



City of Glendale, AZ
Insurance Market Update
2023/2024 Renewal

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(THIS INFORMATION HAS BEEN CONSOLIDATED FROM VARIOUS INDUSTRY SOURCES)

Market Conditions

Impactful issues for insureds:



- **Liability capacity pull back** and withdrawals have been significant over the past two years
- **Property capacity reductions:**
 - 15% to 30% reduction in capacity from incumbents
 - Coastal and wildfire capacity continues to be especially difficult
- **Cyber capacity is shrinking** and particularly acute for certain industries (Public Entity)
- Insurers produced **negligible profit in 2021** – \$112b in Global Insured CAT losses in 2021 – **4th Worst Loss Year on Record.**
- Workers Compensation **remains stable.**
- Historically **low interest rates** have hampered carrier investment returns.
- An **increased pattern of major property catastrophes** such as hurricanes, typhoons, wildfires, etc. over the past 5 years. Is this the new normal?
- Consistent **increases in attritional property losses** (fires, water damage, tornados, hail, wildfires).
- **Increased inflation** has added to the issue of **valuation across all property classes.**
- **Social inflation & Litigation Financing** driving up liability verdicts and settlements.
- **Ransomware cyber losses** are systemic - \$6 Trillion Impact in 2021 – **Expecting \$10 Trillion by 2025** – 2019 was \$2 Trillion

Recent CAT Losses



Drought



50% of the Lower 48 States are in drought



299.9 Million acres of crops in U.S. are experiencing drought conditions this week.



120.2 Million people in the U.S. are affected by drought this week.



Flooding



2021 – More than **50** severe flood events



\$80b Economic Loss – only \$20b insured



2022 – KY Floods **37** deaths



Hurricanes



Record-breaking **21** named storms in 2021



\$45B+ in insured losses (US) IDA = **\$30b Alone**



Hurricane Ian = **\$?**



Wildfires



2021 wildfires



Burned over **7,000,000** acres



\$15B in insured loss



2022 To Date = **5.7m** acres



Tornado/Convective Storm



2021 **1376** tornadoes in the US compared to 1075 in 2020



Over **100** deaths associated



Estimated **\$10B+** insured losses

Spotlight: Cyber Liability

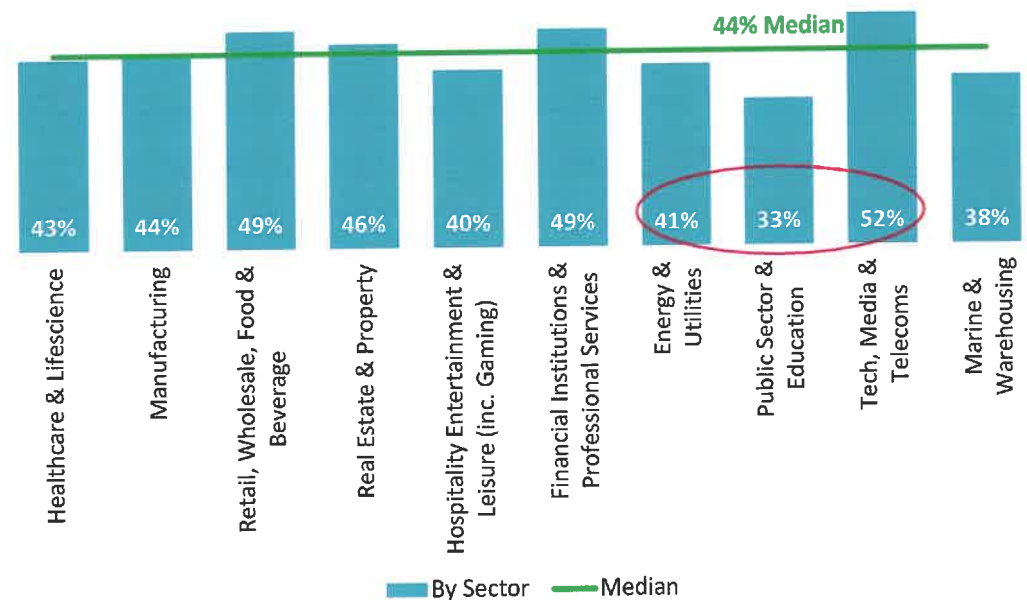
Marketplace stabilizing after several years of dramatic claims development.

Security standards across the marketplace:

- Multi-factor authentication
- Well managed end point detection
- Well managed RDP connections – VPN, MFA, etc.
- Back Ups
- Planning and Training (and Frequency)
- Reasonable patching schedule/plan
- Plan or adequate measures in place to protect end of life software
- IT Security Budgets
- Email Security
- Identity Access Management
- Service Account Management













Sector view on resilience to cyber risk



Percentage of US and UK companies feeling 'very prepared' to anticipate and respond to cyber risk in 2021. Median line indicates the mid-point of the data set across all industries surveyed.

Increasing Impact on Liability Market

 <p>Reduced Capacity reinsurer withdrawals have been significant over the past two years</p>	 <p>Litigation Financing continues to drive large claims and 68% of firms are using it in 2021</p>	 <p>Plaintiff Attorney Strategies specialization and strategies have evolved to get larger verdicts and settlements.</p>	 <p>Hyper Social Inflation "A Texas jury awarded \$300 billion to the family of a teen and her grandmother, who were killed in a 2017 crash with a drunk driver." This type of verdict is meant to send a message to others.</p>	 <p>Labor Shortage everyone is doing more with less</p>	 <p>Reviver Legislation Amendments A rise in Sexual Abuse and Molestation claims and settlements</p>
 <p>Law Enforcement Increased focus on policing policy and procedures as well as pressure on Qualified Immunity</p>	 <p>Auto Liability Frequency & Severity of losses has returned to pre COVID figures.</p>	 <p>Underwriter Scrutiny reinsurers are seeking to grow prudently and are maintaining a disciplined, conservative underwriter approach.</p>	 <p>Inflation Rising cost are increasing the size of claims</p>	 <p>Exclusions continued restrictions surrounding sexual abuse, Wildfire Exclusions, COVID, cyber, opioids and man made chemicals (PFAS – new focus)</p>	



Toward the Future

 Alliant

Market Trends

By Product Line

Product Line	Pricing	Capacity	Retentions	Coverage
PROPERTY				
Challenged Exposures	↑	↔	↑	↓
Non-Challenged Exposures	↔	↔	↔	↓
Builder's Risk	↑	↔	↑	↓
CASUALTY				
General Liability	↑	↔	↑	↓
Excess Liability	↑	↓	↔	↔
Automobile Liability	↑	↓	↑	↔
Workers' Compensation	↔	↔	↔	↔
Umbrella Liability	↑	↓	↔	↔
MANAGEMENT & PROFESSIONAL				
Cyber	↑	↓	↑	↓
Employment Practice Liability	↑	↓	↑	↔
Fiduciary	↑	↓	↑	↓
Fidelity/Crime	↑	↔	↑	↔

Arrow Key

What direction are pricing, capacity, limits, deductibles and coverages moving?

- ↑ Increasing
- ↔ Stabilizing / No change
- ↓ Decreasing

Color Key

As a buyer, is that movement positive, neutral, or something that could present a challenge during my renewal?

- ↑ Positive change
- ↔ Neutral / No change
- ↓ Potential Challenge

Property Renewal Outlook



Continued scrutiny of data (SOV, COPE, ITV with Increased Construction Cost)



Increased retentions and caps on certain types of exposure

- *Windstorm & Hail*



Rate increases expected and highly dependent on Wind Season, Reinsurance Market and individual client losses



Underwriter submission activity remains high – imperative to engage early and access global market



Regional Underwriting: Property markets are affected differently across the nation.

e.g. West Wildfire, East Hurricanes, Midwest Hail, etc.

Liability Renewal Outlook



Excess liability continues to be a challenge



Specific Problem areas:

- Aggregate limits – Many carriers are looking to cap their exposure on pool programs
- Attachment point/Retentions are being closely examined
- Underwriter scrutiny on Law Enforcement and Sexual Abuse/Misconduct coverages
- Emerging Exclusion - PFAS



Pricing expectations based on Q2 results for 2022 = Flat to +10% – based on losses and jurisdiction



Engage incumbent carriers early to gain commitment on renewal

Cyber Renewal Outlook



Leading insurers have indicated “We may have hit rate equilibrium”

2023 Forecast:

- 15% to 25% increases, at a minimum, for “good” risks and most starting much higher
- Lower overall capacity deployment
- Increased per-claim, self-insured retentions for poor security posture
- Potential coinsurance percentages added for ransomware
- Further reduction of ransomware limit

Requirement to evidence security posture:



- MFA 100%
- Data Backups
- Endpoint Detection
- Employee Education & Training Programs

Workers Compensation Renewal Outlook



- **Rate Expectations: Account Specific**
- **Underwriter Concerns: Per occurrence exposure to Cat Loss**
- **Wage Inflation's Impact on premiums & Medical Expense Inflation**
- **Presumptive Claims**
 - Arizona Legislature will reimburse public safety cancer losses, but it will take time for the insurance carriers to see these savings and pass them on in the form of lower premiums.
- **Engage incumbent carriers early to gain commitment on renewal**



Property/Casualty Coverage overview

City of Glendale Presentation Overview



- Review of Current Insurance Programs
 - *Property*
 - *General Liability*
 - *Workers Compensation*
 - *Cyber liability*
 - *Ancillary Coverages*
- Renewal Strategy -Marketing
- Insurance Premium Budget Projections 23/24
- Parting thoughts on Insurance Renewals

Overview of Insurance Programs



- **Property**
- **General Liability**
- **Workers' Compensation**
- **Miscellaneous Lines**
 - Pollution
 - Cyber Liability –*Primary and Excess*
 - Airport Liability
 - Crime
 - Fiduciary
 - Drones

PROPERTY COVERAGE OVERVIEW

Alliant Property Insurance Program (APIP)

- APIP provides the best coverage terms for municipalities
- Broad Insuring Agreement
- Coverage for all property (personal and real)
- First party Automobile coverage
- APIP is unique in that it provides separate coverage for Cyber and Pollution Liability

Glendale Property Coverage in APIP

- Replacement cost for physical damage
- Earthquake Coverage provided
- Flood Coverage including Zones A&V
- Automatic acquisition of new locations
- Blanket fine arts coverage
- Municipal bond and tax revenue interruption coverage
- Course of construction coverage
- Coverage for Misc./Unnamed locations
- Boiler and machinery (includes jurisdictional inspections)
- *First Party Automobile Coverage*
- *Cyber liability limits up to \$2M*
- *Pollution limits up to \$2M*
- Built-in loss control and appraisals

**Alliant Insurance
Property Program
(APIP)**

Current Property Insurance Overview

2022/2023	Limits	23/24 Updates
Total Insured Values	\$927,593,499	\$996,262,625
Policy Limit	\$1,000,000,000	\$1,000,000,000
Deductible	\$100,000 All Risk Deductible	\$100,000 All Risk Deductible
Key Sub-limits:	Sub-limits:	Sub-limits:
Business Interruption	\$100,000,000	\$100,000,000
Course of Construction	\$25,000,000	\$25,000,000
Terrorism	\$100,000,000	\$100,000,000
Flood (Non High Hazard)	\$75,000,000	\$75,000,000
Flood (Flood Zone A&V)	\$7,500,000	\$7,500,000
Earthquake	\$100,000,000	\$100,000,000
Boiler and Machinery (APIP)	\$100,000,000	\$100,000,000
Cyber Liability (APIP)	\$2,000,000 (APIP member limit)	\$2,000,000
Pollution (APIP)	\$2,000,000 (APIP member limit)	\$2,000,000
Expiring Premium	\$1,283,642.81	

22/23 Earthquake and Flood Overview- in APIP



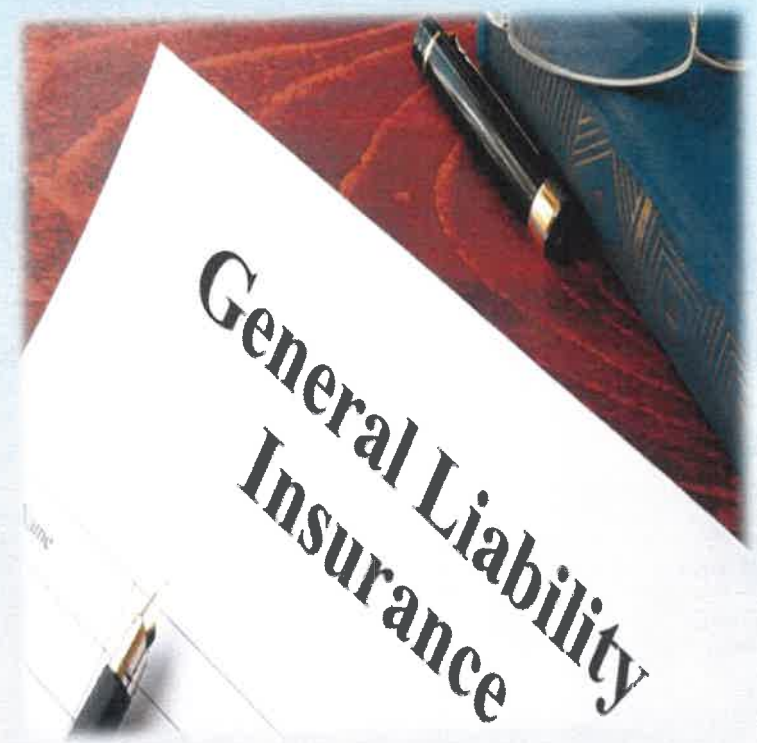
Current Coverage

- Coverage is provided through the APIP program
- Earthquake: \$100,000,000 limits with a \$100K deductible
- Flood: \$75,000,000 Limits with a \$250,00 all flood zones
- \$7,500,000 Flood for Zones A&V with a \$500,000 deductible

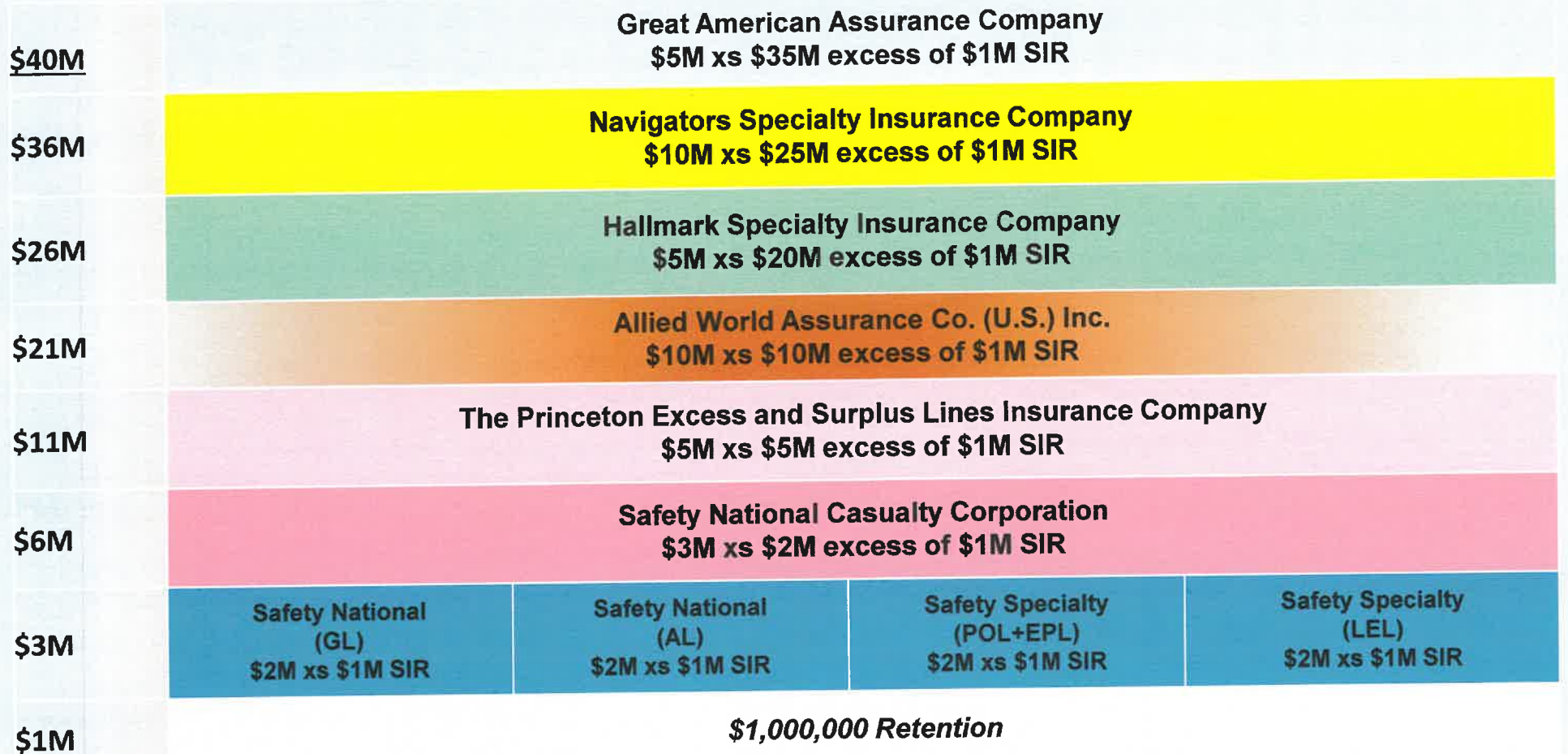
General Liability

Coverage for damages to *third parties* arising out of the City' negligence includes:

- General Liability- *Occurrence*
- Law Enforcement Liability
- Automobile Liability
- Public Officials (Directors and Officers) Liability
- Employment Practices Liability



Current – 22/23 Glendale Excess Liability Limits Structure



Total Annual Premium - \$1,835,874.26 Plus Taxes/ Fees

**Limits shown do not reflect the applicable Policy Aggregates for each layer participant*



22/23 Excess Workers' Compensation Coverage Overview



- Coverage for injuries to employees while in the course and scope of employment

▪ Insurance Carrier	Safety National
▪ Limits	Statutory
▪ Employers Liability Limit	\$ 2,000,000
▪ Current Retention	\$ 2,000,000
▪ Presumptive Retention	\$ 2,500,000
▪ Payroll at Binding	\$ 152,439,355
▪ Expiring Premium	\$ 423,781

Glendale's Cyber Liability Coverage

22/23 LIMITS STRUCTURE

Part of APIP Cyber Program (Lloyd's of London Beazley Syndicate)

Limits are Shared among all members

\$45,000,000 Annual Policy and Program Aggregate Limit of Liability for all members combined

\$2,000,000 maximum limit, per occurrence, each member

Breach Response Costs, Business Interruption, Cyber Extortion, Data Recovery Costs, Dependent Business Interruption, Data & Network Liability, Regulatory Defense & Penalties, Sub-limits Include: Fraudulent Instruction, Funds Transfer Fraud, Telephone Fraud, Computer Hardware replacement costs

\$500,000, Per Occurrence for each Insured

Coverage Includes:

Retention:

Premium Included in APIP Cost

APIP -Beazley Breach Response Services (BBR) Cyber Enhancement Services (Beazley)

Notified Individuals- Includes any notification Services, call center services, credit & identify monitoring, and Beazley Breach Response Services

Limits Purchased: 250,000 Notified individuals

Retention: 100 Notified individuals

Excess Cyber \$2M Excess of \$2M with Liberty Surplus

Dedicated Limits \$2M Excess of \$2M APIP (shared limits)

Limits are excess of APIP Cyber and drop down to become primary dedicated limits should APIP aggregate layer be exhausted

APIP Cyber Liability Excess Policy (Lloyd's Beazley)

\$2,000,000 Dedicated Limits (excess of \$4M)

\$2,000,000 Each/Total – Excess of APIP shared \$2M and Liberty Surplus \$2M excess for Total of \$6M in Cyber limits.

The City's goal is to obtain another \$2M in limits for a total of \$8M.

Additional cost could range from \$130K-\$150K for the additional limits. Note, the following items need to be addressed for an excess quote: Confirm FDP

Crime Insurance Overview

ALLIANT CRIME INSURANCE PROGRAM (ACIP)

2022 / 2023 Crime Coverage	LIMITS
<ul style="list-style-type: none"> • National Union Fire Company of Pittsburgh • Coverage Includes: • Employee Theft – Per Loss Coverage including Faithful Performance of Duty • Forgery or Alteration - including Credit, Debit, or Charge Card Forgery • Inside the Premises – Theft of Money and Securities • Inside the Premises – Robbery & Safe Burglary of Other Property • Outside the Premises • Computer Fraud • Retention: 	<p style="text-align: right; margin-bottom: 0;">\$10,000,000</p> <p style="text-align: center; margin-top: 10px;">Sub-Limits/Endorsements:</p> <ul style="list-style-type: none"> • Revision of Discovery and Prior Theft or Dishonesty \$25,000 Sub-Limit. • Include Expenses Incurred to Establish Amount of Covered Loss - \$75,000 Sub-limit • Employee Post Termination Coverage – 90 Days • Bonded Employees Exclusion Deleted endorsement • Add Faithful Performance of Duty Coverage for Government Employees – Employee Theft Per Loss Limit • \$50,000
Total Annual Premium	\$30,761.00

Miscellaneous Insurance Policies Overview

	Policies	LIMITS
Airport Owners' and Operators' Liability	Airport Owners' and Operators' Liability (Chubb Insurance)	\$25,000,000 Limits with No Retention
	Coverages Include	Bodily Injury, Property Damage, Hanger Keepers, Non Owned Aircraft, Products Completed (Aggregate), Medical Expenses, Personal Injury and Advertising Injury
	Liability coverage	The City owns and insures 23 drones for liability coverage for \$1M in limits.
Drones	Fiduciary Liability (Hudson Insurance)	\$5,000,000 in Aggregate Limits
Fiduciary	Coverages Include	Glendale Section 457 Deferred Compensation Plan - 98742-00 Protects fiduciaries against mismanagement of an employee benefit plans, or plan assets.
		Includes Defense Costs, and sub-limits for HIPPA and HITECH Fines & Penalties, Compliance Fees, Settler Coverage, Waiver of Recourse
Special Liability Insurance Program (SLIP)	Special Liability Insurance Program (SLIP)	<i>Location Covered: Regional Public Safety Training</i>
	Coverages Include	\$2,000,000 Per Occurrence, \$1,000,000 Fire Damage Liability Sub-limit General Liability, Personal Injury (Including Bodily and Property Damage), Fire Damage Liability, Non-Owned and Hired Automobile

Parting Thoughts on 2023/2024 Insurance Renewals

- Expect upward pressure on Liability & Property rates to continue. Rates will continue to rise for both property and liability as limits/capacity decrease.
- Expect carriers to hold on to quotes into June as they prepare for any change in exposure from submissions and may even pull back on renewal terms.
- Public agencies with a history of or exposure to large verdicts and liability settlements will continue to see increases and the marketplace for coverage will continue to retract.
- Dramatic price increases and reductions in coverage can be expected in the casualty market, as Law Enforcement claims, put municipalities in the spotlight. It helps if a City can provide the carriers with their written description of the police departments de-escalation training.
- Aging Public Entity infrastructure, undervalued locations, and lack of updates on older buildings, could dramatically change the property market if several large urban losses are recorded.