

**VII. STANDING COMMITTEES**

Finance, Audit and Facilities Committee

**B. Extension of Appointments of Insurance Brokers of Record**

**RECOMMENDED ACTION:**

It is the recommendation of the administration and the Finance, Audit and Facilities Committee that the Board of Regents extend the appointments as Insurance Brokers of Record Parker, Smith & Feek, Inc. for property, casualty and miscellaneous insurance policies and Mercer Health and Benefits, LLC for the student health plans, until Dec. 1, 2011, subject to satisfactory performance.

**BACKGROUND:**

The University uses insurance brokers to obtain the best possible insurance coverage from worldwide insurance carriers and to consult on risk management and insurance matters. In 2001, the Board appointed Parker, Smith & Feek for property insurance coverage and Marsh & McLennan for casualty and miscellaneous insurance coverage and the student health plans. Both appointments were for a five year period with an option to extend for an additional 5 years. In 2004, after the University's key casualty broker transferred from Marsh to Parker, Smith & Feek, and after an open competition, the Board appointed Parker, Smith & Feek for casualty and miscellaneous insurance coverage for the remainder of the original term, with an option to extend. At that time, the University also clarified that Mercer Health & Benefits, LLC, a sister corporation of Marsh, was directly appointed for the student health plans without the involvement of Marsh.

The services and expertise of both of the incumbent firms have fully satisfied the University's requirements. The appointments will expire this December unless extended.

To prepare a recommendation about the extension of the appointments, a panel including the Executive Director, Risk Management, the Director of Risk Financing, the Insurance Coordinator and the Senior Director, Strategic Sourcing undertook a review process which included:

1) a review of the recent literature about insurance broker evaluation techniques, focusing on the Risk and Insurance Management Society quality improvement study of 2004-05;

2) customer satisfaction interviews with insurance purchasers throughout the University, including the chief financial officers of UWMC and HMC, the Manager of Marine Operations, the Director of the Office of Student Life, the Contracts Manager and Director of Business Services for the Capital Projects Office, the Director of the Benefits Office and the Manager of Claim Services;

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3) a review of the compensation of each firm, including contingent commissions, for the past 5 years; and

4) discussions with the key service providers of each firm, in which insurance placements, related consulting services, corporate integrity, compensation, brokerage staff education and opportunities for improvement were addressed.

The panel found that Parker, Smith & Feek has demonstrated its commitment to the University by its excellent service delivery, attention to quality and market-responsive compensation arrangements. Its regional depth and breadth of expertise is enhanced by its membership in Assurex, an international insurance brokerage consortium which has been useful in placing coverage for the University's global activities. Its total compensation for the past fiscal year was about \$570,000 on a premium volume of about \$6,950,000, or 8% compared to the property/casualty industry average of 11%.

Mercer has worked diligently to develop new products and approaches for the student health plans and has provided uncompensated consulting services for Intercollegiate Athletics, the UW-Bothell and UW-Tacoma student bodies, and the Benefits Office. It pays special attention to the regulatory issues affecting the health plans so that the University will remain in full compliance with all relevant laws. Its compensation for the past fiscal year was about \$275,000 on a premium volume of \$17,136,000, or 1.6% compared to the benefits industry average of 2-3%.

The panel concluded that the appointment of both firms should be extended.