



City of Grand Island

Tuesday, September 22, 2020

Council Session

Item G-8

#2020-226 - Approving the Renewal of Property, Peril, Fire & Terrorism Insurance with FM Global for 2020-2021

Staff Contact: Tim Luchsinger, Stacy Nonhof

Council Agenda Memo

From: Timothy Luchsinger, Utilities Director
Stacy Nonhof, Interim City Attorney

Meeting: September 22, 2020

Subject: Renewal of Machinery Property Peril, Fire and Terrorism Insurance with FM Global for 2020 - 2021

Presenter(s): Timothy Luchsinger, Utilities Director

Background

The Utilities Department Boiler and Machinery Property Peril and Fire insurance is specifically designed for Electric Utility and is readily adaptable to the Water Utility, which is also included in the coverage. The standard policy excludes losses due to acts of terrorism unless the optional Terrorism Insurance is accepted. The Utilities Department's insurance provider, FM Global, provided the attached proposal for renewal of the present coverage.

The complete policy is available in the Utilities office for review, along with a Policy Holder Disclosure form for execution by the City, either accepting or rejecting terrorism coverage. The renewal proposal and proposed policy have been reviewed by the Legal Department.

Discussion

Key provisions included in the proposed renewal are a change in the insured valuation from \$504,619,891 to \$510,519,889 and an annual all-risk premium change from \$447,617.00 for the current year to \$655,114 for the 2020-2021 year, and an annual Terrorism Insurance premium change from \$24,474 for the current year to \$36,711 for the 2020-2021 year.

The insured valuation of assets was reviewed by Utilities Department staff and is in line with replacement costs seen in the utility industry, and due to feedback from other plants that we participate in ownership, a premium increase was expected due to industry trends, however the resulting policy premium change of almost 50% was not expected. Our insurance broker, INSUR, investigated other options including other insurance carriers and changes in deductible levels. Of the carriers solicited, five declined to quote coverage, and one responded they could for about \$625,000 to \$650,000 without

terrorism coverage. INSUR advised that the proposed coverage form did not compare favorably to FM Global and advised not to pursue. FM Global came back with a premium savings of \$33,000 by raising the deductible from \$500,000 to \$750,000 and a premium savings of \$83,000 by raising the deductible from \$500,000 to \$1,000,000. The revised proposal increasing the deductible to \$1,000,000 for an annual premium of \$572,114 is recommended by the Utilities management staff.

The probability that a relatively remote location in the central part of the nation would be targeted for a terrorist attack may be very unlikely, but the determination of a terrorist attack is not clearly defined, such as an attack similar to the Oklahoma City Federal Building. Regardless of the cause, the loss of a high valued asset as the Platte Generating Station must be protected from risk, and the acceptance of Terrorism Insurance is recommended.

Execution of the Notice of Terrorism Insurance Coverage form is required annually and is recommended by the Utilities Department for approval.

Alternatives

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Move to approve
2. Refer the issue to a Committee
3. Postpone the issue to future date
4. Take no action on the issue

Recommendation

City Administration recommends that the Council approve renewal of the Utilities Department's Terrorism Insurance with FM Global with execution of the Notice of Terrorism Insurance Coverage form to accept that coverage.

Sample Motion

Move to approve renewal of the Utilities Department's Terrorism Insurance with FM Global with execution of the Notice of Terrorism Insurance Coverage form to accept that coverage.



City of Grand Island

2020 FM Global Property Insurance Proposal

Presented: August 25, 2020



Proposal

Partnering with FM Global

This renewal marks the 37th anniversary. Thank you very much for the strong partnership and for working to achieve such excellent loss prevention and resilience! Over the past year, FM Global has enjoyed partnering with The City of Grand Island to protect the value your business creates. FM Global is pleased to provide you with the following insurance proposal for the October 1st, 2020 renewal. Thank you for your business and we look forward to the continued partnership. This document details the pricing, coverage and planned insurance related services for The City of Grand Island over the coming year.

Below are some highlights of FM Global:

- **Responsive Claims Handling** – As a mutual organization, FM Global is deeply committed to meeting the needs of our clients, who are also our owners. Accordingly, our mutuality heavily influences our claims-handling activities. Client satisfaction is our ultimate pursuit and a true measure of our mutual success.

An *Advisen* survey of risk managers deemed FM Global as “*the most highly regarded insurer in property claims-handling.*” Further, FM Global was identified as their “*first choice,*” for property claims-handling by a wide margin – more than twice that of any other insurer. Survey participants ranked insurers based on a variety of claims-handling best practices, including expertise, equitable settlements, prompt payment and good communication.



- **Favorite among Risk Managers** – FM Global was top rated by *National Underwriter Property & Casualty Magazine* for Property and Boiler and Machinery Insurance. The annual survey recognizes the “top” carriers named by risk professionals in their efforts to mitigate exposures.
- FM Global maintains a solid balance sheet with ample liquidity to meet policyholder obligations. As of December 31st, 2019, Policyholders’ Surplus was US \$14.6 billion and Gross Premium in force was US \$6.0 billion. Our financial strength and stability have been affirmed by major industry rating agencies, principally:

<p>A+/Superior Affirmed January 2020</p>	<p>AA/Stable Affirmed March 2020</p>	<p>A+/Stable Affirmed October 2019</p>
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FM Global Difference

FM Global is a different kind of insurance company. We are a mutual company owned by our policyholders, and we write only property insurance. Additionally, FM Global provides engineering-driven underwriting and risk management solutions, ground breaking property loss prevention research, and prompt, professional claims handling. Our products and services directly support our policyholders' overall risk management objectives through:

- Understanding the nature and reality of your specific risks.
- Establishing sound loss prevention solutions that safeguard against loss.
- Develop cost-effective insurance and risk transfer solutions backed by large, stable capacity.

Engineering Services

FM Global provides loss prevention consulting services, which include on-site risk evaluations, jurisdictional services, plan review and construction management services.

Creating Cyber Resilience

The evolving Cyber risks are showing us that they are truly Global exposures. We have seen losses where a company's assets can be affected throughout multiple locations all in one single event. At FM Global we believe the majority of loss is preventable, including Cyber. Due to this evolving exposure, we have developed a suite of Cyber exposure analysis tools, which include:

- Physical security – evaluation of your location's physical protection, access, etc.
- Information Technology – a Cyber Risk Assessment tool has been rolled out and will evaluate your Cyber risk posture on an enterprise basis.
- Industrial Control Systems (ICS) – this evaluation tool is in development and being beta tested at this time. This risk assessment will be directed towards controls/access to your Industrial Control Systems from a cyber-attack perspective. Rollout is expected in 2020 for all clients.

We thank you for taking part in the cyber risk assessment. Please remember that our cyber risk consultant is available for your use should you have any questions or concerns regarding The City of Grand Island's cyber posture.

Proposal

Changes to Existing Coverage

On July 31st you were sent a conditional renewal notice advising you of the following changes in your renewal policy.

As we discussed, the reduced limit for Communicable Disease Response and Interruption By Communicable Disease covers were necessitated by the curtailment of reinsurance capacity for such coverages resulting from the COVID-19 pandemic. The limits in your renewal policy will be:

A USD10,000 combined single limit and annual aggregate for the following two covers:

- Communicable Disease Response
- Interruption By Communicable Disease

Proposal

Client Service Plan/Risk Improvement Plan

At FM Global, we are mindful that the strategies we pursue and the decisions we make must ultimately be for the benefit of our mutual policyholders. Our aim is always to mobilize our range of value-added services in support of mutually agreed objectives.

During the last year, we've been able to not only identify hazards and present engineering solutions, but we've been able to refine our approach to managing risk for Grand Island.

Our Client Service Plan is developed annually, and we report on progress through engineering meetings. We would like to develop this plan to meet and exceed the goals of the Grand Island's risk management along with working towards common goals. Should you choose to renew for the 2020 policy year, we would like to create a plan that will guide us through the years to come.

- **Contract Certainty** – Efficient and timely administration provides an essential foundation for everything we do, particularly when it comes to the provision of necessary Underwriting and Engineering information, Premium Payments and Policy wording.
- **Project Management/Plan Review Services** – Working along with Grand Island's project and facility personnel we will ensure that all new projects are considered Highly Protected Risks (HPR) when completed.
- **Research Campus Visit** – Our World Class Research Campus conducts state of the art fire testing, natural hazard simulations, and approval of fire protection products. Please let your Client Service team know if you are interested in attending a visitor's day on campus.
- **Risk Improvement Plan** – Understanding that a key part of Total Cost of Risk is preventing losses. We will utilize our World Class Research Campus test results and our highly trained field engineers to work with The City of Grand Island to mitigate exposures which may exist at any of your facilities. We would like to continue our discussions around the Risk Improvement plan for 2020. For example, firm commitment on which specific recommendations from the suggested risk improvement plan will be completed and when, including who will be responsible from The City Of Grand Island to ensure completion.

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Pricing Details – The City of Grand Island

Premium

USD 655,114*

Total Insured Values: USD 510,519,889

*This premium does not include various fees and taxes, as well as the additional premium quote for U.S. Certified Terrorism, and Cyber coverages which follow. Payment is due upon receipt of invoice or on the date coverage begins, whichever is later. Policies will be subject to cancellation for non-payment of premium bills.

Premium Comparison

	2019	2020
TIV	USD 504,619,891	USD 510,519,889
Total Premium	USD 447,617	USD 655,114

Policy Deductible

	2019	2020
All Other Loss Deductible	USD 500,000	USD 500,000
Burdick Station – Gas Turbines	USD 525,000	USD 525,000
Pumping Station and Wells	USD 75,000	USD 75,000

Policy Limit

	2019	2020
Limit of Liability	USD 510,000,000	USD 510,000,000

Policy Options

Cyber Event Limits (not included above)

- For the current policy limits of \$10M for DATA RESTORATION and OWNED NETWORK INTERUPTION and \$5M for DATA SERVICE PROVIDER PROPERTY DAMAGE and DATA SERVICE PROVIDER TIME ELEMENT the premium would be **\$207,000**

Terrorism Options (not included above)

	Additional Premium
United States (TRIA)	USD 36,711

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Terrorism

US Terrorism

The Terrorism Risk Insurance Act of 2002 as amended and extended in 2005, 2007, 2015 and again in 2019, requires that insurers advise clients of their option to elect or reject terrorism coverage under the act as part of their property program. It also requires insurers to disclose the cost of such coverage for the policy term. As a brief reminder, the act provides licensed, admitted carriers with a substantial federal reinsurance backstop for terrorism acts that are certified by the Secretary of the Treasury of the United States as covered events (known as certified losses). Generally speaking, the act responds strictly to events that take place within the United States, its protectorates, territories, and possessions. The Act has been extended to expire on 31 December 2027.

Pursuant to the act, we are offering certified terrorism cover in the United States with no specific terrorism limit of liability meaning your certified terrorism limit would be equal to the policy limit of liability or any location or coverage sublimits in your policy. In addition, in the United States, the policy would no longer be subject to a terrorism sublimit for Flood, Miscellaneous Unnamed Locations, Miscellaneous Personal Property, Off Premises Storage For Property Under Construction, and Temporary Removal of Property and any terrorism exclusion for Service Interruption, Contingent Time Element Extended, Protection And Preservation of Property, Ingress/Egress, Logistics Extra Cost, Extended Period of Liability, Crisis Management and Attraction Property coverages.

The premium for certified coverage is **USD 36,711** for the term of October 1, 2020 to October 1, 2021 and does not include applicable taxes or surcharges.

We have provided the Policyholder Disclosure Notice of Terrorism Coverage document. Please note the Disclosure form must be completed, signed and returned to Kevin Doak, Account Manager – Client Service, FM Global indicating your choice to accept or reject the certified terrorism coverage offered.

TERRORISM

As respects locations outside the United States and Puerto Rico, terrorism coverage is provided with a limit of USD5,000,000 in the aggregate during any policy year but not to exceed the following limit(s) in the aggregate during any policy year:

- a) USD5,000,000 limit in the aggregate during any policy year for miscellaneous unnamed locations, MISCELLANEOUS PERSONAL PROPERTY, OFF PREMISES STORAGE FOR PROPERTY UNDER CONSTRUCTION and TEMPORARY REMOVAL OF PROPERTY combined
- b) USD5,000,000 limit in the aggregate during any policy year for flood when caused by or resulting from terrorism

These limits shall not include the actual cash value portion of fire damage caused by terrorism. Please see the attachment for the Terrorism Disclosure.

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**POLICYHOLDER DISCLOSURE
NOTICE OF TERRORISM INSURANCE COVERAGE**

Insured Name: The City of Grand Island

Account Number: 05249

The Terrorism Risk Insurance Act of 2002, as amended and extended in 2005, 2007, 2015 and again in 2019, gives you the right as part of your property renewal policy to elect or reject insurance coverage for locations within the United States or any territory or possession of the United States for losses arising out of acts of terrorism, as defined and certified in accordance with the provisions of the act.

YOU SHOULD KNOW THAT WHERE COVERAGE IS PROVIDED FOR LOSSES RESULTING FROM CERTIFIED ACTS OF TERRORISM, SUCH LOSSES MAY BE PARTIALLY REIMBURSED BY THE UNITED STATES GOVERNMENT UNDER A FORMULA ESTABLISHED BY FEDERAL LAW. UNDER THIS FORMULA, THE UNITED STATES GOVERNMENT GENERALLY PAYS 80% OF COVERED TERRORISM LOSSES EXCEEDING A STATUTORILY ESTABLISHED DEDUCTIBLE PAID BY THE INSURER REFERENCED ABOVE. **ALSO, THERE IS A \$100,000,000,000 CAP ON THE FEDERAL AND INSURER SHARE OF LIABILITY STATING THAT IF THE AGGREGATE INSURED LOSSES EXCEED \$100,000,000,000 DURING ANY CALENDAR YEAR, NEITHER THE UNITED STATES GOVERNMENT NOR ANY INSURER THAT HAS MET ITS INSURER DEDUCTIBLE SHALL MAKE PAYMENT OR BE LIABLE FOR ANY PORTION OF THE AMOUNT OF SUCH LOSSES THAT EXCEED \$100,000,000,000.** THE PREMIUM CHARGED FOR THIS COVERAGE IS PROVIDED BELOW AND DOES NOT INCLUDE ANY CHARGES FOR THE PORTION OF LOSS COVERED BY THE FEDERAL GOVERNMENT UNDER THE ACT.

ACCEPTANCE OR REJECTION OF TERRORISM INSURANCE COVERAGE: UNDER FEDERAL LAW, YOU HAVE THE RIGHT TO ACCEPT OR REJECT THIS OFFER OF COVERAGE FOR TERRORIST ACTS COVERED BY THE ACT AS PART OF YOUR RENEWAL POLICY. IF WE DO NOT RECEIVE THIS SIGNED DISCLOSURE FORM PRIOR TO THE RENEWAL POLICY EFFECTIVE DATE OF OCTOBER 1, 2020, THEN YOUR RENEWAL POLICY WILL REFLECT YOUR DECISION NOT TO PURCHASE THE TERRORISM COVERAGE PROVIDED BY THE ACT.

_____ I hereby elect to purchase coverage for terrorist acts covered by the act for an annual premium of USD 36,711. This premium does not include applicable taxes or surcharges.

_____ I hereby decline this offer of coverage for terrorist acts covered by the act.

_____ Policyholder/Applicant Signature

_____ Print Name

_____ Date

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Policyholder/Applicant Signature

Print Name

Date]

RESOLUTION 2020-226

WHEREAS, the City's Utility Department subscribes to insurance for boiler and machinery, property, peril and fire coverage; and

WHEREAS, the boiler and machinery, property, peril and fire coverage insurance term expires October 1, 2020; and

WHEREAS, the insurance of electric and water utilities facilities is a specialized market with a limited number of potential providers; and

WHEREAS, a proposal to renew insurance for the 2020 – 2021 fiscal year was received from the current provider, Factory Mutual Insurance Company of St. Louis, Missouri, for a renewal premium of \$572,114, and terrorism coverage for \$36,711; and

WHEREAS, the City has opted to accept the optional Terrorism Insurance Coverage; and

WHEREAS, the insurance provider requires that the City either except or reject Terrorism Insurance Coverage by executing the form provided.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that the proposal of Factory Mutual Insurance Company of St. Louis, Missouri, with premium in the amount of \$572,114, and to execute the form to accept Terrorism Insurance Coverage, with a premium in the amount of \$37,711. The Mayor is hereby authorized to sign the acceptance form for the Terrorism Insurance on behalf of the City of Grand Island.

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Adopted by the City Council of the City of Grand Island, Nebraska, September 22, 2020.

Roger G. Steele, Mayor

Attest:

RaNae Edwards, City Clerk

Approved as to Form	☐ _____
September 18, 2020	☐ City Attorney