

# Property Insurance Procurement Options



Council Presentation  
February 17, 2015



## Current Property Insurance Coverages

---

- Total insured value \$625 million (Structures and Contents)
- \$250,000,000 limit – All Other Perils
- \$150,000,000 limit – *Named Storm* only
- Corpus Christi is a coastal location (Tier 1 Windstorm Exposure)
- Multiple “layers” of coverage comprise the total insurance program, 13 underwriters provide the coverage



# RFP Advertise for Proposals

## Current Timeline

---

January 30<sup>th</sup>- RFP was released

February 9<sup>th</sup>- Written questions due

February 25<sup>th</sup>- Proposals due

April 14<sup>th</sup> – Date award will appear as Future Item on Council Agenda

April 21<sup>st</sup> - Date award will appear as Item on Council Agenda

April 21<sup>st</sup> - Alternate date award will appear as Future Item on Council Agenda

April 28<sup>th</sup> - Alternate date award will appear as Item on Council Agenda

\*May 4<sup>th</sup> - Insurance Policy Annual term begins

---



# Option # 1

## RFP Advertise for Proposals

---

Procurement process of advertising bid proposals. Target Proposers are; agents, brokers and/or risk pools. Option #1 is our current procurement process.

### **Pros:**

- Maximizes number of responses and minimizes renewal rate instability
- Renewal rates should remain stable allowing for potential decreases in premium
- Allows submissions from a maximum variety of proposers, including risk pools (Texas Municipal League)
- Maximizes buying power of incumbent proposer

### **Cons:**

- There may be a perception that the incumbent agent has “blocked” the insurance underwriters
  - Other agents must create relationships with underwriters in order to effectively compete
-



## Option #2

# RFP Assignment of Markets

---

Proposers are assigned property underwriters and are asked to submit a proposal utilizing their assigned markets and others they may find.

### **Pros:**

- The incumbent carrier/broker/risk pool is given the first choice to keep their incumbent underwriters in whole or part
- Maximizes stability and continuity of premium pricing

### **Cons:**

- Potential proposers must create relationships with underwriters in order to compete
  - Reduces competition between underwriters
  - Not a widely used methodology for coastal cities
-



## Option #3

# RFP Broker/Agent of Record

---

Two-stage process – First an insurance broker is selected through a broker RFP. The broker can be paid an annual fee, net of commission, or receive a commission from the insurance underwriters. Then, a second RFP is issued for property insurance, and the City selects the best proposal submitted.

### **Pros:**

- Maximizes competition in broker's fee determination
- Maximizes control over selection of broker

### **Cons:**

- Selected broker may not have relationships with some underwriters, resulting in less competition
  - The selected broker may not be able to provide the best premium (decreased buying power)
  - State statute prohibits TML Risk Pool from acting as a broker, so it is excluded as a proposer
  - Small to medium-sized brokers might have difficulty adhering to the specification requirements as compared to larger insurance brokers
  - Broker is not directly incentivized to ensure the lowest cost coverage included in bids
  - Two-stage process takes longer – up to 8 months (3-4 months for each stage)
-



# Positive Results

---

The City has utilized Option #1 (RFP Advertise for Proposals) to procure property insurance since 2001.

- Since 2007, the annual premium has decreased by more than \$540,000 (from \$3.4 million to \$2.8 million) despite increasing total insured values and limits:
    - Total Insured Values (Structures & Contents) increased by \$168,000,000 and
    - The Named Storm, limit increased from \$100,000,000 to \$150,000,000
-



# Paths Forward

---

- Move forward with utilizing Option #1, the RFP was released on January 30<sup>th</sup>
  - Move forward with Option 3;
    - Complete the current property insurance procurement process to obtain insurance for upcoming year:
      - cannot extend coverage for less than one year
      - should avoid procurement of property insurance during hurricane season
    - Risk Management and Purchasing begin building an RFP for broker immediately and release RFP for broker in fall of 2015
    - Release RFP for property insurance in January 2016
-