



## County of El Dorado, Department of Human Resources

*Joseph Carruesco, Director of Human Resources*

www.edcgov.us

330 Fair Lane, Placerville, CA 95667

Phone: 530.621.5617 Fax: 530.642.9815

---

DATE: July 15, 2021  
TO: Board of Supervisors  
FROM: Joseph Carruesco, Director of Human Resources  
SUBJECT: PRISM Insurance Renewals, FY 21/22

The following memorandum is being provided to the Board to help explain significant increases to several of the County's insurance programs through PRISM. PRISM is a Joint Powers Authority (JPA) comprised of California counties, cities, and public agencies organized to jointly develop and fund insurance and related programs with the most favorable terms and costs. The County has been a PRISM Program participant for more than 25 years. As mentioned in Board Item #21-1065, the County faces a complex array of risks that can result in severe or catastrophic loss. Purchasing insurance helps protect the County from catastrophic general liability claims, automobile accidents, and workers' compensation injuries. Additionally, purchasing insurance protects the County from loss due to damage or destruction of County assets, pollution, crime, cyber liability, and airport operation exposures. The County procures a variety of insurance policies and programs to mitigate and transfer exposures to catastrophic loss. By securing these risk mitigating and transfer mechanisms, the County is better positioned to protect assets and personnel for the fulfillment of its services, objectives, and Strategic Plan.

Although the overall increases for this fiscal year are approximately 3%, it should be noted that several of the programs are experiencing higher than usual increases, as described below:

### **Property – 16% Increase**

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. In addition, these events have impacted the market's surplus, capacity, and available reinsurance, pushing the industry into a hardening cycle for consumers.

In 2020, PRISM had its highest incurred property claims in the Program's history with about \$77M of losses reported as of January 1, 2021, as compared to an average of \$46M over the last five years. Higher than normal claims can largely be attributed to the wildfires within California, which account for almost 60% of the loss dollars. At the same time, the market continued to sustain significant catastrophe losses along with the additional challenges brought



## County of El Dorado, Department of Human Resources

*Joseph Carruesco, Assistant Director of Human Resources*

[www.edcgov.us](http://www.edcgov.us)

330 Fair Lane, Placerville, CA 95667

Phone: 530.621.5617 Fax: 530.642.9815

---

on by the COVID-19 pandemic, and civil unrest. The increased reinsurance costs, aggressive litigation trends, and adverse claim development trends have further aggravated the property market. Carriers have become risk adverse, offering up restricted capacity at increased pricing. Unlike previous hard market cycles, there is not significant new capital entering the market, which would provide the competition needed in order to soften the market.

### **Pollution – 269% Increase**

The public entity sector within the pollution marketplace is also experiencing a hard market cycle. While there are over 40 markets writing pollution legal liability (PLL) coverage, there are currently only a handful that are willing to underwrite public entity programs and this number continues to dwindle for primary players on large public entity programs. Across the marketplace and across the country coverage terms have been impacted by a combination of high profile mold incidents, rising legionella claims, claims for contaminated water supplies and a growing focus on new and emerging contaminants such as perfluoroalkyl and polyfluoroalkyl substances (PFAS/PFOAS). As a result we are experiencing restrictions on coverages for mold, legionella, sewage backup, PFAS/PFOAS and products pollution (contaminated water). Deductibles continue to increase and multiyear terms are seldom offered (exceptions made on a case-by-case basis on accounts with exceptional loss ratios only).

These changes are being driven by many different risk factors. The frequency of PLL claims continued to increase in 2019 and 2020 mostly due to the microbial matter exposures afflicting the habitational, hospitality, healthcare and education industries. There has been an uptick in losses related to mold and legionella due to long term building closures associated with COVID-19 shutdowns. Losses related to contaminated water supplies and sewage backup have also increased. The top five global risks identified by the 2020 World Economic Forum are environment-related (extreme weather events, climate change, human-made environmental disasters, biodiversity loss, and natural disasters). Many of these risks and the resulting remediation and tort exposures associated with these events are addressed by pollution policies, leading markets to prepare for a continued increase in frequency and severity of pollution losses.

### **Cyber Liability – 345% Increase**

As with Property and Pollution, the cyber insurance industry is in a hard market cycle, which is impacting every cyber insurance carrier and insured across the nation, across all sectors, and now especially it is affecting public entities.



## **County of El Dorado, Department of Human Resources**

***Joseph Carruesco, Assistant Director of Human Resources***

**www.edcgov.us**

330 Fair Lane, Placerville, CA 95667

Phone: 530.621.5617 Fax: 530.642.9815

---

The cyber insurance market has shifted considerably in the last 12-18 months and is presumed to continue to be volatile for the foreseeable future. The top 10 carriers, who control an estimated 65%-75% of the U.S. standalone insurance market, are being overwhelmed with cyber incident claims. SolarWinds, Microsoft Exchange and other attacks have left no class of business immune from the attacks.

The large increase in the severity of claims is driven by the size of the ransoms being demanded and paid, as well as business interruption and system rebuilding costs. The norm, 18 to 24 months ago, was for ransoms to be tens to hundreds of thousands of dollars. The new norm is in excess of a million dollars. Public entities are a large and frequent target for hackers, for several reasons. The IT infrastructure and training budgets for public entities are generally smaller than their commercial counterparts. Public entities are seen as a vulnerable target due to the necessary services provided to the general public.

Program losses are one of many factors driving premium and structure changes for this renewal. Cyber insurers are requesting more underwriting information, requiring more senior level oversight, increasing premiums dramatically, and reducing capacity/appetite in all sectors, most notably for large public entities. El Dorado County is not unique in experiencing rate increases for key insurance coverages as the claims environment in California and across the nation is increasingly adverse for public entities.