

# INTERISK CORPORATION

Consultants

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Mr. Mark Finigan  
Finance Director  
City of Key West  
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Subject: Evaluation of Insurance Proposals

Mark:

Per Todd's request I have reviewed the proposals received by the City for its 2018/19 Property and Casualty Insurance program. Two proposals were received. The first was received from World Risk Management (WRM) and the other was received from Public Risk Insurance Agency (PRIA). Before I address the proposals I will first offer some comments regarding WRM and PRIA.

Both WRM and PRIA are highly recognized insurance agencies that have extensive experience in providing the insurance needs of governmental entities. PRIA exclusively serves governmental entities. While WRM and PRIA may provide slightly varying services, it is believed the services they provide are comparable and both provide quality services. It is believed that both WRM and PRIA can provide the services needed by the City.

As far as the types and amounts of insurance being proposed, WRM only provided proposals for the City's basic insurance program that includes:

- Property
- Crime
- General Liability
- Vehicle Liability
- Public Officials Liability
- Law Enforcement Legal Liability
- Cyber Liability
- Workers' Compensation/Employers Liability
- Boiler and Machinery

WRM did not offer proposals for the City's ancillary insurance coverages.

PRIA only provided proposals for the City's ancillary insurance coverages that include:

- Hull and Machinery
- Vessel Pollution

- Marina Operator's Legal Liability (MOLL)
- Wharfinger's Liability
- Outer Mole Coverage
- Statutory Accidental Death and Dismemberment (2 separate options were proposed)

Since WRM and PRIA offered proposals for totally separate coverages, my comments will be limited to issues raised in each party's proposal.

### **World Risk Management**

All of the coverages being proposed by WRM will be provided by the Public Risk Management of Florida Self-Insured Trust (PRM). PRM was formed in 1967 and currently serves the insurance needs of 61 cities, counties and special districts. While PRM is smaller than other Florida based self-insured trusts (such as the FMIT and PGIT) they are reporting that the structure of their trust is extremely conservative and the amount of each loss the Trust retains is considerably less than other similar trusts. This allows PRM to operate successfully with lower surplus (net worth) since a greater portion of its losses are transferred to their excess insurers. All of PRM's excess insurers enjoy a favorable rating from the A.M. Best Company,

A couple features being proposed by WRM deserve further discussion.

1. PRM is offering a 2 year rate guarantee. This does not mean the City's premiums for the 2019/20 will be the same as the 2018/19 premium. While the premium will be based on the same rates, they will be applied to the City's payrolls and revenues for the 2019/20 year. While this will eliminate the need for the City to obtain competitive proposals next year, it is believed that this feature has limited value. Over the past several years, General and Vehicle Liability rates have been relative stable and Workers' Compensation rates have actually come down. It should be recognized that the 2 year rate offer is contingent on the City's loss ratio being less than 40%. If the aggregate of the City's General, Vehicle and Workers' Compensation losses exceed 40% of the premiums for these coverages PRM retains the right to re-underwrite the City's program. In addition, to be eligible for the 2 year rate guarantee, all of the coverages being proposed by PRM must be accepted. This includes PRM's property program.
2. It appears as if PRM will assume the cost of property appraisals. This is viewed as a favorable feature. Depending on when the City's property was last appraised, it is recommended that the City take advantage of this offer.
3. While PRM is offering property limits significantly higher than the Replacement Value of the City's property, the program limits of \$500 million have to be shared with other losses experienced by all of PRM's members. It is believed that Florida would have to experience a catastrophic loss (most likely by a hurricane) to jeopardize these limits. It is not believed that this limitation will have a major impact on the City's protection.
4. PRM's property program will not extend coverage to the City's piers and docks. PRM's proposal suggests such coverage can be offered if the Replacement Value of the Piers & Docks are included in the City's Statement of Values.
5. PRM is proposing limits of \$1,000,000 for the City's General Liability coverage. This is consistent with the City's current program. PRM is also proposing Excess Liability coverage with limits of \$3,000,000. To purchase the Excess Liability coverage the limits of the General Liability coverage will have to be raised to \$2,000,000. WRM did not indicate what the cost of increasing the General Liability limits would be.
6. While PRM's proposed premiums for the City's Property, Crime and Boiler and Machinery coverage will increase, the premium for its General Liability, Vehicle Liability, Public Officials Liability (Errors and Omissions), Cyber Liability and Workers Compensation coverages will be reduced. PRM is proposing an overall premium of \$1,038,485 which is an increase of \$52,502

(5.3%) when compared to the premium the City paid for its 2017/18 program. Overall, it is believed that the premium being proposed by PRM should be viewed as being favorable.

### **Public Risk Insurance Agency**

Based on my review of the City's Schedule of Insurance that was included with its Solicitation of Proposals, it appears as if PRIA has renewal options for the coverages the City refers to as "Ancillary Coverages". Since I have not had an opportunity to review each of the current "Ancillary" policies I am unable to comment if the terms and conditions of the 2018/19 policies will be the same as the 2017/18 policies. It is recommended that PRIA confirm the terms and conditions of the coverages they are proposing are consistent with the expiring policies. The insurers PRIA are proposing all enjoy a favorable rating from the A.M. Best Company, the leading evaluator of insurance company operations.

Since I do not know what the City paid for its "Ancillary" coverages for the 2017/18 policy term, I am unable to comment on the pricing PRIA is proposing. It appears as if the pricing being proposed is reasonable.

PRIA submitted 2 proposals for the City's Statutory Accidental Death and Dismemberment (AD&D) coverage. The first was from National Union Fire Insurance Company (the incumbent insurer). The second was from Ace American Insurance Company. The primary limits of a Statutory AD&D policy are established by the State government and are adjusted each year. The following schedule displays the limits being proposed by both National Union and Ace.

| <b>Benefits</b>                                      | <b>Limits proposed by National Union</b> | <b>Limits proposed by ACE</b> |
|--|--|-------------------------------|
| In the Line of Duty Death Benefits                   | \$74,801                                 | \$72,764                      |
| Fresh Pursuit Death Benefits                         | \$74,801                                 | \$72,764                      |
| Unlawful & Intentional Acts of Others Death Benefits | \$211,581                                | \$205,818                     |

It is believed that the limits being proposed by ACE are benefits established by the State government for last year (2017) and the benefits being proposed by National Union are the benefits established for the current year (2018). Both National Union and ACE offered a 2 year policy with National Union's 1<sup>st</sup> year premium being \$6,768 and the 2<sup>nd</sup> year premium being \$6,430. ACE offered an annual premium of \$6,019 for both years. I suspect if the City selects the ACE proposal, their limits will be raised to reflect the current benefit level and their premium may increase. It is recommended that the City ask PRIA to confirm if ACE's benefit levels will be raised if selected and what the additional cost will be. If ACE agrees to the current benefit level and will retain their proposed premium, It is recommended that the City consider changing its AD&D coverage from National Union to ACE.

Overall, it appears as if the City has received favorable pricing for its insurance 2018/19 coverages with terms and conditions consistent with the 2017/18 policy term. It is recommended that the City renew the following insurance coverages as being proposed by Public Risk Management/World Risk Management for the 2018/19 policy term.

1. Property
2. Crime
3. General Liability to include Public Officials Liability (E&O), Law Enforcement Legal Liability and Cyber Liability
4. Vehicle Liability
5. Workers' Compensation and Employers Liability
6. Boiler and Machinery

It is also recommended that the City renew the following insurance coverages as being proposed by Public Risk Insurance Agency/various insurers for the 2018/19 policy term.

1. Hull
2. Vessel Pollution
3. Marina Operator's Legal Liability
4. Wharfinger's Liability
5. Outer Mole Excess Liability
6. Statutory Accidental Death and Dismemberment

I will make myself available to discuss this issue in more detail at your convenience.

Cordially,

INTERISK CORPORATION

A handwritten signature in black ink, appearing to read "S G Webber". The signature is fluid and cursive, with the first two letters of each name being capitalized and prominent.

Sidney G. Webber  
CPCU, ARM

Cc: Todd Stoughton