

Executive Summary

Board of Governors Meeting, September 22, 2021

Directors and Officers Insurance

Topic

Citizens is requesting approval to contract for Directors and Officers Liability Insurance for a one-year policy term. The proposed coverage is through one primary policy and two excess policies for a total aggregate limit of \$20 million. Primary coverage is through Starr Surplus Lines Insurance Company for \$10 million in coverage. Excess coverage is through Argonaut Insurance Company and ACE American (Chubb) for an additional \$5 million of coverage each.

History

Citizens has purchased Directors and Officers Liability Insurance on an annual basis for more than five years. This coverage provides liability insurance payable to the directors and officers of a company, or to the organization itself, to cover damages or defense costs in the event that such losses are incurred as a result of a lawsuit or alleged wrongful acts while acting in their capacity as directors and officers for the organization. Directors and Officers Liability insurance is supplemental to the principal protections against liability for Citizens and its Board members, officers, and employees. The principal protections are statutory immunity and indemnification afforded under Citizens' Plan of Operation. Directors and Officers Liability Insurance reimburses losses and defense costs for covered losses to Citizens, or to covered individuals when such individuals are not indemnified.

These policies include a total of \$20 million in coverage. Primary coverage is provided through Starr Surplus Lines Insurance Company with a \$10 million aggregate limit. This primary policy includes a \$225,000 retention for a claim against Citizens or a covered individual who is indemnified by Citizens. It includes a \$0 retention for a covered individual who is not indemnified by Citizens. The policy also includes a \$1 million sublimit and a \$5,000 retention for fiduciary liability claims, such as an alleged breach of responsibilities relating to an employee retirement plan.

An additional \$10 million in coverage is provided through the two proposed excess policies. The first \$5 million in additional coverage is through Argonaut. The second \$5 million of coverage is through ACE American. Citizens has purchased its primary Directors and Officers policy from Starr since 2015, and an excess layer from Argonaut since 2017. ACE American is a new carrier for Citizens.

Quotes for this coverage were obtained by our contracted Business Insurance Agent of Record, Arthur J. Gallagher. Gallagher is responsible for soliciting quotes from the market and presenting them to Citizens with a comparative analysis and recommendations. This contract with Gallagher was procured in 2021 pursuant to Request for Proposal No. 21-0008 for Business Insurance Agent of Record. Citizens' evaluation team recommended

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Gallagher for award on June 08, 2021. The Board approved the contract on July 14, 2021. It includes a three (3) year base term and a two (2) year renewal term.

Gallagher approached 23 companies for quotes this year. Most carriers declined to quote citing reasons such as the nature of Citizens' operations or inability to offer competitive pricing. ACE American is recommended over the incumbent, QBE, for the second excess layer of \$15-\$20 million, as they quoted \$7,000 cheaper than QBE.

The total cost of coverage is \$307,783, consisting of \$198,679 for Starr, \$59,604 for Argonaut, and \$49,500 for ACE American. The cost for this coverage increased approximately eighteen percent (18%) from last year. Gallagher reports that this is consistent with the market, with primary carriers generally requiring increases between ten and twenty percent (10-20%). Our cost for this coverage increased thirteen percent (13%) for our renewal last year.

Recommendation

Staff recommends that the Board of Governors:

- a) Authorize the purchase of Directors and Officers Liability Insurance for a one-year term beginning October 1, 2021 and ending on September 30, 2022, with primary coverage through Starr Surplus Lines Insurance Company and excess coverage with Argonaut and QBE, for total coverage of \$20 million with a total annual premium of \$307,783, as set forth in this Action Item; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

ACTION ITEM

New Contract

Contract Amendment

Other _____

CONSENT ITEM

Contract Amendment

Existing Contract Extension

Existing Contract Additional Spend

Previous Board Approval _____

Other _____

Action Items: Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

Move forward as Consent: This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

Consent Items: Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

Item Description	Directors and Officers Liability Insurance
<p>Purpose/Scope</p>	<p>Citizens is requesting approval to purchase Directors and Officers Liability Insurance for a one-year term beginning on October 1, 2021 and ending on September 30, 2022. This coverage provides liability insurance payable to the directors and officers of a company, or to the organization itself, to cover damages or defense costs in the event that such losses are incurred as a result of a lawsuit or alleged wrongful acts while acting in their capacity as directors and officers for the organization. Citizens has purchased Directors and Officers Liability Insurance on an annual basis for more than five years.</p> <p>Directors and Officers Liability Insurance is supplemental to the principal protections against liability for Citizens and its Board members, officers, and employees. The principal protections are statutory immunity and indemnification afforded under Citizens’ Plan of Operation. Directors and Officers Liability Insurance reimburses losses and defense costs for covered losses to Citizens, or to covered individuals when such individuals are not indemnified.</p> <p>The proposed policies include a total of \$20 million in coverage. Primary coverage is provided through Starr Surplus Lines Insurance Company with a \$10 million aggregate limit. The next \$5 million of coverage is through Argonaut. The remaining \$5 million of coverage is through ACE American. The cost for this coverage increased approximately eighteen percent (18%) from last year.</p>

Contract ID	Directors and Officers Liability Insurance Starr Surplus Lines Insurance Company Argonaut Insurance Company ACE American Insurance Company (Chubb) Arthur J. Gallagher – Business Insurance Agent of Record Contract No. 21-21-0008-00																	
Budgeted Item	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No																	
Procurement Method	Quotes for this coverage were obtained by our contracted Business Insurance Agent of Record, Arthur J. Gallagher. Gallagher is responsible for soliciting quotes from the market and presenting them to Citizens with a comparative analysis and recommendations. This contract with Gallagher was procured in 2021 pursuant to Request for Proposal No. 21-0008 for Business Insurance Agent of Record. The Board approved the contract on July 14, 2021. It includes a three (3) year base term and a two (2) year renewal term.																	
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Contract Terms	The term for all three policies is October 1, 2021 to September 30, 2022. Insuring Company: Starr Surplus Lines Insurance Company Financial Strength: A (Excellent) A.M. Best Rating Excess Company: Argonaut Insurance Company (Admitted) Financial Strength: A- (Excellent) A.M. Best Rating Excess Company: ACE American Insurance Company (Chubb) (Admitted) Financial Strength: A++ (Superior) A.M. Best Rating																	

Board Recommendation from Committee	Staff recommends that the Board of Governors: a) Authorize the purchase of Directors and Officers Liability Insurance for a one-year term beginning October 1, 2021 and ending on September 30, 2022, with primary coverage through Starr Surplus Lines Insurance Company and excess coverage with Argonaut and ACE American, for total coverage of \$20 million with a total annual premium of \$307,783, as set forth in this Action Item; and a) Authorize staff to take any appropriate or necessary action consistent with this Action Item.
Contacts	Tim Cerio, General Counsel and Chief Legal Officer