



**MWD**

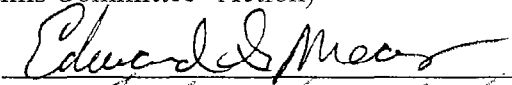
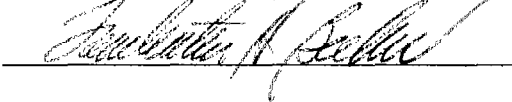
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-7

April 22, 1997

**To:** Board of Directors (Budget and Finance Committee--Action)  
(Legal and Claims Committee--Action)

**From:** *for* General Manager

**Submitted by:** Lambertus H. Becker  
Chief Financial Officer

**Subject:** Excess Liability Insurance for Fiscal Year 1997-1998 and Brokerage Contract

### RECOMMENDATION(S)

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That the Board of Directors authorize the General Manager to bind \$75 million of liability insurance, in excess of a \$25 million self-insurance retention, with American Home Insurance Company at a net premium of \$383,750 for fiscal year 1997-1998 and award a three-year insurance brokerage contract to Sedgwick James of California, Inc. (Sedgwick) for a fixed minimum service fee of \$195,000 (for three years) plus potential supplemental services not to exceed \$30,000 per year.

### BRIEF DESCRIPTION

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Metropolitan currently carries liability insurance of \$75 million in excess of its \$25 million self-insured retention (SIR) with American Home Insurance Company, a California admitted carrier. The current policy contains a drop down feature which provides that after the first \$25 million loss, the self-insured retention level is reduced to \$5 million for subsequent losses. It is proposed that Metropolitan place its excess liability insurance with American Home Insurance Company at a net premium of \$383,750. This coverage includes an enhanced drop down feature of a \$2 million SIR for subsequent losses. It is also proposed that Metropolitan establish a new contract for insurance brokerage and risk management services with Sedgwick James of California, Inc., with a first-year brokerage fee of \$62,000, as the successful respondent to Request for Proposal (RFP) 254. The total cost for the excess liability insurance plus brokerage fees for the first year of a three-year contract (\$445,750) is \$51,250 less than the current year contract of \$497,000. Sedgwick will place the excess liability insurance program as well as other insurance required by Metropolitan (aircraft, crime, excess workers' compensation liability, etc., as outlined in Exhibit A).

<p><b>Contract Type</b></p> <p><input checked="" type="checkbox"/> New</p> <p><input type="checkbox"/> Amended</p> <p><b>Contract Form</b></p> <p><input type="checkbox"/> Lease</p> <p><input checked="" type="checkbox"/> Professional Services</p>	<p><b>Funding</b></p> <p><input type="checkbox"/> Capital-Appropriation No.</p> <p><input checked="" type="checkbox"/> O &amp; M</p> <p><b>Budget Status</b></p> <p><input checked="" type="checkbox"/> FY 97-98</p> <p style="padding-left: 20px;">Amounts -</p> <p style="padding-left: 40px;">Broker service fee - \$100,000</p> <p style="padding-left: 40px;">Insurance premiums - \$587,000</p> <p><input type="checkbox"/> Out-Year</p> <p style="padding-left: 20px;">Amount _____</p> <p><input type="checkbox"/> Non-Budget</p> <p style="padding-left: 20px;">Amount _____</p>	<p><b>Type of Competition</b></p> <p><input checked="" type="checkbox"/> RFQ No. 240</p> <p><input checked="" type="checkbox"/> RFP No. 254</p> <p><input type="checkbox"/> Informal RFP</p> <p><input type="checkbox"/> Other Competition</p> <p>-----</p> <p><input type="checkbox"/> Sole Source</p>
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<p><b>RFP Statistics</b></p> <p>18 Firms Requested RFQ</p> <p>6 Firms Submitted Proposals</p> <p>2 Firms were Short-Listed</p> <p><b>Contracts with Consultant</b></p> <p><input checked="" type="checkbox"/> Total No. 1</p> <p><input checked="" type="checkbox"/> Maximum Dollar Amount \$50,000</p> <p style="padding-left: 20px;">The prior agreement covered the broker service fee only.</p>	<p><b>Evaluation Criteria</b></p> <p>Excess Liability Insurance Premium, Minimum Services provided by Broker, Broker Service Fee, Knowledge and experience</p> <p><b>Contractual Details</b></p> <p><input checked="" type="checkbox"/> Anticipated Duration - 3 years, 1997-2000</p> <p><input checked="" type="checkbox"/> Minimum Service Fee - \$ 62,000 (first year)</p> <p style="padding-left: 40px;">\$ 65,000 (second year)</p> <p style="padding-left: 40px;">\$ 68,000 (third year)</p> <p>Supplemental Services - \$ 30,000 (estimate/year)</p> <p>Insurance Premiums (first year) -</p> <p style="padding-left: 20px;">Excess Liability \$383,750</p> <p style="padding-left: 20px;">Other (Exhibit A) \$ 65,469 (estimate)</p> <p style="padding-left: 20px;">Insurance Premiums (second year) - N/A</p> <p style="padding-left: 20px;">Insurance Premiums (third year) - N/A</p> <p><input checked="" type="checkbox"/> Hourly Rates (supplemental services) - \$103/hour</p>
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**PURPOSE/BACKGROUND**

In March 1997, your Board received an information only report (Board Letter 9-9) describing the process used to pre-qualify the two firms, Marsh & McLennan, Incorporated (Marsh) and Sedgwick James of California, Inc. (Sedgwick), requested to respond to RFP 254. The pre-qualified brokers participated in a tour and briefing of Metropolitan's core business and received information for the marketing of the liability insurance program for fiscal year 1997-1998 and Metropolitan's minimum service requirements. Each firm was required to submit a final quote for the

excess liability insurance, estimates for the other lines of coverage and their brokerage service fees for the next three years.

As part of their response to RFP 254, the two pre-qualified brokers submitted their proposed services and fees, and competitively marketed Metropolitan's excess liability insurance program. A total of 16 liability markets (insurance companies) were contacted by the brokers. A list of the markets contacted is attached as Exhibit B.

The Broker Selection Evaluation Committee, described in the March Board Letter 9-9, recommends the selection of the Sedgwick insurance proposal. Sedgwick's total program cost of \$445,750 (liability insurance premium plus brokerage fees) is \$96,898 lower than the Marsh total program cost of \$542,648. The excess liability insurance packages presented offer comparable coverage. However, Sedgwick's liability coverage using American Home Insurance Company features a loss sensitive SIR feature in which Metropolitan's self-insured retention level is reduced from \$25 million to \$2 million after the first loss. The drop down feature to \$2 million is an enhancement of the current policy which provides a \$5 million drop down feature.

In addition, American Home Insurance Company is a fully admitted California carrier at all levels of coverage; Marsh's program utilizes an admitted carrier for the first layer only. Marsh's program is layered in terms of the policy limits. The first \$25 million of coverage would be placed with Wausau Insurance Companies, the second with AEGIS, and the third with Energy Insurance Mutual, Ltd. (EIM). Wausau is a California admitted carrier. AEGIS and EIM are not admitted in California. A chart detailing the liability insurance costs proposed by each broker and Metropolitan's current program is attached as Exhibit A.

As part of the RFP process, each broker provided information detailing its insurance brokerage and risk management services in response to Metropolitan's minimum requirements. The services were broken down into the following categories: Insurance marketing and administration of all lines of coverage (liability, aircraft, crime, workers' compensation, etc.), risk survey and analysis, loss analysis, review of internal procedures/contracts and documents, and an annual stewardship report.

Brokerage fees in the Sedgwick proposal to provide minimum services requested by Metropolitan are \$62,000 for fiscal year 1997-1998, \$65,000 for fiscal year 1998-1999, and \$68,000 for fiscal year 1999-2000. Supplemental services such as evaluation of potential product liability, construction, property valuation, and errors and omissions/public officials exposure, if needed, will be billed by Sedgwick at the rate of \$103 per hour. Marsh's hourly fee for supplemental services is \$157. Staff indicates a maximum of 300 hours of supplemental services per year may be required.

It is the recommendation of the Broker Selection Evaluation Committee that Metropolitan place its excess liability insurance program with American Home Insurance Company

and select Sedgwick James of California, Inc. as Metropolitan's insurance broker for the next three-year period.

**MBE/WBE**

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RFP No. 254 established combined certified minority-owned business enterprise (MBE) and certified women-owned business enterprise (WBE) participation goals of 20 percent of the brokerage fees. Sedgwick has committed to achieve 20 percent certified MBE/WBE participation, utilizing Dickerson Insurance Services, Inc.

**CEQA COMPLIANCE/ENVIRONMENTAL DOCUMENTATION**

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The proposed program is exempt from the provisions of the California Environmental Quality Act (CEQA) because it can be seen with certainty that it will have no significant effect on the environment.

Exhibit A

Total Program Cost  
Excess Liability Insurance and Minimum Service Fee

	1996-1997	Proposed for 1997-1998	
	Current Program	Marsh	Sedgwick
Premium - Excess Liability Insurance	\$447,000 <sup>i</sup>	\$294,598	\$383,750 <sup>ii</sup>
Total Fee - Minimum Services 1st Year	\$ 50,000	\$248,050 <sup>iii</sup>	\$ 62,000 <sup>iv</sup>
<b>Total Fees/Premiums 1997-1998</b>	<b>\$497,000</b>	<b>\$542,648</b>	<b>\$445,750</b>
Supplemental Services	N/A	\$157.00/hour	\$103.00/hour

<sup>i</sup> Includes drop down of \$25 Million (SIR) to \$5 Million.

<sup>ii</sup> Includes drop down of \$25 Million (SIR) to \$2 Million.

<sup>iii</sup> First year fixed fee is \$248,050; 2nd Year, \$198,800; 3rd Year, \$206,300 = \$653,150 for three years.

<sup>iv</sup> First year fixed fee is \$62,000; 2nd Year, \$65,000; 3rd Year, \$68,000 = \$195,000 for three years.

Additional Insurance Costs (Estimates)

Premiums	1996-1997	Proposed for 1997-1998	
	Current Program	Marsh	Sedgwick
Aircraft Liability	\$17,803	\$17,850	\$13,000
Fidelity Bond (Crime)	\$11,124	\$ 7,500 <sup>i</sup>	\$11,124
Excess Workers' Compensation	\$44,890	\$55,000	\$41,345
<b>Total Estimate</b>	<b>\$73,817</b>	<b>\$80,350</b>	<b>\$65,469</b>

<sup>i</sup> Marsh provided a three-year quote for crime insurance at \$22,500/3-years, averaging \$7,500/year.

## Exhibit B

### Market Assignments

#### Markets Contacted by Marsh & McLennan, Inc.

1. Associates Electric & Gas Insurance LTD (Aegis) -  
in conjunction with Wausau Insurance Company
2. Zurich Group, including -  
Zurich/American
3. Reliance Insurance Group -  
in conjunction with Sable Insurance Company
4. Great American Insurance Companies, including -  
Tamarack American
5. Discover RE -  
working with USF&G
6. X.L. Insurance Company LTD
7. Energy Insurance Mutual LTD
8. CIGNA

#### Markets Contacted by Sedgwick James of California, Inc.

1. AIG, including  
American Home Assurance Company  
American International Underwriters  
Lexington Insurance Company  
National Union Fire Insurance Company  
Insurance Company of the State of Pennsylvania
2. Starr XS
3. Gerling USA
4. Fireman's Fund
5. Swiss Re
6. Hartford Specialty Insurance Company
7. Lloyds of London
8. Westchester Specialty Insurance Company