



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JULY 16, 2024**
FROM: FINANCE- RISK MANAGEMENT **WARDS: ALL**
SUBJECT: EXCESS LIABILITY INSURANCE RENEWAL AND INCREASE IN SELF-INSURED RETENTION (SIR)

ISSUE:

Ratify the purchase of the City’s excess liability insurance coverage through the City’s Property & Casualty Insurance Broker, Keenan & Associates, beginning July 1, 2024, and ending on June 30, 2025, including an increase to the City’s Self-Insured Retention (SIR) to \$4 million for a total renewal premium of \$2,507,706.

RECOMMENDATION:

That the City Council ratify the purchase of the City’s excess liability insurance coverage through the City’s Property & Casualty Insurance Broker, Keenan & Associates, beginning July 1, 2024, and ending on June 30, 2025, including an increase to the City’s Self-Insured Retention to \$4 million for a total renewal premium of \$2,507,706.

BACKGROUND:

On June 11, 2024, City Council approved a not-to-exceed amount of \$10,222,186.08 for Risk Management to renew all the City’s insurance policies by July 1, 2024. The Risk Management team finalized all insurance policy renewals on Friday, June 28, 2024. The substance of this report will focus on the renewal results of the lead excess layer following the City’s Self-Insured Retention (SIR).

DISCUSSION:

The City’s Property & Casualty Insurance Broker, Keenan & Associates, sought coverage for the lead excess layer following the City’s SIR on the open market, but Safety National, the City’s incumbent lead excess liability carrier, was the only carrier who was willing to write the lead layer for Riverside. As a condition of their renewal terms, Safety National required the City to increase its SIR to either \$4 million (M) or \$5M due to the City’s current loss ratio exceeding 200%.

A Self-Insured Retention (SIR) is the amount of each claim the City is responsible for paying out to a single claimant. The City’s excess liability carriers will then pay any settlement amounts or

claims costs that exceed the City's SIR. The City has had a \$3M SIR over the last 10 policy terms, except for FY 16-17 when it had to increase its SIR to \$3.5M when participating in Alliant's CAMEL¹ program. It was subsequently reduced back to \$3M when transitioning to Safety National in FY 17-18.

Loss Ratios exceeding 100% are unfavorable to insurance companies as they pay out more in claims than they receive in premiums from the insured. The higher the ratio, the greater the loss and lack of profitability for the insurer. Additionally, all insurers for the layers following the SIR have agreed that the costs associated with defending claims (legal fees, etc.) will not count against the policy's coverage limits; however, these defense costs will still count toward depleting the SIR.

Loss Ratio = (Insurance Claims Paid + Loss Adjustment Expense) / Total Premiums Earned x 100.

EXCESS LIABILITY INSURANCE MARKET RESULTS

The liability insurance marketplace saw its sixth year of consistent double-digit rate increases for excess liability. Thus, fewer carriers are willing to underwrite public agencies in California due to increased loss costs, nuclear jury verdicts, modified views of social responsibility, and litigation funding. As a result, insurers continue to adjust available limits and pricing models to account for the current social and economic inflationary forces.

Insurance Carrier	Decision
Safety National	Quoted Lead Layer with increased SIR.
APR/HDI	Decline – No Electric Utility + No leads right now, only excess.
Arch	No leads, need to be at least excess of \$10M.
AWAC	Quoted excess.
Berkley PE	\$1M+ for \$5M coverage in excess of \$8M (starting point).
Bowhead	Can only provide \$2.5M at \$8M attachment. \$5 Mil available in excess of \$20 M, possibly.
Chubb	Quoted excess but added a wildfire exclusion.
Euclid/Hudson	Not writing policies in CA.
Genesis	Decline due to Southern CA exposure.
Howden	Decline, writing less Public Entity, more carveouts (LEL, SML, PO/EPL)
Hudson	Decline - very selective in CA.
Lex	Blocked. No leads.
Munich	Decline, very selective in CA.
Navigators	Need at least \$10M attachment.
Travelers	Decline - No Electric Utility.

The City's Risk Management and Litigation/Claims teams met with Safety National and Keenan on June 6, 2024, to discuss the City's 10-year Loss Run report. A Loss Run report is a summary of the City's claims that detail when a loss occurred, the alleged cause of a claim, and the financial value of damages being claimed. The City then had a subsequent meeting with Keenan on June 12, 2024, where Keenan notified the City that Safety National was considering increasing the City's SIR for FY 24-25.

On June 17, 2024, Keenan confirmed that Safety National will require an increase to the City's SIR for the FY 24-25 renewal cycle. The City continued to work with Keenan in providing

¹ California Municipal Excess Liability

supplemental information to Safety National’s underwriting team for the FY 24-25 renewal cycle. Risk Management and Keenan met again on June 25, 2024, to discuss the City’s general casualty renewal and coverage options quoted by Safety National. The City received the last excess quote on Thursday, June 27, 2024, and all binding instructions were formalized and submitted to Keenan on Friday, June 28, 2024.

The City’s Risk Management and Litigation/Claims teams will meet again with Safety National and Keenan on July 17, 2024, to discuss the City’s claims activity.

ALTERNATIVES:

Safety National provided the City with two renewal options. Option 1 would have required the City to have a \$5M SIR for FY 24-25. The \$5M SIR option would have increased the total premium by \$146,000 or 30% compared to FY 23/24 but would have made the City responsible for an additional \$2M in claims expenses for any claims that occur between July 1, 2024, to June 30, 2025. The City’s excess carrier would then pay any additional claim obligations that exceed the \$5M SIR threshold.

Option 2 is the \$4M SIR quote with a premium increase of 143% compared to the expiring premium of \$490,898 for FY 23-24. Option 2 would require the City to be responsible for an additional \$1M of each new claim that occurs between July 1, 2024, to June 30, 2025. Given that the City has several claims that may exceed the \$5M SIR, staff determined that the \$4M SIR is the most cost-effective option.

Policy Year	Safety National Premium Paid for Lead Layer Following SIR	SIR
17-18	\$357,121	\$3M
18-19	\$376,313	\$3M
19-20	\$375,965	\$3M
20-21	\$445,105	\$3M
21-22	\$395,551	\$3M
22-23	\$468,326	\$3M
23-24	\$490,898	\$3M
24-25 Option 1	\$636,571 (30% YOY Increase in Premium)	\$5M SIR
24-25 Option 2	\$1,192,924 (143% YOY Increase in Premium)	\$4M SIR

Despite claims activity and the increased SIR, Safety National will continue to provide the City with \$25K in safety funds for the City to use for staff training and related liability projects. This funding will help the City reduce claims by enabling more comprehensive training for our staff, improving their ability to manage risks effectively, and implementing projects that mitigate potential liabilities.

FISCAL IMPACT:

There is no immediate fiscal impact associated with this report. The excess liability renewal of \$2,507,706 is included within the approved not-to-exceed amount of \$10,222,186.08 as approved by Council on June 11, 2024. However, depending on the outcome of current and future claims, the increase in the SIR may raise the City’s claims costs up to the higher SIR threshold of \$4M before insurance coverage applies.

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