



COVERAGE, CLAIMS & LITIGATION COMMITTEE
Meeting Minutes

Thursday, September 13, 2011
IRMA Office – 9:30 a.m.

PRESENT: Kathleen Gargano, Chair
Jim Marino
Curt Barrett
Colleen Nigg
Bridget Wachtel

ALSO PRESENT: Susan Garvey
Larry Bush
Dan LeTourneau
Mary Henzler

ABSENT: Keith Sbiral
Peter Scalera

I. CALL TO ORDER

Chair Gargano called the meeting to order at 9:30 a.m. Roll was taken and a quorum declared.

II. APPROVAL OF MINUTES – February 15, 2011

A motion was made by Barrett and seconded by Wachtel to approve the Coverage, Claims & Litigation Committee meeting minutes of February 15, 2011. A voice vote was called and the motion carried.

III. CLAIMS & LITIGATION REPORTS

A. Claims Operational Report – August 31, 2011

Bush noted that things continue to go reasonably well, recalling that 2009 had a dramatic drop in claims from 2008. The claims count went back up in the last year and is now fairly flat across the Board for this year.

B. Summary Loss Report as of July 31, 2011

Bush noted that this report is run for historical purposes, but doesn't really show a lot.

C. Litigation Reports

1. New Liability Claims Report

Bush stated that this report shows what claims have come in since the beginning of the year, and there is nothing highly unusual.

2. Closed Liability Claims Report

Bush noted that this report contains several huge claims that he didn't realize until this morning were showing up on this report, that are actually claims from Reliance Insurance Company that has gone into liquidation. Bush stated that several years ago we wrote off three quarters of what we expected to get from Reliance, and we have just learned in the last six months that we won't be getting anything. The

claims were written off in 2010 and have already gone through our audit. Therefore, none of these large claims are current, but are just showing up in the report now.

3. Litigation Management Report

Bush noted that this report shows legal expenses year-to-date and commented that legal expenses are pretty flat compared to last year, which is good news.

IV. COVERAGE RENEWAL

LeTourneau reviewed the chart in the packet outlining the 2012 Excess/Reinsurance Program for the renewal date of 11/1/11. LeTourneau commented that overall it has been a very good renewal.

Liability

LeTourneau reported that in Liability staff is recommending remaining with the same coverage structure with one rather large change, eliminating the \$1 million corridor deductible. Genesis will continue to cover the 2x \$3 million SIR to take us to \$5 million. Munich Reinsurance would then take us from \$5 million to our \$10 million liability limit. However, after the \$5 million layer, before we got to Munich Reinsurance, we took a \$1 million corridor deductible. IRMA was responsible for paying that first \$1 million over \$5 million layer. In the past, we received a much higher credit for keeping the \$1 million corridor deductible. This year we wanted to look at the corridor to see if it made sense financially to keep it, and it really doesn't. We are recommending the \$1 million corridor deductible be removed, which will save \$162,972 from the loss fund for \$81,323 in reinsurance premium, resulting in an estimated annual savings of \$81,649. Total 2012 liability cost with the clash coverage is \$1,050,448.

LeTourneau reported that both liability reinsurers agreed to rate reductions for 2012 – 5% for Genesis and 2.5% for Munich.

LeTourneau reported that staff is also recommending the same \$6 million Annual IRMA Aggregate Cap, which equates to two full pool self-insured retentions paid on behalf of one member in one year.

Workers' Compensation

LeTourneau reported that we are in the second year of a two-year rate commitment with Arch. Staff did ask for a rate reduction due to the legislature passing limited workers' compensation reforms, but Arch would not reduce their rate. LeTourneau noted that the premium increase quoted was solely due to payroll increase with no rate increase. Total 2012 workers' compensation cost is \$573,491.

Property

LeTourneau noted that property also came in at a flat rate. LeTourneau stated that staff did ask for a reduction. LeTourneau commented that even after all the significant property market catastrophes this year; we have received a very aggressive price from Travelers. The only premium increase is due to increase in Total Insurable Values of 11% for 2012, including one new member. The total 2012 property cost is \$709,938.

Crime

LeTourneau reported that a full marketing effort was conducted and we are still waiting for a quote from Chartis (formerly AIG). LeTourneau noted that three carriers we went to refused to quote because the price and rate were too low. We want to see what Chartis puts on the table, although it is unlikely they will beat Travelers pricing. LeTourneau noted that Travelers did ask for a small increase of just under \$2500 and noted that they haven't had an increase in the last seven years and we have had multiple losses in the crime area. LeTourneau noted that if there is going to be a change from Travelers, staff would come back to this committee and the Executive Board. The total 2012 crime coverage cost is \$54,523.

Boiler & Machinery

LeTourneau reported that Travelers reduced the rate again for this year and the only premium increase in rate is due to the increase in property values. LeTourneau commented that this is a good program which also includes all onsite inspection services. The total 2012 boiler & machinery cost is \$51,969.

P.O. Bonds

LeTourneau reported that there is no real change with this coverage.

LeTourneau reported that the overall coverage renewal cost comes to \$2,445,248. However, this does not include the loss fund cost reduction of \$81,548 from the elimination of the \$1 million liability corridor deductible excess of \$5 million. The 2012 premium summary with the above loss fund savings would be \$2,363,600 or a 2.5% premium increase from 2011, due solely to increased exposures.

Optional Coverage Program

LeTourneau reported that we are in the third year of the Volunteer Accident/Disability program so there is no increase. For the Underground Storage Tank program, LeTourneau reported that we are awaiting the 2012 premium quote to determine the 2012 per tank pricing. In the Fiduciary Liability program, Towers Watson is going out to market. Travelers has provided their quote and we will see if anyone comes in at a lower rate. LeTourneau commented that in the Tenant/User program, we are asking Norman Spencer, program broker, to go to market to try and improve pricing and underwriting control. LeTourneau noted that the change would be transparent.

A motion was made by Marino and seconded by Nigg to approve the 2012 Excess/Reinsurance Coverage Program for the 11/1/Renewal date and the recommended \$6 million Annual IRMA Member Aggregate Cap. A voice vote was called and the motion carried.

V. COVERAGE FOR RECOVERY OF COSTS FOR STRAIGHT TIME

Garvey reported that this was a request from a member to bring this to the Coverage, Claims & Litigation Committee. Garvey stated that pursuant to the terms of the coverage document, we do not provide coverage for the straight time that a member incurs for their employees who go out and repair something damaged by a third party. We do provide coverage for what is called extra expense that would include overtime if they had to go out and expend overtime to fix something damaged by a third party. The

theory behind this is that a member would be paying their employees straight time no matter what.

Garvey stated that on a couple of occasions, when we have subrogated to a third party, a member has asked us to include their straight time costs.

Garvey noted that the member who brought this up has asked that this committee review this and decide whether we should include coverage for the straight time costs for repairing something that was damaged by a third party. That would then be included in our subrogation claim against that third party or insurance company.

The question is whether the membership wants to provide this coverage. If we decide to include this, then we would have to have some controls in place. Staff is suggesting the following:

- The damage being repaired must result from a covered cause of loss to covered property.
- The member must provide IRMA an estimate of the cost of the repair and receive prior written approval from IRMA for the repair.
- The straight time cost must not exceed the cost of a private contractor repair.

Gargano asked for an example where a member has asked for this. Bush stated that in a pollution clean up situation, if a member hired a private contractor to clean it up, that would be reimbursable. If they use their own staff to clean up, it is not reimbursable. It could actually be costing IRMA less to have a member use their own staff rather than a private contractor.

Bush noted that commercial insurance would never cover this.

Nigg asked whether this potentially could cause more paperwork or delay in getting something repaired with all the back and forth between member and IRMA. Garvey agreed that with the control of having IRMA approve the repair beforehand, would definitely cause delays. Wachtel noted that this would also drive up the claim cost and what impact would that have on the rate.

A motion was made by Gargano and seconded by Nigg to amend the coverage document to provide coverage for recovery costs for straight time labor for member employees to repair damage to village property. A voice vote was called and the motion failed, unanimously.

VI. EARTH MOVEMENT EXCLUSION – 1ST PARTY PROPERTY COVERAGE

Garvey stated that this came from a member, who had a pipe burst under their building causing damage to the foundation. Part of the repair included mud jacking under the building. Garvey explained that pursuant to three exclusions in the Property coverage document, the mud jacking was denied. Garvey noted that the denial was appealed and it was resolved with the member and IRMA agreed to pay half of the cost, which was minimal.

Garvey stated that we had another claim similar to this a few years ago at a much higher cost and we resolved that in the same way.

In looking at this again, staff didn't understand why we wouldn't pay for the mud jacking to prop up the building again. Staff is recommending a change to include that back into the Property coverage – to exclude the exclusion and pay for the mud jacking.

Garvey noted that an endorsement was distributed that was reviewed with the broker who has agreed to this language, which would add that coverage back in as a covered cost.

Bush noted that in both the cases Garvey cited earlier, the member would not be able to repair their building without the mud jacking, and it makes sense to add it back into the coverage.

Garvey noted that the proposed modifications included in the packet were not being proposed, but it was the endorsement handed out that was being proposed.

A motion was made by Wachtel and seconded by Marino to approve the endorsement to the Property coverage document as presented. A voice vote was called and the motion carried.

VII. REVIEW OF RESTRUCTURED COVERAGE DOCUMENTS

Garvey explained that staff took this project on because over the years the coverage document, which was started with the standard commercial policy, has been amended to reflect the changes that the membership wanted. The document has become very lengthy and confusing. We may have added an exclusion and then added an amendment that amends the exclusion and if you don't go back and look through the whole document, you may miss something. Garvey stated that the thought was to try and condense it. Garvey explained that the very clear amendments have been put into the body of the coverage document. There are still some amendments that we left. Those basically, are amendments that are adding coverage. Garvey explained that this was done for both the POL coverage document and the GL coverage document. Garvey noted that she felt that it really simplifies the understanding of the coverage document. Garvey also noted that in going through the documents it was noted that some clarifications were needed; not generally changes in coverage but clarifications in making it more understandable.

Clarification I – POL and GL -- broadens the exclusion of Village or City Attorneys as members contained in the Definition of Member to include all outside contracted professional service providers.

Clarification II – POL – Exclusion 1 – removal of any reference to the willful and wanton language and the exclusion be returned to its original version, so there wouldn't be coverage if a member received some type of a fee that they aren't entitled to. IRMA would not reimburse that but would provide a defense.

Clarification III – POL Exclusion 15 & GL Coverage A Exclusion 2.d. and Coverage B exclusion 2.d – currently excludes coverage for the Public Safety Employee Benefits Act, but not for other similar statutory benefits. Staff is recommending that this exclusion also pertain to similar statutory benefits like the Public Employee Disability Act.

Clarification IV – GL Definition of Member – the definition of member in the GL differs from the definition of member in the POL. Staff is recommending that the definition in

the GL mirror that of the POL, subject to one or two provisions that should remain from the GL.

The committee discussed this restructuring of the coverage documents. Wachtel stated that she was okay with all the clarifications, but had a procedural question. Wachtel questioned that if this was going to go the Board, and all of the amendments have been approved over time, why are we looking for re-approval versus distributing it as a restructuring or clerical update. Gravy stated that she thought staff thought that the membership would want to see the restructured document. If the committee feels that it doesn't need to go to the rest of the membership, then that is their decision.

Gargano noted that the clarifications would need to be approved; however, as for the restructured documents couldn't they just be introduced/distributed and note that they have just been restructured to make them more easily understood, or from a legal standpoint do we want to have it approved.

Garvey commented that she wouldn't say legally that we would have to have the Board vote on it, but didn't think there would be an issue with saying here's the document that we have restructured as of November 1 2011 – through November 1, 2012. The theory is that we want to take it through the membership so they can see that we did restructure these documents and if they do have their corporate counsel looking at it and saying that this isn't the same document, they can say that it was approved at the Board level.

Marino commented that he felt this was really a housekeeping matter, but doesn't have a problem with having it approved because it is just a cleaner way of doing things.

Marino asked how amendments would be handled going forward. Would they stand as is, and then after a few years, we are back to the same problem? Garvey stated that there would be a determination as to when that amendment would go into effect. If we are putting an amendment into effect in the middle of a coverage term, it would have to be an amendment. If we are putting it in at the beginning of the next coverage term, there wouldn't be a problem adding it into the body of the document.

The committee agreed that the restructured coverage documents should be presented to the Board as they were to this committee – redlined.

A motion was made by Marino and seconded by Wachtel to approve the four coverage clarifications as outlined on page 28 and 29 of the meeting packet. A voice vote was called and the motion carried.

A motion was made by Gargano and seconded by Wachtel to approve the restructured POL and GL coverage documents. A voice vote was called and the motion carried.

VIII. 2011 PRELIMINARY BUDGET

Bush noted that there are three items that need approval by the Coverage, Claims & Litigation Committee. The first item is the Claims Audit and Bush explained that we do this audit every three years and it has only been two, so we would not be contracting for an audit during 2012. The second item is Claims Administration and Bush explained that we still have a few claims with Gallagher that need to be administered. These are essentially workers' compensation claims where a widow is receiving benefits for a long time. The third item is Commercial Insurance Services, which has already been reviewed.

Bush reported on another item that was part of the Administration & Finance Committee's items under Personnel Services, but involves claims slightly. Bush noted that we are reducing the hours of the part-time med only person in claims, as she is much quicker at handling the claims than her predecessor. Therefore, that position is a ½ time position rather than slightly over a ½ time person. Bush noted that staff is proposing a promotion from a workers' compensation Claims Representative III to a Sr. Claims Representative. We will have to make a budget change. This will go to the Administration & Finance Committee for approval. With the money we save on the part time med only position, there will only be a nominal change in the budget for the Sr. Claims Representative position.

A motion was made by Wachtel and seconded by Nigg to approve the Coverage, Claims & Litigation Committee's budget items that include the line items of Contractual Services – Claims Administration and Commercial Insurance services. A voice vote was called and the motion carried.

IX. EXECUTIVE SESSION

A motion was made by Marino and seconded by Wachtel to move into Executive Session. A voice vote was called and the motion carried.

X. ADDITIONS TO AGENDA

There were no additions to the agenda.

XI. CONFIRMATION OF NEXT MEETING

Gargano reported that the next meeting of the Coverage, Claims & Litigation Committee is scheduled for Thursday, November 3, 2011 at 9:30 a.m.

XI. ADJOURNMENT

A motion was made by Wachtel and seconded by Barrett to adjourn the meeting. A voice vote was called and the motion carried.

Submitted by:

Susan Garvey
Director of Legal Services

Approved by:

Kathleen Gargano, Chair
Coverage, Claims & Litigation Committee