



SAN DIEGO  
HOUSING  
COMMISSION

# INFORMATIONAL REPORT

**DATE ISSUED:** July 1, 2020 **REPORT NO:** HCR20-065

**ATTENTION:** Chair and Members of the San Diego Housing Commission  
For the Agenda of July 10, 2020

**SUBJECT:** Annual Insurance Report – Fiscal Year 2020 - 2021

**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 10, 2020. The total insurance expense for Fiscal Year 2020 (FY2020) was **\$1,366,655**. The total insurance expense budgeted for Fiscal Year 2021 (FY2021) is **\$1,623,379**.

	<u>FY2020</u>	<u>FY2021</u>	<u>Difference in \$</u>	<u>Difference in %</u>
Total Insurance Expense	\$1,366,655	\$1,623,379 *	\$256,724	19%

\* Estimated/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 insurance broker, Alliant Insurance Services (Alliant), has developed effective risk management solutions to help proactively control losses and prepare for different exposures.

The ongoing novel Coronavirus global pandemic has affected the financial services industry and the insurance industry. The industry-wide consensus is that the full cost of the pandemic will not be known for up to two years; however, coronavirus-related losses to the insurance sector are expected to be the largest losses the industry has experienced to date.

Housing Commission staff and Alliant are monitoring the situation closely and will provide updates, as more information becomes available.

Currently, the Housing Commission’s comprehensive insurance coverage contains 12 insurance programs and 19 insurance policies (Table 1):

**Table 1:**

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- 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**
- 12. Mortgage Bankers and Servicing Agents Errors and Omissions Coverage**

#### (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, 2020. The Housing Commission 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, 2020. 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, 2020, and it is renewed annually.

#### (5) Fiduciary Liability

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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, 2020. 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, 2020. 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 date was July 1, 2020. The Housing Commission 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 date was July 1, 2020. The Housing Commission renews its cyber insurance 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 with 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 that affected 900,000 individuals, 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 zoned 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 33<sup>rd</sup> Street was February 21, 2020 (Wright), for 3051 54<sup>th</sup> Street was August 7, 2019 (The Hartford); for 5077 1/2 Muir Ave was October 4, 2019 (The Hartford), and for 5077 Muir Ave was November 30, 2019 (The Hartford). The Housing Commission renews its flood coverage annually.

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#### (10) Directors & Officers Liability

The Housing Commission currently procures its directors & officers liability insurance coverage from the Stratford Insurance Company Primary and Ironshore Inc. Excess. The directors & officers liability insurance effective date was December 8, 2019. 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 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, 2020. The Housing Commission renews this coverage annually.

#### (12) Mortgage Bankers and Servicing Agents Errors and Omissions Coverage

Mortgage Bankers and Servicing Agents Errors and Omissions Coverage was added to the Housing Commission's insurance portfolio in May 2020 in connection with the County of San Diego's Loan Servicing Contract. This coverage protects the Housing Commission against loss from claims for any alleged act, error or omission committed in the originating, financing, closing, selling or servicing of mortgage loans on real estate, or the rendering of advice in connection with such activities. The Housing Commission currently procures its Mortgage Bankers and Servicing Agents Errors and Omissions Coverage from Lloyd's of London (Lloyd's). The effective date was May 7, 2020. The Housing Commission plans to renew this coverage annually.

#### **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.

#### **Carriers:**

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

The CSAC EIA is a member-directed insurance risk-sharing pool, with 125 members. 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.

Housing Authority Risk Retention Group, Inc. (HARRG)

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.

California Housing Workers' Compensation Authority (CHWCA)

CHWCA is 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)

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.

Stratford Insurance Company

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

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).

Lloyd's of London (Lloyd's)

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Lloyd's is an insurance and reinsurance market located in London, United Kingdom. Since 1688, Lloyd's has been a pioneer in insurance and has grown over 330 years to become the world's leading market for specialist insurance.

### **FISCAL CONSIDERATIONS**

The Fiscal Year (FY) 2020 funding sources and uses were approved by the Housing Authority in the FY 2020 Budget. The Fiscal Year (FY) 2021 funding sources and uses were also approved by the Housing Authority in the FY 2021 Budget.

<b>Program</b>	<b>FY2020 Premium</b>	<b>FY2021 Premium</b>	<b>Variance \$</b>	<b>Variance %</b>
Property Insurance	\$341,991	\$429,320	\$87,329	26%
Fiduciary Liability	\$5,614	\$6,080	\$466	8%
General Liability	\$206,888	\$208,368	\$1,480	1%
Master Crime Program	\$8,259	\$9,050	\$791	10%
Pollution Program	\$1,858	\$1,858	\$0	0%
Smart Corner Liability *	\$38,370	\$41,851	\$3,481	9%
Auto Liability *	\$48,704	\$54,683	\$5,979	12%
Cyber Insurance *	\$27,991	\$30,500	\$2,509	9%
Flood Insurance ***	\$12,978	\$14,018	\$1,040	8%
Director's & Officers Liability ***	\$118,931	\$135,717	\$16,786	14%
Workers' Compensation **	\$512,318	\$633,919	\$121,601	24%
Mortgage Bankers and Servicing Agents E&O	\$0	\$15,261	\$15,261	N/A
2020 Broker Fee	\$42,753	\$42,753	\$0	0%
<b>TOTAL</b>	<b>\$1,366,655</b>	<b>\$1,623,379</b>	<b>\$256,724</b>	<b>19%</b>

\* Contains multiple policies

\*\* Renewal date is after July 10, 2020 – budgeted/estimated premium based on historical trends

\*\*\* Contains multiple policies and renewal date is after July 10, 2020 – 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 20 percent:

#### **Property Insurance**

The CSAC EIA 26 percent increase of the Housing Commission's FY2021 Property Program premium directly corresponds to the hardening of the insurance market, industry natural catastrophe and non-catastrophe loss experience, growing total insured values (TIV) and the CSAC EIA Property Program's rate/loss ratio.

The market for insurance is cyclical. It fluctuates between the soft market (when premiums hold steady or decrease) and the hard market (when rates increase and coverage is harder to find.) After seven years of mostly decreasing or steady insurance rates that have benefited all insureds, Housing Commission staff are

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now seeing signs of a hardening insurance market as insurance companies are increasing their rates, becoming more conservative with the capacity that they deploy, and reevaluating their exposures.

The worldwide property market has seen significant natural disasters, including devastating wildfires in California. California has experienced unprecedented wildfire activity over the last three years, including the largest, deadliest and costliest wildfires in the state's history. These high losses are driving insurance prices higher. Reported ratio for the property insurance industry has been above 100 percent—indicating an underwriting loss.

The Housing Commission's five-year loss ratio is 81 percent, which is attributable to five major fires and two significant water damage incidents taking place at Housing Commission-owned properties in the last five years. The information the Housing Commission has received about the aforementioned incidents indicates that they were not caused by any structural issues with the properties; the majority involved situations specific to the tenants at the properties at the time of the incidents. The loss ratio resulted in the Housing Commission receiving a 39 percent proposed premium increase.

The Housing Commission Board approved the procurement and binding of property insurance coverage for the Housing Commission from CSAC EIA on March 6, 2020.

#### Workers' Compensation

Renewal date for this coverage is after July 10, 2020. The Housing Commission's estimated premium is set to be \$633,919—an estimated 24 percent increase from the FY2020 premium.

This estimated premium increase is due to the Housing Commission's Experience Modification (Ex-Mod) increase and the increased number of Full-Time Equivalent (FTE) positions, as well as the associated personnel cost increase.

Ex-Mod is a rating mechanism used in the American insurance business and more specifically in workers' compensation insurance. It is the adjustment of annual premiums based on previous loss experience. Usually three years of loss experience are used to determine the experience modifier for a workers' compensation policy, which means that every loss impacts the Housing Commission's Ex-Mod for a full three years.

This year, the Housing Commission's Ex-Mod increased slightly from 0.928 in 2019 to 1.027 in 2020, even though the Housing Commission's losses have been trending favorably. This is due to the agency's previous years' losses and the way Ex-Mod is calculated.

Comparing the two years' Ex-Mods, the 2020 Ex-Mod declined from the 2019 computed 1.155 (i.e., what it could have been), but rose from what the agency was actually charged, 0.928. In other words, the seemingly large increase was caused not by rates going up in 2020, but rather by 2019 contributions being suppressed by the Ex-Mod cap.

Furthermore, the increased number of Full-Time Equivalent (FTE) positions, the associated increase of personnel cost, as well as the previous years' losses contributed to the estimated premium increase.

Housing Commission staff will be presenting a renewal request to the Housing Commission Board at its November 13, 2020, Board Meeting.

**CONCLUSION**

The Housing Commission experienced numerous casualty placements renewing on July 1, 2020, 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 to five years to maintain bidding interest from insurance company underwriters. 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 align with the industry standard, also considering Housing Authorities are a unique risk among the public entity and commercial industry.

Due to the novel coronavirus pandemic and the current state of the insurance industry, the Housing Commission did not competitively market Housing Commission coverages this year; however, to follow best practice, staff with Alliant plan to competitively market Housing Commission coverages to all carriers who write policies for similar classes of business (habitational) in 2021.

Respectfully submitted,



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Approved by,



Jeff Davis  
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Docket materials are available on the San Diego Housing Commission website at [www.sdhc.org](http://www.sdhc.org).