

# Interisk Corporation

Risk Mgt. & Employee Benefits Consultants

1101 Red Maple Circle N.E., St. Petersburg, Florida 33703-6318 ~ telephone: 813-287-1040

[www.interisk.net](http://www.interisk.net)

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Mr. Todd Stoughton  
Risk Manager  
City of Key West  
P.O. Box 1409  
Key West, Florida 33041-1409

Todd:

Per your request I have reviewed Public Risk Management of Florida (PRM) proposal for the City's Property and Casualty Insurance program as submitted by World Risk Management. PRM is going to make several changes to their coverages. Some are viewed as having minimal impact on the protection the City is purchasing. However, some may have a significant impact on the protection. To facilitate the understanding of the impact these changes may have on the City's insurance program, each coverage line will be discussed independently. I will then conclude with a summary of the entire program.

## **PROPERTY**

The City's insured values increased by \$1,884,324 (1%). The overall limits of PRM's Property program must be shared between all of its members. It appears as if PRM is reducing their overall Property limits from \$500 million to \$250 million. It is believed that this weakens the PRM program. Even though the program includes various sub-limits to include losses caused by wind or flood, a wide spread storm that impacts a number of PRM's members could exhaust PRM's program limits and in turn impact the City's recovery following a loss.

PRM includes the City's Vehicle Physical Damage coverage in their Property program. The 2019/20 program provided overall limits of \$10 million. The 2020/21 program will pay 100% of the first \$2,500,000 but only 80% of damages that exceed \$2.5 million, subject to a combined limit of \$10 million. Again these limits must be shared with all of PRM's members. It is believed that this weakens the PRM program. Many of Interisk's clients suffered extensive damage to the fleet as a result of Hurricane Irma. Collective damage to PRM member's vehicles that exceeds \$10 million could impact the City's recovery.

PRM's animal coverage is also being reduced. It is believed that this change will have a minimal impact on the City.

PRM's 2019/20 program provided \$5 million of Contingent Business Interruption Coverage. While the 2020/21 program will continue to offer similar coverage, tax revenues will be excluded. This change obviously weakens the PRM program but the full impact on the City cannot be determined.

PRM's 2019/20 program provided \$50 million of Builders Risk coverage. The 2020/21 will continue to offer the same coverages and limits, however, framed structures will not be eligible for the coverage. This will force the City to purchase separate Builders Risk coverage if they construct a frame structure.

PRM's 2019/20 program provided \$2,500,000 of coverage for damages to the City's watercraft that are 27 or less feet on an unscheduled basis. The limits of the 2020/21 program are going to be reduced to \$250,000. While it is believed that this change weakens the program, the impact on the City may be minimal.

PRM is adding a Communicable Disease exclusion. This could significantly impact the City if one of their buildings is deemed to have been contaminated as a result of COVID19 or any other communicable disease. Currently there is considerable litigation in progress to determine the extent of coverage a standard property policy provides for buildings contaminated by a communicable disease. The final outcome of this litigation may impact the effects of this exclusion will have on the City.

PRM is also adding what they call “Property Cyber & Data Exclusion”. Without reviewing this exclusion an opinion on the impact this exclusion will have on the City cannot be offered.

Despite the fact that the coverages of the PRM Property program is being reduced, the premium is being increased from \$768,288 to \$971,434. This represents an increase of \$203,146 (26.4%). A small portion of this increase can be attributed to the City’s insured values increasing by 1%. Other clients that Interisk has assisted with their Property renewal only reflected a premium increase of between 10% and 15%. It is believed that PRM’s proposed increase in their Property premium exceeds what has been offered by other Property insurers. Some of these other clients are located in Monroe County. The City will be responsible for the following retentions:

- Basic Retention - \$25,000
- Flood Losses NFIP Zones A&V - Excess of NFIP Limits (\$500,000)
- Flood Losses All Other NFIP Zones - \$25,000
- Named Windstorm – 5% of Damages

**PROPERTY TERRORISM & SABOTAGE**

The only comment that can be offered regarding the Property Terrorism & Sabotage coverage is that the terms and conditions of the coverage will be the same for the 2020/21 program compared to the 2019/20 program. This coverage has an overall limit of \$25 million that has to be shared with all of PRM’s members. A \$10,000 deductible will apply to all losses. It appears as if the coverages being offered adequately protects the City. However, the Premium Breakdown of the proposal does not reflect this coverage. The fact that the coverage is being provided by Lloyds of London instead of PRM suggests that a separate premium will apply to this coverage.

**ACTIVE SHOOTER & MALICIOUS ATTACK**

The only comment that can be offered regarding the Active Shooter & Malicious Attack coverage is that the terms and conditions of the coverage will be the same for the 2020/21 program compared to the 2019/20 program. This coverage has an overall limit of \$1 million. A \$10,000 deductible will apply to all losses. It appears as if the coverages being offered adequately protects the City. However, the Premium Breakdown of the proposal does not reflect this coverage. The fact that the coverage is being provided by Lloyds of London instead of PRM suggests that a separate premium will apply to this coverage.

**CRIME**

The terms and conditions of PRM’s Crime coverage will be the same for the 2020/21 policy year as it was for the 2019/20 policy year. The following coverages and limits will be provided:

<b>Coverage</b>	<b>Limits</b>
Employee Theft	\$1,000,000
Forgery or Alterations	\$1,000,000
Theft	\$1,000,000
Robbery	\$1,000,000
Computer Fraud	\$1,000,000
Funds Transfer Fraud	\$1,000,000
Money Orders and Counterfeit Papers Currency	\$1,000,000

The premium for this coverage is included in the Property program. A \$1,000 deductible will apply to all losses. No further comments can be offered.

### **GENERAL LIABILITY**

The 2020/21 program will have the same terms and conditions found in the 2019/20 program with one major exception. The 2020/21 program will limit losses associated with Communicable Diseases to \$200,000 per claimant, \$300,000 per occurrence, \$300,000 annual aggregate and a \$3,000,000 annual aggregate for all of PRM's members. It is believed that this change will significantly weaken the PRM program and could significantly impact the City.

A per occurrence limit of \$1,000,000 shall apply with the City being responsible for the first \$100,000 of each loss. The premium for this coverage is being reduced from \$257,952 to \$250,939.

With the exception of the limitation for Communicable Disease claims it is believed that this coverage adequately protects the City.

### **AUTO LIABILITY**

The 2020/21 program will have the same terms and conditions found in the 2019/20 program. A per occurrence limit of \$1,000,000 shall apply with the City being responsible for the first \$100,000 of each loss. The premium for this coverage is included in the General Liability coverage.

It is believed that this coverage adequately protects the City.

### **PUBLIC OFFICIALS LIABILITY**

The 2020/21 program will have the same terms and conditions found in the 2019/20 program with one major exception. The 2020/21 program will limit losses associated with Communicable Diseases to \$200,000 per claimant, \$300,000 per occurrence, \$300,000 annual aggregate and a \$3,000,000 annual aggregate for all of PRM's members. It is believed that this change will significantly weaken the PRM program and could significantly impact the City.

A per occurrence limit of \$1,000,000 shall apply with the City being responsible for the first \$100,000 of each loss. The premium for this coverage is included in the General Liability coverage.

With the exception of the limitation for Communicable Disease claims it is believed that this coverage adequately protects the City.

### **WORKERS' COMPENSATION AND EMPLOYERS LIABILITY**

The 2020/21 program will have the same terms and conditions found in the 2019/20 program. Statutory Workers' Compensation coverage will be provided with Employers Liability limits of \$2,000,000. A self-insured retention of \$325,000 will apply to each claim. The estimated premium will reduce from \$245,768 to \$239,088. Part of this decrease is a result the City's estimated payroll decreasing from \$32,077,271 to \$31,205,236. This premium may change based on the City's actual payroll for the year. There is no indication that the City's Experience Modifier factored in the calculation of the premium. PRM's proposal did not reflect that a Communicable Disease exclusion or limitation will apply.

It is believed that this coverage adequately protects the City.

**CYBER LIABILITY**

The 2020/21 program will have the same terms and conditions found in the 2019/20 program with one exception. While each claim will be subject to a \$1,000,000 limit the overall program limits are being increased from \$5,000,000 to \$10,000,000. This limit must be shared with all of PRM's members. This is viewed as an enhancement to the program. PRM's proposal indicates that the premium for this coverage is included but it could not be determined which coverage included this premium.

It is believed that this coverage adequately protects the City.

**BOILER AND MACHINERY**

The 2020/21 program will have the same terms and conditions found in the 2019/20 program. A per accident limit of \$50 million shall apply. This limit must be shared with all of PRM's members. A deductible of \$1,000 for each claim shall apply except losses associated with transformers that are 10,000 KVA or greater. Such losses will be subject to a \$10,000 deductible. The premium for this coverage will increase from \$11,670 to \$11,874.

It is believed that this coverage adequately protects the City.

**EXCESS LIABILITY**

This coverage is not being purchased.

**POLLUTION AND REMEDIATION LEGAL LIABILITY**

This coverage is not being purchased.

**AIRPORT OWNERS AND OPERATIONS LIABILITY**

This coverage is not being purchased.

**PREFERRED MEMBER PARTICIPATION CREDIT**

PRM offers a premium credit to its preferred members. In the 2019/20 policy year the credit was \$25,684. The 2020/21 credit is being reduced to \$7,367.

**SUMMARY**

The following table displays the City's insurance coverages for the 10/1/20 to 10/1/21 policy term.

Coverage	Insurer	Limits	Deductible/Retention	Annual Premium	Comments
Property	PRM	\$165,289,156	\$25,000 except NFIP limits for flood and 5% for Named Windstorm	\$971,434	Sub-limits apply to various losses
Property Terrorism & Sabotage	Lloyds of London	\$25 million per occurrence and \$25 million annual aggregate	\$10,000	Could not be determined	
Active Shooter & Malicious Attacks	Lloyds of London	\$1 million per occurrence and \$1 million annual aggregate	\$10,000	Could not be determined	
Crime	PRM	\$1,000,000	\$1,000	Incl. in Property	
General Liability	PRM	\$1,000,000	\$100,000	\$250,939	
Auto Liability	PRM	\$1,000,000	\$100,000	Incl. in General Liability	
Public Officials Liability	PRM	\$1,000,000	\$100,000	Incl. in General Liability	
Workers' Compensation/Employers Liability	PRM	WC- Statutory EL - \$2,000,000	\$325,000	\$239,088	
Cyber Liability	Great American Insurance Co.	\$1,000,000	\$25,000	Incl.	
Boiler and Machinery	Travelers	\$50 million	\$1,000 except \$10,000 for transformers 10,000 KVA or greater	\$11,874	
Participation Credit				\$(7,367)	
Total				\$1,465,968	

Subject to the concerns raised above it is believed that the City's Property and Casualty insurance program is well structured. It is believed that the increase in the City's Property premium is higher than what other governmental entities are experiencing. Some of the entities are located in Monroe County.

It is believed that the Property coverage is driving the City's program. There are 3 Self-Insured Trusts located in Florida.

- Public Risk Management (PRM)
- Florida Municipal Insurance Trust (FMIT)
- Public Governmental Insurance Trust (PGIT)

Neither the FMIT nor PGIT has expressed an interest in providing the City's Property coverage. While some other governmental entities located in Monroe County has been successful in obtaining Property insurance from traditional insurers (other than the self-insured trusts), maintaining the coverage has been difficult. Only the

incumbent agent has been able to structure the property insurance for these entities. It is believed that the City's best chance of locating an alternative insurer to the PRM program is to select an agent through a RFP/RFQ process and let them directly compete against PRM. Several years ago the City selected Arthur J. Gallaher as their exclusive agent/broker. However, after Gallaher was selected the City allowed World Risk Management to submit a proposal from PRM that was ultimately accepted. This may negatively impact other agents/brokers' desire to respond to the RFP/RFQ.

I will make myself available to discuss this renewal and a potential RFP/RFQ at your convenience.

Cordially,

INTERISK CORPORATION

A handwritten signature in black ink, appearing to read "S G Webber". The signature is written in a cursive style with a large initial "S" and "G".

Sidney G. Webber  
CPCU, ARM