ITEM # 32
DATE: 04-10-12

COUNCIL ACTION FORM

SUBJECT: SELECTION OF PROPERTY INSURANCE BROKER

BACKGROUND:

This action deals with a proposed contract for insurance broker services for the City's property insurance. As the Council may recall, on December 13, 2012, Staff reported to Council on a selection process and the benefits a property broker can provide.

For the past seven years, the City has purchased property insurance from an insurer that sells direct to its customers, rather than through brokers. There are several reasons for considering the utilization of a broker. These include a broker's ability to provide loss control engineering advice from the City's perspective versus the insurer's, to assist departments in recommending prudent capital improvement decisions for risk mitigation projects, calculating adequate but not excessive insurance limits, and providing competitive insurance quotes from insurers who will only work through brokers.

Prior to starting the selection process, in December 2011 staff retained a professional appraisal firm who completed on-site appraisals for four of the City's highest value facilities, in order to ensure that accurate total insured values were being used. These sites included the Power Plant, the Gas Turbine site, CyRide and City Hall. It is planned to continue a systematic program of appraising several buildings each year and also applying indexes to ensure we are basing our insurance on accurate valuations.

On January 5, 2012, the Request for Qualifications (RFQ) was issued to thirteen firms for proposals. The document was also advertised on the Current Bid Opportunities section of the Purchasing webpage. On January 26, 2012, responses were received from seven firms. These proposals were then sent to an evaluation team consisting of both Assistant City Managers, the Risk Manager, the Director of Electric Services and the Director of Human Resources.

The team members independently evaluated and scored all seven for qualifications.

Step 1

In the first step, the qualifications were evaluated based on compliance with the RFQ documents that described broad performance criteria required for advancement to the second step in the process. The qualifications submitted were rated on an acceptable or non-acceptable basis. Five of the seven firms received acceptable qualifications in order to move into the next step.

Step 2

In the second step, the five firms were notified and required to submit proposals by February 23, 2012. Those proposals were to detail how each broker would design and deliver a program of services for all aspects of the City's property insurance program, including competitive bidding approach, experience with multiple insurer layered coverage, loss control engineering, policy administration, claims services and willingness to work with the incumbent insurer, FM Global.

Each score was based on a scale of 1 to 5. The overall weighted score is a combination of fees, thoroughness of responses, demonstration of past performance with similar programs, adequacy and breadth of available services and a history of collaborating with insurers in the creation of innovative coverage solutions. The knowledge and experience related scores represented 80% of the overall score, and proposed fees accounted for 20%.

The averaged score for each proposal, the cost based on a three year contract period, and the firms' rankings are summarized in the following table:

Brokers & Local Servicing Office	Average Points	Rank	Cost Proposal
Arthur J. Gallagher, West Des Moines, IA	376.00	1	$67,500
Willis of Illinois, Moline, IL	366.20	2	$160,000
Wells Fargo, Cedar Rapids, IA	359.60	3	$180,000
Hays Companies, Des Moines, IA	355.80	4	$82,500
Aon Risk Solutions, West Des Moines, IA	320.60	5	$145,500

Step 3

The evaluation team invited the top three firms for oral presentations. All three broker presentation teams included account executives, loss control engineers and coverage placement specialists. At the request of the evaluation team, the presentations focused on the tight timeline between now and June, 2012, and the City's challenges resulting from numerous uncompleted loss control recommendations from past FM Global inspections.

Recommended Broker

Based on a unanimous decision by the evaluation team following the oral presentations, the firms were ranked as follows:

Brokers & Local Servicing Office	Rank	Cost Proposal
Willis of Illinois, Moline, IL	1	$160,000
Wells Fargo, Cedar Rapids, IA	2	$180,000
Arthur J. Gallagher, West Des Moines, IA	3	$67,500

There were very specific reasons why Willis stood out as the strongest broker, even though they were not the lowest cost proposal. These include the following:

1. Willis presented the best team structure with the depth of member experience and credentials that will directly impact the City's property insurance and loss control needs.

2. Their team members were highly experienced at working together on other major property/boiler & machinery, power generation and public sector property accounts.

3. Of the four members on the team assigned to the City of Ames account, three were loss control engineers by college degree or work experience. The fourth member is the account executive who will be coordinating the resources and services the City receives.

4. In contrast to the other presenters, the Willis team brought up many Ames-specific issues with respect to exposures and current loss control recommendations from FM Global. These included identifying uninsured and underinsured risks, power plant environmental permitting challenges in event of a loss, calculation of PML/MFL Insured Values, calculating policy limits and the differing impacts of partial loss and total loss scenarios at the Power Plant. They also pointed out the advisability of taking a close look at ammonia hazards at the Ice Arena.

5. The evaluating team felt that Willis had made it very clear that they possess the knowledge and experience needed to help guide us through the myriad FM Global recommendations. This includes the ability to advise the City how to address only the improvements or recommendations that are truly necessary to reduce the City's exposures to major losses, as well as the ability to gain compromises on many of the open recommendations, whether that occurs with FM Global or with other prospective insurers.

6. Willis seemed the most confident of the three brokers about the prospects of successfully marketing a layered program of coverage as an alternative to the current FM Global single insurer approach, even in light of the tight timeline until proposals must be reviewed and adopted.

7. Willis' proposal offered the City a separate, first-year fee for marketing the account with an annual fee for the balance of the services required. Willis was able to offer the most specific explanation of tasks that will occur during the marketing phase, which will involve a significant amount of specialized effort in a short time frame, and of the non-marketing phases (routine servicing aspects) included in their type of fee structure.

The evaluation team felt that A.J. Gallagher, the firm with the lowest cost, would have been best equipped to work with FM Global in the event that the City continued coverage with that insurer. However, the Willis team seemed much stronger in their capacity to bring in other insurers, which will be of critical importance if FM Global does not extend to the City an offer to renew.

Staff recommends that a three-year contract, as specified in the proposal, be awarded to Willis of Illinois, Inc., for the amount of $160,000. The payment structure for the contract is detailed below:

Year	Amount
1	$70,000
2	$45,000
3	$45,000

It should be noted that the first year includes a one time $25,000 marketing fee and the term of the contract will be for three years.

The City Council is being asked to approve a three-year agreement at this time, rather than a one-year contract with renewal options. It should be noted that to protect the City and meet legal requirements, the contract does contain language that will allow for the termination of the contract in future years should the Council not appropriate funds for its payment.

There is no provision in the FY 2011/12 budget for broker services. However, staff anticipates that lower premiums resulting from broker generated competitive quotations will offset the broker fee.

ALTERNATIVES:

1. Approve the broker services contract for the City's Property Insurance Brokerage Services with Willis of Illinois, Inc., of Moline, Illinois, for a three year term in the amount of $160,000.

2. Direct staff to negotiate a property brokerage agreement with one of the other brokers included in the proposal process described.

3. Reject all proposals and continue the current relationship with FM Global, which does not sell insurance through brokers. **Note: this alternative is contingent upon FM Global offering the City a renewal proposal for the Policy beginning July 1, 2012. As of April 5, 2012, staff has not received confirmation this will occur.**

MANAGER'S RECOMMENDED ACTION:

The proposal process outlined above brought to light some advantages of why a property insurance broker will benefit the City. First, it will improve access to the insurance marketplace where most insurers are accessible only through brokers. Second, the technical assistance they will provide for loss control engineering will assist our departments in the capital improvement planning process. Finally, the City will have consultation on reducing the overall risk to the City's property assets from the City's point of view, not just from the insurer's.

Willis is being recommended as the preferred broker due to a number of reasons. They have a very strong brokerage team, and bring superior engineering experience to the City. This latter strength is of critical importance to the City, since all potential insurers will focus on the list of open Power Plant recommendations. The evaluation team also felt that Willis would achieve the greatest success marketing the City to prospective insurers.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving the broker services contract for the City's Property Insurance Brokerage Services with Willis of Illinois, Inc., of Moline, Illinois, for a three year term in the amount of $160,000.