

Agent and Member Services Workshop

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citycounty insurance services
ciscitycounty.org

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CIS

Agent and Member Services Session

February 26, 2020



Insurance | Risk Management | Consulting

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State of the Insurance Market

Q4 2019 Outlook / 2020Forecast

GENERAL
The marketplace in 2019 has been dynamic, to say the least. 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:

- Property marketplace tightening at an accelerated pace
- Ups and downs in the Casualty marketplace
- Emerging disruption in the Umbrella Excess marketplace
- Persistent hardening in the D&O marketplace
- 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 +10%
Management Liability (Private)	Flat to +5%
Management Liability (Public)	+10% to +20%
Auto	+5% to +10%
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 Caribbean, etc.)

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State of the Insurance Market

Gallagher

Property

- 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. The current market conditions are expected to continue well into 2020.
- 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. There have been significant changes in deductibles, terms, and coverage capacity across the board.
- Market dislocation continues because of changing underwriting strategies of major insurers such as FM, AIG and Lloyd's. Most insurers have decreased the capacity they are willing to offer on any one risk and many single carrier programs are being forced into more expensive layered and shared options or to competing markets at much higher rates. In spite of this reduction in capacity offered, insurers have reached and exceeded their budgets and there is not real hunger to write new business.

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State of the Insurance Market

Gallagher

Property

- 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. Carriers are now requiring insureds to switch from flat per occurrence to a percentage of damaged property (typically 3% to 5%) for certain types of property perils like wind and hailstorm in certain geographic areas of the country. Underwriters are ensuring valuations are adequate and have a renewed focus on complying with engineering recommendations.
- Additionally, we cannot minimize the effects of increased attritional losses. Hailstorms in the South and Midwest, water damage, CA wildfires, etc. are all adversely affecting the market. The results are providing continued rate and deductible increases along with tightening of terms and conditions.
- We expect carriers to continue focusing on data analytics to develop more sophisticated and accurate predictive patterns and trends. This data analysis is also to be used to assess demographics and potential loss exposures from a micro-level perspective. It remains to be seen if the data being utilized in these varied analyses is clean, conclusions being drawn are accurate, and if recommendations are being implemented properly.

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State of the Insurance Market

Gallagher

Casualty
(Auto, Liability/Umbrella & Excess, Workers' Compensation)

- Despite industry surplus sitting in excess of \$800 billion and growing, the firming of the insurance market for the majority of coverage lines is not being driven by capacity constraints. Over the last three quarters of 2019, the overwhelming majority of capital was being deployed much more conservatively and selectively, causing a significant firming of the Primary Liability and Umbrella/Excess Liability marketplace.
- Hardening in casualty continues in both primary and excess lines. Claim severity is an ongoing issue in the excess space. Multi-million dollar judgments driven by sympathetic juries, time-limit demand changes and social inflation have played a large role in how carriers are reacting. Additionally, positive changes in tort reform are not expected anytime soon. There are underwriting concerns around several key issues including attachment point sensitivity, capacity management and difficult public exposures such as water utilities, jails and law enforcement.
- General Liability loss costs have been rising as the overall legal landscape continues to change in the U.S. We forecast pricing to be fairly stable—flat to single-digit rate increases on desirable and well-performing risks for Primary, or first layer GL coverage. Excess Liability, however, is much more unpredictable with most carriers looking for more substantial rate increases than primary layers. Carrier appetite in this area is changing. Public Officials Liability (including EPLI) is relatively stable and seeing nominal increases. Federal claims continue to drive a lot of the losses in these coverages.

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State of the Insurance Market

Gallagher

Casualty
(Auto, Liability/Umbrella & Excess, Workers' Compensation)

- Sexual Molestation Liability (SML) coverage is almost non-existent at any price. It appears that less than a handful of carriers are offering stand-alone coverage; most out of Lloyds of London. Limits are being slashed; premiums are being increased at a very high rate and client retentions are soaring. Claims in this area around the country are rising at a very rapid pace which is driving the market.
- Auto Liability and Auto Physical Damage coverages consistently see sizable rate increases regardless of risk profile. Carriers have been hit with a lot of losses in this area across the board. There are fewer and fewer options for monoline coverage in this area. 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. Rate increases are in the 7% to 20% range.

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State of the Insurance Market

Gallagher

Casualty
(Auto, Liability/Umbrella & Excess, Workers' Compensation)

- 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.
 - 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.

- Workers' Compensation, by contrast, is the lone casualty line in which a competitive market exists for most industries in most states. Workplace injuries continue to decline year over year and loss ratios remain favorable and the majority of states continue to approve rate reductions. Rate reductions cannot continue forever and at some point, rates will level off and may begin turning upwards.

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State of the Insurance Market

Gallagher

Crime

- Crime insurance continues to garner more attention than in prior years. While vendor fraud associated with employee dishonesty continues to be the largest source of claims, the emerging trend of impostor fraud has created heightened focus on this product and the discipline of underwriting.
- Relatively flat/stable rate environment, although rates associated with impostor fraud and may increase. Employee dishonesty continues to be the largest source of claims.

Fiduciary

- Fiduciary Liability litigation continues to impact the insurance market for governmental entities. Although municipal and governmental benefit plans are not regulated by ERISA the standards to which they are regulated are almost always derived and adapted from ERISA. This means that any accusation of dishonesty or mismanagement by trustees can put the entire fund at risk.
 - Some of the top risks identified is the continued fiduciary liability litigation are: imprudent investments, failure to monitor, conflict of interest, challenge to supplemental retirement plan, improper expenses/ethics.
- We are seeing underwriting scrutiny in plan status, funding and assets. Rates are increasing year over year approximately 5-10% and deductible increases of 25-100% depending on size. These are increases to a rate base that was at a historical low for the past decade. Q4 2019 and full-year 2020 are expected to follow a similar pattern barring a major macro-economic downturn.

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State of the Insurance Market

Network Security (Cyber)

- While there has been a lot of news regarding the public sector and ransomware and cyber extortion, the cyber insurance industry continues to grow with overall premium trends continuing to be relatively stable. Robust insurance carrier capacity, along with evolving and expanding policy coverage, are hallmarks to the current market conditions. However, we expect that to change as the hacks continue to increase, especially in the public sector.
- 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.

¹ https://www.beazley.com/news/2019/beazley_breach_insights_may_2019.html
² <https://www.fbi.gov/news/stories/ic3-releases-2018-internet-crime-report-042219>
³ <https://www.aig.com/business/insurance/mergers-and-acquisitions/mergers-acquisitions-claims-reports>

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Looking Ahead/Market Strategy


- As 2019 comes to an end and as discussed throughout this presentation, 2019 market conditions are expected to continue into the New Year 2020 and may be further affected by the various factors referenced. Which include ongoing rate increases across a number of coverage areas as well as continued reduction in capacity, terms and conditions.
- Looking forward it is imperative that we begin the renewal process early. Provide up to date, detailed underwriting and loss information.
- Highlight the benefits and features of your risk. Reveal any adverse exposure/losses and how your entity will and has approached mitigation in the future.
- Collaborate and keep open communication with your agent and CIS.
- Be sure to keep leadership in your entity informed of market conditions throughout the year so they are not surprised.
- As many of us have seen in the past, rate correction has to take hold in the near future and rates should find stability.
- Top three client concerns to be noted for 2020 are 1) future premium increase(s) and 2 & 3) tied are cyber risk and limitations on coverage.

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Rate Forecast by Product Line


Product Line	Midyear Update	Q4 2019-2020
Property Non-Catastrophic		
Good Loss History	Up 10%	Up 10% to 20%
CAT Property		
Minimal Loss History	Up 10% to 40%	Up 25% to 40% +
CAT or Non-CAT Property	Up 10% to 40% +	Up 30% to 60% +
Poor Loss History		
Primary General and Products Liability	Flat to up 15%	Up 1% to 10%
Primary Automobile Liability		
Fleet Lower than 200/Good Loss History	Up 5% to 10% +	Up 10% to 15%
Primary Automobile Liability		
Fleet Lower than 200/Poor Loss History	Up 15% +	Up 15% to 25%
Umbrella & Excess Liability	Up 5% to 20%	Up 10% to 25%
(Middle Market Buyers)	Layers possibly reduced	(Factors in contraction of limits)
Umbrella & Excess Liability	Up 5% to 20%	Up 15% to 30% +
(Risk Management Buyers)	Layers possibly reduced	(Factors in contraction of limits)
Directors and Officers	Up 25% to 50%	100% + if "troubled"
Public Company	Up 10% to 30% +	Up 5% to 20%
Private Company	Up 5% to 10%	20% is claim-dependent
Management Liability		
Crime	Down 5% to up 5%	Up 5% to 25%
Due to Social Engineering		
Network Security & Privacy (Cyber Insurance)	Flat to 5%	Flat to 10%

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Thank you!

I'm happy to take any questions.



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Driving Change Through Analytics

Trent McGath
Risk Information Manager

Brian Kephart
BI Solution Architect



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Driving Change Through Analytics

Website: Property & Liability - OR - Workers' Compensation

↓

Claim Summaries

↓


Choose Entity

↓

Loss Runs = Static data at the end of each month

Live Data = Currently valued data from our claims system, unless noted

[Loss Ratio](#)
[Detail Reports](#)
[Summary Reports](#)
[Open Claims](#)
[Claim Lookup](#)
[EAP/RTW](#)
[All Plan Transactions](#)
[All Plan Performance](#)



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Driving Change Through Analytics

Comparison to:

Pool

Specific Cohort (*collective bargaining, etc.*)

Defined Group (*population, etc.*)

Department (*public works, etc.*)

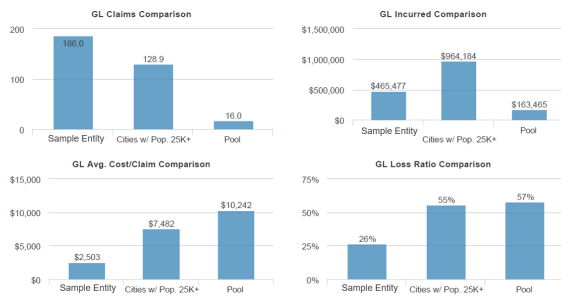
Other Defined Standard

Budget Chargeback



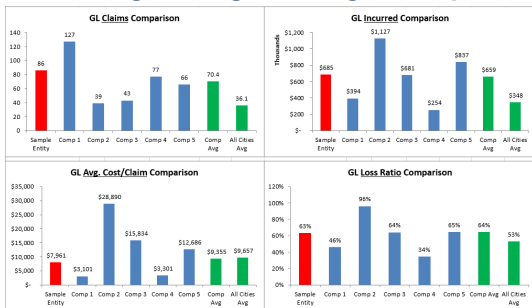
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Driving Change Through Analytics



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Driving Change Through Analytics



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Analyzing Claims Activity

Loss Run Changes *(red claim number)*

High Losses

Spikes

Repeats

General Liability					
Coverage Year	Premium	Losses	Claims	Loss Ratio	
2014-2015	\$25,959	\$0	1	0%	
2015-2016	\$27,059	\$0	0	0%	
2016-2017	\$32,349	\$0	0	0%	
2017-2018	\$29,676	\$0	0	0%	
2018-2019	\$29,731	\$545,000	2	1833%	<div></div>
2019-2020	\$31,796	\$0	0	0%	
Totals:	\$176,870	\$545,000	3	309%	

Spike
→

Overall Loss Ratio:
309%

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Available Tools

Comparison Reports

Loss Runs/Change Report *(Loss Runs Tab > Changes Button)*

Plan Analysis

Existing plan performance and transactions

Finding the right plan

Website Reports

Claim Detail and Summary

Loss Ratio

Custom *(contact us!)*



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Risk Management Tools via Learning Management System

Tila Maceira-Klever
CIS Learning and Development Manager



citycounty insurance services
clatsop.org

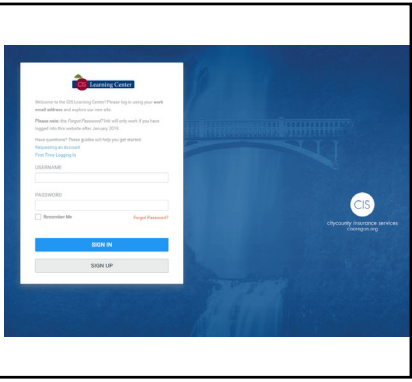


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Session Outline

Explore 5 ways the CIS learning center serves as a risk management tool

1. Compliance Training
2. New Employee Onboarding
3. Extensive Course Library
4. Learning Paths
5. Refresher Training

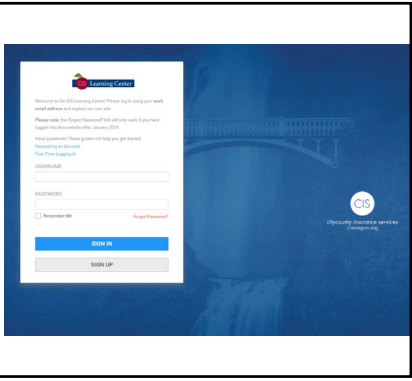


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5. Just in Time Resources



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#1 – Compliance Training

Easily Assign and Track Training

Register

Add to plan

Assign & Enroll

82% of companies have their employees complete at least some of their mandatory compliance training online; 28% do it entirely online

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#2 – New Employee Onboarding

Nearly **one third** of injuries occur in employees first year of employment

Only **1 out of 5** new workers receives safety training

Only **39 percent** of new managers reported receiving training

As a result, 51% reported they felt unprepared for their role

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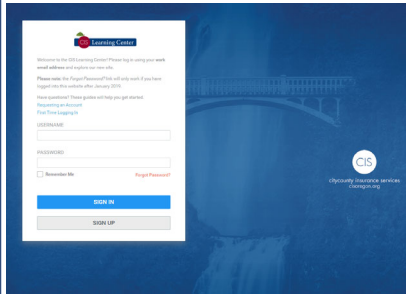
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#3 – Extensive Course Library

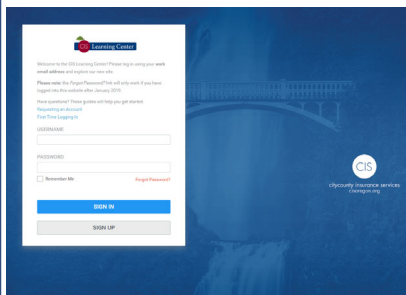
The CIS Learning Center catalogue offers nearly 450 courses. Course range from 5 minutes to 90 minutes, and even include past conference videos.

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Explore 5 ways the CIS learning center serves as a risk management tool

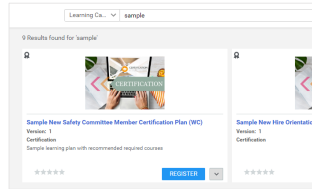
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#4 – Learning Paths

- New employee
- Elected officials
- New supervisors
- Safety committee members
- Others? We want your ideas

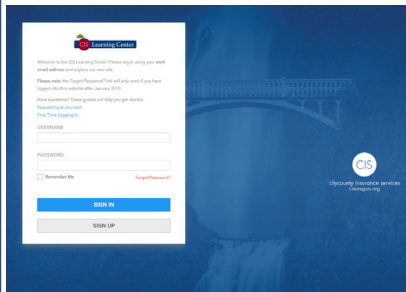


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#5 – Just in Time Resources

- Respond to events happening in the organization
- Just had a training? Boost that learning with a 5 minute module
- Use the mobile app to bring learning to you



More than 70% of learning is lost in two days unless there has been spaced repetition over time.

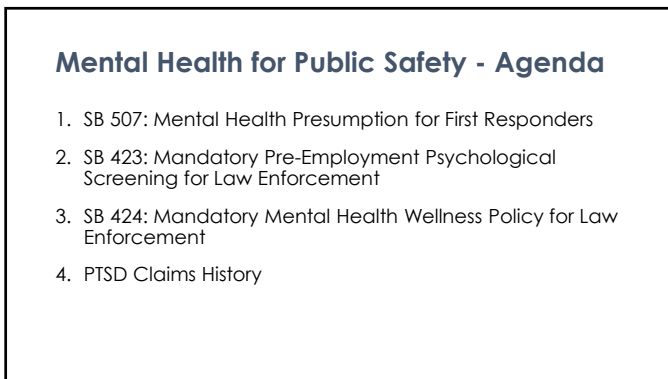
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Mental Health for Public Safety

SB 507: Mental Health Presumption for First Responders

- Relating to workers' compensation
- Compensable claim under workers' compensation law
 - Fire service professional
 - Public safety personnel
 - Employee of public or private safety agency with the following duties
 - ☐ Firefighting
 - ☐ Law enforcement
 - ☐ Ambulance or emergency medical services



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Mental Health for Public Safety Continued

SB 423: Mandatory Pre-Employment Psychological Screening for Law Enforcement

- Requires law enforcement agency to conduct screening
- "May not employ"...until determined to "determine fitness for duty"
- Licensed mental health professional
- Effective January 2, 2020



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Mental Health for Public Safety Continued

SB 424: Mandatory Mental Health Wellness Policy for Law Enforcement

- Requires law enforcement to develop mental health wellness policy
- May include the following:
 - Mental/emotional wellbeing
 - Physical wellbeing
 - Nutritional wellbeing
 - Pre-employment psychological testing



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PTSD Claim History

Fiscal year 2009/10 to 2019/20

- Prior to new legislation
 - 25 first responder claims
 - 19 in law enforcement
 - Six in Fire
 - Over three million paid out
 - Average claim cost is about \$126,000

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What's New for 2020-2021

Scott Moss, CIS Property/Casualty Director
Tena Purdy, CIS Underwriting Manager



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Agenda

- Potential coverage agreement changes (CIS Board reviewing)
- Coverage agreement changes
- Jail risk management
- Unique risks
- Insight ERM tool
- Swimming pool risk management
- Agent agreements
- Renewal updates



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Potential Changes to Property Coverage Agreement

- Definition of Actual Cash Value
- Vacancy
- Building codes
- Off-premises interruption
- Water exclusion
- Restricted coverage for docks, piers, wharfs and bridges
- Duties in the event of a loss



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Definition of Actual Cash Value

If the property is coded ACV, valuation shall be Actual Cash Value as determined using the market value or the replacement value less proper deduction for depreciation, **whichever is less**, not to exceed the values stated on the schedule. On property coded ACV, the **Trust** will not pay the full amount of any loss if the value of the covered property at the time of loss times 80% is greater than the limit of coverage stated in the property schedule for the property. Instead, the amount of the loss to be paid will be determined using the following steps:



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Vacancy

For **buildings** vacant more than 90 consecutive days before the loss or damage occurs, covered losses are subject to a per occurrence deductible of \$10,000 or the per occurrence building deductible stated on the Property Coverage Declarations, whichever is greater, **even if listed as vacant on the schedule. The perils of vandalism, water damage, sprinkler leakage, and theft are excluded for buildings vacant for more than 90 consecutive days.** As used in this deductible, the term vacancy shall mean any **building** when 70% or more of its total square footage is not rented or used to conduct customary operations. **Buildings** under construction or renovation are not considered vacant.



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Building Codes

14. B. Increased cost of repair or reconstruction of the damaged and undamaged property on the same or another site, limited to the cost that would have been incurred in order to comply with the minimum requirements of such law or ordinance regulating the repair or reconstruction of the damaged property on the same site. However, the **Trust** shall not be liable for any increased cost of construction loss unless the damaged property is actually rebuilt or replaced, and in no case shall the Trust be liable for **more than 20% of the scheduled value** or \$5 million per occurrence, **whichever is lower**, for increased costs associated with repair or reconstruction of property due to the operation of building codes.



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Off Premises Interruption

15. OFF-PREMISES SERVICE INTERRUPTION

This coverage agreement covers ~~consequential losses or~~ **direct physical** damage to scheduled property arising from changes in temperature or humidity due to damage or destruction of:

Public utility plants, transformers or switching stations, substations or transformers (including transmission lines) (on or) off the premises, furnishing heat, light, power or gas to the **Member's** premises.

B. Pumping stations or water mains (on or) off the premises furnishing the water supply to the **Member's** premises.

C. Facilities (on or) off the premises furnishing communication services, including, but not limited to, communication transmission lines, coaxial cables or microwave radio relays furnishing telephone, radio or television services to the **Member's** premises.



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Water Exclusion

Water Exclusion

Unless caused by a **Flood**, water from rain or melting snow pressing on, or flowing or seeping through:

Foundations, walls, floors or paved surfaces

Basement, paved or not,

Doors, windows or other openings

Roofs, unless leakage is caused by another covered peril such as weight of snow, wind, hail, or fire. Damage from roof leakage longer than 20 days is excluded.



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Restricted Coverage for Docks, Piers Wharfs, and Bridges

Docks, Piers, Wharfs, and Bridges Exclusion

The following perils are excluded for docks, piers, wharfs and bridges:

Water damage

Flood

Wind

Earthquake



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Notice of Loss

21. DUTIES IN THE EVENT OF A LOSS

In the event of loss covered by this Coverage Agreement, the **Member** shall:

- A. Take all measures reasonably necessary to preserve the damaged property; and
- B. Provide **prompt** written notice of the loss to the **Trust** ~~as soon as reasonably possible~~; and
- C. Fully cooperate with the **Trust**, and with any claims representatives or agents employed or engaged by the **Trust**, in the investigation of the claim, including, without limitation, providing access to inspect the damaged property and providing all available information pertaining to value of and damage to the property, and the cause of the loss; and
- D. Do nothing that will prejudice the **Trust's** rights with respect to recovery from third parties as provide in the preceding section of this Coverage Agreement pertaining to "Subrogation."



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Potential Change to Cyber Coverage

- Exclusion added for use of Windows 7 operating system.



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Changes to Property Coverage

- 1960 and older valuation change
- No GRV for certain types of property



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Changes to Auto Physical Damage Agreement

- Equipment code "B" increased value
- Equipment code W50 and W100 – value for fire equipment added (max per item \$10,000)



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Jail Risk Management

- CIS is contracting with a consultant to help jails implement telemedicine and telepsych for inmates



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Unique Risk Exposures

- Inflatables (bounce houses)
- Motor sports
- Fireworks
- Animal events
- Alcohol sales/service
- Kayak or boat rental
- Warming shelters



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Insight ERM Tool

- Insight is a risk management application that integrates risk-based thinking into decision-making. Insight provides a better understanding of the decision, including uncertainties, inherent risks and opportunities, which impact the strategic objectives and goals of the business or organization.
- Attend the class on Insight on Friday.



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Swimming Pool Risk Management

- In July of 2020, CIS will pay for the Red Cross to perform an inspection and audit of all member swimming pools.



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Agent Agreements

- Please review the proposed CIS Agent Agreement
- Please give your feedback to Scott, Tena, or Ken Woods
- The Board may address this agreement at the April Board meeting



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Renewal Updates

- April 1
 - Online Renewal Application posted to website
 - Property schedules will reflect updated appraisal values
 - Buildings; contents and PIO trended 3% for 19-20
- New question on GL Questionnaire pertaining to swimming pools
- Photos needed for all newly added property



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30 Day Notice


- 30-day notice of cancellation required for any major coverage; property, liability or WC
- If notice received after May 30; short-rate cancellation applies



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