

Executive Summary

Board of Governors Meeting, September 21, 2022

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 Federal Insurance Company (Chubb) for \$10 million in coverage. Excess coverage is through Argonaut Insurance Company and Twin City Fire Insurance Company (Hartford) 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 incurred from a lawsuit or alleged wrongful acts while acting in the capacity of a directors or 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 Federal Insurance Company (Chubb) 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 \$3 million sublimit and a \$10,000 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 Twin City Fire Insurance Company (Hartford). Citizens has purchased an excess layer of coverage from Argonaut since 2017. Citizens did not previously purchase an excess layer through Hartford, but it is a highly rated carrier with an A+ (Superior) rating from A.M. Best.

This is the first year that Citizens has purchased primary coverage through Federal Insurance Company (Chubb). Chubb provided \$5 million in coverage last year through an excess layer. Chubb is a highly respected carrier with a strong and well tested coverage form. Coverage is as good or better than under Citizens' prior policy with Starr. Citizens purchased its primary Directors and Officers policy from Starr for many years, but Starr elected against offering a renewal this year based on a more general decision regarding their exposures.

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Quotes for 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 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 21 companies for quotes this year. Most carriers declined to quote citing reasons such as lack of appetite to write additional risks or inability to offer competitive pricing. Federal Insurance Company (Chubb) is recommended over Argo for the primary coverage. Chubb has a top tier reputation and coverage form. Chubb's pricing is also comparable to Argo's after factoring in Argo's lower coverage limits, as that would increase costs for excess coverage.

The total cost of coverage is \$265,370.34, consisting of \$175,705.20 for Chubb, \$47,335.14 for Argonaut, and \$42,330 for Hartford. The cost for this coverage decreased approximately fourteen percent (14%) from 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, 2022 and ending on September 30, 2023, with primary coverage through Federal Insurance Company (Chubb) and excess coverage with Argonaut and Twin City Fire Insurance Company (Hartford), for total coverage of \$20 million with a total annual premium of \$265,370.34, 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
Purpose/Scope	<p>Citizens is requesting approval to purchase Directors and Officers Liability Insurance for a one-year term beginning on October 1, 2022 and ending on September 30, 2023.</p> <p>The proposed policies include a total of \$20 million in coverage. Primary coverage is provided through Federal Insurance Company (Chubb) with a \$10 million aggregate limit. The next \$5 million of coverage is through Argonaut. The remaining \$5 million of coverage is through Twin City Fire Insurance Company (Hartford). The total cost for coverage decreased approximately fourteen percent (14%) from last year.</p> <p>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 incurred from a lawsuit or alleged wrongful acts while acting in the capacity of a director or officer for the organization.</p>
Contract ID	<p>Directors and Officers Liability Insurance</p> <p>Federal Insurance Company (Chubb)</p> <p>Argonaut Insurance Company</p> <p>Twin City Fire Insurance Company (Hartford)</p> <p>Arthur J. Gallagher – Business Insurance Agent of Record</p> <p>Contract No. 21-21-0008-00</p>
Budgeted Item	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>

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	<p>The term for all three policies is October 1, 2021 to September 30, 2022.</p> <p>Insuring Company: Federal Insurance Company (Chubb) (Admitted) Financial Strength: A++ (Superior) A.M. Best Rating</p> <p>Excess Company: Argonaut Insurance Company (Admitted) Financial Strength: A- (Excellent) A.M. Best Rating</p> <p>Excess Company: Twin City Fire Insurance Company (Hartford) (Admitted) Financial Strength: A+ (Superior) A.M. Best Rating</p>																
Board Recommendation from Committee	<p>Staff recommends that the Board of Governors:</p> <ul style="list-style-type: none"> a) Authorize the purchase of Directors and Officers Liability Insurance for a one-year term beginning October 1, 2022, and ending on September 30, 2023, with primary coverage through Federal Insurance Company (Chubb) and excess coverage with Argonaut and Twin City Fire Insurance Company (Hartford), for total coverage of \$20 million with a total annual premium of \$265,370.34, as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. 																
Contacts	Tim Cerio, General Counsel and Chief Legal Officer																