



March 30, 2020

Item No. 5

## **AUTHORIZATION TO PURCHASE INSURANCE COVERAGES FOR CHA'S PROPERTY MANAGERS' INSURANCE PROGRAM.**

Presenter: Patricia Rios, Chief Administration Officer

### **RECOMMENDATION**

It is recommended that the Board of Commissioners of the Chicago Housing Authority ("CHA") authorize the Acting Chief Executive Officer, or his designee, to purchase insurance coverage for CHA's Property Managers' Insurance Program ("PMIP") through its insurance broker of record, Arthur J Gallagher & Company ("AJG"), for the period of April 1, 2020 through March 31, 2021, for an aggregate not-to-exceed amount of \$1,303,964.00, based on a fixed-rate contract comprised of the following: (1) A CHA self-insurance program with Zurich Insurance Group as the fronting insurer for a premium amount of \$114,000.00, in addition to a collateral deposit requirement of \$400,000.00<sup>1</sup>; (2) Lead Excess Liability coverage written through General Star Indemnity Company for a premium amount of \$629,964.00; and (3) Secondary Excess Liability written through Allied World Assurance Company ("AWAC") for a premium amount of \$160,000.00.

The requested action complies in all material respects with all federal, state, and local laws and Chicago Housing Authority board policies. Staff have completed all necessary due diligence to support the submission of this initiative.

### **FUNDING**

General Fund

### **BACKGROUND**

The Property Managers' Insurance Program was created in 1999 as the solution to provide liability protection for the CHA and its property management firms, during a period when no insurer would cover the CHA's extreme risks. The PMIP is defined as an "Owner-Controlled Insurance Program" or OCIP. By purchasing insurance to cover all liabilities associated with the management of a portfolio, the CHA, as owner, can control claims and expenses within the self-insured layer (SIR) while maintaining consistent coverage for itself and each property management firm, even when management firms or insurers change.

### **PROCUREMENT PROCESS**

CHA utilizes a commercial insurance brokerage firm to place all Property & Casualty insurance coverages, because insurance products can only be purchased through a licensed insurance broker. In 2001, CHA received an exemption from HUD allowing it to purchase insurance through a licensed insurance broker.

---

<sup>1</sup> The collateral deposit serves as security to ensure satisfaction of a future liability and allows fronting insurer, Zurich Insurance Group, to address its credit risk for the fronting option. The amount is derived off modeling, CHA's financials, and program loss history and can be reduced in future years based on loss history of the program.

As CHA's broker of record since 2015, this is the fifth PMIP insurance placement conducted by Arthur J. Gallagher. The solicitation process includes submitting insurance specifications, claim data, and resident demographics to underwriters to formulate pricing for insurance coverage. The specifications were submitted to 60 insurers for consideration on either the primary or excess layers.

### **COVERAGE STRUCTURE**

Historically, CHA has placed an aggregate of \$22 million in liability coverage. These limits are achieved by three policy layers: (1) primary General Liability up to \$2 million; (2) Lead Excess Liability, which provides coverage in the \$2 million – \$12 million layer; and (3) Excess Liability, which provides coverage for the \$12 million - \$22 million layer.

This year's placement has been met with several challenges. After several years providing CHA's primary and excess insurance, the incumbent insurer, First Specialty has left the habitational insurance market. Finalized quotes remain pending from the incumbent excess insurers since those layers are dependent upon the primary placement. The current market and economic conditions have left us with several declinations. Arthur J. Gallagher has exhaustively explored alternative program structures and retentions in an effort to provide the most cost-effective solution for the coverages necessary to protect the PMIP operations.

General Liability (Self-Insured) (Zurich Insurance Group as fronting insurer) (\$0 to \$2,000,000)
[Lead] Excess Liability (General Star Management Company) \$2,000,001 to \$12,000,000
[Secondary] Excess Liability (Allied World Assurance Company) \$12,000,001 to \$22,000,000

One of the more viable options is for CHA to self-insure for the first \$2 million. Although this option provides a significant premium savings, it does expose CHA to the risk for large loss claims. Given the PMIP's loss experience over the past decade, however, historical losses support this structure compared to the fixed cost model. To continue to build an excess liability tower for catastrophic protection, CHA will need a licensed insurance carrier to serve as a fronting insurer for the self-insured general liability layer. The fronting carrier is subject to credit risk; thus, a premium is charged for this arrangement, along with a collateral deposit requirement to ensure satisfaction of future liability.

Respectfully submitted:

---

Patricia Rios  
Chief Administrative Officer

**RESOLUTION NO. 2020-CHA-XX**

**WHEREAS,** the Board of Commissioners of the Chicago Housing Authority has reviewed the Board letter dated March 30, 2020 entitled: **AUTHORIZATION TO PURCHASE INSURANCE COVERAGES FOR CHA'S PROPERTY MANAGERS' INSURANCE PROGRAM.**

**THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISISONERS OF THE CHICAGO HOUSING AUTHORITY:**

**THAT,** the Board of Commissioners authorizes the Acting Chief Executive Officer, or his designee, to purchase insurance coverage for the Chicago Housing Authority's Property Managers' Insurance Program through its insurance broker of record, Arthur J Gallagher & Company , for the period of April 1, 2020 through March 31, 2021 for an aggregate not-to-exceed amount of \$1,303,964.00, based on a fixed-rate contract comprised of the following:: (1) A CHA self-insurance program with Zurich Insurance Group as the fronting insurer for a premium amount of \$114,000.00, in addition to a collateral deposit requirement of \$400,000.00; (2) Lead Excess Liability coverage written through General Star Indemnity Company for a premium amount of \$629,964.00; and (3) Secondary Excess Liability written through Allied World Assurance Company for a premium amount of \$160,000.00.

This award is not subject to MBE/WBE/DBE or Section3 compliance requirements.

---

James L. Bebley  
Acting Chief Executive Officer  
Chicago Housing Authority