

**MEMORANDUM**

DATE: June 5, 2018  
TO: William Stowe, CEO and General Manager  
FROM: Peggy Freese, Director of Finance *pf*  
SUBJECT: Broker Services for Corporate Insurance

In April, Des Moines Water Works sent requests for proposal to five insurance brokers in the area regarding brokerage services for the November 1, 2018 renewals (and beyond) of our property and casualty insurance. We received responses from three brokers: LMC Insurance & Risk Management, Holmes Murphy, and Arthur J. Gallagher & Co.

Beyond the annual placement of our policies, we rely on our broker for consultation and assistance on a wide variety of issues throughout the year. We evaluated the firms based on a number of criteria including their expertise, volume of premiums written, insurance carriers utilized, the quality of their written proposals and the proposed fee structure. All three firms proposed a comprehensive range of services provided by an experienced service team. The three brokers utilize many of the same insurance carriers to place policies, including our current carriers.

Based on our assessments, we feel all three are capable of providing excellent customer service. We have experience with all three brokers. Gallagher is our current broker, LMC was our previous broker and Holmes Murphy was previously our broker for employee benefits.

<b>Proposed Fees</b>			
	<b>1st Year</b>	<b>Future Yrs</b>	<b>Total</b>
LMC	\$15,000	\$15,000	\$75,000
AJ Gallagher	\$24,500	4% increase	\$132,700
Holmes Murphy	\$35,000	\$35,000	\$175,000

AJ Gallagher, our current broker, proposed a fee of \$24,500 for the first year with an annual 4% inflation factor. Holmes Murphy proposed a fee of \$35,000 per year. LMC proposed a flat \$15,000 fee plus a variable component of a percentage of savings on marketing efforts. Historically there has been no incentive for a broker to aggressively negotiate price decreases for Des Moines Water Works. This variable component allows LMC and DMWW to enter a mutually beneficial partnership and provides DMWW the confidence that marketing efforts are being maximized. This variable component would be as follows:

- 10% savings from 2017-2018 premiums – 10% of those savings added to the flat fee
- 20% savings from 2017-2018 premiums – 20% of those savings added to the flat fee
- 30% savings from 2017-2018 premiums – 30% of those savings added to the flat fee

If LMC saves DMWW 10% on insurance premiums through their marketing efforts, DMWW will pay LMC ( $\$92,556 \times 10\%$ ) + \$15,000 for a yearly total of \$24,256. This rate would be in fixed for up to 5 years. If no savings are met, fee remains \$15,000. LMC's fee would still be the lowest of the three proposals and we would realize a savings in our premiums.

The primary difference between the three firms is cost. We recommend the selection of LMC Insurance & Risk Management as the insurance broker for property and casualty insurance.