



AGENDA MEMORANDUM
City Council Meeting of February 17, 2015

DATE: February 1, 2015
TO: Ronald L. Olson, City Manager
FROM: Miles Risley, City Attorney
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826-3360

Property Insurance Procurement Options

STAFF PRESENTER:

<u>Name</u>	<u>Title/Position</u>	<u>Department</u>
1. Donna James-Spruce	Risk Manager	Legal Department

OUTSIDE PRESENTER(S):
None

BACKGROUND:

The City's property insurance program is comprised of multiple "layers" of coverage provided by 13 underwriters. The City has utilized Option #1 (RFP Advertise for Proposals) to procure property insurance since 2001. The Insurance Policy Annual term begins on May 4, 2015. There are essentially three options to procure property insurance and they are as follows:

Option #1-The procurement process of advertising bid proposals, proposers are; agents, brokers and/or risk pools. Option #1 is our current procurement process. Advantages of this option are that it maximizes the number of responses, while enabling renewal rates to remain stable and allowing for potential decreases in premium. It allows submissions from a maximum variety of proposers, including risk pools (Texas Municipal League) and maximizes buying power of the incumbent proposer. However, with this option, there may be a perception that the incumbent agent has "blocked" the insurance underwriters. In addition, other agents must create relationships with underwriters in order to effectively compete.

Option #2-Proposers are assigned property underwriters and asked to submit a proposal utilizing their assigned markets and others they may find. The incumbent carrier/broker/risk pool is given the first choice to keep their incumbent underwriters in whole or part, which maximizes stability and continuity of premium pricing. With this option, potential proposers must create relationships with underwriters in order to compete and can reduce competition between underwriters. Assignment of markets is not a widely used methodology for coastal cities.

Option #3-This is a 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. Option #3 maximizes competition in the broker's fee determination and maximizes control over the selection of a broker. The downside to this option is that the 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) and would eliminate the Texas Municipal League Risk Pool as a proposer. Additionally, small to medium-sized brokers might have difficulty adhering to the specification requirements as compared to larger insurance brokers. The selected broker is not directly incentivized to ensure the lowest cost coverage included in bids. Lastly, Option #3 is a two-stage process, which takes longer – up to 8 months (3-4 months for each stage).

From 2007 to 2014, 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.

There are two viable choices, the first being to move forward with utilizing Option #1. The procurement process has already begun with the release of the RFP on January 30th. The second choice is to 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).

If requested to pursue Option #3, Risk Management and Purchasing would begin building an RFP for broker immediately, release the RFP for broker in fall of 2015 and release the RFP for property insurance in January 2016.

LIST OF SUPPORTING DOCUMENTS:

PowerPoint –Property Insurance Procurement Options