Commercial Property Insurance

City of Dallas
Finance, Audit, & Accountability Committee
September 26, 2005
Purpose

• Brief Committee of commercial property insurance program for the City of Dallas
• Review Request-For-Proposal process
• Explain outcome of evaluations
• Recommend contract award for commercial property insurance
Background

- City of Dallas has property valued at over $3 billion
- Prior to September 11, all of the City’s property value was covered by insurance against loss
- Post 9/11 the City had difficulty in securing insurance for total value of property and now covers only a portion of total property value, although all facilities are under coverage
Recommended Coverage

• The $1.5 billion coverage is based on protecting the City from a major downtown disaster:
  – Convention Center $768m
  – Heliport $33m
  – Central Library $250m
  – City Hall & Garage $222m
  – Reunion Arena $121m
  – Jack Evans Police Headquarters $63m
  – Jack Evans Garage $0.8m
  – Total $1.47billion
Request for Proposals

- RFP was issued 3/31/2005
- Proposals due 8/15/2005
- Evaluation Criteria:
  - Responsiveness to the RFCSP – 45%
  - Cost – 40%
  - Proposer and Insurer Qualifications – 10%
  - Services Rendered – 5%
- Evaluation of proposals was completed by Aon, which is the City of Dallas’ broker of record
- Aon recommends City stay with Arthur J. Gallagher Risk Management Services Inc.
- Current coverage expires October 1, 2005
Deductibles

• Proposal requested deductibles of $250k (current amount), $500k, and $1m

• Premiums discount for higher deductibles per occurrence:
  – $500K Deductible reduces premium cost by $127,601
    • One occurrence over $377,601 would negate any savings
  – $1M Deductible reduces premium cost by $231,494
    • One occurrence over $481,494 would negate any savings

• Recommendation to keep current deductible at $250,000
Terrorism Insurance

• Federal program put in place after 9/11 to limit insurance companies’ exposure due to terrorism
  – Federal program expires 12/31/05
• Most industry experts expect some form of Terrorism Risk Insurance Act (TRIA) coverage to be renewed
• Pricing includes $200m of terrorism coverage
Recommended Vendor

- Arthur J. Gallagher is current City vendor
- Layers of coverage is from “A” rated carriers (list of AM Best financial strength ratings attached)
- Pricing is slightly higher than only other complete proposer
  - Arthur J. Gallagher $2,610,321
  - McGriff, Seibels & Williams $2,599,997
- Texas Municipal League risk pool is included as part of the layered coverage for Gallagher
Other Considerations

• Decision to award to Arthur J. Gallagher also due to a majority of layers of coverage being admitted carriers in the State of Texas
  – Five of eight companies are admitted

• Other proposers has only three of nine admitted companies

• Admitted companies are licensed and authorized to do business in State of Texas
  – Admitted companies are backed by a guaranty fund which ensures claims against insurance companies that fail are paid
Next Steps

• Recommend approval of September 28, 2005 agenda item #85
• Approve contract with vendor on September 28, 2005 City Council Agenda