



Legislation Text

File #: GID-1617-52, **Version:** 1

CONSIDERATION OF AUTHORIZATION FOR THE PURCHASE OF BUILDINGS AND CONTENTS INSURANCE FOR THE CITY OF NORMAN FROM AFFILIATED FM IN THE AMOUNT OF \$127,359 FOR THE PERIOD OF DECEMBER 1, 2016, TO OCTOBER 1, 2017 AND BUDGET TRANSFER.

BACKGROUND: The City of Norman self-insures against most risks (i.e., workers compensation, vehicle/equipment damage, employee health benefit claims, tort claims, etc.) but historically has purchased insurance to cover casualty losses to City buildings and contents (including electronic information technology/computer equipment). This insurance is purchased in a blanket amount but is limited to agreed-upon values of independent buildings and contents, and is subject to a deductible.

In the past, the City of Norman bid out its buildings and contents insurance. However, several brokers expressed their frustration with this method as insurance underwriters will only work with the first insurance broker that contacts them and the incumbent broker had already left "place markers" with most of the underwriters. In 2014 the City decided to pick a broker via a Request for Proposal process that would then bid and select the best buildings and contents insurance for the City. This is the method other cities in the metro use to select insurance products including the City of Oklahoma City.

The City of Norman sent out Request for Proposal RFP-1314-49 on February 26, 2014, for insurance broker services. One broker responded, Arthur J. Gallagher & Co. (Gallagher). Gallagher is the incumbent broker the City has used for several years and has provided quality bids and rates in the past. Management has been pleased with their services.

DISCUSSION: The particular area that includes Oklahoma has experienced very costly storms in recent years to insurance companies. The City's incumbent underwriter did not want to renew its policy for the upcoming year without significant changes to deductibles. The current policy was scheduled to expire on October 1, 2016, but was extended to December 1, 2016 (i.e., 60 days).

Gallagher received three proposals for the up-coming policy year of December 1, 2016, to December 1, 2017; the first from American Home Assurance Company ("American" or "AIG", the incumbent underwriter) with a premium of \$109,999; Affiliated FM with a premium of \$127,359; and from Oklahoma Municipal Assurance Group (OMAG) with a premium of \$148,306. Affiliated FM is rated as A+ by A.M. Best and is one of the largest property and casualty providers in the industry. American is rated as A by A.M. Best and is also a large property and casualty provider in the industry.

The prior year premium was \$109,124 from American. A summary of the coverages and deductible amounts is shown in the attached Quote Comparison. It is important to note that the blanket amount of requested coverage increased from \$113,590,659 in the prior year to \$114,535,764 in the current year due to the addition of several properties. It is important to note that the American proposal includes a 1% of value for each location deductible for hail (wind excluded) up to a minimum of \$100,000 per occurrence (no maximum). The Affiliated FM proposal includes a \$25,000 deductible for wind and hail per location up to a minimum of \$100,000 and a maximum of \$500,000 per occurrence.

Gallagher feels that both American and Affiliated FM are strong and both proposals would meet the City's buildings and contents insurance needs but is more inclined to suggest the Affiliated FM proposal given the more favorable deductible for the City's larger properties and includes coverage for both wind and hail.

The City budgeted \$132,000 in the Risk Management Fund, Liability and Property (account 043-3004-415.44-03) in Fiscal Year 2017 to pay for building and contents insurance. The City paid \$17,233 for the 60 day extension of the existing policy, leaving \$114,767 in the account.

The Risk Management Fund includes amounts budgeted to pay worker's compensation claims for which the City is self-insured. Currently the Worker's Compensation Weekly Payments account (043-3002-415.40-22) has an available balance of \$339,354 which should be more than adequate to cover costs during the remaining fiscal year.

RECOMMENDATION: Staff recommends insuring the City's buildings and contents with Affiliated FM at a premium amount of \$127,359 for one year as it provides the best premium for coverage within acceptable deductible limits. Also, staff recommends transferring \$12,592 from Worker's Compensation Weekly Payments (account number 043-3002-415.40-22) to Liability and Property (account number 043-3004-415.44-03).