



CITY OF SACRAMENTO

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DEPARTMENT OF GENERAL SERVICES

Risk Management & Insurance Division

800 - 10th Street Sacramento, California 95814
Suite 4 Telephone (916) 449-5556

October 29, 1982

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: RENEWAL OF BROWN BROTHERS ADJUSTERS SELF-INSURED AUTO AND GENERAL LIABILITY CLAIM ADMINISTRATION AGREEMENT

SUMMARY

This report recommends that the City Council approve the attached resolution renewing the City's agreement with Brown Brothers Adjusters.

BACKGROUND

In 1976, when the City began self-insuring its Automobile and General Liability, we entered into a three-year (1/20/76-1/20/79) agreement with E.S.I.S. for claim administration for \$100,000 (1st year, \$40,000; 2nd year, \$30,000; and 3rd year, \$30,000). In October of 1976, prior to the end of the first year of the agreement, E.S.I.S. requested an increase of their fee for the second year (1/20/77-1/20/78) from \$30,000 to \$40,500 or 68.3%, based on the substantial increase of claims frequency.

At this point, quotations for second-year claims administration services were requested. Proposals were received from the following firms:

	<u>Fee</u>	APPROVED BY THE CITY COUNCIL
Brown Brothers Adjusters	\$38,500	NOV 16 1982 OFFICE OF THE CITY CLERK <i>AG 82043</i>
Underwriters Adjustment Company	\$41,500	
General Adjustment Bureau	\$42,800	
R. L. Kautz & Co.	\$43,500	
E.S.I.S.	\$50,500	

The subsequent events that have taken place following the receipt of the above proposals are as follows:

1. The City entered into a one-year (1/20/77-1/20/78) agreement (A-76182) with Brown Brothers Adjusters for claims administration at a fee of \$38,500 (including a \$3,500 broker commission);

2. In January of 1978, the City entered into a three-year (1/20/78-1/20/81) agreement with Brown Brothers that provided for a 12% fee increase for the first year. Fee adjustments for the second and third years will be based on the December CPI for the San Francisco-Oakland area.
3. In October of 1978, the agreement with Brown Brothers was amended to eliminate the broker's 10% commission from Brown Brothers' fee, making their fee \$39,200 instead of \$43,120;
4. In a letter dated January 14, 1982, Brown Brothers Adjusters requested a fee increase and some modifications to our agreement for the last year of the three-year agreement (1/20/78 to 1/20/81).
5. On February 12, 1980, James Jackson and Frank Mugartegui met with Brown Brothers' Sacramento Area Manager and negotiated an agreement that was equitable to both sides in light of fees being charged throughout the industry, (i.e., State of California, AAA, State Farm and Civil Service Insurance of \$125/claim plus expenses, and Mund, McLaurin and Company of San Francisco's recent experience). (See Exhibit I.)
6. On April 8, 1980, the City Council approved the terms of the agreement negotiated with Brown Brothers. This agreement extended the term of the agreement from January 20, 1981 to January 20, 1983, and provided for the following fee structure:

1st year (1/20/81-1/20/82) -	1st 600 claims	\$51,000
	600-700 claims	\$100 each
	700 & over	\$125 each

2nd & 3rd years of Agmt. - Fee structure adjusted based on the prior December CPI for The San Francisco-Oakland All. Urban Consumer

Recently, a Third-Party Liability Claims Audit of Brown Brothers' performance in handling City claims was completed by Warren, McVeigh, Griffin & Savage. There were some minor deficiencies noted; however, the conclusions of the report were "that the City continue with Brown Brothers Adjusters, but this recommendation is contingent upon their prompt compliance with all recommendations in this report".

DISCUSSION

Many of the recommendations of the audit report have already been implemented by Brown Brothers Adjusters and the remaining items are in the process of being implemented (reference Exhibit II).

On October 15, 1982, the Risk Management Committee met and reviewed the six-year history of claims administration costs and performance of Brown Brothers Adjusters.

The chart below provides the costs and number of claims handled from 1977 to date.

Number of Claims Filed

	<u>Mos</u>	<u>Auto</u>	<u>Gen</u>	<u>Total</u>	<u>Annual Net Fee</u>	<u>Average Fee Per Claim</u>
1st 1/20/77-78	12	206	511	717	\$35,000	\$ 48.81
2nd 1/20/78-79	12	222	405	627	\$39,200	\$ 62.51
3rd 1/20/79-80	12	206	345	551	\$42,026	\$ 76.27
4th 1/20/80-81	12	211	321	532	\$51,000	\$ 95.82
5th 1/20/81-82	12	199	315	514	\$56,457	\$109.85
6th 1/20/82-83	8*	144	180	324*	\$65,117	\$108.53**

* Reflects 8 months of experience.

** Average based on 600 claims.

The Committee concluded that based on Brown Brothers overall performance, the City's interest is being well served.

In our discussion with Brown Brothers regarding the expiration of the current agreement on January 20, 1983, they expressed a sincere desire to continue as the City's Third-Party Claims Administrators for a minimum additional term of three (3) years. This was accompanied with the following offer:

Term of Agreement: 3 years - 1/20/83 to 1/20/86

Fee Structure:

1st year 1/20/83 to 1/20/84 - \$65,117 (same as current year).

2nd & 3rd years - Fee adjustment based on the prior December's CPI for the San Francisco-Oakland Area not to exceed 10%.

In addition, amend the agreement to provide that beginning January 1983; on claims over two years old, handling will be based on time (\$25/hr) and material, not to exceed \$10,000 in any given year.

CONCLUSION

Based on the Risk Management Committee's evaluation of Brown Brothers' performance and offer for renewal, which is not out of line, and the recommendation of the Third-Party Liability Claims Administration Audit, it is our opinion that the City should not consider changing adjusters.

There are numerous advantages in remaining with the same adjuster over a long period of time, providing their performance is acceptable. If the City were to change adjusters, it would take a period of time for a new adjuster to become

familiar with City operations, contact persons, status of open claims, and the additional time and expense incurred in their familiarization with overall City procedures.

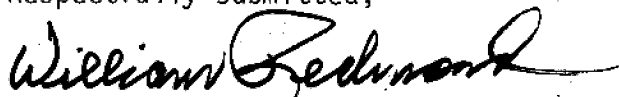
FUNDING

The FY 1982-83 Risk Management Program Budget provides funding for this coverage.

RECOMMENDATION

It is the recommendation of the City's Risk Management and Insurance Committee and Warren, McVeigh, Griffin and Savage, that the City Council approve the attached Resolution authorizing and directing the City Manager to execute a three-year agreement with Brown Brothers Adjusters for Third-Party Claims Administration.

Respectfully submitted,



William Redmond
Risk Manager

RECOMMENDATION APPROVED:


Walter J. Slipe, City Manager

November 16, 1982
All Districts

Attachments

RM:82133:WR/m1



CITY OF SACRAMENTO

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DEPARTMENT OF GENERAL SERVICES

Risk Management & Insurance Division

800 - 10th Street Sacramento, California 95814
Suite 4 Telephone (916) 449-5556

October 29, 1982

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: RENEWAL OF BROWN BROTHERS ADJUSTERS SELF-INSURED AUTO AND
GENERAL LIABILITY CLAIM ADMINISTRATION AGREEMENT

SUMMARY

The attached report is scheduled to be presented to the City Council November 16, 1982, and recommends that the City renew its agreement with Brown Brothers Adjusters.

RECOMMENDATION:

It is requested that the Committee approve the attached report and forward to the City Council for their adoption.

Respectfully submitted,

William Redmond
William Redmond
Risk Manager

RECOMMENDATION APPROVED:

Solon Wisham, Jr.
Solon Wisham Jr.
Assistant City Manager

November 9, 1982

Attachment

RM:82132:WR/m1

MUND, McLAURIN & CO.
OF SAN FRANCISCO

INSURANCE ANALYSTS

RISK MANAGEMENT • ADMINISTRATIVE SERVICES
100 BUSH STREET • SAN FRANCISCO, CA 94104 • 415/981-6522

MEMORANDUM No. SF80-31

To: City of Sacramento

DATE: January 17, 1980

ATTENTION: Mr. Frank Mugartequi, Assistant Director of Finance

SUBJECT: BROWN BROTHERS ADJUSTERS ADMINISTRATION FEE LIABILITY SELF-INSURED RETENTION

We recently had a big go-around with another client dealing with change in Administrators.

The per claim handling costs submitted by the Administrators were all over the board, broken down between "incident" reports, property damage only, bodily injuries, personal injury, quoted on flat sum for so many losses, with flat charge per claim exceeding the average, etc.

Claims where litigation might ensue were pretty consistently shown on a time and expense basis not to exceed \$180 per claim, lowest \$100 per claim.

One of the Administrators proudly presented his proposal with the statement, "I hope this will be the highest cost you receive. If not, you should be alerted to the fact that our costs have been paired to the bone, and any costs less than what we have shown can only be substantiated by a decrease in service, which will automatically produce higher payments of claims." The interesting thing was that this Administrator on an average was 25% lower than the highest cost and 7% higher than the low bidder.

There does not appear to be any "fat" in the fee collected by Brown Brothers, based on costs from other Administrators.

The increase to \$95.00 from \$67.04 per claim, is a long way from \$180, but a little high when applied to all claims regardless of type.

The most important points in our estimation are:

- Administrator is in Sacramento
- You are satisfied with service, and based on ESIS performance, claims costs have been reduced.

Of the alternatives outlined, we would recommend that attempt be made to negotiate the fee down from \$95.00, citing that bulk of claims are concentrated in Sacramento area, number of PD which do not require much time, etc. If necessary give up requirement for them to handle runoffs in event of termination; reduce multiple claims from single occurrence from 20 to 10. We can see a charge for reopened claims, but do not understand why a charge for legal files over 12 months old, is in order.

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You could have real difficulty in keeping the cost at \$47,069.12 but we do feel that the \$95.00 figure could have been quoted knowing that it could be subject to negotiation.

A change over in liability is always difficult--improper handling of one claim would cost you a lot more than imcrease in Administration fee.

MUND, McLAURIN & CO. OF SAN FRANCISCO

By *(Signature)*

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