

2011 EXECUTIVE SUMMARIES

FOR

**CITY OF ROCHESTER HILLS
ROCHESTER HILLS, MICHIGAN**



INDEPENDENT RISK MANAGEMENT AND INSURANCE COUNSEL

EXECUTIVE SUMMARY

1. While the M.M.R.M.A. coverage document is reasonably broad, we found some areas where coverage is not as broad as that offered by the commercial insurance market in ways which we think are important.

First, the **Liability** pollution exclusion is more restrictive. The standard **Commercial General Liability** policy has exceptions to the exclusion not only for "hostile fire," but also for liability arising out of spills of operating fluids, such as fuels or lubricants, from mobile equipment, and for liability arising out of releases of smoke, vapors, fumes, *etc.* from building H.V.A.C. or water-heating equipment. The standard **Business Auto Policy** has an exception to its pollution exclusion for spills of operating fluids which result from automobile collisions.

Second, there is no coverage for **Computer Theft** or **Electronic Funds Transfer Fraud**. These coverages apply primarily to funds kept on deposit in a bank. **Computer Theft** covers the loss of funds because someone gains unauthorized access and removes funds from a City account. **Electronic Funds Transfer Fraud** covers loss which results from a fraudulent transfer purportedly authorized by a City official or employee, but which is not a legitimate transfer. While a bank or other financial institution might bear ultimate responsibility for the loss, it might take weeks, months, or longer for that matter to be resolved. Most financial institutions do not carry insurance limits sufficient to cover a significant loss.

Third, we cannot tell how the M.M.R.M.A. coverage document responds to automobile events which take place out-of-state. The standard **Business Auto Policy** form states that automatically increases its **Liability** limit to meet any state or provincial requirement for higher limits, and that it provides any statutorily-required "No-Fault" coverages. Except for the **Employee Fidelity** coverage provision, we cannot find any indication as to where coverages apply. Virtually all commercial insurance policies specify where they apply.

Fourth, M.M.R.M.A. excludes liability claims arising out of volunteer injury. There is a \$25,000 amount available for volunteer medical expenses, but any liability claims brought against the City are not covered. Unlike employees, volunteers are not subject to any statutory limitations on claims. Even though the City's **Workers'**

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Compensation provider might provide coverage voluntarily, the volunteer is not prohibited by law from bringing a claim against the City. The standard **Commercial General Liability** policy form covers such claims.

M.M.R.M.A. provides a relatively low earthquake limit, \$5,000,000. This limit is subject to an all-member coverage-year aggregate limit of \$100,000,000. Any earthquake claim, whether by the City or another M.M.R.M.A. member, will reduce the remaining limit available for any subsequent claims.

2. The Building Authority should be added to the M.M.R.M.A. and Municipal League coverage documents.
3. Automobile physical damage coverage is subject to a \$1,000 deductible plus a retention of \$15,000 per vehicle, \$30,000 per occurrence. If the City's loss history is reasonably good, we suggest that physical damage coverage be dropped. M.M.R.M.A. does not cover physical damage to short-term rented autos.
4. **Extra Expense** coverage, which pays the additional costs to continue operations as normally as possible following a covered loss, has a 12-month limitation. If any major building were to sustain serious damage, we question whether restoration would be complete within 12 months.
5. A higher **Property** deductible, perhaps \$5,000 or \$10,000, should be considered. However, since M.M.R.M.A. applies a single deductible to both **Property** and **Crime** loss, the higher deductible will apply to **Crime** loss also.
6. The separate **General Liability** policy for the Festival of the Hills is not worthwhile in our opinion. The fireworks and liquor exclusions, plus an Other Insurance provision which is likely to require a sharing in any loss payment by M.M.R.M.A., defeats some of the major purposes of this policy.
7. We have offered a number of suggestions for improving the M.M.R.M.A. coverage document, and we recommend that M.M.R.M.A. be asked if it intends to offer any of these improvements in the near future; the current version of the coverage document is nearly 15 years old, and there have been significant changes in available commercial coverage. If M.M.R.M.A. agrees to consider most or all of these changes, we suggest that the City wait until the 2013 anniversary to seek competitive proposals. If M.M.R.M.A. advises that it has no plans to change

coverage, consider seeking proposals for the 2012 anniversary.

We suggest that the City seek alternative **Workers' Compensation** proposals, including proposals on the large deductible plan basis. With good loss experience, a large deductible plan can reduce costs significantly.