



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

MEETING DATE: March 5, 2021

HCR21-024

SUBJECT: 2021-2022 Procurement of Property Insurance Coverage

COUNCIL DISTRICT(S): Citywide

ORIGINATING DEPARTMENT: Financial Services Department

CONTACT/PHONE NUMBER: Tracey McDermott / 619-578-7737

REQUESTED ACTION:

Authorization to procure and bind property insurance coverage from Public Risk Innovation, Solutions, and Management (PRISM) in an amount not to exceed \$659,000 plus 5 percent as a contingency reserve, with effective dates of March 31, 2021, to March 31, 2022.

EXECUTIVE SUMMARY OF KEY FACTORS:

- The Housing Commission currently procures its property insurance coverage from PRISM insurance pool, formerly known as the California State Association of Counties Excess Insurance Authority (CSAC EIA).
- 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).
- Since 2017, increases in attritional losses along with historically severe catastrophe claims resulted in carriers collecting insufficient premium to cover the surging claims. In addition, these events have impacted the market's surplus, capacity, and available reinsurance, pushing the industry into a hardening cycle for consumers.
- In 2020, PRISM had its highest incurred property claims in the Program's history with about \$77 million of losses reported as of January 1, 2021, as compared to an average of \$46 million over the last five years.
- As of early January, PRISM has provided the Housing Commission with a preliminary premium estimate of \$659,000 for the 2021-2022 policy year. The 53 percent premium increase directly corresponds to the hardening of the insurance market, industry natural catastrophe and non-catastrophe loss experience, growing total insured values (TIV), the Housing Commission's recent hotel acquisitions and the Housing Commission's claims experience.
- While PRISM attempts to be conservative with a preliminary premium estimate, the number on the estimate is subject to change before the Housing Commission receives its final premium amount. Therefore, staff request approval for an additional 5 percent as a potential contingency reserve.
- The premiums are expected not to exceed the amounts provided on Table 4 on Page 5 of the staff report.
- The proposed funding sources and uses approved by this action were approved in the Fiscal Year (FY) 2021 Housing Authority-approved Budget.



REPORT

DATE ISSUED: February 25, 2021

REPORT NO: HCR21-024

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of March 5, 2021

SUBJECT: 2021-2022 Procurement of Property Insurance Coverage

COUNCIL DISTRICT: Citywide

REQUESTED ACTION

Authorization to procure and bind property insurance coverage from Public Risk Innovation, Solutions, and Management (PRISM) in an amount not to exceed \$659,000 plus 5 percent as a contingency reserve, with effective dates of March 31, 2021, to March 31, 2022.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) authorize the procurement and binding of property insurance coverage for the Housing Commission from Public Risk Innovation, Solutions, and Management (PRISM) in an amount not to exceed \$659,000 plus 5 percent as a contingency reserve with effective dates of March 31, 2021, to March 31, 2022.

SUMMARY

Housing Commission staff is asking for authorization to procure and bind property insurance coverage from Public Risk Innovation, Solutions, and Management (PRISM) in an amount not to exceed \$659,000 plus a 5 percent as a contingency reserve, with effective dates of March 31, 2021, to March 31, 2022.

The Housing Commission currently procures its property insurance coverage from PRISM insurance pool, formerly known as the California State Association of Counties Excess Insurance Authority (CSAC EIA), through a contract awarded based on competitive marketing of the Housing Commission's coverage in 2017 by its insurance broker, Alliant Insurance Services (Alliant). The marketing process resulted in five bids received, and PRISM was determined to provide the most comprehensive and lowest-price coverage available.

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 for the Housing Commission, including the marketing of all lines of insurance coverage, as well as the administrative support and servicing, loss control, and claims management. Alliant ensures that the Housing Commission has the most effective insurance program design, with the broadest terms and conditions, at the most competitive premium available. As the Housing Commission's risk consultant, Alliant is also responsible for keeping the Housing Commission informed of any changes, trends and emerging risks within the public entity and

commercial insurance industry.

The best practice is to market insurance coverage every three to five years to maintain bidding interest from insurance company underwriters. 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, the property insurance coverage is scheduled to be marketed next year for the policy year beginning March 31, 2022.

In 1979, 29 California counties formed the CSAC EIA for the sole purpose of finding cost-effective insurance and risk management solutions. Today, 52 of the 58 counties in California participate. Later, membership was offered to cities and to other non-county public entities, such as housing authorities, public authorities, educational organizations, and fire districts tasked with supporting the public.

CSAC EIA announced the official rebranding to Public Risk Innovation, Solutions, and Management (PRISM) at its March 6, 2020 Board of Directors Meeting.

The Housing Commission has been a long-time member of the PRISM's Property Program, which is one of the largest public entity property placements worldwide, joining in conjunction with San Diego County on June 13, 1993. This group purchase program has been highly successful over the years in providing extremely broad coverage and substantial limits, including more combined California earthquake limits than purchased by any other entity. The PRISM Program is summarized in Table 1 below.

Table 1:

PROPERTY PROGRAM SUMMARY

Program	Public Risk Innovation, Solutions, and Management (PRISM)
Type of Insurance	All Risk, including Flood, Earthquake and Boiler & Machinery
Number of Members	110 Members, including 52 counties and 58 other public entities
Policy Period	March 31, 2021, to March 31, 2022
Excess All Risk Limit	\$600 Million
Total Insured Values	\$80 Billion

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). Prior to 2017, the property insurance market was in a "soft" market cycle that allowed consumers to take advantage of extremely competitive pricing and expanded terms and conditions. However, beginning in 2017, increases in attritional losses along with historically severe catastrophe claims resulted in carriers collecting insufficient premium to cover the surging claims. In addition, these events have impacted the market's surplus, capacity, and available reinsurance, pushing the industry into a hardening cycle for consumers.

The property market has experienced unprecedented losses including devastating wildfires that have impacted California.

Worldwide, 2017 was the worst year for natural catastrophe losses in history. The main driver of this was losses associated with Hurricanes Harvey, Irma, and Maria (HIM). Insured losses for these hurricanes exceeded \$100 billion dollars.

The following year, 2018, was the third most costly year for natural catastrophe losses in history. Losses spanned many different types of catastrophes, including hurricanes, wildfires, severe flooding in the Midwest, and increased frequency and severity of convective storms (hail and tornado). California and the PRISM Property Program have experienced unprecedented wildfire activity. In the last several years, the State has experienced the largest, deadliest, and costliest wildfires in its history. Seven of the largest wildfires in history have occurred in the last three years.

- Largest fire: August Complex Fire, August 2020 – over 1,000,000 acres burned. Total insured losses for the Northern California wildfires of 2020 are currently estimated at \$5 - \$9 billion.
- Deadliest fire: Camp fire, November 2018 – 85 lives lost and nearly 19,000 structures destroyed. Total insured losses are estimated at \$10.2 billion.
- Costliest fire(s): In the last three years, the top five most destructive California wildfires have occurred: Camp Fire, Tubbs Fire, Woolsey Fire, Atlas Fire, and Thomas Fire. Total insured losses associated with these fires are expected to exceed \$30 billion.

The fifth costliest year on record for insured catastrophe losses was 2020. Insured losses are estimated at \$83 billion. This is in addition to the COVID-19 pandemic, unprecedented civil unrest, and adverse loss development.

In addition to the large natural catastrophe losses, the size and frequency of “attritional” or non-catastrophe related claims such as fire and water damage has also been growing. This is seen as an industrywide trend and is occurring within the PRISM Program.

In 2020, PRISM had its highest incurred property claims in the Program’s history with about \$77 million of losses reported as of January 1, 2021, as compared to an average of \$46 million over the last five years. Higher than normal claims can largely be attributed to the wildfires within California, which account for almost 60 percent of the loss dollars. At the same time, the market continued to sustain significant catastrophe losses along with the additional challenges brought on by the COVID-19 pandemic and civil unrest. The increased reinsurance costs, aggressive litigation trends, and adverse claim development trends have further aggravated the property market. Carriers have become risk averse, offering up restricted capacity at increased pricing.

Unlike previous hard market cycles, significant new capital is not entering the market, which

would provide the competition needed to soften the market.

As of early January, PRISM has provided the Housing Commission with a preliminary premium estimate of \$659,000 for the 2021-2022 policy year. The 53 percent premium increase directly corresponds to the hardening of the insurance market, industry natural catastrophe and non-catastrophe loss experience, growing total insured values (TIV), the Housing Commission’s recent hotel acquisitions and the Housing Commission’s claims experience.

Businesses, organizations and public entities with commercial property and liability policies are expected to maintain adequate loss ratios. Otherwise, they may face premium increases and cancellations. To determine if and for what amount a premium increase is warranted, carriers review claims history and loss ratios for the current year plus the past five years. In general, for PRISM’s Property Program, loss ratio below 55 percent means low future risk. Loss ratio above 55 percent means high future risk. The Housing Commission’s five-year loss ratio is 65 percent. Therefore, the Housing Commission is considered to be a high-risk entity. The growing total insured values and rate/loss ratios are summarized in Table 2 and Table 3 below.

Table 2:

INCREASE OF TOTAL INSURED VALUES SUMMARY

	2010 - 2021	2021 - 2022	Change
SDHC's Total Insured Values	\$322.2 M	\$388.4 M	\$66.2 M
CSAC EIA’s Total Insured Values	\$74 B	\$80 B	\$6 B

Table 3:

CURRENT YEAR + FIVE YEAR RATE/LOSS RATIO SUMMARY

Policy year	Premium	Claim	Difference	Loss ratio
2016 - 2017	\$284,669	\$ -	\$284,669	0%
2017 - 2018	289,092	351,242	(62,150)	121%
2018 - 2019	298,963	-	298,963	0%
2019 - 2020	341,991	472,703	(130,712)	138%
2020 - 2021	429,320	242,932*	186,388	57%
Total	\$1,644,035	\$1,066,877	\$577,158	65%

* Estimate as of 1/31/2021

The Housing Commission’s loss ratio is attributable to four major fires and to three 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 factors contributing to the hardening market cycle reflect a trend impacting all insurance buyers, including public entities: counties, cities and housing authorities, particularly in California.

The PRISM Program increased rates this year by 30 to 55 percent. The degree of rate increase to each individual member will vary within an established range depending on the entity’s claims experience. Member allocation also takes into account the unique exposures of each entity including the types of property being insured and exposure to natural catastrophes. Members with minimal or no losses in the last five years can expect to be on the lower end of the range. The Housing Commission’s high loss ratio (65 percent) resulted in a proposed premium increase on the upper end of the range (53 percent).

PRISM’s Property Program size is an advantage. A positive for PRISM members is that the size of the Property Program creates stability and offers economies of scale that could not be realized without being in a large pool. Because of its size, PRISM is able to leverage the volume of capacity being purchased to benefit all Program members.

Joint powers authorities (self-insurance pooling) have provided stability in turbulent markets; therefore, PRISM’s Property Program is expected fare better than the market and be better than for public agencies trying to endure a hard market on their own. Shopping as an individual entity with large losses is extremely difficult, especially in California.

While PRISM attempts to be conservative with a preliminary premium estimates, the number on the estimate is subject to change before the Housing Commission receives its final premium amount. Therefore, staff request approval for an additional 5 percent as a potential contingency reserve.

PRISM will be providing their final premiums after March 5, 2021; however, the premiums are expected not to exceed the amounts provided in Table 4 below. Nevertheless, large catastrophic events or economic downturn prior to the March 31, 2021, renewal could impact the property insurance marketplace, resulting in further hardening of the market and potentially resulting in premiums that vary from this estimate.

Table 4:

	2020 -2021	2021- 2022	Inc. /Dec. (%)
Premium	\$429,320	\$659,000	53%
5% Contingency Reserve		32,950	
Total		\$691,950	

FISCAL CONSIDERATIONS

The proposed funding sources and uses approved by this action were approved in the Fiscal Year (FY) 2021 Housing Authority-approved Budget. Approving this action will not change the FY 2021 Total Budget. Funding sources for the portion of the policy year from July 1, 2021, to March 31, 2022, will be budgeted in FY 2022.

EQUAL OPPORTUNITY/CONTRACTING

PRISM is a nonprofit, member-directed, risk-sharing pool of public agencies and is not subject to the requirement to submit a Workforce Report.

PREVIOUS COUNCIL and/or COMMITTEE ACTION

On March 6, 2020, the Housing Commission unanimously approved a contract with PRISM for property insurance coverage for the period of March 31, 2019, to March 31, 2020.

ENVIRONMENTAL REVIEW

The purchase of insurance is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. Processing under the National Environmental Policy Act is not required as no federal funds are involved in this action.

Respectfully submitted,

Tracey McDermott

Tracey McDermott
Senior Vice President & Chief Financial Officer
Financial Services Department

Approved by,

Jeff Davis

Jeff Davis
Deputy Chief Executive Officer
San Diego Housing Commission

Attachments:

1. 2021 Insurance Summary
2. 2021 Property Market Overview

Docket materials are available in the “Governance & Legislative Affairs” section of the San Diego Housing Commission website at www.sdhc.org.



2021 INSURANCE SUMMARY

Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
Property	PRISM	03/31/2020	\$429,320	\$25,000,000	\$25,000	Provides coverage for damage to real estate and personal property, and business income as a result of a covered peril such as a fire.
Fiduciary Liability	Hudson Insurance	07/01/2020	\$6,080	\$2,000,000		Provides coverage for losses that arise as a result of alleged errors or omissions or breach of fiduciary duties.
Pollution	PRISM	07/01/2020	\$1,858	\$10,000,000	\$75,000	Provides coverage for pollution conditions and includes 1 st and 3 rd party coverages.
Master Crime	PRISM	07/01/2020	\$9,050	\$15,000,000	\$2,500	Coverage that manages the loss exposures resulting from criminal acts such as robbery, burglary and other forms of theft.
Smart Corner - Premises Liability	Travelers	07/01/2020	\$22,361	\$5,000,000		Provides coverage for claims from SDHC's liability to damage or injury during performance of business. Premises liability coverage only, as operations are excluded.
Smart Corner - Excess Liability	Travelers	07/01/2020	\$19,491	\$20,000,000		Provides excess coverage specific to the Smart Corner location and follows the primary liability placement.
General Liability	HARRG	07/01/2020	\$208,368	\$20,000,000	\$10,000	Provides third party coverage for SDHC liabilities that occur as a result of negligence or omissions. Coverage includes bodily injury, physical damage and personal injury.



Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
Commercial Auto	Travelers	07/01/2020	\$43,127	\$1,000,000	\$1,000	Provides comprehensive and collision. Liability and all other coverages such as medical payments and physical damage.
Excess Auto	Travelers	07/01/2020	\$10,312	\$9,000,000	\$0 Deductible at \$1,000,000 att. point	Provides excess auto coverage following the primary auto placement.
Cyber	PRISM	07/01/2020	\$6,283	\$2,000,000	\$50,000	Provides first and third party coverage for cyber incidents such as liabilities that arise from but not limited to a breach of secured data, taxes and penalties.
Cyber Buy Up Option	PRISM	07/01/2020	\$25,587	1M Notified Individuals		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.
Director's & Officers	Western World	12/08/2020	\$71,326	\$3,000,000	\$100,000 Agt. C,D \$150,000 Agt. A \$250,000 Agt. B	Liability insurance 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 such a loss as a result of a legal action brought for alleged wrongful acts in their capacity as directors and officers.
Excess Director's & Officers #1	Indian Harbor	12/08/2020	\$42,569	\$4,000,000	\$0 Deductible at \$3,000,000 att. point	Provides excess coverage following the primary Director's & Officers placement.
Excess Director's & Officers #2	Ironshore Inc.	12/08/2020	\$8,455	\$1,000,000	\$0 Deductible at \$7,000,000 att. point	Provides excess coverage following the primary excess Director's & Officers placement.



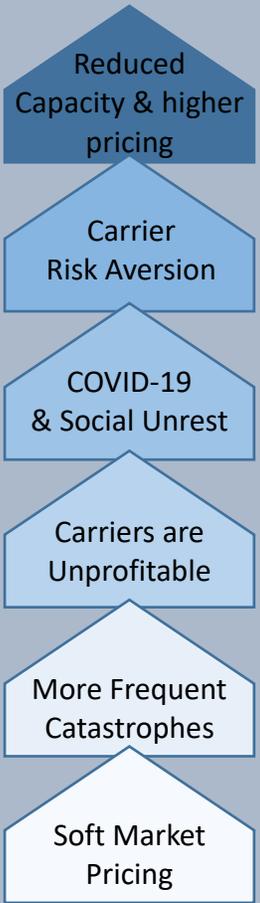
Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
Flood - 355 S. 33rd Street	Wright Flood	02/21/2021	\$3,466	\$500,000 building \$100,000 contents	\$10,000 building and contents	Provides mandated flood (NFIP) coverage for the 355 S. 33rd Street location.
Flood - 351 S. 33rd Street	Wright Flood	02/21/2021	\$1,897	\$500,000 building \$100,000 contents	\$10,000 building and contents	Provides mandated flood (NFIP) coverage for the 351 S. 33rd Street location.
Flood - 5071 Muir Ave	Hartford Ins.	11/30/2020	\$3,811	\$250,000 building \$11,200 contents	\$2,000 building and contents	Provides mandated flood (NFIP) coverage for the 5071 Muir Ave location.
Flood - 5077 1/2 Muir Ave	Hartford Ins.	10/04/2020	\$3,615	\$250,000 building	\$2,000 building	Provides mandated flood (NFIP) coverage for the 5077 ½ Muir Ave location.
Flood - 3051 54th Street	Hartford Ins.	08/07/2020	\$747	\$350,000 building \$20,000 contents	\$1,000 building and contents	Provides mandated flood (NFIP) coverage for the 3051 54th Street location.
Workers' Compensation	CHWCA	01/01/2021	\$615,636	\$5,000,000	First Dollar	Form of insurance that provides wage replacement and medical benefits for employees that are injured during the course of employment. Also provides coverage for Employment Practice Liability to include wrongful termination.
Mortgage Bankers and Servicing Agents Errors & Omissions Coverage.	Lloyd's of London	05/07/2020	\$15,261	Aggregate: \$4,000,000 Per Claim: \$2,000,000	\$50,000	Coverage 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



Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
General Liability - RI	HARRG	11/24/2020	\$21,243	\$1,000,000	\$10,000	Provides third party coverage for SDHC liabilities that occur as a result of negligence or omissions. Coverage includes bodily injury, physical damage and personal injury for Residence Inns (Hotel Circle & Kearny Mesa).
General Liability - RI Excess #1	Ascot Ins.	11/24/2020	\$28,252	\$5,000,000	\$0 Deductible at \$1,000,000 att. point	Provides excess coverage following the primary general liability placement for Residence Inns (Hotel Circle & Kearny Mesa).
General Liability - RI Excess #2	Kinsale Ins.	11/24/2020	\$29,253	\$5,000,000	\$0 Deductible at \$6,000,000 att. point	Provides excess coverage following the primary excess general liability placement for Residence Inns (Hotel Circle & Kearny Mesa).

PROPERTY MARKET OVERVIEW: Hard Times

Unprecedented world events, in tandem with carriers not turning a profit, has resulted in the market remaining hard. Prior to 2020, rate increases were largely tied to a soft market correction while factoring in increased attritional loss and adverse catastrophe loss development. In 2020 the pandemic, social unrest, rising reinsurance costs, financial market volatility, global recession, and more frequent and severe catastrophes have greatly exacerbated the situation.

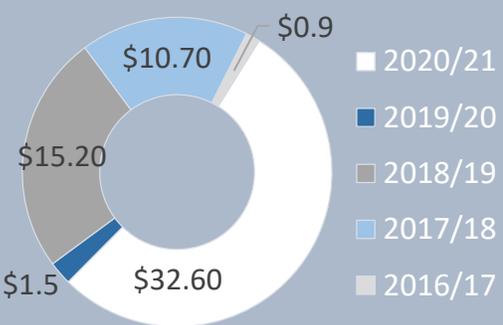


7 The top 7 most destructive wildfires in California have happened in the last 3 years



\$ 83B Insured catastrophe losses in 2020, fifth costliest on record

PRISM Wildfire Losses (in millions)



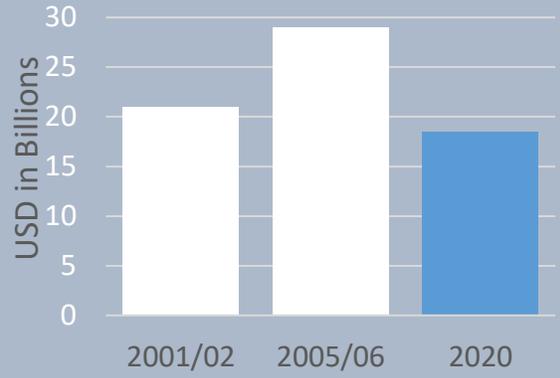
Despite increased wildfire claim activity within the program, no single claim has exceeded the primary layer.

PRISM Benefits

-  The PRISM Property Program size creates stability and allows for economies of scale.
-  PRISM has the benefit of long-standing carrier relationships worldwide which results in better renewal offerings.
-  PRISM's proactive approach allows for unique and sophisticated funding solutions through utilization of their captive, PRISM ARC.

Unlike previous hard markets, restricted capacity offered by carriers is a result of reduced appetite rather than capital reduction. Lack of significant new capital flowing into the market (which would help drive competition) points to a sustained hard market.

New Capital Raised following shock events



CIAB Average Commercial Rate Change, All Lines

