



EXECUTIVE SUMMARY

MEETING DATE: March 15, 2024

HCR24-041

SUBJECT: 2024-2025 Procurement of Property Insurance Coverage

COUNCIL DISTRICT: Citywide

ORIGINATING DEPARTMENT: Financial Services

CONTACT/PHONE NUMBER: Suket Dayal (619) 578-7665

REQUESTED ACTION:

Authorize the San Diego Housing Commission to procure and bind property insurance coverage from Public Risk Innovation, Solutions, and Management (PRISM) in an amount not to exceed \$1,693,000 plus 5 percent as a contingency reserve, with effective dates of March 31, 2024, to March 31, 2025.

EXECUTIVE SUMMARY OF KEY FACTORS:

- The Housing Commission currently procures its property insurance coverage from PRISM insurance pool through a contract awarded based on competitive marketing of the Housing Commission's coverage by its insurance broker, Alliant Insurance Services (Alliant).
- In 1979, 29 California counties, formed PRISM, previously known as the California State Association of Counties Excess Insurance Authority. Later, membership was offered to cities and to other non-county public entities, such as housing authorities, fire districts, etc.
- The insurance market has been in an unprecedented "hard" cycle since 2017. Previous updates on the property insurance market have focused on the frequent and severe natural catastrophes around the world, the restricted terms and conditions offered by carriers due to lack of profitability, and inflation.
- More recently, two new factors have contributed to the market remaining in this challenging cycle. First, higher pricing for treaty reinsurance, which nearly all carriers purchase to protect them from claims at their company's level, with costs passed along to insureds. Second, severe winter storms across the country, including California, have led carriers to pause on providing renewal pricing until the severity of losses can be determined. The current estimate of the losses to the industry from California alone is over \$1 billion.
- In February 2024, PRISM provided the Housing Commission with a preliminary premium estimate of \$1,693,000 for the 2024-2025 policy year, a 65 percent increase. This directly corresponds to the hardening of the insurance market, industry natural catastrophe and non-catastrophe loss experience, growing total insured values (TIV) and the Housing Commission's claims experience. The premium also includes a 64-unit property the Housing Commission acquired in January 2024.
- The Housing Commission's five-year loss ratio is attributable to a several major fires and to a number of significant water damage incidents taking place at Housing Commission-owned properties in the last five years. The information the Housing Commission has received about the aforementioned incidents indicates that they were not caused by any structural issues with the properties; the majority involved situations specific to the tenants at the properties at the time of the incidents.
- The proposed funding sources and uses proposed for approval by this action were approved in the Fiscal Year (FY) 2024 Housing Authority-approved budget. Approving this action will not change the FY 2024 total budget. Funding sources for the portion of the policy year from July 1, 2024, to March 31, 2025, will be budgeted in FY 2025.



REPORT

DATE ISSUED: March 7, 2024

REPORT NO: HCR24-041

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of March 15, 2024

SUBJECT: 2024-2025 Procurement of Property Insurance Coverage

COUNCIL DISTRICT: Citywide

Advance notice of San Diego Housing Commission hearing of the following matter has been provided to the Housing Authority Members pursuant to the provisions of San Diego Municipal Code Section 98.0301(e)(4)(A)-(B).

REQUESTED ACTION

Authorize the San Diego Housing Commission to procure and bind property insurance coverage from Public Risk Innovation, Solutions, and Management (PRISM) in an amount not to exceed \$1,693,000 plus 5 percent as a contingency reserve, with effective dates of March 31, 2024, to March 31, 2025.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) Board of Commissioners (Board) authorize the procurement and binding of property insurance coverage for the Housing Commission from Public Risk Innovation, Solutions, and Management (PRISM) in an amount not to exceed \$1,693,000 plus 5 percent as a contingency reserve, with effective dates of March 31, 2024, to March 31, 2025.

SUMMARY

The Housing Commission currently procures its property insurance coverage from PRISM insurance pool through a contract awarded based on competitive marketing of the Housing Commission's coverage by its insurance broker, Alliant Insurance Services (Alliant). The marketing process resulted in five bids received, and PRISM was determined to provide the most comprehensive and lowest price coverage available.

Alliant was reselected to be the Housing Commission's insurance broker in a comprehensive procurement process in January 2022. As the broker of record for the Housing Commission, Alliant provides support to all facets of brokerage services for the Housing Commission, including the marketing of all lines of insurance coverage, as well as the administrative support and servicing, loss control, and claims managements handling. Alliant ensures that the Housing Commission has the most effective insurance program design, with the broadest terms and conditions, at the most competitive premium available. As the Housing Commission's risk consultant, Alliant is also responsible for keeping the Housing Commission informed of any changes, trends and emerging

risks within the public entity and commercial insurance industry.

In 1979, 29 California counties, formed PRISM, previously known as the California State Association of Counties Excess Insurance Authority, for the sole purpose of finding cost-effective insurance and risk management solutions. Today, 55 of the 58 counties in California participate. Later, membership was offered to cities and to other non-county public entities, such as housing authorities, public authorities, educational organizations, fire districts, etc., tasked with supporting the public.

The Housing Commission has been a long-time member of the PRISM's Property Program, which is one of the largest public entity property placements worldwide, joining in conjunction with San Diego County on June 13, 1993. This group purchase program has been highly successful over the years in providing extremely broad coverage and substantial limits (including more combined California earthquake limits than purchased by any other entity). The PRISM Program is summarized in Table 1 below.

Table 1:

PROPERTY PROGRAM SUMMARY

Program	Public Risk Innovation, Solutions, and Management (PRISM)
Type of Insurance	All Risk, including Flood, Earthquake and Boiler & Machinery
Members	55 of the 58 counties in California and 300 other public entities
Policy Period	March 31, 2023, to March 31, 2024
Excess All Risk Limit	\$600 Million
Total Insured Values	\$101.4 Billion

Prior to 2017, the property insurance market was in a “soft” market cycle that allowed consumers to take advantage of extremely competitive pricing and expanded terms and conditions. However, beginning in 2017, increases in attritional losses along with historically severe catastrophe claims resulted in carriers collecting insufficient premium to cover the surging claims.

As noted in the February 28, 2024, Property Program & Market Update from PRISM CEO Gina Dean (Attachment 1), for the first time in about seven years, PRISM is experiencing a more stable property insurance market keen on growth. At the same time, PRISM has experienced unprecedented losses within the property program, primarily from winter storms. These conflicting scenarios are leading to a disjointed renewal with quite different expectations in the self-funded primary layer versus the excess carrier renewals.

As previously mentioned, the market has been in an unprecedented hard cycle since 2017. Previous updates on the property insurance market have focused on the frequent and severe natural catastrophes around the world, the restricted terms and conditions offered by carriers due to lack of profitability, and inflation.

More recently, two new factors have contributed to the market remaining in this challenging cycle. First, treaty reinsurance pricing has significantly increased. Treaty reinsurance is purchased by nearly all carriers and protects them from claims at their company’s level. The rising cost of treaty reinsurance will be passed along to insureds and is expected to impact excess pricing at the PRISM renewal. Second, severe winter storms across the country, including California, have led carriers to pause on providing renewal pricing until the severity of losses can be determined. The current estimate of the losses to the industry from California alone is over \$1 billion.

In February 2024, PRISM provided the Housing Commission with a preliminary premium estimate of \$1,693,000 for the 2024-2025 policy year. The 65 percent premium increase directly corresponds to the hardening of the insurance market, industry natural catastrophe and non-catastrophe loss experience, growing total insured values (TIV) and the Housing Commission’s claims experience. In January 2024 the Housing Commission acquired a 64-unit property that is included in this renewal premium.

Businesses, organizations and public entities with commercial property and liability policies are expected to maintain adequate loss ratios. Otherwise, they may face premium increases and cancellations. To determine if and for what amount a premium increase is warranted, carriers review claims history and loss ratios for the current year plus the past five years. In general, for PRISM’s Property Program, loss ratio below 55 percent means low future risk. Loss ratio above 55 percent means high future risk. The Housing Commission’s current plus five-year loss ratio is 113 percent; therefore, the Housing Commission is considered to be a high-risk entity. The growing total insured values and rate/loss ratios are summarized in Table 2 and Table 3 below.

Table 2:

INCREASE OF TOTAL INSURED VALUES SUMMARY

	2023 - 2024	2024 – 2025*	Change
Housing Commission's Total Insured Values	\$484.8 M	\$521.8M	\$37.0M
PRISM’s Total Insured Values	\$90 B	\$101B	\$11 B

**Values as of November 29, 2023*

Table 3:

CURRENT YEAR + FIVE YEAR RATE/LOSS RATIO SUMMARY

Policy year	Premium	Claim	Difference	Loss ratio
2018 - 2019	298,963	0	298,963	0%
2019 - 2020	341,991	445,033	(103,042)	130%
2020 - 2021	429,320	269,013	160,307	63%
2021 - 2022	720,226	1,916,049	(1,195,823)	266%
2022 - 2023	809,867	821,246	(11,379)	101%
* 2023 - 2024	1,028,569	654,005	374,564	64%
Total	\$3,628,936	\$4,105,346	(476,410)	113%

** Claim estimate as of January 31, 2024*

The Housing Commission’s five-year loss ratio is attributable to a several major fires and to a number of significant water damage incidents taking place at Housing Commission-owned properties in the last five years. The information the Housing Commission has received about the aforementioned incidents indicates that they were not caused by any structural issues with the properties; the majority involved situations specific to the tenants at the properties at the time of the incidents.

In summary, the PRISM Property Program has experienced challenges in the past few years. PRISM’s sophistication and robust Net Position have allowed the program to absorb these losses and remain in a positive funding position. In addition, the program structure has prevented negative loss experience to most of the long-term carrier partners. Finally, PRISM provides members the most comprehensive coverage at a more favorable price than any member could obtain on their own. PRISM’s power is in pooling, and together the members will be able to work through the challenges resulting from unforeseen events and continue to provide the lowest cost to members for years to come.

An additional positive for PRISM members is that the size of the program creates stability and offers economies of scale that could not be realized without being in a large pool. Because of its size, PRISM is able to leverage the volume of capacity being purchased to benefit all program members.

As a self-insurance pooling joint powers authority, PRISM is expected to fare better than the market and public agencies trying to endure a hard market on their own. Shopping as an individual entity with large losses is extremely difficult, especially in California.

While PRISM attempts to be conservative with preliminary premium estimates, the number on the estimate is not a not-to-exceed amount. Therefore, Housing Commission staff added 5 percent as a potential contingency reserve because the amount to be approved by the proposed action is defined as a not-to-exceed amount.

PRISM will be providing their final premiums after mid-March 2024. The premiums are not expected to exceed the amounts provided in the following table (Table 4). However, large catastrophic events or economic downturn prior to the March 31, 2024, renewal could impact the property insurance marketplace, resulting in further hardening of the market and potentially resulting in premiums that vary from this estimate.

Table 4:

	2023 -2024	2024- 2025	Inc. /Dec. (%)
Premium	\$1,029,000	\$1,693,000	65%
5 percent Contingency Reserve		\$84,650	
Total		\$1,777,650	

FISCAL CONSIDERATIONS

The proposed funding sources and uses proposed for approval by this action were approved in the Fiscal Year (FY) 2024 Housing Authority-approved budget. Approving this action will not change the FY 2024 total budget. Funding sources for the portion of the policy year from July 1, 2024, to March 31, 2025, will be budgeted in FY 2025.

HOUSING COMMISSION STRATEGIC PLAN

This item relates to the Core Value, “Believe in transparency and being good financial stewards,” in the Housing Commission Strategic Plan for Fiscal Year (FY) 2022-2024.

EQUAL OPPORTUNITY CONTRACTING AND EQUITY ASSURANCE

Alliant has provided an acceptable Diversity, Equity and Inclusion Plan that demonstrates their commitment to equity, inclusion and equal opportunity.

PREVIOUS COUNCIL and/or COMMITTEE ACTION

On March 17, 2023, the Housing Commission Board unanimously authorized the Housing Commission to procure and bind property insurance coverage with PRISM for the period of March 31, 2023, to March 31, 2024 (Report No. HCR23-034).

ENVIRONMENTAL REVIEW

The purchase of insurance is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. Federal funds constitute a portion of the funding. NEPA approval was obtained from the City of San Diego on July 19, 2022.

Respectfully submitted,

Suket Dayal

Suket Dayal
Executive Vice President of Business Administration and
Chief Financial Officer
San Diego Housing Commission

Approved by,

Jeff Davis

Jeff Davis
Deputy Chief Executive Officer
San Diego Housing Commission

Attachment: 2024 Property Program & Market Update

Hard copies are available for review during business hours at the information desk in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101. Docket materials are also available in the “Governance & Legislative Affairs” section of the San Diego Housing Commission website at www.sdhc.org.

February 28, 2024

To: Property Program Members

From: Gina Dean, CEO

Re: Property Market Update

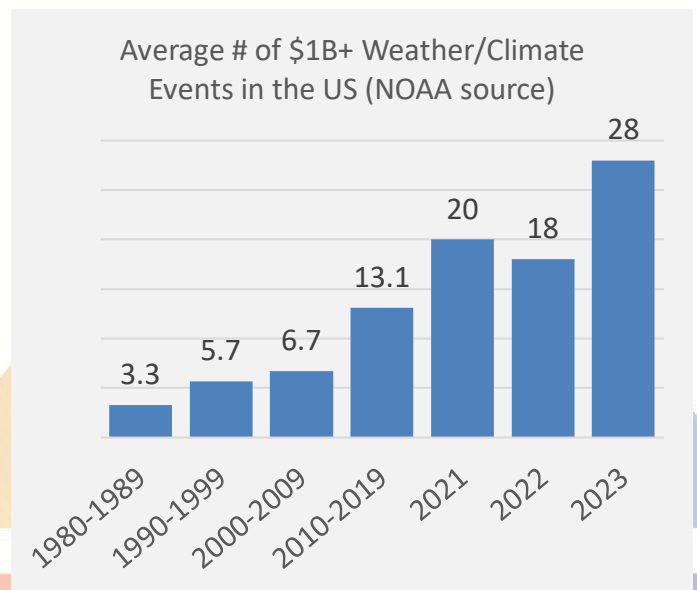
A tale of two renewals – Primary and Excess

As we close out Q1 of 2024, it comes with a bit of mixed news for the PRISM Property Program. For the first time in about 7 years, we are experiencing a more stable property insurance market keen on growth. At the same time, PRISM has experienced unprecedented losses within the Program, primarily from winter storms. These conflicting scenarios are leading to a disjointed renewal with quite different expectations in the self-funded primary layer versus the excess carrier renewals.

Insurance Market Background

Following large insurance industry losses from Hurricanes Harvey, Irma, and Maria (HIM) in 2017, the property insurance market exited the soft cycle and became particularly challenging. Over the next 7 years, as the industry continued to experience more frequent and severe natural catastrophe events, carriers have heavily restricted terms and conditions while increasing pricing and deductibles. To have more control over pricing and coverage, PRISM’s Property Committee chose to retain the primary \$10M of the Program effective 3/31/22. Although we are still subject to market pricing in the excess layers, we continue to lean on our size, sophistication, and extremely long-term strategic relationships with carriers to obtain better renewals than would be available to a stand-alone risk.

A major factor currently impacting the insurance market is an increase in the frequency and severity of weather and climate events. This includes freezing, significant rain events, and tornadoes that primarily occur outside of California, but also includes exposures that impact PRISM and other California public entities. Since 2017, increased frequency and severity of wildfires have concerned underwriters; however, in the last two years the severe winter storms, often referred to as atmospheric rivers, have become the newest catastrophe exposure within our state.

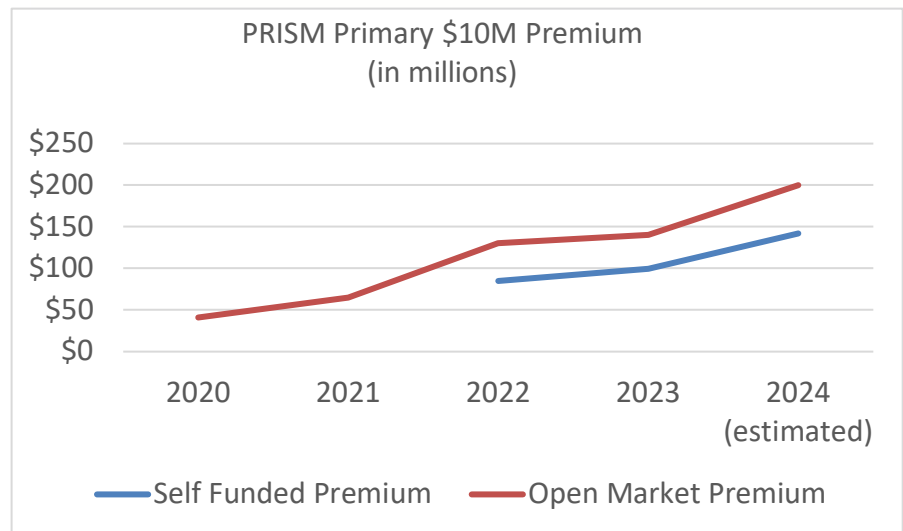
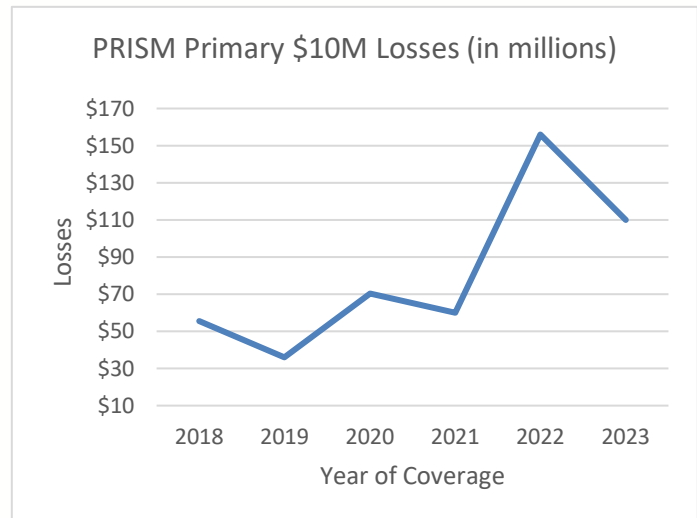


Excess Capacity Renewal

Despite an increase of natural catastrophes, 2023 was a profitable year for most carriers. This profitability has resulted in easing of rate increases and has also shifted many carriers into a mode of growth, which we have not seen in more than 7 years. As a result, we expect that carriers on the Program excess of \$25M that have had little or no loss experience within the Program will offer very favorable renewal pricing.

Primary Capacity Renewal

While loss experience for carriers excess of \$25M has been minimal, the primary has experienced unprecedented losses. In the 5 years leading up to PRISM self-insuring the primary \$10M, the average annual loss trend for this layer was \$60M. The first year of PRISM self-insuring the primary \$10M layer (2022/23), the Program experienced \$156M in losses. Of those losses, \$70M was due to winter storms in the last quarter of the program year. Current estimates for the second year (2023/24) are \$110M+ of losses. Fortunately, the Program's Net Position (often referred to as surplus) was robust enough to manage these losses. However, the Program also subsidized member premiums to the tune of \$40M for the past two years and the reduction in Net Position means the premium subsidy will not be available for the 2024/25 year. Despite discontinuing the premium subsidy, pricing for this layer of coverage is still well below what it would cost the Program or any individual entity in the open marketplace. In 2022/23, the move to self-insurance was necessary due to the open market offering unacceptable pricing, terms, and conditions. As losses have increased, so has the open market pricing. PRISM's retention of the primary \$10M layer has shielded members from gaps in coverage, restrictive renewal terms and exorbitant pricing increases.



In summary, the PRISM Property Program has had a tough few years. PRISM's sophistication and robust Net Position has allowed the Program to absorb these losses and remain in a positive funding position. In addition, the Program structure has prevented negative loss experience to most of the long-term carrier partners. Finally, PRISM provides members the most comprehensive coverage at a more favorable price than any member could obtain on their own. Our power is in pooling, and together the members will be able to work through the challenges resulting from unforeseen events and continue to provide the lowest cost to members for years to come.

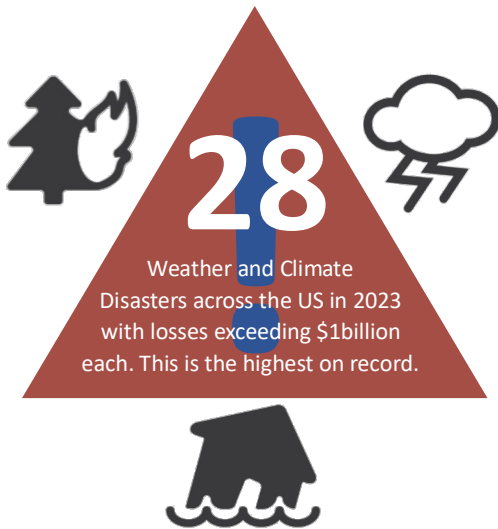
2024 PROPERTY INSURANCE MARKET UPDATE

A TALE OF TWO RENEWALS: PRIMARY AND EXCESS

As we close out Q1 of 2024, it comes with a bit of mixed news for the PRISM Property program. For the first time in about 7 years, we are experiencing a more stable property insurance market keen on growth. At the same time, Natural Catastrophes are occurring at unprecedented rates causing PRISM to experience large losses within the program, primarily from winter storms. These two details in combination are leading to a disjointed renewal with quite different expectations in the self-funded primary layer versus the excess which is placed in the open market.



PRISM's Property Program has saved members \$85M to date. This savings is projected to increase to at least \$140M following the 2024/25 renewal.



Primary \$10M
Average Annual
loss for the
5 years prior to
PRISM self-
funding

\$60M

\$133M

Primary \$10M
Average Annual
loss after self-
funding

Increased losses to the Primary results in higher open market premium for this layer and also necessitates more conservative funding by PRISM.



Despite a more favorable open market environment in the excess, California has many challenging exposures, making it difficult to insure. PRISM provides solutions to help manage these challenges.

PRISM Benefits

- The PRISM Property Program size creates stability and allows for economies of scale.
- PRISM has the benefit of long-standing carrier relationships worldwide which results in better renewal offerings.
- PRISM's proactive approach allows for unique and sophisticated funding solutions through utilization of their captive, PRISM ARC. This allows for PRISM to absorb losses, provide competitive pricing and offer broad terms and conditions not available in the open market.