

CLEVELAND PUBLIC LIBRARY

Board Meeting
September 18, 2012

**RESOLUTION TO RATIFY AND APPROVE THE PURCHASE OF
INSURANCE COVERAGE FOR POLICIES EFFECTIVE
AUGUST 1, 2012 AND SEPTEMBER 18, 2012**

WHEREAS, On June 19, 2012, the Board of Library Trustees authorized the Executive Director to make the final determination to accept the insurance package that best meets the objectives defined in the specifications, and directed that the coverage purchased be presented for ratification by the Board of Library Trustees at their next regularly scheduled meeting; and

WHEREAS, Three (3) proposals were received, analyzed and reviewed by Crain, Langner & Co.; and

WHEREAS, Crain, Langner & Co. recommended the following proposals as providing coverage to meet the Library's risk needs at cost effective premiums:

Coverage	Agency	Insurer
Property, including Boiler & Machinery	The Hylant Group	Fireman's Fund
General Liability	McGowan & Co., Inc.	Philadelphia Indemnity Insurance Company
Automotive Coverage	McGowan & Co., Inc.	Westfield Insurance Company
Umbrella Liability	McGowan & Co., Inc.	The Ohio Casualty Company
Crime	McGowan & Co., Inc.	Travelers Insurance Companies
Public Officials and Employment Practices Liability	McGowan & Co., Inc	Darwin Select Insurance Company

WHEREAS, The Library's Executive Director authorized the purchase of The Hylant Group's Property Insurance and the purchase of the McGowan package (General Liability, Automotive, Umbrella and Crime) for coverage effective August 1, 2012; and the purchase of McGowan's Public Officials

EXHIBIT 4

and Employment Practices coverage effective date of September 18, 2012;
and

WHEREAS, The combined annual premiums yielded a 13% savings (or \$55,794) compared to the expiring program premiums; and

WHEREAS, Crain, Langner & Co. recommends that the interests of the Library can be best served by maintaining long-term continuously improved, and open relationship with its agents and insurers and support the Library's purchase of the recommended coverages and, absent compelling reasons to the contrary, its renewal of these coverages annually for each of the next four (4) years before undertaking another full marketing process; now therefore be it

RESOLVED, That the Board of Library Trustees ratifies the decision to purchase Property Insurance through The Hylant Group for the first year's premium of \$230,000 and General Liability, Automotive, Umbrella Liability and Crime Insurance through McGowan & Co., Inc. for the first year's premium of \$114,120 for the period August 1, 2012 through August 1, 2013; and be it further resolved

RESOLVED, That the Board of Library Trustees ratifies the decision to purchase Public Officials Liability and Employment Practices Liability Insurance through McGowan & Co., Inc. for the first year's premium of \$31,981.25 for the period September 18, 2012 through September 18, 2013; and be it further resolved

RESOLVED, That it is the intention of this Board to renew the insurance packages stated within this Resolution for four, one-year renewal periods commencing on either August 1, 2013 or September 18, 2013, provided terms, conditions, and pricing remain comparable to the current programs and consistent with then current market conditions.

CRAIN, LANGNER & CO.

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September 11, 2012

Carrie Krenicky
Chief Financial Officer
Cleveland Public Library
325 Superior Avenue
Cleveland, Ohio 44114

Re: Property & Casualty Insurance Proposals
August 1, 2012 – August 1, 2013 Property and Casualty
September 18, 2012 – September 18, 2013 Public Officials and Employment Practices
Liability

Dear Ms. Krenicky:

This letter addresses our review of the proposals submitted to the Cleveland Public Library in response to the Invitation for Proposals to Underwrite Various Insurable Risks issued in May, 2012. We are pleased with the interest and participation of the various agents and insurers, and with the renewal results achieved for the Library. For reasons discussed below and consistent with our recent discussions, at this time, it is recommended that the Library renew some of its insurance policies currently in place and issued through Colin Dean of McGowan & Company, Inc. and use Hylant Group to place the Property policy.

A. CURRENT PROGRAM

The Library purchases Property and Casualty insurance effective August 1, 2011 – to August 1, 2012 as follows:

<u>COVERAGE</u>	<u>INSURER</u>	<u>AGENT/AGENCY</u>
Property including Boiler & Machinery	Affiliated FM Insurance Company	Colin Dean McGowan & Company, Inc.
General Liability including Employee Benefits and Employers Liability Sexual Abuse and Molestation	Philadelphia Indemnity Insurance Company	Colin Dean McGowan & Company, Inc.
Auto Coverage	Westfield Insurance Company	Colin Dean McGowan & Company, Inc.
Umbrella Liability	The Ohio Casualty Company	Colin Dean McGowan & Company, Inc.

The Library purchases Public Officials Liability and Employment Practices Liability insurance effective September 18, 2011 – to September 18, 2012 as follows:

Executive Risk Liability	Darwin Select Insurance Company	Colin Dean McGowan & Company, Inc.
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Various coverages, limits, deductibles, and premiums associated with the current program as well as proposed by the insurers and the agents are reflected on the required response worksheet attached. The proposers' data reflected on the Summary Exhibit E is a combination of the data files completed and submitted by the agents.

B. PROPOSALS RECEIVED

As is customary for the Library, invitations to quote the coverage were sent to various agents/brokers who have expressed interest in providing proposals to the Library in the past. The Library last participated in a managed marketing process in 2007. This year's process utilized a web portal on the Crain, Langner website that facilitated the dissemination of the RFP documentation and final proposal information among the agents, the Library, and our office. We are pleased with the quality and responsiveness of the proposals which were submitted in compliance with the RFP deadline, format, and content requirement. Three insurance representatives submitted proposals for review:

<u>Agency/Agent</u>	<u>Insurer Groups</u>
Arthur J. Gallagher Risk Management James Howell and Kevin Fink	Cincinnati Insurance Company (General Liability, Employers Liability, Employee Benefits Liability, Auto Liability, Umbrella, and Crime) RSUI Indemnity Company (Public Officials and Employment Practices Liability) Hiscox Insurance (Public Officials and Employment Practices Liability)
The Hylant Group Michael Whitaker	Federal Insurance , member of Chubb Group of Insurance Companies (General Liability, Employers Liability, Employee Benefits Liability, and Umbrella) Great Northern Insurance Company , member of Chubb Group of Insurance Companies (Auto Liability) Illinois National Insurance Company , member of Chartis (Public Officials and Employment Practices Liability) Columbia Casualty Company , a member of CNA (Cyberliability) Fireman's Fund (Property and Crime)
McGowan & Company, Inc. Colin Dean	Affiliated FM Insurance Company (Property) Philadelphia Insurance Companies (General Liability, Employers Liability, Employee Benefits Liability, Auto Liability, Umbrella, and Crime) Westfield Companies (Automobile Liability) Ohio Casualty Group (Umbrella Liability) Travelers Insurance Companies (Crime) Darwin Select Insurance Company (Public Officials and Employment Practices Liability)

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Each participant submitted market requests (insurers from which they desired to obtain a quotation for the Library) and markets were assigned in order of priority as requested by the agents. Engineering tours of key Library facilities were conducted on May 11, 2012 and several insurer and agent representatives toured the Main Building and the Louis Stokes Wing. Proposals were due to the Library by June 8th. In addition to the markets listed above, the participating agents requested use of approximately five others carriers (Ace, Argonaut (Trident), Ironshore, Navigators and Zurich) but did not ultimately provide competitive proposals at this time.

Including the agents submitting proposals, several other agents/brokers were invited to participate in this RFP process. Parker Berry at Seibert, Keck, Polly Furey at Marsh USA, Richard C. Perry at Pinkney-Perry Insurance, and Michael Schmutte at Wells Fargo Insurance Services did not provide proposals for review. Kevin Fink and Jim Howell at A. J. Gallagher did not submit a Property proposal. Several agents opined that the Library's current program, and especially the Property program were, in their own opinion, competitive in terms of pricing, limits, terms and conditions and declined to compete against it.

We are confident that the Library was well-represented in the Property & Casualty insurance market and done so by qualified agents/brokers and agencies/brokerages desiring to provide meaningful risk transfer options for the Library.

C. OBSERVATIONS AND COMMENTS

1. Insurance Companies – The Summary Exhibit E reflects the names of the insurers presented by the agents including the A.M. Best rating and Financial Size Category assigned to each. All of the proposing insurers except Darwin and Columbia Casualty are authorized and licensed in Ohio. The minimum A.M. Best rating and Financial Size Category of the proposing insurers (A, XI) permits us to conclude the insurers are sufficiently financially secure to provide meaningful risk transfer protection to the Library. Each of the proposers represented that their respective insurers was familiar with and had experience insuring the types of operations, activities, and holdings of the Library. The insurers proposing coverages are listed below.

Insurer (Insurance Company Group)	AM Best Rating	AM Best Financial Size Category
Affiliated FM	A+	XV
Cincinnati Insurance Company	A+	XV
Columbia Casualty	A	XV
Darwin Select Insurance Company	A	XV
Federal Insurance Company	A++	XV
Fireman's Fund	A	XV
Hiscox Insurance	A	XI
Illinois National	A	XV
Ohio Casualty Group	A	XV
Philadelphia Insurance Companies	A++	XIV
RSUI Indemnity Company	A	XIII
Travelers Insurance Companies	A+	XIV
Westfield Companies	A	XIII

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2. Recommendation Comments – Several key reasons exist to support our recommendation, and they include the following:

a. Property and Casualty Premium - The total expiring premium cost is \$431,895. The recommended combined premiums for these same coverages are as follows:

Hylant Group	Property	\$230,000
McGowan	General Liability, Auto, Umbrella, Crime	\$107,785
We also recommend additional coverage be purchased as follows:		
McGowan	Increased Limit of Crime	\$ 3,900
McGowan	Auto PD	\$ 2,435
McGowan	POL/EPLI	<u>\$ 31,981.25</u>
TOTAL PREMIUM		\$376,101.25
<i>\$ difference</i>		<i>(\$55,793.78)</i>
<i>% difference</i>		<i>(13%)</i>

This represents a 13% decrease in premium, which is a better result than is being delivered to other entities in the marketplace. Many insureds are experiencing between 5% and 7% premium increases, if not more, due to, among other things, negative loss history. We feel this result is both a reflection of 1) the continued view by underwriters that the Library is a well managed risk, and 2) the competitive marketing of the program this year.

b. Public Officials Liability and Employment Practices Liability – The current cost for Executive Risk Liability is \$28,070. Darwin Select has offered a total renewal for \$31,981.25 (comprised of \$30,225 annual premium plus \$245 policy fee and \$1,511.25 Ohio surplus lines tax), representing a 14% increase over expiring, or \$3,911.25. The increase in the proposed premium has been explained to be due to the adverse development of EEOC matters. Although three other options were presented with lower premium amounts (\$22,299 by Hylant through Illinois National Insurance Company, \$22,277 through Hiscox Insurance Company and \$25,830 by RSUI Indemnity Company both by Gallagher), all of the options were conditioned on updated claim detail. Given open, pending matters, we recommend continuing with the incumbent insurer in order to avoid claim incident and claims reporting issues.

c. Crime Limits – Various limits have been increased over the expiring policy, including, Forgery or Alteration, Computer Fraud, Wire Funds Transfer Fraud, Theft, Disappearance & Destruction, Robbery & Safe Burglary, On Premises, Transit, and Money Orders. Proposed premium options range from \$3,000 to \$7,200 at various limits. The current premium is \$3,000. We recommend the purchase of a \$2,000,000 limit versus the \$500,000 limit for an additional premium of \$3,900.

d. Coverage Terms and Conditions – The Library’s diverse activities and geographic locations present significant Property and Casualty risks of loss. The Library continues diligently to avoid, minimize and control loss exposures whenever and wherever practical. These consistent efforts help sustain safe, nearly loss-free facilities and operations – all of which benefit the Library as insurers evaluated the Library and submitted insurance quotations.

The coverage terms and conditions presented by the agents being recommended are considered responsive and effective to protect the Library against various risks of loss. Our office has negotiated with the agent and the carriers over the years to provide broader coverage to protect some of the Library’s unique risks. Our current recommendation is to purchase the coverages as proposed by McGowan and Hylant.

e. Engineering –The Library has found engineering services to be useful and valuable. We encourage the Library to continue to require the insurer provide these services and to take advantage of the services available.

3. Open Items – Several items warrant the Library’s attention as part of accepting an insurance proposal.

a. Property Loss Limit –The recommended Property proposal from Hylant provides a blanket limit in excess of \$500M which is greater than the current program.

b. Terrorism – The Library currently does not purchase Terrorism Risk Insurance (TRIA) coverage in its Property and Casualty program. Crain, Langner & Co. has advised the Library to consider purchasing coverage for both certified and non-certified terrorism subject to financial constraints or limitations. Many insureds do not purchase terrorism insurance given various factors including the unpredictability of losses, limited ability to avoid or control loss exposures, financial constraints, and the anticipated reliance on federal aid in time of a major, catastrophic loss scenario. As a general proposition we support the purchase of this coverage to the extent financial resources permit. TRIA was first introduced in 2002, and later extended in 2005 and 2007. The law requires insurers to offer the coverage. Insureds are not required to purchase it. TRIA coverage requires the insurer to cover loss upon the happening of a Certified Act of Terrorism. This federal program provides that the United States will 85% of covered terrorism losses exceeding a statutorily established retention by the insurer and which is borne by the issuing insurance company. The recommended program includes TRIA coverage. The cost for adding the coverage to the Property policy with Affiliated FM was \$14,259.

c. Flood and Earthquake – The current Property policy provides \$100M of Flood coverage and \$100M of Earthquake coverage. We continue to support the purchase of these coverages at these limits.

d. Auto Physical Damage – The current Westfield Auto policy provides collision (physical damage coverage) for only the Library's bookmobile. The Library's decision to self-insure the Property Damage exposure for owned vehicles is reasonable, as is its decision to purchase Property Damage coverage for the bookmobile. This arrangement is reasonable. McGowan presented an option for Property Damage coverage for all vehicles for an additional premium of \$2,435. We recommend the purchase of this additional coverage and include it in the total above.

e. Professional Services Agreement – Crain, Langner & Co. recommends the Library enter into a professional services agreement with the agents that place the Library's insurance. Such an agreement delineates the rights and responsibilities of the Library and the agents, specifies the standard of care to be exercised by the agent, and describes the services the agent is to provide the Library. A professional services agreement is recommended irrespective of how the agent is compensated, *e.g.*, commission, fee, or combination.

f. Cyberliability – Several quotations and indications for CyberLiability coverage were submitted and pricing ranged from \$11,000 to \$15,000 for various limits. At this juncture, we do not have sufficient information to recommend the purchase of coverage as proposed. Cyberliability insurance varies widely from insurer to insurer, no standard policy forms are used, and little claims experience exists to predict how claims might be resolved. In addition, proposals are predicated on the completion of a lengthy and detailed application. We believe the Library conducts operations and activities that can give rise to Cyberliability losses, and therefore, we recommend the Library continue to examination of these loss exposures and consider purchasing coverage in the near future, perhaps in late 2012.

g. Abuse and Molestation – In light of numerous situations that get reported weekly in the news, this coverage part of the General Liability program is important for many entities with perceived exposure such as the Library. Variations exist in the coverage provided by the different insurance carriers. Should there be any significant changes in the Library's activities as they relate to children and/or minors, further evaluation of this coverage by the Library's risk management team would be in order. Any further review of proposals will keep this coverage as a high priority.

Attached to this letter are the following:

1. Insurance program graph comparing expiring information to various proposal options.
2. Exhibit E proposal summary from the RFP document

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We continue to believe that the interests of the Library can be best served by maintaining a long-term, continuously improved, and open relationship with its agents and insurers. We support the Library's purchase of the recommended coverages and, absent compelling reasons to the contrary, its renewal of these coverages annually for a period of time before undertaking another full marketing process.

We appreciate the opportunity to be of service to the Library and look forward to continual discussions with you and your colleagues. Please advise if anything additional is needed from our office relative to the policy placement and the September Board meeting. As always, we welcome your questions and comments.

Sincerely,

Kelly Wierzchowski

KNW/cf

Attachments