

# Risk Management 201

Taking Your Insurance Program To The Next Level



## Learning Objectives

- ▶ Learn how to determine what your entity needs to insure and if insurance is appropriate
- ▶ Learn the importance of an accurate and detailed statement of values and property appraisal
- ▶ Learn about emerging risks and new and evolving options to cover them



## Where Do We Begin?

- ▶ Risk management program is up and running
- ▶ Standard insurance structure is in place to address:
  - ▶ General Liability
  - ▶ Property/Boiler Machinery
  - ▶ Auto
  - ▶ Workers' Compensation
  - ▶ Public Officials/Legal Liability
  - ▶ Law Enforcement Liability



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## What About?

- ▶ Cyber Risk
- ▶ Storage Tanks (UST/AST)
- ▶ Commercial Crime
- ▶ Pollution Liability
- ▶ Student Accident Insurance
- ▶ Workplace Violence/Active Threat
- ▶ Medical Professionals
- ▶ Is the coverage you already have sufficient?



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## Do You Need More Coverage? How Do You Know?

- ▶ Conduct a Risk Assessment/Risk Analysis
  - ▶ Determine exposures and the probability and consequences of them
  - ▶ Determine what can be **accepted**, what must be **avoided**, what can be **managed** and what can be **transferred**.



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## Risk Assessment/Analysis

- ▶ Risk Assessment/Risk Analysis Options:
  - ▶ Outside help
  - ▶ In-house

“Exposure identification is often more an exercise in creative thinking than in structured analysis.”

-The Risk Report



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## Risk Assessment/Analysis

- ▶ Risk Assessment/Risk Analysis Steps:
  - ▶ Identify and Evaluate Risks
  - ▶ Identify Possible Losses
  - ▶ Estimate the Frequency and Severity of Losses
  - ▶ Identify Potential Strategies

-Public Entity Risk Institute



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## Risk Assessment/Analysis

- ▶ Risk Assessment/Risk Analysis Tips:
  - ▶ Do not do it on your own
    - ▶ Involve other departments
    - ▶ Have a committee
  - ▶ Get out of the office
    - ▶ Talk to departments
    - ▶ Visit facilities
  - ▶ Google is your friend
  - ▶ Does not need to be complicated
  - ▶ Prioritize



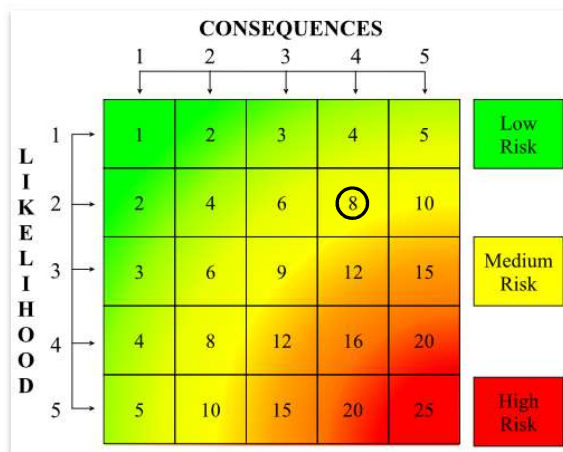
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## Risk Assessment/Analysis

Risk	Risk Score		Comments
	Probability	Impact	
Fire: Building fires, wildfires	3	4	Evacuation procedures in place. Insurance in place to protect building and contents. All facilities have fire sprinklers.
Tornado: And other high winds	2	5	Not a high probability but could cause major damage. Insurance is in place which includes disaster recovery services.
Hail	3	3	Hail is relatively common in this area. Insurance is in place for buildings and vehicles.
Ice Storm	3	3	Procedures in place for shut down due to weather. Insurance in place for any facility damage caused.
Vehicle Accident	4	2	Vehicle accidents are relatively frequent but major accidents are rare. Insurance is in place for vehicle accidents and lawsuit awards are capped.
Explosion/Spill	2	4	Low industrial footprint in this area but major highways run through the city. Emergency plans in place for incidents. Chemical/fuel storage is minimal and protected.
Flood: Flooding from storms or pipe burst/leaks	3	2	No buildings within designated flood zones. Storm or pipe bursts could cause moderate damage. Insurance coverages are in place.

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## Risk Matrix



Before Insurance:  
Storage Tank  
Score = 8

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## Risk Matrix

		CONSEQUENCES					
		1	2	3	4	5	
L I K E L I H O O D	1	1	2	3	4	5	Low Risk
	2	2	4	6	8	10	Medium Risk
	3	3	6	9	12	15	
	4	4	8	12	16	20	High Risk
	5	5	10	15	20	25	

After Insurance  
Storage Tank  
Score = 2



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## To Insure or Not To Insure

- ▶ If a risk cannot be avoided, must decide if it can be accepted, mitigated and/or transferred.
- ▶ If the risk can be transferred through insurance, must decide if insurance is appropriate.
  - ▶ Self-Insurance
    - ▶ In essence, no primary insurance
    - ▶ Pay for your own losses



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## Self-Insurance

- ▶ Typically appropriate for high frequency/low severity risks.
- ▶ Can provide greater control
- ▶ Less impacted by market fluctuations
- ▶ Don't forget about extra costs:
  - ▶ Administrative needs
  - ▶ Third Party Administration
  - ▶ Actuarial Studies
  - ▶ Excess Insurance



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## Insurance

- ▶ When insurance is appropriate it is important to know what will impact insurance availability and rates.
- ▶ Many factors are out of your control.
- ▶ Can know what you want to insure but it can be heavily dependent on the insurance market.



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## Property Market Update

- ▶ Global insured losses from catastrophic events in 2017 were \$144B, the highest ever on record<sup>1</sup>.
- ▶ Hurricanes Harvey, Irma, and Maria resulted in combined insured losses of \$92B.
- ▶ All Domestic and Global Property Insurance Carriers Impacted:
  - ▶ Directly - through incurred losses, and/or
  - ▶ Indirectly - through increased reinsurance costs.

<sup>1</sup> Source: Swiss Re Institute



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## Property Market Update

### Impact on Texas Public Entities in 2018

- ▶ Rate increases, with or without losses.
- ▶ Changes in Wind/Hail deductible terms, with or without losses.
- ▶ Reduced Flood Limits and/or other changes to Flood terms, subject to loss experience and/or geographic location.
- ▶ Reduced/More Limited Carrier Competition
  - ▶ Carriers more selective in quoting new accounts,
  - ▶ Carriers declining to quote new accounts with catastrophic exposures.



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## Property Market Update

### What to Expect in 2019

- ▶ Global insured losses in the first half of 2018 below 10 year first half average<sup>1</sup>. Insured losses from Hurricanes Florence and Michael were substantial, but 2018 still projected to end near 10 year annual average<sup>2</sup>.
- ▶ Rate increases still likely but significantly lower than 2018 and more subject to loss experience.
- ▶ Changes to deductibles, limits, and terms less likely (unless not applied in 2018) and more subject to loss experience.
- ▶ More carrier emphasis on underwriting data and catastrophic loss modeling results based on that data.

1 Swiss Re Institute

2 Insurance Journal Oct. 15, 2018



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## Property Market Update

### What to Expect in 2019 cont.

- ▶ Will likely take several average or better insured loss years for Market conditions to soften and rate decreases to be offered.
- ▶ Higher rates + return to average annual insured losses = potential for new carriers to enter Market and create more competitive conditions. For 2019 - limit rate increases (not decrease rates) and potentially provide more coverage options. Beyond 2019 - could accelerate return to softer Market conditions.



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## Property Market Update

### What to Expect in 2019 cont.

- ▶ Updating and improving Property Schedule underwriting data important for gaining competitive carrier interest and obtaining best available terms and options.
  - ▶ Add Roof Info:
    - ▶ Roof Age
    - ▶ Roof Construction Materials
  - ▶ Latitude/Longitude - Geocoding
    - ▶ Multiple Buildings may be located at same Street Address
  - ▶ Update/Check Accuracy of Property Values - not just an across the board % increase, some may be too high/too low/or correct to begin with.



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## Property Market Update

### What to Expect in 2019 cont.

- ▶ Professional Property Appraisals, Insurance Valuation Service Providers, Insurance Valuation Software, Property Carrier/Broker services, internal Capital Improvement Program records, on-line research, Benchmarking or Comparisons with similar Public Entities -
  - ▶ Lots of different ways that can fit within your budget. Full Schedule, Partial Schedule, Spot Check - any and all can make a difference.
- ▶ Updating Property Schedule applies to all data, not just values -
  - ▶ Renovations can change values, change square footage, change fire protections, etc.
  - ▶ Add a Last Update column next to Year Built. Ok to leave blank if not applicable or known.



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## Property Market Update

### What to Expect in 2019 cont.

- ▶ Updating Property Schedule applies to all data, not just values -
  - ▶ Keep notes on changes to Schedule or description of updates, either as last column on Schedule or under separate tab in the spreadsheet.

Year Built	Last Update	Notes
1967	2017	CIP building renovation
2003		
1990	2013	Sq.Ft. / Fire Protection added
1986	2016	New Roof

## Emerging Risks and Coverages

Ransomware - Not new but continues to evolve and target Public Entities with greater frequency -

- ▶ Involves breaching system security and installing malicious software designed to lock up or prevent access to the system and/or data, with a ransom demanded for the decryption key. May target specific critical systems such as 911 Communications and Dispatch. Ransom payment typically demanded as cryptocurrency in relatively low amounts (i.e. \$50K in Bitcoin).
- ▶ Paying ransom may not be a preferred or acceptable option, but there is no guarantee that the decryption key will actually work to fully restore system access and/or system damage and data loss may still occur.

## Emerging Risks and Coverages

- ▶ Ransomware - Cyber Risk Insurance
  - ▶ Cyber Risk Insurance can include coverage for Cyber Extortion and paying a ransom. Payment through insurance may be a preferable or acceptable option to payment from Public Entity funds, however its application and use may be limited depending on the policy's deductible/retention and the ransom amount demanded.
  - ▶ Greater potential benefits may be provided by other related terms, services, and coverages available from Cyber Risk policies:
    - ▶ System and Data Restoration/Repair;
    - ▶ Business Interruption & Extra Expense;
    - ▶ Access to and/or Reimbursement for Professional Services:
      - ▶ Forensic Investigation, Consultants, Outside Legal, and similar other Experts and Professionals.



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## Emerging Risks and Coverages

### City of Atlanta March 22, 2018 Cyberattack

- ▶ On March 22, 2018 the City of Atlanta's Information Management Department first recognized that outages on various internal and customer system applications may be related. The City eventually determined it as a Ransomware attack and reported that \$51,000 in Bitcoin had been demanded to obtain the decryption key. However contact with the "cyber-attacker" ceased once Law Enforcement and the FBI became involved, the ransom was not paid, and the decryption key was never obtained.
- ▶ The City shut down many of its IT systems, including the Municipal Court database and Wi-Fi at Hartsfield International Airport. City employees and customers had no system access for at least 5 days, but much longer in many cases as the City and its Contractors went through each system before restoring access. In June 2018 it was estimated that a third of the systems and software programs used by the City remained offline or partially disabled, and to date recovery efforts remain a work in progress. Many legal documents, including police dash cam video evidence files, were permanently deleted.
- ▶ In April 2018 the City reported that \$2.7M had been spent on Professional Services contracts to assist with recovery, by June 2018 expenditures had grown to over \$12M, and including purchases for system upgrades, new software, and new security services, the total expenses are currently being estimated to exceed \$17M.



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## Emerging Risks and Coverages

### Social Engineering/Fraudulently Induced Transfer of Funds

- ▶ Social Engineering is a broad term with multiple applications. One involves the use of “mimicking” e-mails or other written, electronic, or telephonic means of impersonating an Authorized Person to provide fraudulent instructions for the transfer of funds.
- ▶ “Mimicking” e-mails are becoming more sophisticated and difficult to determine their source of origination. Employees authorized to make fund transfers may diligently follow strict procedures in place to verify the authenticity of fund transfer instructions and the accounts to be funded, fully determine and believe the instructions to be accurate and valid, and still be fraudulently induced to transfer the funds to a person or account unauthorized to receive them.



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## Emerging Risks and Coverages

### Social Engineering/Fraudulently Induced Transfer of Funds

- ▶ Exists in a potential gap in coverage between standard Commercial Crime and Cyber Risk insurance policies:
  - ▶ Commercial Crime policies commonly include coverage for Funds Transfer Fraud or similar, however the policy terms apply to Employee Theft or the employee knowingly, willfully, or intentionally committing Fraud.
  - ▶ As a Security Breach is not needed to send a “mimicking” e-mail or other means of fraudulent instruction, and/or the Funds are not being transferred through some means of Unauthorized System Access, the terms and conditions for coverage under standard Cyber Risk policies would not be triggered.
- ▶ Carriers in both the Commercial Crime and Cyber Risk insurance markets are developing coverage terms and options in response to this emerging risk.
- ▶ Due to differences in their underlying coverage terms and conditions, adding corresponding coverage to both policies, if available, may currently be the most advantageous. The Other Insurance terms of both policies should be reviewed and addressed as needed to avoid potential conflicts in coverage.



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## Emerging Risks and Coverages

### Active Threat

- ▶ School Shootings and Workplace Violence are not new issues, the Columbine High School shootings occurred almost 20 years ago, but the increase in these occurrences being captured and distributed by Social and other Media outlets has heightened Public awareness. After the February 2018 Florida school shootings, public focus was on the Broward County Deputy's perceived failure to respond and raised questions about the duties and responsibilities of School Districts and local Law Enforcement in an Active Threat event.
- ▶ The Insurance Industry has developed multiple new Active Threat products and optional coverages in response specifically for Public Entities. A wide range of coverages and terms are becoming more available, but in general the available coverages apply to third-party liability and first-party expenses incurred from an Active Threat event.



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## Emerging Risks and Coverages

### Active Threat - Third-Party Liability

- ▶ Legal Counsel advice and opinion of potential third-party liability exposures from an Active Threat event is recommended.
- ▶ Section 101.055(3) of the Texas Tort Claims Act specifically states that the Act “does not apply (restore liability) to a claim arising from the failure to provide or the method of providing police or fire protection”.
- ▶ Between Governmental immunity and the Texas Tort Claims Act, the benefits of third-party liability coverage for an Active Threat event may be limited to Defense, but this may also be available through a Public Officials Liability, School Board Legal Liability, and/or Law Enforcement Liability policy. Again, Legal Counsel opinion of Active Threat third-party liability exposures is recommended.



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## Emerging Risks and Coverages

### Active Threat - First-Party Expenses

- ▶ Available coverages for First-Party Expenses incurred from an Active Threat event vary and can include:
  - ▶ Medical and Funeral Expenses - similar to non-fault Accidental Death and Dismemberment (AD&D) types of coverages. These would apply to medical and funeral expenses of students, citizens, patrons, attendees or other non-employees injured during an Active Threat event at a Covered Location;
  - ▶ Crisis Management Counseling and Response;
  - ▶ Property Damage caused by the Active Threat or by Law Enforcement officers in response to the Active Threat;
  - ▶ Expenses incurred after an Active Threat event for additional Law Enforcement, Security Officers, or other Security measures put in place at the Active Threat location.



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## Questions??????

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## THANK YOU!



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