicated that they either were not writing coverage due to wind/hail in this region, public entity concentration or risk or could not be compete with the current insurance carrier's premium rate.



Program Structure

- ✓ The deductible structure has changed for certain causes of loss such as the Wind /Hail per location is \$50,000 except at certain higher value locations* indicated in policy where it is \$100,000 per location but is capped at \$1,500,000 per occurrence.

Locations*

1. 3428 South Jenkins Avenue, Norman, OK, 73019
12. 1301 Da Vinci Street, Norman, OK, 73069
24. 201B West Gray Street, Norman, OK, 73069
27. 201 West Gray Street, Norman, OK, 73069
28. 201C West Gray Street, Norman, OK, 73069
87. 2400 Westport Drive, Norman, OK, 73069
105. 1507 West Lindsey Street, Norman, OK, 73069
127. 103 West Acres Street, Norman, OK, 73069

- ✓ We will continue to work with the City of Norman in evaluating program structure as risk appetite and market conditions change



Benefits and HR Consulting

Similar to our CORE360™ approach, which focuses on the actual and potential costs that drive total cost of risk, our Benefits and HR consultants focus on more than just placing benefits insurance. They help clients with their total organizational wellbeing and talent risk management.

We would love the opportunity to introduce Gallagher Benefit Services to you to demonstrate the full power of Gallagher to improve your profitability and organizational wellbeing.

Gallagher Better Works™

Better. It's something all companies strive for. Better outcomes from better performance. But how do you get there?

You start by building a better workplace. One that attracts, engages and retains top talent at the right cost. That's why the Gallagher Better Works™ comprehensive approach to organizational wellbeing aligns your people strategy with your overall business goals.

It centers on strategically investing in your people's health, talent, financial wellbeing and career growth at the right cost structures to support a multigenerational workforce. And it utilizes data, helping you gather insights and apply best practices that promote productivity and growth.

As you develop and sustain a wellbeing-centric culture, you'll optimize your annual talent investment and mitigate organizational risk to maximize profitability. Best of all, you'll gain a competitive advantage as a workplace that simply works better.

Because while your best is finite, your better is never finished.

Expertise and Solutions to Help You Optimize Your People Strategy

- 2018 Benefits Strategy and Benchmarking Survey: <https://www.aiq.com/lp/us-benefits-strategy-benchmarking-survey/> and 2017 Best-in-Class Benchmarking Analysis: https://www.aiq.com/lp/best-in-class/?utm_source=Misc&utm_medium=Press_release&utm_campaign=GBS_BIC2017Q4
- Thought leadership across multiple touchpoints through our Human Capital Insights report; visit <https://www.aiq.com/lp/human-capital-insights/> for a copy
- A full spectrum of solutions to help employers to recruit, retain and engage top talent
- Focus on benefits, compensation, retirement, employee communications and workplace culture



Gallagher's team of benefits and HR consultants paired with risk management and insurance consultants can serve your organization as a strategic business partner, uniquely positioned to help you:

- Take a holistic approach to reducing your total cost of risk
- Tackle any risk or challenge from multiple angles taking into account both the human capital and property perspectives

Thank You for Your Business

We have enjoyed our long term partnership and appreciate the continued time, support and confidence you have placed in us as your public entity risk management team. The City of Norman and Gallagher share a vision of creating an environment of inclusion and your broker serves as the Oklahoma ambassador for its Gallagher Connect Partners initiative for women and minorities. This past year has been successful as evidenced by your scorecard. Even though the overall market is impacting premium pricing nationally, your total cost of risk is being impacted favorably as you work to move Norman Forward with a series of quality of life projects. It is our strategy for this upcoming and future renewals to continue focusing on ways to build upon and improve this positive impact going forward supporting your continued success as a thriving city. We take our mission to the City of Norman seriously and consider it an honor to serve you.

Thank you!

Denise M. Engle, MBA, CPCU, AIC
Risk Management Consultant

Legal Disclaimer

Gallagher provides insurance and risk management advice that is tailored to our clients' risk transfer needs. Our review can include evaluation of insurance premium, risk transfer options, finance agreements, insurance limits, indemnification obligations, and contracts to ascertain appropriate coverage. We do emphasize that any risk management advice, insurance analysis, and limited review of contract terms and conditions, is only provided from an insurance/risk management perspective and is NOT legal advice. We do not provide legal advice and always recommend that our clients seek advice from legal counsel to become fully apprised of all legal implications from their business transactions.

