

Executive Summary

Board of Governors Meeting, September 27, 2023

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 many 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 director or officer 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. This is the second year that Citizens has purchased primary coverage through Chubb. Chubb is a highly respected carrier with a strong and well tested coverage form.

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 first purchased an excess layer through Hartford last year.

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. Citizens procured the contract with Gallagher 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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Gallagher approached 19 companies for quotes this year. Most declined to quote citing reasons such as inability to offer competitive pricing or lack of appetite to write additional risks. Chubb offered renewal coverage with a premium increase of 6.7 percent, which included significant pricing concessions from the initial quote. The offer is viewed as favorable given Citizen's year-to-year revenue increase and Chubb's strong coverage. The renewal offers from Argo and Hartford are also favorable with premium increases of approximately 3.1 percent and 1 percent respectively.

The total cost of coverage is \$279,067.83, consisting of \$187,537.83 for Chubb, \$48,816.00 for Argonaut, and \$42,714.00 for Hartford. The cost for this coverage increased approximately 5 percent, as compared to a decrease of approximately 14 percent 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, 2023 and ending on September 30, 2024, 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 \$279,067.83, as set forth in this Action Item; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

Directors and Officers Liability Insurance

☒ 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, 2023 and ending on September 30, 2024.</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 increased approximately 5 percent 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>

Directors and Officers Liability Insurance

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. Citizens procured this contract with Gallagher 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.			
Contract Amount	<u>Policy</u>	<u>Insurance Carrier</u>	<u>Premium</u>	<u>Increase %</u>
	Directors & Officers (\$10 million primary coverage)	Federal Insurance Company (Chubb)	\$187,537.83	6.7 %
	Directors & Officers (additional \$5 million over \$10 million for a total of \$15 million)	Argo	\$48,816.00	3.1 %
	Directors & Officers (additional \$5 million over \$15 million for a total of \$20 million)	Twin City Fire Insurance Company (Hartford)	\$42,714.00	1 %
Contract Terms	The term for all three policies is October 1, 2023 to September 30, 2024. Insuring Company: Federal Insurance Company (Chubb) (Admitted) Financial Strength: A++ (Superior) A.M. Best Rating Excess Company: Argonaut Insurance Company (Admitted) Financial Strength: A- (Excellent) A.M. Best Rating Excess Company: Twin City Fire Insurance Company (Hartford) (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, 2023 and ending on September 30, 2024, 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 \$279,067.83, as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.			
Contacts	Ken Tinkham, Acting General Counsel			