



Costs Trends Affecting Your Public Entity Insurance

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Introduction

- If you keep up with insurance news (😊) or you've heard us speak in the last few years about what's going on in the public entity insurance world, you're familiar with those risk exposures that have been the biggest drivers of insurance costs in recent years:
 - Wind, hail and tornado (aka Severe Convective Storm (SCS))
 - Wildfire risk
 - Law enforcement liability
- The year-over-year impacts of these drivers have taken their toll, and the recent years of big losses and big payouts will reverberate for years to come.
- Simply put, the cost of insurance is rising not only in Colorado but globally, and not only for pool members, but for every purchaser of insurance.
- In this presentation, we'll highlight some of the factors driving the increasing costs of insuring municipal operations, discuss their impacts, and overview some strategies the markets and CIRSA are putting into place.

Global Market Conditions

Impactful issues for insureds:

Property

01

Property capacity reductions:

- Further reduction in capacity from incumbents
- Coastal, Earthquake and wildfire capacity continue to be especially difficult
- Very few new entrants into the commercial property sector

02

Insurers produced negligible profit in 2022 – Nearly **\$125b in Global Insured CAT** losses in 2022 – **2nd Worst Loss Year on Record.**

- United States accounted for **75%** of global insured losses

03

Swiss Re has estimated insured natural catastrophe losses at \$100bn for 2023, with SCS the largest driver, accounting for \$60b of the total. The estimate marks the 4th consecutive year losses have topped \$100b.

04

Consistent **increases in attritional property losses** (fires, water damage, tornados, hail, wildfires) – are secondary perils ‘secondary’ anymore?

05

Inflation continues to add to the issue of **valuation across all property classes**

Liability

06

Liability capacity pull back and withdrawals have been significant over the past two years

07

Social inflation & Litigation Financing driving up liability verdicts and settlements

08

Excess Workers Compensation **remains stable, but retained layer may be experiencing increased claims volume**

Cyber

09

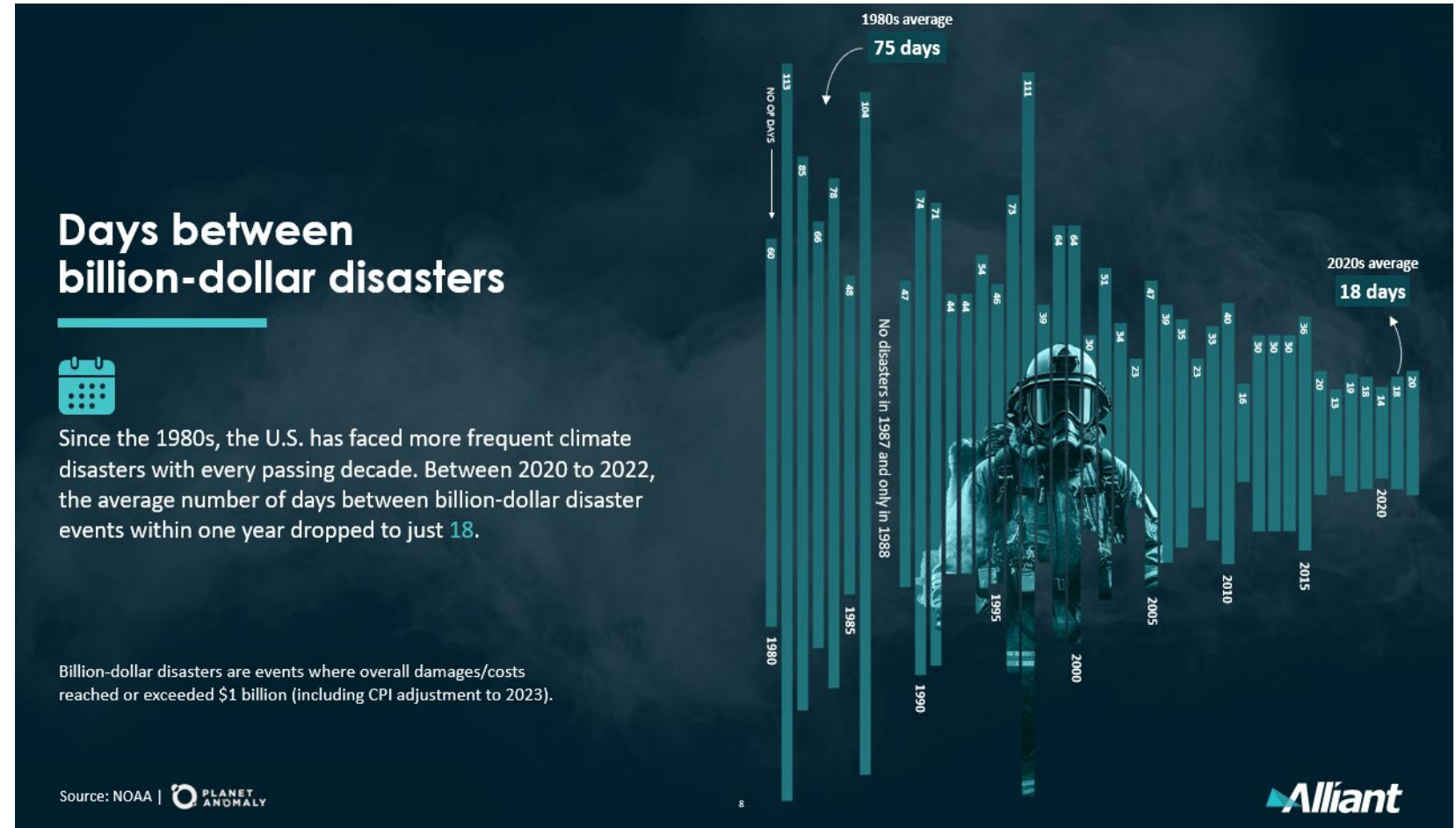
Cyber capacity has improved and creating stabilized terms and conditions

10

Ransomware cyber losses are systemic – **Expecting \$10 Trillion by 2025**


























Property

- Globally, for the past four consecutive years, reinsurers have paid over \$100 billion for property losses stemming from natural catastrophes, with wind and hail claims being the largest driver and wildfire a significant contributor.
- And data suggests higher frequency of CAT events will continue.



Property

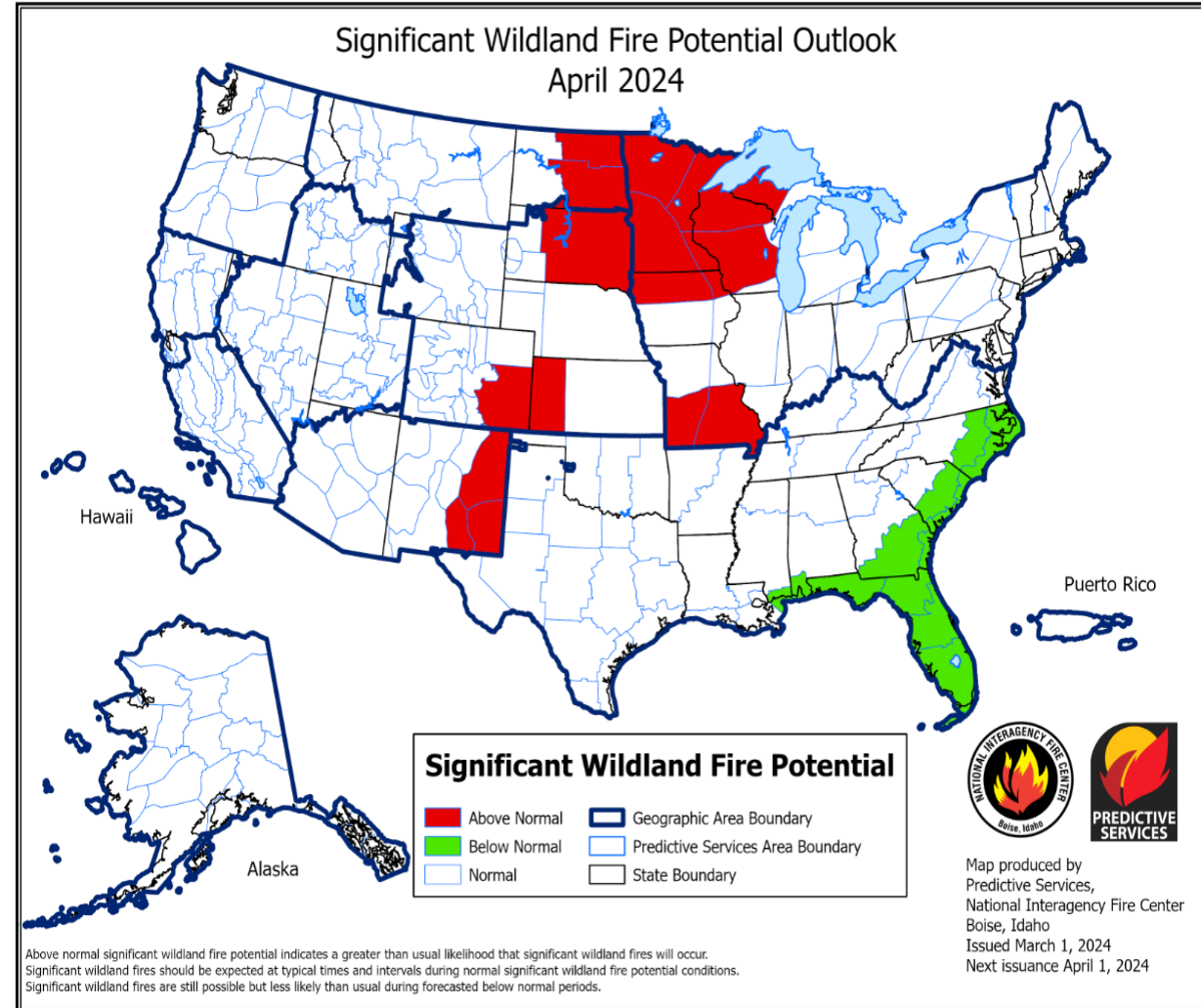
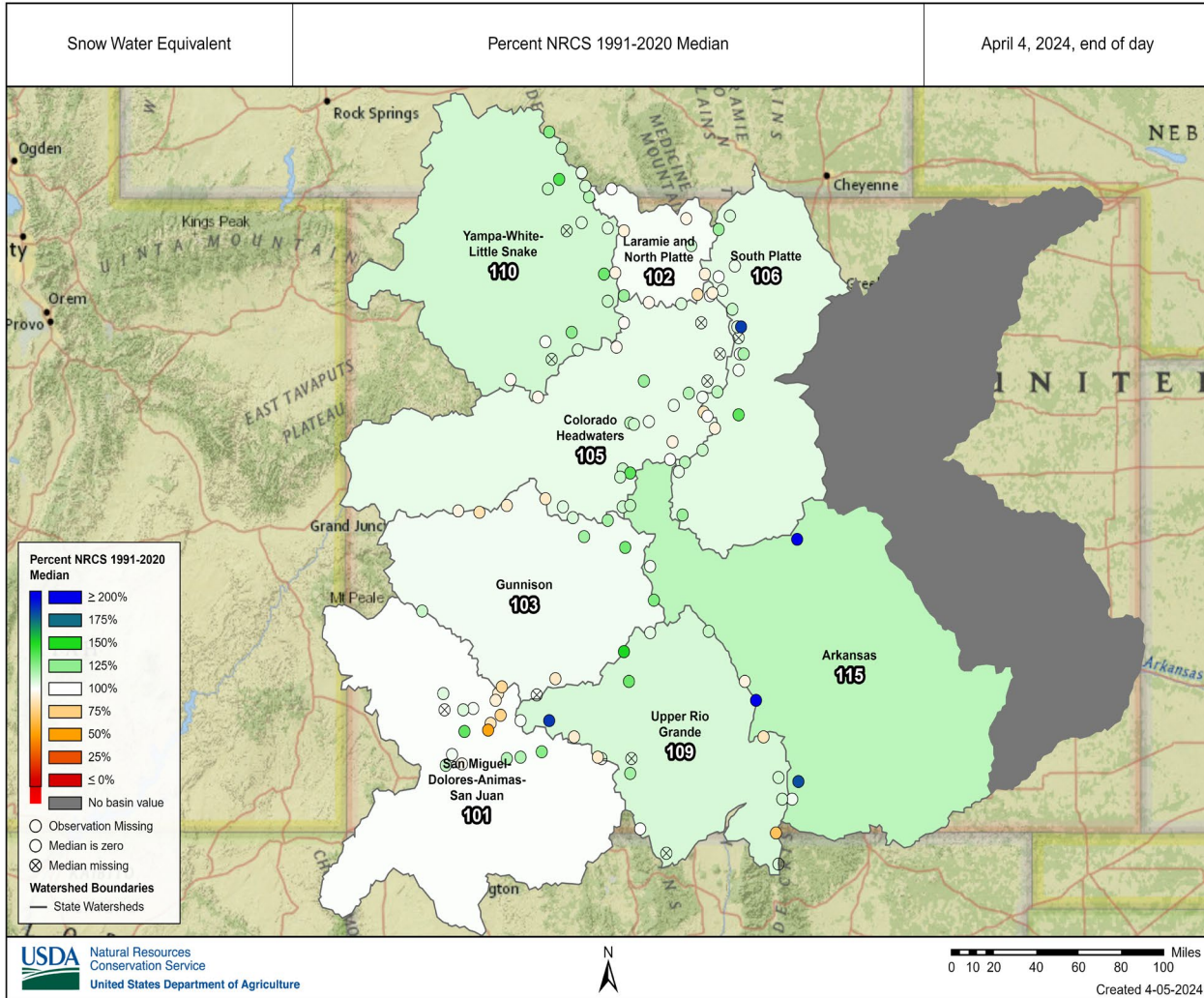
Recent CAT Losses

				
Flooding	Hurricanes	Wildfires	Tornado/Convective Storm	Winter Storms
<p> 2018-2022 – More than 10 severe flood events</p> <p> \$70.1b Economic Loss – only \$20b insured</p>	<p> 2018-2022 77 named storms</p> <p> \$470.7B+ in economic losses (US)</p> <p> Hurricane Ida, Ian, Nicole & Idalia = \$95b?</p> <p> Hilary, first CA Tropical Storm since 1939</p>	<p> 2018-2022 82 \$1B+ Wildfire events</p> <p> 2021 Burned over 7m acres</p> <p> 2022 = 7.5m acres</p> <p> \$39B in insured loss, *8.68B in 2021 alone</p> <p> 17% increase from 2019 to 2021 in U.S. wildfires and a 223% increase since 1983</p>	<p> 2023 \$50B in insured losses due to severe convective storm through 1st half of the year (\$35B in U.S.)</p> <p> Accounted for nearly 70% of all global Insured losses</p> <p> SCS insured losses growing at a rate of 8.9% since 1990</p> <p> 10 singular \$1B+ events</p>	<p> Uri – 2021 Over 110 deaths associated</p> <p> Estimated \$20B+ insured losses</p> <p> Largest Q1 loss record</p> <p> Elliott – 2022 Over 65 deaths associated</p> <p> Estimated \$5.4B+ insured losses</p>

Property

- Colorado has been second only to Texas in experiencing frequent and severe wind/hail losses.
- While repairs for damage are ongoing, the wind/hail related losses our members sustained in 2023 have been quantified at \$17,815,627, which is more than 2-1/2 times what was paid out for the previous four years combined!
 - The 2023 wind/hail events affected 74 members, and some were hit more than once.
 - Compounding the financial impact, most of the 2023 wind/hail events—28 different days with at least one claim—remain within the higher wind/hail retention previously imposed by property insurers.
 - Reinsurer’s perspective: “We’re there to pay occasionally for the big big event, not the frequent big event.”

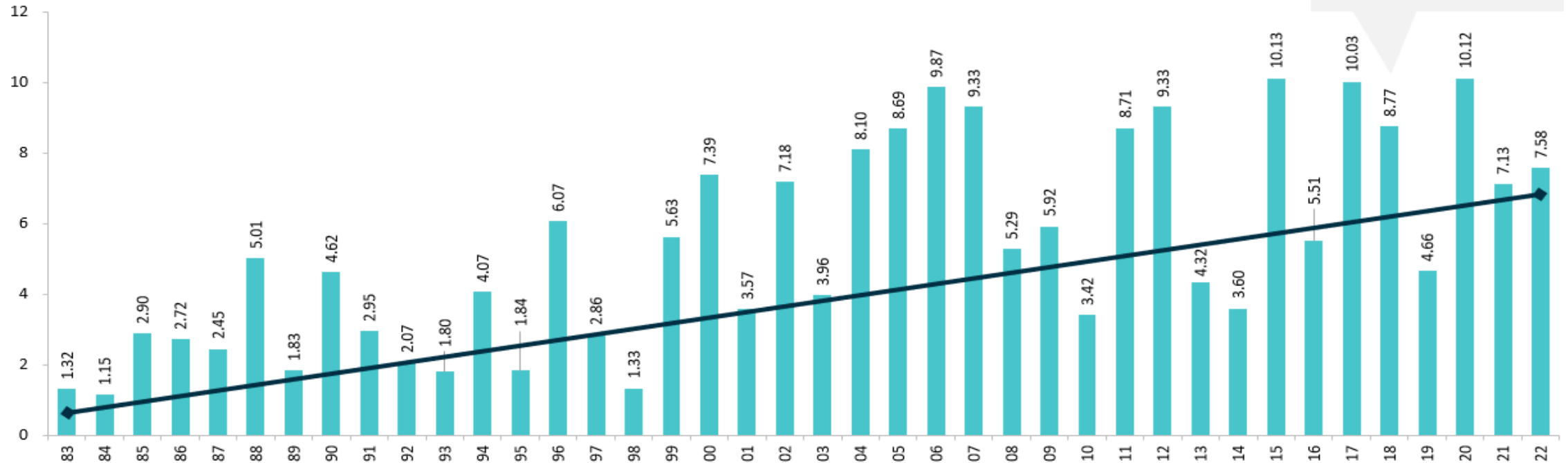
Property – Flood & Wildfire Risks



Wildfire

U.S. Total Wildland Acres Burned, 1983–2022

Millions of Acres Burned

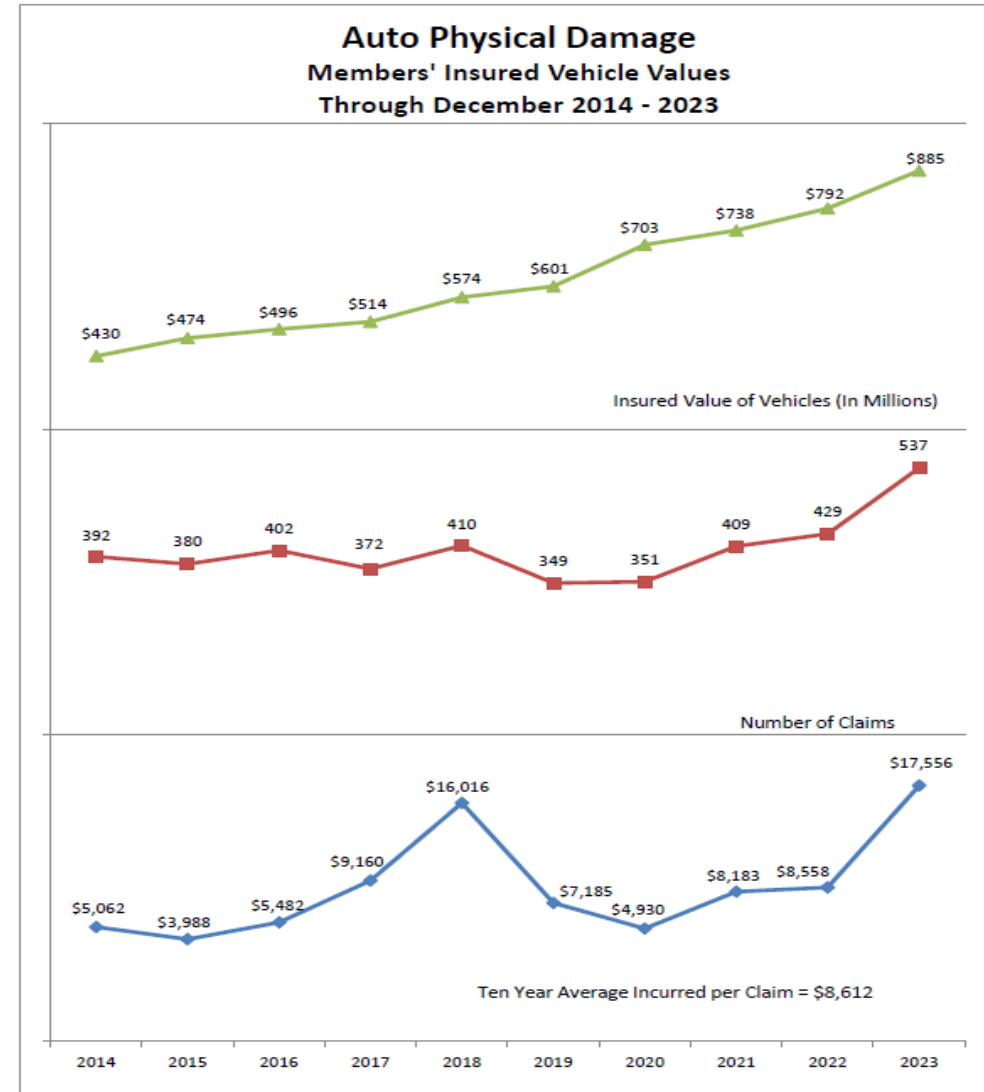


*2004 figures do not include data for North Carolina

Sources: National Interagency Fire Center at: <https://www.nifc.gov/fire-information/statistics/wildfires>

Auto Physical Damage

- Auto physical damage (APD) claims and the costs of repairing and replacing vehicles have accelerated substantially since the pandemic. Some drivers:
 - Supply chain
 - Distracted driving
 - Hail damage
 - More electronics = more costs.
 - **Vehicles are just plain expensive!**
- While 2020 represented a low for claims/claims costs, from 2020 to present, the costs of acquiring and repairing vehicles have increased over 40%.
- Average claims costs in 2023 were highest ever, and 2x the ten-year average.



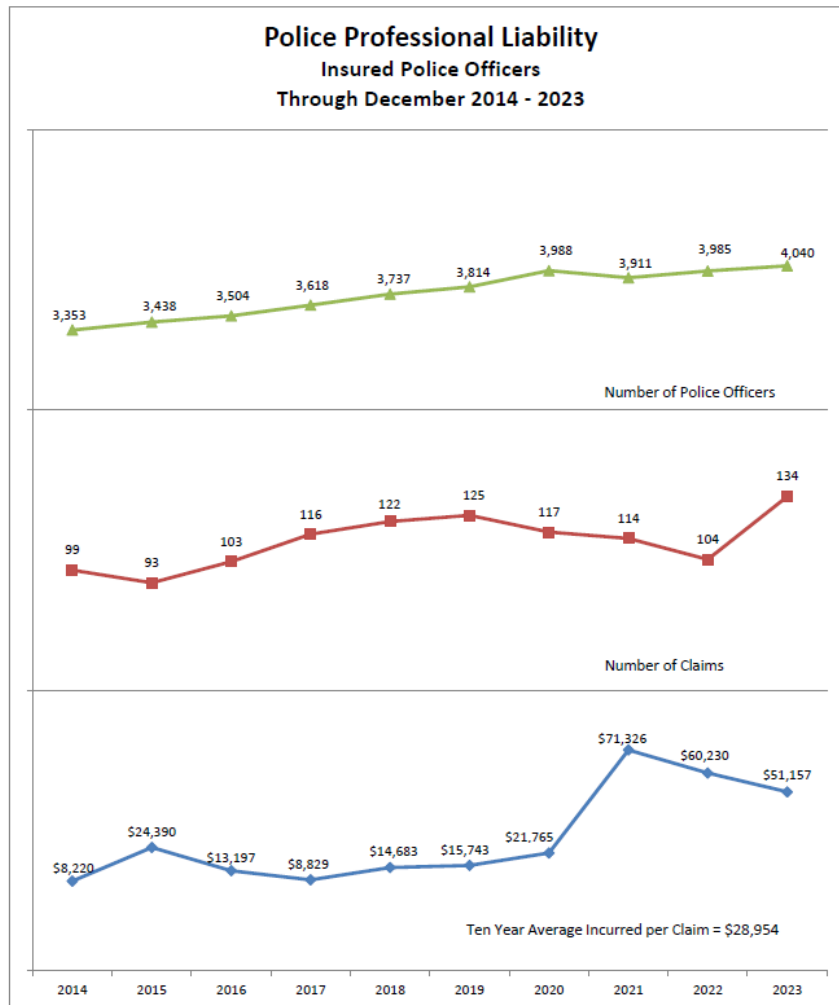
Law Enforcement Liability

- Colorado has been a focal point for adverse changes in the liability environment, as legislative activity has opened up new areas of liability for public entities, particularly in law enforcement.
- Police agencies across the nation and in Colorado, including a number of CIRSA members, have found themselves in heretofore uncharted “nuclear settlement” territory in the resolution of law enforcement liability (LEL) claims.
- Other Colorado jurisdictions have experienced “nuclear verdicts.”
- Although this is a nationwide trend (see resources), Colorado has been singled out by the reinsurance community as one of a couple of particular trouble spots for this trend.

Law Enforcement Liability – Gone Nuclear

- Colorado Nukes:
 - An \$8.75 million settlement in 2020 is our biggest to date (Minella/Patscheck).
 - Other Colorado nuclear claims include Zach Gifford (\$9.5m, 2022), Elijah McClain (\$15m, 2021) Denver protest verdict (\$14m, 2022), Christian Glass (\$19m, 2023), Ruby Johnson (\$3.76m verdict, 2024), Karen Garner (\$3m, 2021).
- Nukes get the news, but overall losses most clearly show the trend: While our open claims remain subject to further changes, the total amount of LEL losses our members sustained in **the past six years** (from 2018 to present) is \$67,436,171, which is **more than \$15,000,000 above** the total amount incurred for **all of the preceding thirty-six years combined** going back to the inception of CIRSA.

Law Enforcement Liability – Troubling Trends



There has been a clear increase in LEL claim severity between 2016 and 2022:

01

Average indemnity paid in a LEL claim has **increased almost 2.5** times between 2016 and 2022.

02

The severity trend is driven by the highest exposure claims. While there is a steady increase in indemnity seen for the average LEL claim, the acceleration of severity trending is **much more pronounced in the top 10% of LEL exposures.**

03

Highest severity level claims has **increased 5x between 2018 and 2023**, representing 5% of the LEL book in 2017 and increasing to 25% in 2022.

04

The probability of experiencing a claim with a **payout of \$500k or more is over 6x higher in 2022 than in 2016**, and there is a **50% increase in the likelihood of seeing a claim with a value of \$1M or more.**

05

This increase in severity has had a significant impact upon umbrella/excess liability level claim activity

- Claim counts for resolved umbrella claims **doubled** between 2017 and 2022
- Average indemnity **paid increased over 9x** between 2017 and 2022

06

Attorney representation has **increased 7%** between 2016 and 2022.

Three quarters of all LEL Claims are attorney represented matters

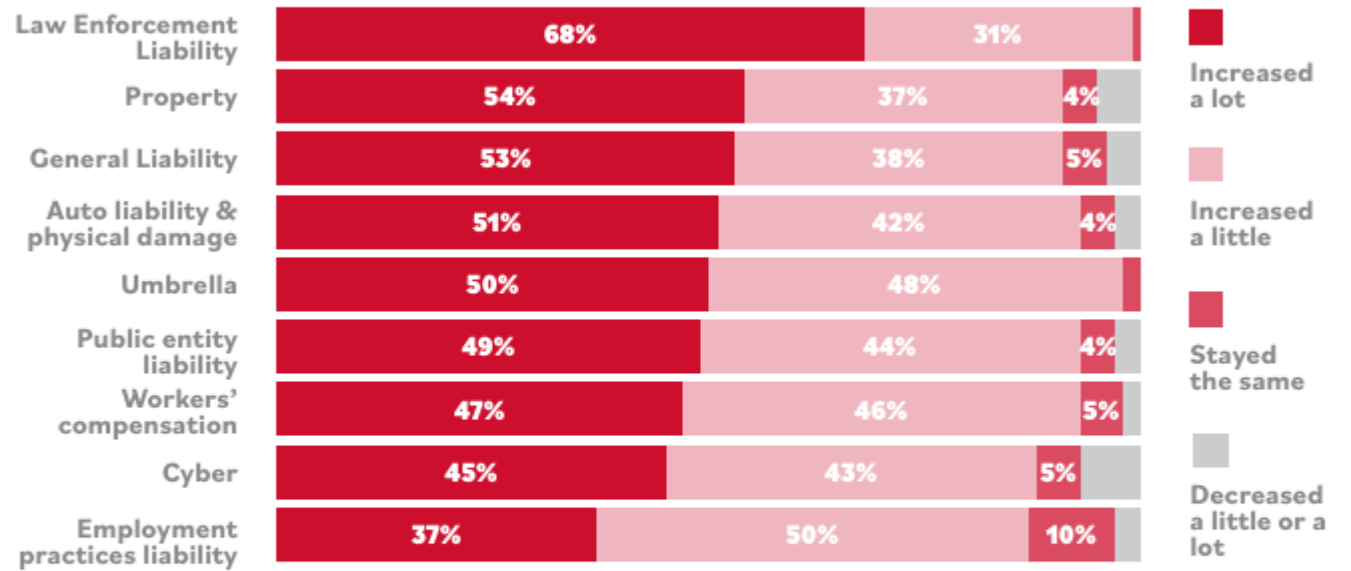
Impacts

“Municipalities identified the rising cost of insurance premiums as a challenge throughout 2023 as new state laws required municipalities to do more, opening new avenues to seek damages against public entities.”



COLORADO
MUNICIPAL
LEAGUE

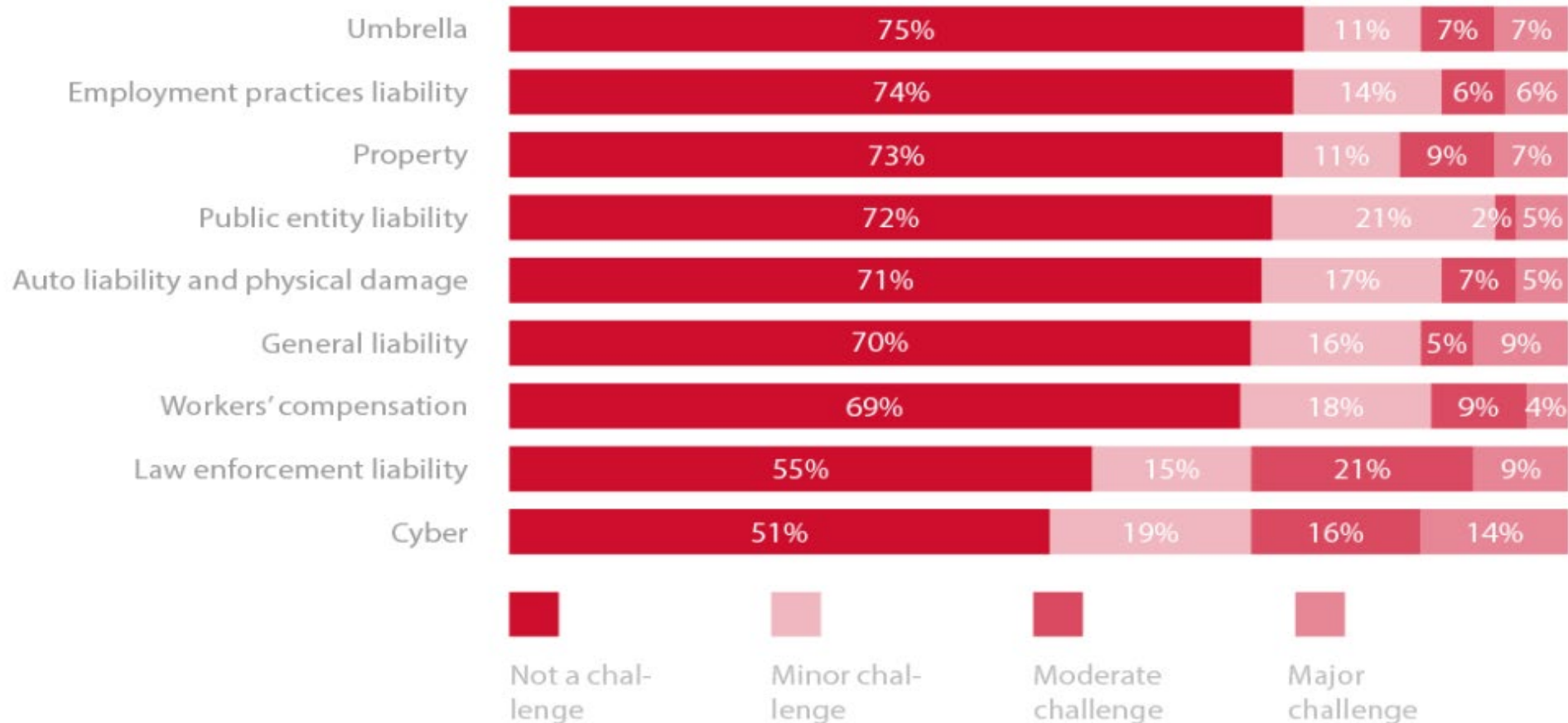
2 HOW MUNICIPALITIES' INSURANCE COSTS HAVE CHANGED IN THE PAST THREE YEARS



Most responding municipalities reported increases in insurance premium costs across various lines of coverage in the last three years. Specifically, more than 50% of responding municipalities reported price increases of 10% or more for law enforcement liability, property, general liability, and auto liability and physical damage. Few municipalities reported insurance premiums decreasing in cost.

Challenges in Finding Insurance Coverage to Meet Needs

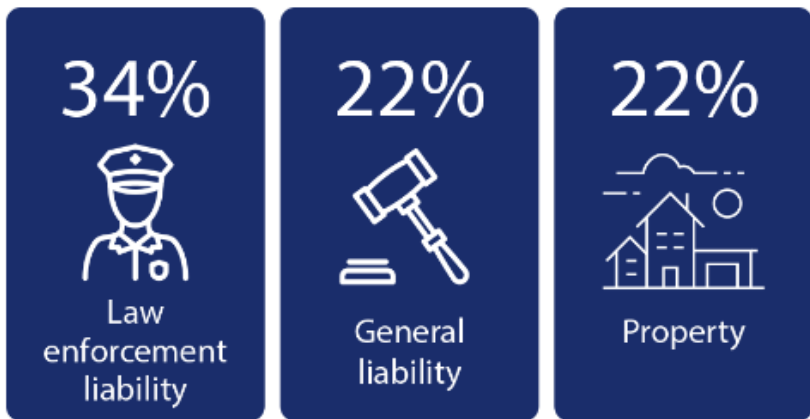
Graph only includes municipalities that have shopped for insurance coverage recently



Common challenges encountered by municipalities looking for adequate insurance coverage include not having time to shop, not finding sufficient limits, and not being able to find an insurer to cover properties.

Impacts

When asked what lines of coverage incurred the greatest increases in cost over the last three years, the following rates of municipalities, regardless of holding the line of coverage, reported:



COLORADO
MUNICIPAL
LEAGUE

"No one wants to provide sufficient limits for law enforcement at a premium the city can afford."

– HOME RULE CITY, FRONT RANGE

"We don't have time to shop."

– STATUTORY CITY, EASTERN PLAINS

"We had a local insurance agent quote our insurance and they can't even find an insurer who would insure our properties."

– STATUTORY TOWN, MOUNTAINS/WESTERN SLOPE

"There are many comparable insurance companies who offer similar coverage and rates, making it hard to shop for workers' compensation coverage. Law enforcement liability is also a challenge with large agencies experiencing claims and situations that have granted large payouts. This affects the insurance industry for smaller agencies who don't see the same types of risks but there isn't anywhere else to shop coverage because of state legislation."

– HOME RULE CITY, FRONT RANGE

Impacts

- Globally and locally, the recent years of catastrophic property/casualty claims have impacted capacity, rates and the bottom line.
 - Our brokers anticipate continued hard markets for property and law enforcement liability coverage. Higher severity means fewer reinsurers willing to individually offer the same limits/capacity.
 - Particularly in LEL, obtaining high limits in the future may require the “shared and layered approach” common in property.
 - Due to catastrophic claims in recent years, as well as market conditions and investment losses, CIRSA’s property/casualty costs in four of the six claims years from 2017 to 2022 began exceeding the amount collected in contributions, causing the pool’s net position to fall below target range.

Addressing These Trends

- With wind/hail and law enforcement being the coverages and claims most impacted by these trends, CIRSA, like many pools and reinsurers, is pursuing strategies for greater cost sharing for these coverages and claims.
- For 2025 for CIRSA, these strategies include:
 - Increases in minimum deductibles for property, auto physical damage (APD), and law enforcement liability.
 - Additional percentage deductibles for wind/hail claims.

Cost Sharing Considerations

- **This is the first time in CIRSA's 40-year history that minimum deductibles have been increased significantly.** We believe these increases are a more fair allocation of and cost-sharing for the cost of claims, especially as coverage limits and coverage costs have increased continually.
- **These changes affect property, APD and LEL only. There will be no changes in the deductible structure for auto liability, general liability, and errors and omissions.**
- If you have property, vehicles and police, you are well aware that property, APD and LEL make up major portions of your entity's insurance costs. Whether your entity is a CIRSA member or not, for these lines, increasing cost-sharing and increasing minimum deductibles the "new normal."
- These strategies are intended to augment CIRSA's fiscal health and hopefully enable further rate stability in future years. As you know from your personal lines coverages (such as homeowners and personal auto), taking a greater deductible can provide a reduction in your overall cost of coverage.

Concluding Thoughts

- As you know from the past few years, insuring your properties, vehicles, and police operations is more challenging than ever.
- Colorado's prominent position on the wind/hail map and reinsurers' LEL "watch list" means the challenges will likely continue, and public entities in Colorado will likely face rising costs and hard markets for claims and coverages in these areas for the foreseeable future—with ever increasing budget impacts.
- If you're a CIRSA member, know we are here to help address these challenges. We encourage you to reach out to us early during your 2025 renewal and budget process, for assistance in evaluating the impacts and budgeting implications of upcoming changes, as well as your options for limits, deductibles and coverages.
- Thank you for undertaking all of the challenges of local government.

Resources

- CIRSA, *Cost-Sharing Initiative & Upcoming Deductible Changes*: https://mcusercontent.com/5b5bce96b8f47153ad7f4c855/files/08b8fe37-87b0-38bc-b039-97d67bcb0761/New_Minimum_Deductibles_Overview.pdf
- CML, *Rising Costs of Insuring Municipal Operations*, 2024 State of Our Cities & Towns Report: <https://cmlresource.com/state-of-our-cities-and-towns-2024/>.
- CIRSA, *Factors Affecting 2024 Contributions & The CIRSA Rating Methodology*: <https://www.cirsa.org/blog/factors-affecting-2024-contributions-the-cirsa-rating-methodology/>
- U.S. Dept. of Treasury, Office of Financial Research, *Wind, Fire, Water, Hail: What Is Going on In the Property Insurance Market and Why Does It Matter?*: [https://www.financialresearch.gov/about/#:~:text=The%20Office%20of%20Financial%20Research%20\(OFR\)%20helps%20to%20promote%20financial,collect%20and%20standardize%20financial%20data.](https://www.financialresearch.gov/about/#:~:text=The%20Office%20of%20Financial%20Research%20(OFR)%20helps%20to%20promote%20financial,collect%20and%20standardize%20financial%20data.)
- Pinnacle Actuarial Resources, *Top 10 Auto Physical Damage Cost Drivers*: <https://www.pinnacleactuaries.com/article/top-10-auto-physical-damage-cost-drivers.>
- National Police Funding Database of LEL Settlements: <https://policefundingdatabase.org/explore-the-database/settlements/>.
- Risk & Insurance, *The Hardening Police Liability Market: Why Labor Shortages, Nuclear Verdicts and Increased Public Scrutiny Are Only Making It Tougher to Buy Insurance*: <https://riskandinsurance.com/sponsored-the-hardening-police-liability-market-why-labor-shortages-nuclear-verdicts-and-increased-public-scrutiny-are-only-making-it-tougher-to-buy-insurance/>

About the Colorado Intergovernmental Risk Sharing Agency (CIRSA)

- Public entity self-insurance pool for property, liability, and workers' compensation coverages
- Formed by in 1982 by 18 municipalities pursuant to CML study committee recommendations
- Not an insurance company, but an entity created by intergovernmental agreement of our members
- Total membership today stands at 287 member municipalities and affiliated legal entities
- Member-owned, member-governed organization
- No profit motive – sole motive is to serve our members effectively and responsibly
- CIRSA Board made up entirely of municipal officials
- Seek to be continually responsive to the liability-related needs of our membership – coverages and associated risk management services, sample publications, training, and consultation services, as well as specialty services such as home rule charter review
- We have the largest concentration of liability-related experience and knowledge directly applicable to Colorado municipalities

Speaker Bios

Tami Tanoue has been CIRSA's Executive Director since August, 2018. Her previous positions with CIRSA include General Counsel/Deputy Executive Director and General Counsel/Claims Manager. She was previously in private practice with the law firm of Griffiths, Tanoue, Light, Harrington & Dawes, where she served CIRSA as its contract General Counsel for 12 years, and was City or Town Attorney for several Colorado municipalities. Prior to that, she was Staff Attorney for the Colorado Municipal League, where she represented the collective interests of Colorado municipalities. Tami is a regular speaker on local government liability topics and has written several publications on liability issues.

Sam Light is Deputy Executive Director/General Counsel for CIRSA. Prior to joining CIRSA in 2018, he was a partner with the Denver law firm of Light | Kelly, P.C., specializing in municipal and other public entity law, insurance law, and defense of public entities and elected officials. Sam has over 25 years of experience serving as general or special counsel to several Colorado cities, towns, self-insurance pools, and other public entities, and he is a frequent speaker on public entity risk issues.

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