



MEMORANDUM

TO: Burlington Board of Finance (BOF)
Burlington City Council (BCC)
Board of Electric Commissioners (BEC)

FROM: Paul G. Alexander, Manager of Risk Management & Governmental Affairs

DATE: August 28th, 2013

SUBJECT: **B.E.D.'s Property/Boiler and Machinery (B&M) Insurance renewal**

Recommendation:

That the Burlington Finance Board, City Council and Electric Commissioners authorize the Electric Department to renew our Property/B&M Insurance with NU/Chartis/AIG.

Discussion:

Our current Property/B&M Insurance coverage with NU/Chartis/AIG is scheduled to expire on 10/1/2013 for which we currently pay a premium of \$202,000. Through our broker/agent (Paul Plunkett of Hickok & Boardman) we have been in the process of securing bids from major carriers AIG, Chubb and Liberty Mutual (see attached pdf's *H&Bcovlet2013* and *H&Bcomp2013*). Of the responses, the incumbent carrier (AIG) is offering by far the best terms. Their quote of \$228,260 is **13.0%** higher compared to last year's premium with the same sub-limits and deductibles and **5.1%** higher compared to what was estimated in the FY'14 budget (\$217,150). Chubb's quote was \$273,306 and Liberty Mutual indicated that could not compete with either AIG or Chubb on price. Our Property total insurance value (TIV) of \$248,460,000 is **8.00%** higher compared to last year's \$230,060,000 TIV, and AIG's very competitive rate of \$.0919 per \$100 of TIV (vs. last year's \$0.0878) accounts for the remaining **4.63%** of the total 13.0% premium increase (see attached *PROP Prem History 2013.xlsx*). In summary, we are seeking approval to bind this coverage with NU/Chartis/AIG at a price of \$228,260.

Impact on Budget:

Our FY'14 budgeted amount of \$213,363 (produced in January 2013) was calculated using 3 months at the "current/known" premium amount (\$202,000) and 9 months at the projected amount (\$217,150) which was at the **estimated 7.5% increase** over the known amount of \$202,000. Please note our insurance policy period is from 10/1/13 to 10/1/14, whereas our fiscal year period is from 7/1/13 through 6/30/14.

Respectfully submitted,

Paul G. Alexander, CPCU, ARM-P
Manager of Risk Management & Governmental Affairs

c: Barbara Grimes, General Manager



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August 19, 2013

Mr. Paul G. Alexander, CPCU
Manager of Risk Management and Governmental Affairs
Burlington Electric Department
585 Pine Street
Burlington, VT 05401

RE: Burlington Electric Department's Property Insurance Renewal

Dear Paul:

Attached is the spreadsheet comparing the current policy term to the renewal term effective October 1, 2013 to October 1, 2014. I have also included for your review and use a copy of our "marketing comparison".

Due to the impact to the property insurance market centered around weather related claim activity over the last twenty-four months, it was an ideal time to bring Burlington Electric Department's property insurance coverage's to market. We submitted all of Burlington Electric Department's pertinent property underwriting information to AIG (BED's current insurer), Chubb Insurance Energy Underwriting Division, as well as Liberty Mutual Insurance Energy Underwriting Division to facilitate a competitive bid of Burlington Electric Departments Property Insurance Exposures.

AIG Insurance Company responded with the most competitive renewal bid for the new annual policy term (10-1-2013 to 10-1-2014) at \$228,260. Chubb Insurance Company submitted an annual premium bid of \$273,306 and Liberty Mutual Insurance Company submitted a response indicating that they would be uncompetitive in pricing with both AIG and Chubb Insurance. They did not specifically define a premium in their response.

AIG's renewal premium of \$228,260, constitutes a 4.63% rate increase over the prior policy term. This combined with a increase in property values, as submitted by Burlington Electric Department, of 8% produced an increase in premium, over the prior policy term, of 13%.

The 4.63% rate increase is still well below the current property insurance market rate increases of between 10% and 25%. This is primarily due to Burlington Electric Departments excellent claims history and to the longevity of the relationship between AIG and Burlington Electric Department.

In Alliance with The Hickok & Boardman Network of Companies

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Should you have any questions regarding the Property Insurance renewal offering to Burlington Electric Department from AIG, please do not hesitate to contact me.

Sincerely,

Paul E. Plunkett, CIC
Senior Vice President/Principal
Hickok & Boardman, Inc,

In Alliance with The Hickok & Boardman Network of Companies

City of Burlington Electric Department Property Comparison

		2012-2013	2013-2014	% Change
		Amount or Rate:	Amount or Rate:	
COMMERCIAL PROPERTY				
I. Property Limit				
	<i>Total Insurable Value</i>	230,060,000	248,460,000	8.00%
	<i>Rate</i>	230,060,000	248,460,000	8.00%
		0.0878	0.0919	4.63%
II. Coverage Sub-Limits				
	<i>Railcars</i>			
	<i>Trestle</i>	2,348,000	2,345,000	-0.13%
		2,040,000	2,104,000	3.14%
Commercial Property Premium		202,000	228,260	13.00%
			<i>Premium is subject to home office approval</i>	

City of Burlington Electric Department
Property
MARKETING COMPARISON 2013

COVERAGE	EXPIRING (AIG)	RENEWAL (AIG)	QUOTE (Chubb)	QUOTE (Liberty)
Commerical Property	\$202,000	\$228,260	\$273,306	Unable to compete at current premium level
			indication based on review of exposures	
AM Best Rating	A	A	A+	A
Limit	230,060,000	248,460,000	248,460,000	248,460,000



Updated as of 8/19/2013



BURLINGTON ELECTRIC DEPARTMENT
Property/B&M Insurance Policies
Premium/TIV History
8/22/2013

POLICY PERIOD:															
#:	Carrier	Broker/ Agent	From mm	dd	yyyy	To mm	dd	yyyy	Actual Premium	Annual Premium	Annual % Chg	Total Insurable Values	TIV Change	Price per \$100 TIV	Price per \$100 TIV: Cap
1	NU/Chartis/AIG	H&B	10	1	2013	10	1	2014	\$228,260	\$228,260	13.00%	\$248,460,000	8.00%	\$0.0919	n/a
2	NU/Chartis/AIG	H&B	10	1	2012	10	1	2013	\$202,000	\$202,000	11.13%	\$230,060,000	3.55%	\$0.0878	n/a
3	NU/Chartis ⁽³⁾ ⁽⁴⁾	H&B	9	25	2011	10	1	2012	\$184,750	\$181,762	2.69%	\$222,183,000	5.14%	\$0.082	n/a
4	NU/Chartis/AIG ⁽²⁾	GRA	8	25	2010	9	25	2011	\$191,750	\$177,000	-6.8%	\$211,323,000	0.47%	\$0.084	\$0.089
5	NU/Chartis/AIG ⁽¹⁾	GRA	8	25	2009	8	25	2010	\$190,000	\$190,000	18.4%	\$210,339,000	18.66%	\$0.090	\$0.095
6	HS&B/AIG	GRA	8	25	2008	8	25	2009	\$160,420	\$160,420	-8.3%	\$177,259,000	7.66%	\$0.091	n/a
7	HS&B/AIG	GRA	8	25	2007	8	25	2008	\$175,000	\$175,000	-2.5%	\$164,645,000	7.05%	\$0.106	n/a
8	HS&B/AIG	GRA	8	25	2006	8	25	2007	\$179,500	\$179,500	-13.3%	\$153,799,000	6.29%	\$0.117	n/a
9	Starr Tech/HS&B/AIG	GRA	8	25	2005	8	25	2006	\$207,000	\$207,000	-8.0%	\$144,695,000	0.86%	\$0.143	n/a
10	Starr Tech/HS&B/AIG	GRA	8	25	2004	8	25	2005	\$225,000	\$225,000	-4.3%	\$143,460,000	3.55%	\$0.157	n/a
11	Starr Tech/HS&B/AIG	GRA	8	25	2003	8	25	2004	\$235,000	\$235,000	27.0%	\$138,539,000	n/a	\$0.170	n/a
12	Starr Tech/HS&B/AIG	GRA	8	25	2002	8	25	2003	\$185,000	\$185,000	5.7%				
13	FM Global	GRA	8	25	2001	8	25	2002	\$175,000	\$175,000	146.1%				
14	CIGNA/ACE USA	GRA	8	25	1998	8	25	2001	\$213,353	\$71,118	-24.2%				
15	CIGNA	GRA	8	25	1995	8	25	1998	\$281,291	\$93,764	-6.9%				
16	HS&B	SS	1	20	1995	1	20	1996	\$100,720	\$100,720	10.4%				
17	HS&B	SS	1	20	1994	1	20	1995	\$91,244	\$91,244	n/a				

Note: AIG sold HS&B to Munich Re in December, 2008
 AIG renamed P/C business as "Chartis" on July 27, 2009

GRA=Global Risk Associates
 SS=Starkweather & Shepley: NEPPA
 H&B=Hickok & Boardman, Inc.

- ⁽¹⁾ TIV was limited to \$200,000,000 coverage on 8/25/09
- ⁽²⁾ Policy period extended to 13 months at same rate (now expires on 9/25/11)
- ⁽³⁾ Policy period extended by 6 days to 10/1 (now expires on 10/1/12)
- ⁽⁴⁾ TIV back to full limits (\$222,183,000 on 9/25/11)