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Subject: Review of World Risk Management Proposal and Public Risk Insurance Agency Proposal

Todd:

Per your request proposals submitted by World Risk Management (WRM) and Public Risk Insurance Agency (PRIA) for the City's 2017/18 Property and Casualty Insurance program have been reviewed. It is believed that both WRM and PRIA have the technical experience and qualifications to serve as the City's insurance agent/broker.

WRM submitted a proposal from the Public Risk Management of Florida (PRM) for the following types of insurance.

- Property Insurance (to include Physical Damage for City owned vehicles)
- Crime Insurance
- General Liability
- Law Enforcement Legal Liability
- Public Officials Liability
- Automobile Liability
- Workers' Compensation/Employers Liability
- Boiler and Machinery
- Cyber Liability

PRM is a self-insured trust established in 1987 that originally provided the insurance needs of approximately 6 cities. Initially PRM did not have a desire to expand their program. In recent years PRM has elected to expand their program and now provides the insurance needs for approximately 40 governmental entities. PRM's bylaws only allow them to provide insurance to governmental entities located in Florida. The structure of PRM is such that they retain a portion of each risk and cedes the balance to traditional re-insurers. The amount of each risk retained by PRM varies by the line of coverage. For the most part PRM's retention is viewed as being extremely conservative and the amount of each loss being retained by PRM is relatively low. It is believed that the maximum retention for any line of insurance is approximately $100,000. All of PRM's re-insurers enjoy a favorable rating from the A.M. Best Company, the leading evaluator of insurance company operations. World Risk advised that their program and pricing is only valid if all of the coverages they are proposing are accepted by the City.

PRIA submitted a proposal that included coverages being provided by the Preferred Governmental Insurance Trust (PGIT) and a number of traditional insurers. The lines of coverage and the insurers being proposed by PRIA include:

| Line of Coverage | Insurer |
|---|---|
| Commercial General Liability | PGIT |
| Business Automobile Liability | PGIT |
| Excess Workers' Compensation and Employers Liability | PGIT |
| Property | Arch Specialty Insurance Company<br>Endurance American Specialty Insurance Company<br>Maxum Indemnity Company<br>Lloyds of London<br>Aspen Specialty Insurance Company<br>Evanston Insurance Company<br>Liberty Surplus Insurance Company |
| Equipment Breakdown (Boiler and Machinery | Travelers Property Casualty Company of America |
| Terrorism | Lloyds of London |
| Flood | Lloyds of London |
| Law Enforcement Legal Liability | QBE Specialty Insurance Company |
| Public Officials/Employment Practices Liability | ACE American Insurance Company |
| Crime and Cyber Liability | Travelers Casualty & Surety Company of America |
| Hull Insurance | Great American Insurance Company |
| Vessel Pollution | Great American Insurance Company |
| Marian Operator's Legal Liability | Great American Insurance Company |
| Wharfnnger's Liability | Great American Insurance Company |
| Outer Mole Coverage | Great American Insurance Company |
| Pollution Liability | Indian Harbor Insurance Company |
| Storage Tank Liability | Commerce and Industry Insurance Company |
| Statutory Accidental Death and Dismemberment | Nation Union Fire insurance Company of Pittsburgh, PA |

It should be noted that when PRIA's proposal was reviewed there were a number of inconsistencies and issues that were vague. With your permission PRIA was contacted and the inconsistencies and vague issues were reviewed with them. As a result, PRIA submitted a revised proposal to the City on August 24th. This evaluation was based on PRIA's revised proposal.

All of the traditional insurers being proposed by PRIA enjoy a favorable rating from the A.M Best Company.

PGIT was formed in 1999 and currently serves the insurance needs of approximately 425 members, all of whom are governmental entities. As with PRM, PGIT's bylaws only permits them to provide insurance to governmental entities located in Florida. The structure of PGIT is such that they the Trust retains a portion of each loss (up to $1 million depending on the line of insurance) and transfers the balance of each claim to traditional re-insurers. All of PGIT's re-insurers enjoy a favorable rating from the A.M. Best Company. PRIA advised that the coverages and pricing being proposed by PGIT are only valid if all of the coverages being proposed by PGIT are accepted by the City.

The following comments are offered regarding PRM and PGIT.

1. While PGIT has a significantly higher Surplus (Net Worth) than PRM, the differences in the amount of the Trust's retention suggest that PRM is able to remain financial stable despite their lower retention. It is also believed that PGIT's Surplus is sufficient so they can remain financial stable. To my knowledge neither PGIT nor PRM has ever failed to meet the claim obligations of their members.

2. While there are differences in the terms and conditions of PGIT's and PRM's policies, none of the differences are viewed as being significant and does not materially impact the coverages being proposed by both Trusts.

3. Based on the amount being retained by PRM and PGIT it is believed that both PRM and PGIT are financially stable and can meet their claim obligations.

The coverages and pricing being proposed by World Risk and PRM are viewed as being superior to the same coverages being proposed by PRIA. For example, PRIA is proposing Property Insurance with several traditional insurers with overall limits of $25 million for an annual premium of $816,630. While World Risk and PRM is proposing Property limits of $500 million for an annual premium of $300,281. It should be recognized that PRM's limits must be shared with all of PRM's members. Therefore, if an event impacts several of PRM's members, the $500 million must be shared by all of the members impacted by the event. Realistically, the only type of event that could impact multiple members is a hurricane.

It is recognized that the information used by both World Risk and PRIA may not properly reflect the City's exposures. The City should coordinate with both World Risk and PRIA to ensure the exposure data (such as Property values) is consistent with the City's actual exposures. In addition, both World Risk and PRIA offered varying limits and deductible options. The City will have to determine which limit and deductible option is in the City's best interest. Depending on the changes made to the City exposure data and the deductibles selected the premium may be impacted. Therefore, premiums are not being shown.

It is recommended that the City structure its 2017/18 insurance program as follows:

| Line of Coverage | Agent | Insurer | Limits | Comments |
|---|---|---|---|---|
| Property and Crime | World Risk | PRM | $500 million | |
| General Liability/Auto Liability/Public Officials/ Cyber Liability | World Risk | PRM | $1 Million | |
| Excess Workers' Compensation/Employers Liability | World Risk | PRM | WC – Statutory<br>EL - $3 million | |
| Boiler and Machinery | World Risk | PRM | $50 Million | |
| Hull | PRIA | Great American | Varies by vessel being insured | |
| Vessel Pollution | PRIA | Great American | $1 Million | |
| Marina Operators Legal Liability | PRIA | Great American | $1 Million | |
| Wharfinger's Liability | PRIA | Great American | $2 Million | |
| Outer Mole | PRIA | Great American | $4 million excess of $1 Million | The need of this coverage should be explored and it should be determined which coverage provides the first $1 million of coverage |
| Pollution Liability | PRIA | Indian Harbor | $1 Million | |
| Storage Tank Liability | PRIA | Commerce and Industry | $1 Million | |
| Statutory Accidental and Dismemberment | PRIA | National Union | $72,764/$72,764/$205,818 | |

It should be noted that PRIA also submitted a proposal they are calling "Flood Excluding Storm Surge" with limits of $1,500,000 and a deductible of $25,000. The proposed premium for this coverage was $150,035. PRM Property program includes Flood coverage with a limit of $10 Million and a deductible equal to the maximum limits available from the NFIP ($500,000 for buildings and $500,000 for contents). The City should determine if this coverage is necessary recognizing that PRM's Property program already includes Flood coverage and if the coverage will meet FEMA's requirements to be eligible for public financing following a loss. There is a concern that PRIA's Flood coverage excludes storm surge.

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

Cordially,

INTERISK CORPORATION

Sidney G. Webber
CPCU, ARM