



**Date:** August 18, 2015

**To:** Thomas J. Bonfield, City Manager

**Through:** Wanda S. Page, Deputy City Manager

**From:** David Boyd, Finance Director  
Chad Cowan, Treasurer  
Glenn LeGrande, Risk Manager

**Subject:** Contract for Insurance Broker Services

**EXECUTIVE SUMMARY**

In July 2015, the Finance Department issued a request for proposal (RFP) for insurance brokerage services and two responses were received. The insurance broker will assist the City in the purchase of excess property/casualty and workers compensation insurance policies and will provide consulting services in risk financing and risk control. Based on the evaluation completed by Finance personnel and EO/EA Department, it is recommended Arthur J. Gallagher & Company (AJG) serve as the City’s insurance broker for a three-year contract with two one-year renewals at the City’s option. The contract will contain a termination clause that will allow the City to terminate the contract, with notice, at its convenience.

AJG has been the City’s broker for four years and they have met the City’s needs by performing above the scope of services outlined in the current contract. The current annual fee for services is \$35,000. The new amount would be \$42,000 per year for each of the three years of the contract as well as the two one-year optional renewals. The increase in the fee reflects growth in the City’s risk exposures and is comprehensive of the expanded level of service provided throughout the past four years. The maximum cost of the service over the three-year period would be \$126,000.

**RECOMMENDATION**

The Finance Department recommends that the City Council authorize the City Manager to enter into a contract with Arthur J. Gallagher & Company as the City’s insurance broker for a period of three years with two optional one-year extensions.

**BACKGROUND**

Since 2001, the City has used the services of a broker or agent in order to purchase excess property/casualty and workers compensation insurance. This has proven to be the most efficient and cost effective approach, particularly during years when the insurance market is unfavorable to municipalities. In insurance transactions, agents represent the insurers and brokers represent the buyers. Brokers, who represent numerous clients, have greater leverage in the marketplace than an individual insured working with an agent. Therefore,

brokers are generally able to secure more favorable coverage terms and pricing for their clients. In addition, as a representative of the City, the broker is in a better position to offer advice on controlling and financing various risks.

The City received two responses to the RFP and the Finance Department is recommending the contract be awarded to the incumbent, Arthur J. Gallagher & Company. AJG represents over 6,500 public entity clients nationwide and is most experienced in servicing North Carolina with over 40 public entity clients. The North Carolina staff assigned to the City's contract is based out of Raleigh and is highly experienced and well qualified to meet Durham's needs. They are currently serving a number of other major public entities in North Carolina, including Durham County and the Durham City Transit Company (DCTC). AJG has been in the insurance brokerage industry since 1927 and is currently the third largest insurance broker in the world.

### **ISSUES AND ANALYSIS**

The two responses to the RFP were submitted by Arthur J. Gallagher & Company and Wells Fargo Insurance. Both proposals were evaluated based on the following criteria:

1. Experience of the brokerage with public entities
2. Loss control and claims services consulting
3. Safety related training tools
4. Cost of services provided

Although pricing was favorable for Wells Fargo Insurance at \$36,500 per year, the Finance Department believes the Arthur J. Gallagher & Company is best suited to help the City minimize the overall expense of purchasing insurance policies and managing risk exposures. They have proven to be successful in identifying deficiencies in coverage and strengthening the insurance program by analyzing the City's claim data and safety program.

The Finance Department has been satisfied with the insurance renewals completed by AJG in the past four years. Most notably, AJG was successful in negotiating decrease in the City's self-insured retention for general liability from \$1,500,000 to \$1,000,000 with nominal increases in excess coverage premiums. The City has benefited from the consulting services in risk financing and risk control offered by the selected broker. As the incumbent broker for the City, Durham County, and DCTC, Arthur J. Gallagher is very familiar with the public safety hazards and risk tolerance trends affecting the City's insurance portfolio.

The AJG advocacy team assigned to the City's account plays an essential role in evaluating the City's third party administrator for both workers' compensation and property/auto liability claims. Furthermore, AJG has provided third party vendor discounts for online safety training programs and Occupational Safety and Health Administration certifications for City employees. All additional services provided by AJG involving claims analysis and safety training are included in the annual fee proposed, which is locked in for the term of the contract as well as the optional two one-year renewals.

### **ALTERNATIVES**

City Council could choose to award the contract to Wells Fargo Insurance for a total contract price of \$109,500 or forgo hiring an insurance broker. However, both of these options would impede the progress of the Risk Management team and potentially lead to higher overall costs to the Risk Management Fund over the term of the contract.

**FINANCIAL IMPACT**

For the period 2004-2010, the City paid the previous insurance broker, Marsh Inc., between \$40,000 and \$50,000 per year for services. In 2011, Arthur J. Gallagher was awarded the contract for the annual fee of \$35,000. The process involved in insuring the City has grown more complex and time consuming; thus, an increase in the fee to \$42,000 is warranted. The increase in this fee was anticipated and has been budgeted in the Risk Fund for FY16. The Finance Department has concerns relative to maintaining the comprehensive service levels and premium rates for the contracted price proposed by Wells Fargo Insurance.

**SDBE SUMMARY**

The Equal Opportunity/Equity Assurance Department reviewed the proposal submitted by Arthur J. Gallagher Risk Management Services, Inc. of Raleigh, NC and have determined that they are in compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting.

No MSDBE or WSDBE goals were set.

Workforce statistics for Arthur J. Gallagher are as follows:

Total Workforce	11	
Total Females	6	(55%)
Total Males	5	(45%)
Black Males	0	(0%)
White Males	5	(45%)
Other Males	0	(0%)
Black Females	0	(0%)
White Females	6	(55%)
Other Females	0	(0%)

**ATTACHMENTS**

Contract