

M Management Committee
For the Metropolitan Council meeting of February 25, 2009

ADVISORY INFORMATION

Date Prepared: February 17, 2009

Subject: Authorization to renew the Metropolitan Council's Property Insurance with FM Global

Proposed Action:

That the Metropolitan Council authorize renewal of the Property Insurance with the current carrier, FM Global, for the period 3/1/09-3/1/10, in an amount not to exceed \$1,130,000.

Summary of Committee Discussion / Questions:

Staff highlighted the property insurance policy and protection provided in the event of a loss. The proposal received from FM Global was reviewed, including specifics on coverage enhancements and an explanation of a 5% rate reduction. The FM Global product and rate was compared to other entities that are similar to the Council (e.g. water treatment facilities and transportation) demonstrating that the proposal provided highly competitive coverage and rates.

In addition to this benchmarking, staff also presented the results of another formal proposal received from Driver Alliant Insurance Services and provided a comparison of the coverage and rates for this proposal with that received from FM Global. The Driver Alliant Insurance proposal offered approximately a 10% lower rate but provided less coverage. It was agreed that the FM Global proposal provided coverage that better matched the Council's needs and tolerance for risk and that the coverage differences justified higher premiums.

While the FM Global proposal included coverage enhancements and a 5% reduction in the rate from the existing policy, there was a question from the committee about potential further savings by increasing the deductible. Staffed had reviewed this option and reported that raising deductibles provided no clear financial advantage to the agency given its loss history.

The committee moved to renew its property insurance policy with FM global as recommended.

M Management Committee

Business Item

Item: 2009-59

Meeting date: February 11, 2009

ADVISORY INFORMATION

Date:	2/11/09
Subject:	Authorization to renew the Metropolitan Council's Property Insurance with FM Global
District(s), Member(s):	All
Policy/Legal Reference:	
Staff Prepared/Presented:	Phil Walljasper, 651-602-1787
Division/Department:	Regional Administration/Risk Management

Proposed Action

That the Metropolitan Council authorize renewal of the Property Insurance with the current carrier, FM Global, for the period 3/1/09-3/1/10, in an amount not to exceed \$1,130,000.

Background

The premium paid on a property insurance policy is calculated by multiplying \$100 of property value by the "rate". This rate, along with the type of loss a policy covers, is what is typically negotiated at renewal. FM's proposal for 2009 represents a rate reduction of 5%, as well as several coverage enhancements.

Working with insurance brokers, staff compared FM's proposal with other entities that are similar to the Council (e.g. water facilities). The comparison showed that FM's proposal represents one of the lowest rates, when compared to others with similar limits of insurance and deductibles. There were a total of ten different water treatment facilities and 20 other transportation agencies, with approximately ten insurance companies involved.

In addition to the industry comparison, staff also solicited a formal proposal this year from another insurance broker, Alliant Insurance Services, through their Public Entity Property Insurance Program (PEPIP). While this program is structured very differently than FM, early indication from Alliant was that their rate would be very competitive and a formal quote was warranted to fully evaluate the coverage of the program and the structure of how the insurance would be provided.

Rationale

PEPIP is structured very similar to a risk pool, in that the program has several members around the country that share certain limits of insurance within the pool. It is a "layered" program, in that there are several different insurance companies involved, each providing a certain amount of coverage. The first \$25,000,000 would be covered by AIG and the remaining \$975,000,000 covered by a total of 12 different insurance companies.

It offers the same limit as FM (\$1,000,000,000 per occurrence), but the Council would share this limit with others in the pool.

The coverage provided by PEPIP is not as broad as FM's, particularly in some key areas that are critical to the Council's operations; specifically, Boiler & Machinery, Extra Expense, Underground facilities, and Terrorism. This reduced coverage would pose a greater risk that the Council may have an uninsured loss, as it would directly affect the risk to the operations of Environmental Services, which represents approximately 75% of the property value in the program.

The pricing of Alliant was approximately 10% lower than FM's. However, this is primarily a result of the reduced insurance coverage, which was not available on an apple-to-apples basis. After staff review, it was felt

the reduction in insurance was too great of a risk and that FM's quote represented the best deal to adequately protect Council property and its operations. Moreover, the Council's experience with FM during this period has been positive.

Funding

Premium is a part of Council's budget. Current budget for ES is \$875,000 and their estimated premium is \$830,000. Metro Transit's budget is \$297,650, with their estimated premium of \$286,500. RA's estimated premium is \$12,400, with a budget of \$15,000.

Known Support / Opposition

Not applicable