

City of Riviera Beach

**Property and Casualty
Insurance Program
Renewal Update**

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Arthur J. Gallagher & Co.

Jori L. Van der Voort, ARM
Area Senior Vice President

Ilene D. Abella, CPCU, ARM-P, AAI
Area Vice President

Jaymee Brown
Account Executive

Mayte Gandulfo, ARM-P
Client Service Supervisor

Calah Bullard, CLCS, ARM
Client Service Manager

Arthur J. Gallagher Risk Management Services, Inc.
8333 NW 53 Street, Suite 600
Miami, FL 33166
305-592-6080

Gallagher's Trusted Advisor Relationship with the City

Thank you for the opportunity to present the City's 2017 property and casualty insurance program renewal. Gallagher has become a trusted advisor to the City because we analyze the City's unique circumstances, and respond with programs designed to minimize cost while not compromising on coverage. Our goal is to help the City purchase the right amount of insurance, while managing risk, to create a cost-effective balance.

Having enjoyed the privilege of being your Risk Management partner for many years, Gallagher has established a trusted business advisory relationship with the City of Riviera Beach. In addition to providing insurance brokerage services, below are samples of additional services that Gallagher proudly provides to the City:

Loss Control Services

- Developing and conducting training programs for the City (e.g. Police Sergeant Training)
- Developed confined space entry procedures for Utilities
- Reviewed third party vendor training proposals
- Meeting with City officials to understand safety needs, and help to implement programs
- Supervising KES, who provides on-site inspections and safety reports for the City

Claim Advocacy Services

- Conduct quarterly claim reviews to include all human resources and risk management, City management, legal, and department heads. This format allows for in-depth discussions with the City's third party claims administrator (TPA). We also spend considerable time in preparation with the City's Third Party Administrator (TPA) to ensure effective claim reviews.
- Assisted Risk Management with closure of its hurricane claims
- Liaison for Risk Management with the City's TPA on claim issues
- Helping the City establish EEOC claim-reporting protocols

Risk Financing Services

- Advocating on the City's behalf to obtain coverage from the City's insurers
- Assistance with evaluating proposals for property insurance appraisals
- Obtaining funding for education and other risk management initiatives
- Analyzing City facilities use agreements to enhance risk management
- Assistance with obtaining a reasonableness determination to assist with potential FEMA disaster recovery

State of the Market

Over the past several years, we have enjoyed a soft pricing environment. With capital continuing to increase, carrier competition and demand for growth kept rates down in the core property and casualty lines.

Through the first half of 2017, the industry posted a combined ratio of 100.7; the first time the industry posted a loss ratio over 100 since 2012. Additionally, net income dropped 29% in the first half of this year. Today, the industry sits in a worse position. Harvey, Irma and Maria insured losses are estimated to exceed \$100 billion which would wipe out over 15% of the industry's surplus.

While the property insurance will experience obvious rate increases, we expect other lines of coverage to be impacted by the overall shift in the market as well.

Property Insurance

The property insurance market has taken a turn. For many, Florida property premiums will increase by 10% or more. In addition, flood coverage may become more limited and costly, especially when written on a stand-alone basis. While premiums will increase, we do not expect any shortage of capacity. Underwriters will be focusing on each individual risk; focusing on property construction, historical losses, and what Insureds are doing as respects loss mitigation.

Casualty Insurance

Over the last year we have seen the casualty insurance marketplace shift from a soft to stable market. Three years ago there were new carriers entering the market for public sector packages which created competition and lower pricing for our clients. That market has turned and the pricing is far less volatile.

Excess Workers Compensation Insurance

The excess workers compensation market made the shift from hard to stable in the last two years and for the first time we have seen it soften with competition. Despite the slight shift in the market, self-insured retentions remain difficult to reduce. The pricing in this market can shift quickly. For Insureds with positive loss experience, we have been able to negotiate favorable renewals.

Cyber Risk

Many carriers consider Cyber Risk insurance as a growth area, and therefore this market remains robust. For most insureds, we are seeing a stable market, with carriers offering innovative coverages. The market is more challenging for insureds in the retail and healthcare spaces, due to much publicized loss activity.

Pollution Liability

This market has recently seen some consolidation among major insurers. In 2015 AIG ceased writing site pollution coverage on a monoline basis. In addition, with the mergers of ACE and Chubb, as well as XL and Catlin, two additional competing carriers exited the market. A handful of carriers remain in the pollution liability market however, their appetite remains selective.

Renewal Goals and Objectives

We met with the City on August 25th to discuss the state of the insurance market while entering into their renewal and discuss the City's exposures for FY2017. We also went over the City's claims and current program structure to decide what structure and financial goals we have set as we negotiate the 2017-18 renewal.

For this year's renewal, we sought to:

- Obtain best pricing and coverage available in the current market conditions.

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Casualty Exposure Analysis:

Casualty Exposures	2016 – 2017	2017 – 2018	▲
GOE*	\$105,511,212	\$105,885,254	0.4%
Payroll	\$26,068,782	\$30,129,696	16%
Population	32,000	32,000	0%
# Vehicles	418	392	-6%
# Employees	568	561	-1%
# Police (Armed)	119	111	-7%
# Police (Volunteer)	28	30	7%
#EMTs/Paramedics	75	86	15%
# of Students for Sports Program	3,208	3,115	-3%

Summer Program

*reflects revenues presented to the market at renewal

Property Exposure Analysis:

Total Insured Values	2016 – 2017	2017 – 2018*	▲
Municipal Property (at renewal)	\$70,483,627	\$68,380,974	-3%
Municipal Property (year end)	\$67,827,378		1%
Utilities Property	\$56,978,870	\$56,978,870	0%

***Property Appraisals:** Gallagher has agreed to assist the City in obtaining new property appraisal reports over the next 4 years. This year was the first year of that project and it covered one-fourth (¼) of the schedule; specifically two (2) buildings at City Hall and all but two (2) of the parks. For the second year of the project, it is recommended that ½ of the water/utility schedule be appraised as underwriters are questioning the validity of the values reported.

How the markets view the City's Property:

100% Highly Concentrated: Large Property Schedule. 100% South Florida coastal risk. 100% of property is exposed to wind and coastal flooding.

Probable Maximum Loss (PML) Municipal Property:

On the next pages, a summary of the most recent wind modeling performed for the City (City municipal property, excluding water utilities, which are insured separately). This study was performed with the RMS RiskLink v.15 model based on the 2017 schedule of values.

The results of the study showed that in the often-cited 250 year storm, RMS projects the City's Probable Maximum Loss (PML) to be approximately \$8 million. We must stress that the model does not predict the loss that the City might have during a hurricane, but it does provide important insight into how the City's insurers view the risk, and provides a benchmark on which the City can make its decision on the coverage it purchases.

U.S Hurricane (named storm) key return period losses – wind and storm surge including loss amplification

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Probable Maximum Loss (PML) Municipal Property Model:

Critical Probability	Return Period (years)	Ground Up Loss	Deductible Loss	Loss Net of Deductible
0.010%	10,000	31,804,119	2,369,693	29,604,003
0.020%	5,000	26,384,779	2,088,915	24,393,253
0.100%	1,000	15,934,732	1,627,094	14,573,882
0.200%	500	12,306,771	1,322,063	11,134,595
0.400%	250	9,045,619	1,165,196	8,013,532
1.000%	100	5,210,236	992,928	4,335,782
4.000%	25	2,741,367	768,936	1,992,664
Average Annual Loss		189,923	49,925	139,998
Standard Deviation		1,215,972	191,565	1,077,934

Probable Maximum Loss (PML) – Water Utilities:

As mentioned above, the City's Water Utilities property insurance is placed in a separate program that is very cost effective. The City's Water Utilities insurer advises us that based on their modeling software, the PML for each of the 500, 250, and 100-year return periods is less than \$5 million.

Market Review 2017

We approached the following carriers in an effort to provide the most comprehensive and cost effective insurance program.

CARRIER	LINE OF COVERAGE	CARRIER POSITION
Lloyd's of London	Casualty Package	Premium Indication
Safety National Casualty Corporation	Excess Work Comp	Premium Indication
Federal Insurance Company	Boiler & Machinery	Automatic Renewal
National Union Fire Insurance Company of PA	Sports Accident	Premium Indication
Illinois Union Insurance Company	Cyber	Quoted
XL Catlin	Pollution	Premium Indication
ACE American Insurance Company	Property (Water Utilities)	Premium Indication
Axis Surplus Insurance Company	Property (Municipal)	Pending
Arch Specialty Insurance Company	Property (Municipal)	Pending
AXIS Insurance	Property (Municipal)	Pending
Ironshore Specialty Insurance Co.	Property (Municipal)	Pending
Markel	Property (Municipal)	Pending
National Fire & Marine Insurance Co.	Property (Municipal)	Pending

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CARRIER	LINE OF COVERAGE	CARRIER POSITION
Windward Specialty	Property (Municipal)	Pending
Allied World Assurance Company	Property (Municipal)	Pending
Alteris	Property (Municipal)	Pending
AmRisc	Property (Municipal)	Pending
Arrowhead General Insurance Agency	Property (Municipal)	Pending
Aspen Insurance	Property (Municipal)	Pending
Avondale Insurance Associates, Inc.	Property (Municipal)	Pending
Beazley USA	Property (Municipal)	Pending
Berkshire Hathaway Specialty Insurance Company	Property (Municipal)	Pending
Brit Global Specialty USA	Property (Municipal)	Pending
Catalytic Risk Managers Insurance Agency, LLC	Property (Municipal)	Pending
CNA	Property (Municipal)	Pending
Colony Specialty	Property (Municipal)	Pending
Diamond State Group	Property (Municipal)	Pending
Everest National Insurance Company	Property (Municipal)	Pending
Great American Insurance Company	Property (Municipal)	Pending
Hallmark ES	Property (Municipal)	Pending
Hiscox USA	Property (Municipal)	Pending
ICAT	Property (Municipal)	Pending
IFG Companies	Property (Municipal)	Pending
James River Insurance Company	Property (Municipal)	Pending
Lexington Insurance Company	Property (Municipal)	Pending
Liberty International Underwriters	Property (Municipal)	Pending
Maxum Specialty Insurance Group	Property (Municipal)	Pending

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CARRIER	LINE OF COVERAGE	CARRIER POSITION
Nationwide ES/Specialty	Property (Municipal)	Pending
Navigators Management Company	Property (Municipal)	Pending
RSUI	Property (Municipal)	Pending
Sompo International	Property (Municipal)	Pending
SRU	Property (Municipal)	Pending
Starr Companies	Property (Municipal)	Pending
Swiss Re America Group	Property (Municipal)	Pending
Technical Risk Underwriters (TRU) (Ryan Specialty Group)	Property (Municipal)	Pending
THB	Property (Municipal)	Pending
Velocity Risk Underwriters, LLC	Property (Municipal)	Pending
Ventus Risk Management, Inc.	Property (Municipal)	Pending
Westchester, A Chubb Company	Property (Municipal)	Pending
XL Catlin	Property (Municipal)	Pending
Zurich North America	Property (Municipal)	Pending

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INDICATED PROPERTY & CASUALTY PROGRAM

Lloyds of London Package		PROPERTY (Municipal)	PROPERTY (Utilities)	SPORTS ACCIDENT	BOILER & MACHINERY	CYBER	POLLUTION
<p>ACE/ Chubb & Arch 1st Excess 50% of \$20MM excess of \$10MM Primary</p> <p>National Fire & Ironshore 50% of Primary \$30MM</p>	<p>Ace American Policy Limit: \$57,562,870</p> <p>\$10,000,000 sublimit for Named Windstorm</p> <p>\$5,000,000 sublimit for Flood</p>	<p>National Union Fire Insurance Co. \$500,000 Max benefit \$5,000 Accidental Death</p>	<p>Federal Insurance Company (Chubb) \$50,000,000 Policy Limit</p>	<p>Illinois Union Ins. Co. \$1,000,000 Policy Limit</p>	<p>Indian River Insurance Co. \$1,000,000 Per Occurrence \$4,000,000 Annual Aggregate</p>		
<p>Safety National \$1,000,000 excess of \$650,000 underlying Workers Comp. Statutory Employer's Liability</p> <p>\$3,900,000 Per Occurrence excess of \$100,000 SIR: A/U/G/L/Law Enforcement except; \$3,900,000 Per Occurrence/Annual Aggregate for Sexual Harassment \$900,000 Per Occurrence/Annual Aggregate for sexual abuse</p>	<p>Per Claim excess of \$100,000 SIR \$7,800,000 Annual Aggregate Public Officials/ Employment Practices</p>	<p>Axis Primary 50% of Primary \$10MM</p>	<p>Deductible \$100,000 Per Occurrence 6% of TV for Named Wind losses \$100,000 minimum</p>	<p>Deductible \$50,000 Per Occurrence 5% of TV for Named Wind losses \$500,000 minimum</p>	<p>Deductible \$25,000 Per Occurrence</p>	<p>Deductible \$25,000 Per Occurrence</p>	<p>SIR \$25,000 Per Occurrence</p>
<p>\$1,000,000 Annual Aggregate Applies when Loss Fund is exhausted</p>	<p>Annual Loss Fund \$1,490,000</p>	<p>CRIME \$25,000 SIR</p>	<p>WORKERS COMPENSATION \$275,000 Per Occurrence SIR</p>	<p>MISC. LIABILITY \$100,000 Per Occurrence SIR</p>	<p>THIRD PARTY LIABILITY \$100,000 Per Occurrence SIR</p>	<p>AGGREGATE \$1,490,000</p>	

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Program Cost Comparison

We are actively marketing and negotiating with carriers for your program. The following premiums are indications from the market and not actual quotations. We expect to have those figures confirmed and a full executive summary within the next 7-10 days. The following is provided for discussion purposes only:

Coverage	Expiring 10-01-16 to 12-15-17	Renewal 12-15-17 to 12-15-18
Package	\$ 737,700	\$ 665,000
Municipal Property	\$ 564,462	\$ 560,000
Water Utilities Property	\$ 203,074	\$ 223,381
Excess WC	\$ 145,944	\$ 131,584
Boiler & Machinery	\$ 3,300	\$ 2,669
Sports Accident	\$ 19,506	\$ 16,990
Pollution	\$ 22,620	\$ 21,170
Cyber	\$ 22,755	\$ 18,850
EMPA & Other surcharges	\$ 6,024	\$ 6,032
Total Fixed Cost	\$ 1,725,385	\$ 1,645,676
Loss Fund	\$ 1,687,500	\$ 1,490,000
Estimated Program Cost	\$ 3,412,885	\$ 3,135,676