risk managers
BEN FEW & COMPANY, LLC

May 8, 2018

Todd Stoughton
Risk Manager/Safety Officer
City of Key West
1300 White Street
Key West, FL 33040

Re: Property and Casualty Insurance Renewal Strategy for 2018-19

Todd:

In response to your email from Thursday, May 3, this letter will outline the City of Key West's prospects for its upcoming property and casualty insurance renewal. To reiterate, Ben Few & Company is an independent consulting firm and has no ties or affiliations with any agent, broker, or insurance carrier. We do not sell insurance products of any kind and will not accept remuneration from any entity other than our clients.

Since the City has decided to forego the formal Request for Proposal process and directly solicit the insurance marketplace for renewal quotes, you have asked for our opinion on the following:

1. <u>Potential proposers for the City's insurance program</u>

As we have previously discussed, the City's size and profile are such that it is neither a candidate for a traditional, first-dollar program, nor is it large enough to consider standalone self-insurance as a cost-effective means of protecting from fortuitous loss. This essentially leaves the City with pooling mechanisms as the most cost-effective insurance method. The pools available to the City exist in the form of local government self-insurance funds/trusts formed under F.S. 624.4622.

There are three well-known trusts in Florida that this office believes would be potential proposers for the City's insurance program: Public Risk Management of Florida ("PRM"), Preferred Governmental Insurance Trust ("PGIT"), and the Florida Municipal Insurance Trust ("FMIT"). The first, PRM, is administered by World Risk Management, LLC ("WRM") in Orlando and is the City's incumbent insurer. PGIT specializes in government entities as well, and is administered by Public Risk Underwriters of Florida, Inc. ("PRU"). As both PGIT and PRU are owned by Brown & Brown, Inc., often PGIT proposals will be offered through agencies that are similarly owned, and we usually see this trust proposed by Risk Management Associates, Inc. dba Public Risk Insurance Agency ("PRIA"). Prior to October 2015, PRIA wrote the City's account through PGIT for several years. The third potential proposer that this office believes could write the City's program is FMIT, which is administered by the Florida

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League of Cities. All three trusts have been writing public entities in Florida for many years and are all considered to be premier insurers.

My recommendation would be to directly solicit the administrator and/or broker for each trust (WRM, PRIA, the League) to discuss their offering a proposal on the City's account.

2. Feasibility of access to traditional markets

The City certainly has access to traditional insurance markets by way of utilizing incumbent brokers; in that respect, *access* is not an issue. With the occasional exception, the issue is that traditional markets usually cannot compete with the pooled programs for public entities similar in size and scope to the City. The reason is that traditional markets typically either write first-dollar coverage, which would be cost prohibitive to the City, or participate in layered programs for much larger risks. In other words, their capacity is only available in certain underwriting circumstances, whereas the pooled mechanism is designed to encompass the majority, if not all, of its insureds' exposures. The geographical spread of risk across the pool allows for the purchase of reinsurance at less than the total insured value of the pool because the statistical possibility of a total loss across the entire pool is extremely low. Between that and shared third-party liability loss experience, which is often limited due to sovereign immunity and other statutory protections, the pools can offer much more cost-effective programs to their members.

3. Current insurance market trends

For the most part the insurance market is relatively stable at the time of this writing, although in the aftermath of Harvey, Irma, and Maria, there is expected to be a multi-year property insurance market correction. The conventional wisdom has been that carriers will seek property premium rate increases between 5% and 25% to offset losses. Insured losses from those storms are expected eclipse $100 billion, which would result in an approximate 15% hit to the industry's surplus. However, for insureds that did not experience significant losses during the 2017 wind season, this office has seen renewal premiums skew toward the lower end of the projected range in terms of rate increase. Carriers do want to see premium increases though, and what we're seeing is that in exchange for boosting insured values, the rate increase is not usually as punitive. Either way the insured and the insurer usually meet somewhere in the middle. Insureds with large catastrophic losses in 2017 can expect to see significant increases as of the 2018-19 renewal.

Third-party liability lines have generally remained relatively stable, although there seems to be trending upward rate pressure in auto liability, professional lines, and cyber liability.

We certainly appreciate being of service to the City throughout this renewal process and invite you to contact us with any questions you may have. I will be on standby for any questions that may arise from soliciting the trusts and will also be ready to assist for any part of the evaluation process.

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Please do not hesitate to reach out to discuss further.

Best regards,

BEN FEW & COMPANY, INC.

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