



INFORMATIONAL REPORT

DATE ISSUED: July 11, 2019

REPORT NO: HCR19-086

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of July 18, 2019

SUBJECT: Annual Insurance Report – Fiscal Year 2019 - 2020

COUNCIL DISTRICT: Citywide

NO ACTION IS REQUIRED ON THE PART OF THE HOUSING COMMISSION

SUMMARY

This informational report includes both summary and detailed information on all lines of insurance coverage for the San Diego Housing Commission (Housing Commission) as of July 7, 2019. The total insurance expense for Fiscal Year 2019 (FY2019) was **\$1,208,766**. The total insurance expense budgeted for Fiscal Year 2020 (FY2020) is **\$1,431,005**.

	<u>FY2019</u>	<u>FY2020</u>	<u>Difference in \$</u>	<u>Difference in %</u>
Total Insurance Expense	\$1,208,766	\$1,431,005*	\$222,239	18%

* Budgeted

Staff makes every effort to obtain the most comprehensive and lowest price coverage available for the agency.

The Housing Commission is a member of several directed insurance risk sharing pools, and with its broker, has developed effective risk management solutions to help proactively control losses and prepare for different exposures. Currently, the Housing Commission's comprehensive insurance coverage contains 11 insurance programs and 18 insurance policies:

1. **Property Insurance**
2. **Master Crime Program**
3. **Pollution Program**
4. **Smart Corner Liability**
 - a. Smart Corner- Premises Liability
 - b. Smart Corner- Excess Liability
5. **Fiduciary Liability**
6. **General Liability**
7. **Auto Liability Program**
 - a. Primary Auto
 - b. Excess Auto
8. **Cyber Insurance Program**
 - a. Cyber Primary
 - b. Cyber Buy Up Option
9. **Flood Insurance (NFIP)**
 - a. Flood - 5077 1/2 Muir Ave
 - b. Flood - 5071 Muir Ave
 - c. Flood - 3051 54th Street
 - d. Flood – 355 S. 33rd Street
10. **Directors & Officers Liability**
 - a. Primary Directors & Officers
 - b. Excess Directors & Officers
11. **Workers' Compensation**

(1) Property Insurance

Property insurance provides the Housing Commission coverage for damage to real and personal property and business income as a result of a covered peril such as a fire. The Housing Commission currently procures its property insurance coverage from the California State Association of Counties Excess Insurance Authority (CSAC EIA). The property insurance effective date was March 31, 2019. SDHC renews its property coverage annually.

(2) Master Crime Program

The Housing Commission currently procures its crime insurance coverage from the CSAC EIA. The master crime insurance effective date was July 1, 2019. The Housing Commission renews its crime coverage annually. The master crime program manages the loss exposures resulting from criminal acts such as robbery, burglary and other forms of theft.

(3) Pollution Program

The Housing Commission currently procures its pollution insurance coverage from the CSAC EIA. This is a three-year policy with a premium of \$5,575 for the entire term (June 30, 2018 – June 30, 2021). This policy provides coverage for pollution conditions and includes first- and third-party coverages.

(4) Smart Corner Liability

The Smart Corner liability program is composed of two insurance policies: a) Smart Corner premises liability and b) Smart Corner excess liability. Premises liability provides coverage for claims for damage or injury (caused by negligence or acts of omission) at the Smart Corner location. An example would be a “slip and fall” on the Smart Corner premises. Excess liability provides excess coverage specific to the Smart Corner location and follows the primary liability placement. The Housing Commission currently procures its Smart Corner liability insurance coverage from Travelers Insurance Companies (Travelers). The Smart Corner liability insurance effective date was July 1, 2019, and it is renewed annually.

(5) Fiduciary Liability

Since the Housing Commission sponsors a retirement and health plan for its employees and is involved with the management of those plans, it is considered a "Fiduciary" and can be held personally liable for what happens to the plan. This insurance provides coverage for losses that arise as a result of alleged errors or omissions or breach of the fiduciary duties. The Housing Commission currently procures its fiduciary insurance coverage from Hudson Insurance Company. The fiduciary insurance effective date was July 1, 2019. The Housing Commission renews its fiduciary coverage annually.

(6) General Liability

General liability provides third-party coverage for Housing Commission liabilities that occur as a result of negligence or omissions. Coverage includes bodily injury, physical damage and personal injury. The Housing Commission currently procures its general liability insurance coverage from the Housing Authority Risk Retention Group, Inc. (HARRG). The general liability insurance effective date was July 1, 2019. The Housing Commission renews its property coverage annually.

(7) Auto Liability Program

The Housing Commission currently procures its auto insurance coverage from Travelers. The auto insurance effective dates were July 1, 2019. SDHC renews its auto insurance coverage annually. The auto liability program is composed of two insurance policies: a) primary auto and b) excess auto.

Primary coverage provides comprehensive and collision. “Any auto” applies to the Liability and “Owned auto” applies to all other coverages such as medical payments and physical damage. An example would be an employee gets in an accident while driving a Housing Commission-owned vehicle during the scope of work. Excess coverage provides excess auto coverage following the primary auto placement.

(8) Cyber Insurance Program

The Housing Commission currently procures its cyber insurance coverage from the CSAC EIA. The cyber insurance effective dates were July 1, 2019. The Housing Commission renews its property coverage annually. The cyber insurance program is composed of two insurance policies: a) cyber primary and b) cyber buy-up option. The cyber primary provides first- and third-party coverage for cyber incidents such as liabilities that arise from, but not limited to, a breach of secured data, the notification costs associated with a breach, and taxes and penalties. The cyber buy-up option provides dedicated “per life” coverage for notification costs associated to a cyber-breach, and this coverage does not erode the limit of liability or program aggregate associated to the primary cyber placement. For example: If the Housing Commission experienced a data breach and 900,000 individuals were effected, the cost to notify the individuals would be covered by this buy-up option.

(9) Flood Insurance - National Flood Insurance Program (NFIP)

The National Flood Insurance Program (NFIP), managed by the Federal Emergency Management Agency (FEMA), provides flood coverage for four Housing Commission properties located in flood prone areas. The Housing Commission currently procures its flood insurance coverage for three of its properties from The Hartford Services Group, Inc. (The Hartford) and one from Wright National Insurance Company (Wright). The flood insurance effective date for 355 S. 33rd Street was February 21, 2019 (Wright); for 3051 54th Street was August 7, 2018 (The Hartford); for 5077 1/2 Muir Avenue was October 4, 2018 (The Hartford); and for 5077 Muir Avenue was November 30, 2018 (The Hartford). The Housing Commission renews its flood coverage annually.

(10) Directors & Officers Liability

The Housing Commission currently procures its directors & officers liability insurance coverage from the Western World Insurance Group Primary and Ironshore Inc. Excess. The directors & officers liability insurance effective dates were December 8, 2018. The Housing Commission renews this coverage annually. This program is composed of two insurance policies: a) primary directors & officers and b) excess directors & officers. Primary liability insurance is payable to the directors and officers of a company as indemnification (reimbursement) for losses or advancement of defense costs in the event an insured suffers a loss such as a legal action brought for alleged wrongful acts in their capacity as directors and officers. Examples could include liabilities that arise from allegedly poor management decisions. Excess directors & officers provides excess coverage following the primary directors & officers placement.

(11) Workers' Compensation

Workers' Compensation provides wage replacement and medical benefits for employees who are injured during the course of employment. It also provides coverage for Employment Practice Liability, which includes wrongful termination. The Housing Commission currently procures its workers' compensation insurance coverage from the California Housing Workers' Compensation Authority (CHWCA). The effective date was January 1, 2019. The Housing Commission renews this coverage annually.

Housing Commission broker:

Alliant Insurance Services (Alliant)

Alliant was re-selected to be the Housing Commission's insurance broker in a comprehensive procurement process in January 2018. As the broker of record for the Housing Commission, Alliant provides support to all facets of brokerage services, including the marketing of all lines of insurance coverage, as well as administrative support and servicing, loss control, and claims managements handling. With a history dating back to 1925, Alliant ranks among the largest insurance brokerage firms in the United States.

Housing Commission carriers:

California State Association of Counties Excess Insurance Authority (CSAC EIA)

The CSAC EIA is a member-directed (125 members) insurance risk sharing pool. The CSAC EIA has developed effective risk management solutions to help California public entities proactively control losses and prepare for different exposures. The sole purpose of this Joint Powers Authority (JPA) is finding cost effective insurance solutions and risk management services for members.

HARRG – Housing Authority Risk Retention Group, Inc.

HARRG provides liability insurance to public housing authorities. Available coverages include general liability, public officials' errors and omissions, employment practices, law enforcement, lead-based paint, employee benefit, auto, hired and non-owned auto, mold, and terrorism. HARRG is owned by the members it insures. HARRG is a nonprofit, tax-exempt captive mutual risk retention group.

CHWCA - California Housing Workers' Compensation Authority

The CHWCA is a JPA established in 1991 by public housing authorities in the state of California. CHWCA is a special district in the state of California, providing its members with a comprehensive workers' compensation coverage program for the sharing of risk for self-insured losses, as well as jointly purchasing claims adjusting services, actuarial services, risk control services, and legal services connected with the program.

The Travelers Insurance Companies

Travelers is the second largest writer of U.S. commercial property casualty insurance and the third largest writer of U.S. personal insurance through independent agents. A.M. Best has affirmed the Financial Strength Rating (FSR) of A++ (Superior).

The Hartford Insurance Services Group, Inc. (The Hartford)

The Hartford is part of the Fortune 500 list and is the 12th-largest property and casualty company in the United States.

Ironshore Inc. (Ironshore)

Ironshore has more than 25 years of experience as an insurance business and is rated A (Excellent) by A.M. Best and A+ from both Standard and Poor's and Fitch Group.

Western World Insurance Group (Western World)

Western World is a Better Business Bureau-accredited insurance provider. The company largely specializes in general liability, commercial property, commercial auto and professional liability insurance.

Wright National Flood Insurance Company (Wright)

Wright is the industry's largest provider of flood insurance through the Independent Agency System. A.M. Best has affirmed the Financial Strength Rating of A- (Excellent).

FISCAL CONSIDERATIONS

The Fiscal Year (FY) 2019 funding sources and uses were approved by the Housing Authority in the FY 2019 Budget. The Fiscal Year (FY) 2020 funding sources and uses were also approved by the Housing Authority in the FY 2020 Budget.

Program	FY2019 Premium	FY2020 Premium	Variance \$	Variance %
Property Insurance	\$298,963	\$341,991	\$43,028	14%
Fiduciary Liability	\$5,614	\$5,614	\$0	0%
General Liability	\$217,837	\$207,606	(\$10,231)	(5%)
Master Crime Program *	\$7,508	\$8,259	\$751	10%
Pollution Program	\$2,037	\$1,858	(\$179)	(9%)
Smart Corner Liability *	\$36,835	\$38,329	\$1,494	4%
Auto Liability *	\$48,164	\$48,704	\$541	1%
Cyber Insurance *	\$30,976	\$27,991	(\$2,985)	(10%)
Flood Insurance ***	\$12,257	\$13,017	\$760	6%
Directors & Officers Liability ***	\$111,344	\$126,156	\$14,812	13%
Workers' Compensation **	\$399,537	\$546,324	\$146,787	37%
2018 Broker Fee	\$43,090	\$43,090	\$0	0%
TOTAL	\$1,214,161	\$1,408,939	\$194,778	16%

* Contains multiple policies

** Renewal date is after July 7, 2019 – budgeted/estimated premium based on historical trends

*** Contains multiple policies and renewal date is after July 7, 2019 – budgeted/estimated premium

While every effort is made to obtain the most comprehensive and lowest-priced coverage available for the agency, the following insurance premiums experienced or are anticipated to experience increases greater than \$10,000 and 10 percent:

Property Insurance

CSAC EIA's 14 percent increase of the Housing Commission's FY2020 Property Program premium is based on multiple factors, including: the rising cost of earthquake insurance coverage for public agencies; the effects the insurance industry as a whole has experienced due to losses sustained through earthquakes, hurricanes and California fires; and losses the Housing Commission incurred due to fires at two properties in prior years that were paid out in FY2019.

On March 8, 2019, the Housing Commission Board approved the procurement and binding of property insurance coverage for the Housing Commission from CSAC EIA.

Directors and Officers Liability

Renewal date for this coverage is after July 7, 2019. The provided estimate of \$126,156 (13 percent increase, or \$14,812) is an estimated premium based on the following: the continuing trend of abnormally high frequency of securities class action (SEC) lawsuits, the increasing number of very large verdicts and settlements across the country and especially in California, increased costs to

defend claims, number of claims (pending and upcoming) involving the Housing Commission, the increased operating cost and the increased number of Housing Commission employees.

Workers' Compensation

Renewal date for this coverage is January 1, 2020. Due to the fact that the Housing Commission is renewing its workers' compensation coverage on a calendar year timeframe, rather than a fiscal year, the expenditures have been projected for half of the policy term. The provided estimate of \$546,324 (37 percent increase, or \$146,787) is an estimated premium based on:

- Historical and current (SDHC, other pool members and industry-wide) trends
- The increased agency's Experience Modification (Ex-Mod) from 0.678 to 0.928 (Ex-Mod is the adjustment of annual premiums based on previous loss experience)
- The SDHC's increasing payroll base (The estimated payroll for 2018 was \$21.9M; however, the actual 2018 Payroll was \$25.8M)

The Housing Commission currently procures its workers' compensation insurance coverage from the CHWCA insurance pool. Currently, CHWCA has 33 member agencies/Housing Authorities. JPA is a viable alternative to commercial insurance because it generally provides a more comprehensive coverage program than regular commercial insurance companies offer and is not profit-driven. Benefits of a JPA include flexibility in determining coverage programs, risk control activities, funding levels, premium collection, and dividends. Additionally, members have greater control over claims and related costs and also experience more premium stability and less year-to-year rate fluctuations. The Housing Commission will benefit from the pool's economies of scale, leverage in the reinsurance markets and sharing of best practices to help manage risk and hard markets.

Housing Commission staff will be presenting to this board a renewal request during the upcoming November 15, 2019, Board Meeting.

CONCLUSION

The Housing Commission had numerous casualty placements renewing on July 1, 2019, including: General Liability, Auto Liability, Smart Corner Premises Liability, Crime, Cyber Liability and Contractors Pollution Liability.

The best practice is to market insurance coverage every three years to maintain bidding interest from insurance company underwriters. Therefore, in 2017, staff worked with Alliant to competitively market Housing Commission coverages to all carriers who write policies for similar classes of business (habitational) to assure the best value at renewals. The comprehensive marketing confirmed that the Housing Commission's insurance programs fit in line with the industry standard, also considering Housing Authorities are a unique risk among the public entity and commercial industry.

To follow best practices, staff with Alliant will competitively market Housing Commission coverages to all carriers who write policies for similar classes of business (habitational) in 2020.

Respectfully submitted,



Tracey McDermott
Senior Vice President & Chief Financial Officer
San Diego Housing Commission

Approved by,



Jeff Davis
Executive Vice President & Chief of Staff
San Diego Housing Commission

Hard copies are available for review during business hours at the security information desk in the main lobby and at the fifth floor reception desk of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the “Governance & Legislative Affairs” section of the San Diego Housing Commission website at www.sdhc.org