

Risk Management Program Executive Summary

City of Riviera Beach

Effective Date: October 1, 2015

Date Presented: September 22, 2015



Arthur J. Gallagher & Co.

Jori L. Van der Voort, ARM
Area Senior Vice President
jori_van_der_voort@ajg.com

Craig S. Fainstein, CPCU, ARM, ASLI, ARE
Area Vice President
craig_fainstein@ajg.com

Mayte Gandulfo
Executive Account Manager
mayte_gandulfo@ajg.com

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

City of Riviera Beach

About your Broker – Arthur J. Gallagher & Co.

- 4th largest insurance broker in the World
- A public company traded on the New York Stock Exchange
- Offices throughout the world
- \$5 billion worth of premiums placed Worldwide
- More than 20,000 employees worldwide linked together by Gallagher Online for immediate access to market information and client solutions
- Known nationally as the Public Entity and Scholastic experts

Our Florida Public Entity and Scholastic Position

- Largest broker for Individual/Pooled Self Insured Programs for Public Entities and Schools
- Market access and leverage with all major carriers (Domestic, Bermuda and London) that write public sector clients in Florida. Market knowledge, access and evaluation are critical to the City's risk management program. Gallagher knows the markets to access and has strong relationships with these markets.
- AJG handles more Florida Public Entity and Scholastic Major Property Schedules than any other broker
- Results Matter – Our results are our best testimonial of our abilities. Clients include:

- | | |
|----------------------------------------------------|-----------------------------|
| 1. Palm Beach County Board of County Commissioners | 8. City of Hollywood |
| 2. South Florida Water Management District | 9. City of Boynton Beach |
| 3. State of Florida | 10. City of Miami Beach |
| 4. Broward County Board of County Commissioners | 11. City of Deerfield Beach |
| 5. Miami-Dade County Board of County Commissioners | 12. City of Boca Raton |
| 6. Broward County Public Schools | 13. City of Pembroke Pines |
| 7. Miami-Dade County Public Schools | 14. City of Miramar |

Gallagher's Trusted Advisor Relationship with the City

Thank you for the opportunity to present the City's 2015 risk management renewal proposal. 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

- Working with Risk Management to help hire a safety officer
- 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.

City of Riviera Beach

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

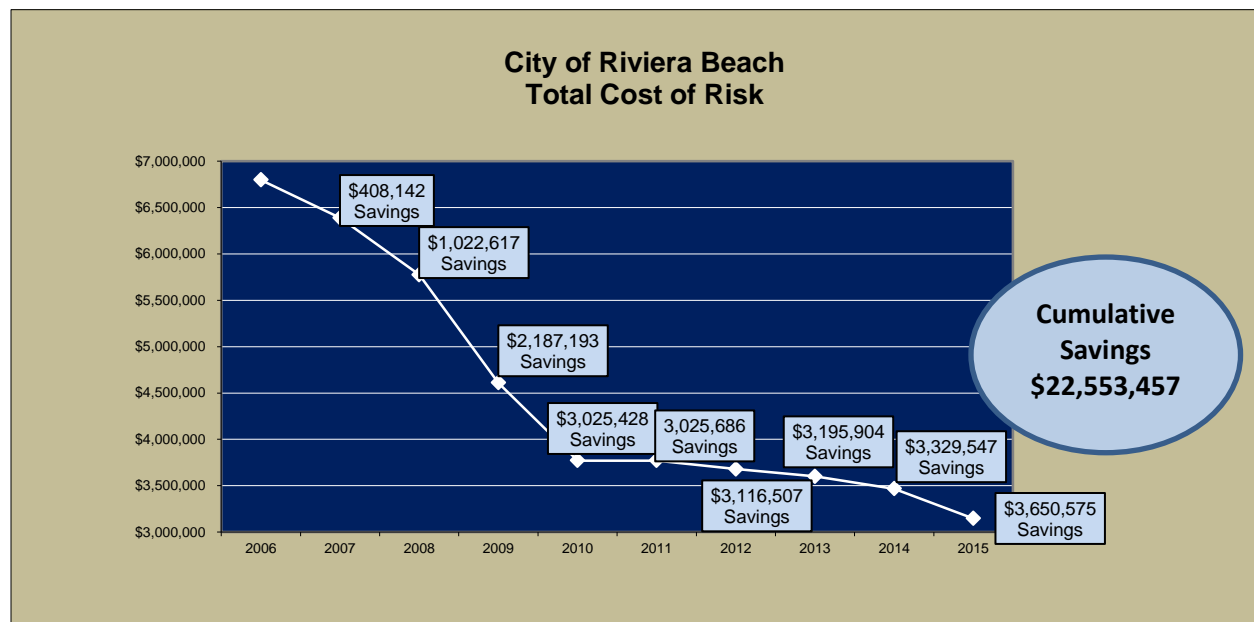
Risk Financing Services

- 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.

Significant Results from Our Team Effort

With support from your Gallagher team, over the last several years, the City has made a measurable commitment to safety and best practices. This commendable effort has resulted in **significant reductions in the City's total cost of risk**. As reflected below, losses within the City's self-insured retentions have been significantly reduced. In addition, this has enabled us to negotiate successive reductions in the City's loss fund, which reduces the amount of money that the City must set aside to pay claims. The City's improving loss experience ultimately allows us to negotiate lower insurance premiums as well.

This not only means that the City is keeping more of its dollars, and is able to use this money for other purposes, but that its employees and citizens are safer. In addition, what is not shown here are the **savings in indirect costs**, such as overtime or loss of productivity, which the City is not incurring. We are proud to be a part of this effort, which continues to pay dividends to the City.



City of Riviera Beach

State of the Market

Property Insurance – Softening Market

2015 continues the favorable trend for our property insurance clients. The last several years have been quiet in terms of catastrophic losses, and this has led to insurers experiencing positive underwriting results. In addition, the current version of the software used by insurers to model their hurricane risk (RMS v.13) has been turning out results that are making it easier for insurers to extend their capacity. And finally, global economic conditions have led to increasing amounts of capital, both traditional and non-traditional, flowing into property reinsurance, and this continues to bolster the supply side of insurance. These factors, along with our strong market relationships enable us to negotiate very favorable renewals for our clients.

Primary and Excess Casualty – New market entrants

We are seeing an influx of capital being attracted to the public sector package market. This has led to new offers from new and existing carriers to compete against incumbent markets, more so than we have seen in many years. This has led to some very favorable renewals that we have been able to negotiate for our public sector clients.

Excess Workers Compensation – Challenges continue

The excess workers compensation insurance market continues to be difficult, and this is reflected in industry combined ratios which had been exceeding 100% (and which have had little to no investment income to make up the difference). In recent years, many carriers have withdrawn from the market, and or have had their ratings threatened. There are still a few carriers that remain in the market, but there is no sign of new carriers that are entering.

The carriers that remain are attaching at generally higher retention levels than a few years ago. Minimum retentions now start at \$650,000 or \$750,000, up and through \$1,000,000 for many risks that have police and fire exposure. There are also generally higher premium levels than a few years ago. For clients that have favorable loss experience we are seeing a new equilibrium with nominal rate increases, and stable retention levels.

Renewal Goals and Objectives

For this year's renewal, we sought to:

- Leverage the increased amount of market capacity to obtain reductions in the City's cost.
- Obtain quotes for various new and additional coverage that the City has requested
- Re-examine the City's Cyber risk insurance, due to availability of new coverages
- Continue to renew the City's workers compensation coverage, with no change to the City's retention, in what continues to be a difficult market,

Although there has been an increase in some of the City's exposures, as shown on the next page, we are pleased to report that we have negotiated a very aggressive renewal with many enhancements, that will enable the City to increase its coverage, while realizing **more than \$300,000 in savings** in its total cost of risk. And, we continue to work with the markets to obtain the best possible pricing, and most comprehensive coverage on the City's program.

City of Riviera Beach

Exposure Analysis

	2014 - 2015	2015-2016	%Δ
Total Insured Values	\$127,462,496	\$127,462,496	0.00%
GOE	\$81,183,408	\$84,134,743	3.64%
Payroll	\$26,768,031	\$27,571,229	3.00%
Number of Vehicles	339	339	0.00%
Number of Employees	524	576	9.92%

How the Property Marketplace Views Your Exposures:

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

Probable Maximum Loss (PML) Municipal Property:

Below is 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.13 model.

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 \$12.9 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

Critical Probability	Return Period (years)	Ground Up Loss	Deductible Loss	Loss Net of Deductible
0.10%	1,000	\$22,149,010	\$1,691,771	\$20,697,734
0.20%	500	\$17,208,600	\$1,434,725	\$15,940,392
0.40%	250	\$12,915,936	\$1,224,013	\$11,834,599
1.00%	100	\$7,932,998	\$1,051,905	\$7,042,180
4.00%	25	\$1,860,362	\$560,227	\$1,251,976
Average Annual Loss		\$307,707	\$61,708	\$246,000
Standard Deviation		\$1,752,998	\$210,394	\$1,596,392

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.

City of Riviera Beach

Market Review 2015

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	Package	Quoted
AIX Specialty Insurance Co	Package	Quoted
Safety National Casualty Corporation	Excess - Workers Compensation	Quoted
Federal Insurance Company	Boiler & Machinery	Quoted
National Union Fire Insurance Company of Pittsburgh, Pa.	Sports Accident	Quoted
Zurich American Insurance Co	Student Accident After School Program	Quoted
Hartford Fire Insurance Company	Excess Crime	Quoted
Illinois Union Insurance Company	Cyber Risk Liability	Quoted
ACE American Insurance Company	Property (Water Utilities Only)	Quoted
AXIS Surplus Insurance Company	Property	Quoted
National Fire & Marine	Property	Quoted
Colony Insurance Company	Property	Quoted
Ironshore Specialty Insurance Company	Property	Quoted
Westchester Specialty Insurance Company	Property	Quoted
Arch Specialty Insurance Company	Property	Quoted
Allied World Assurance Company – Boston	Property	Declined- Unable to improve existing terms
AmRisc - Houston	Property	Declined- Cannot compete with current pricing
Aspen Insurance - Atlanta	Property	Declined- Can quote excess if needed

City of Riviera Beach

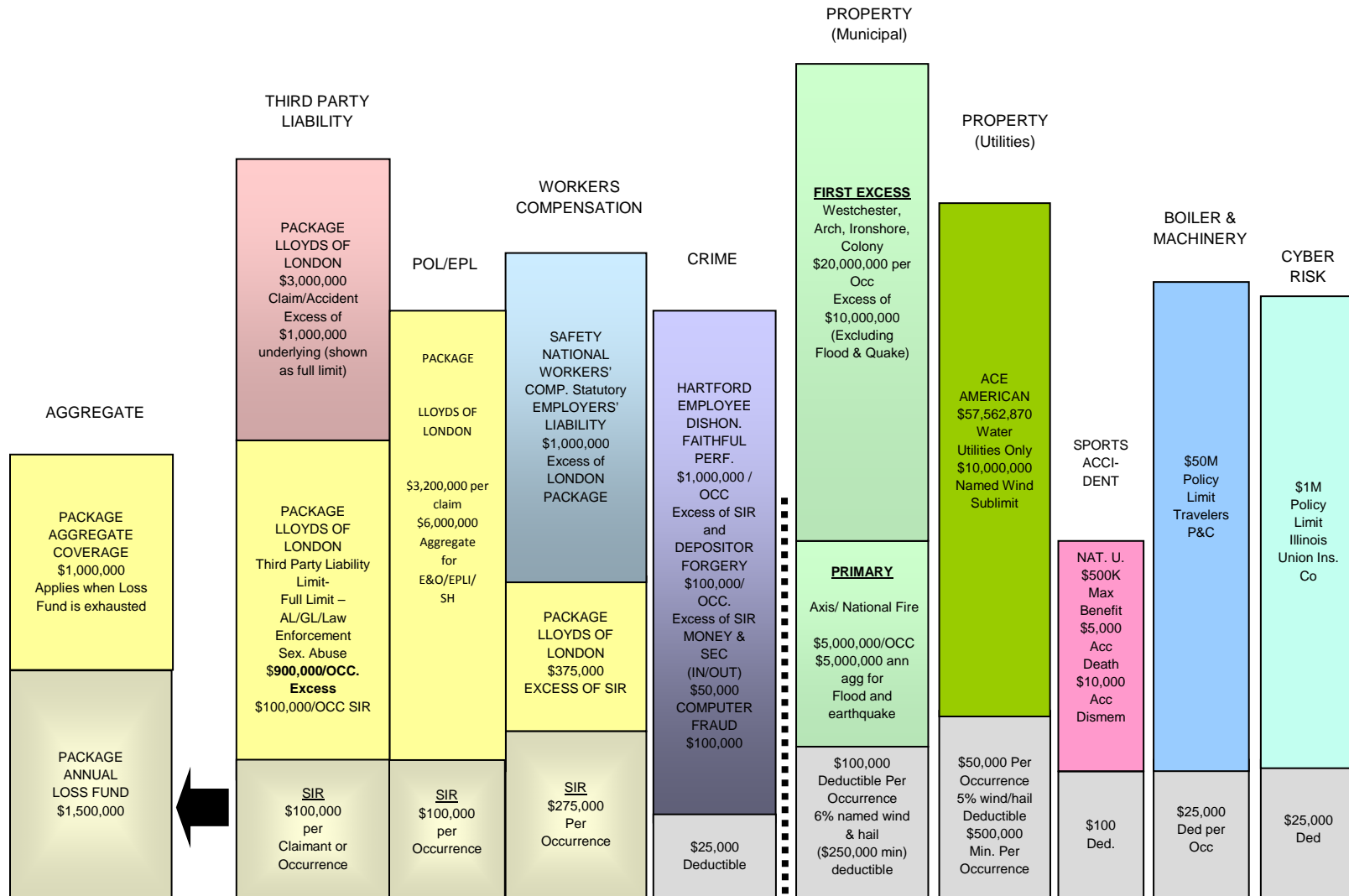
Beazley USA - Atlanta	Property	Declined – cannot compete
BRIT Global Specialty USA	Property	Declined- Can quote excess if needed
Berkley Risk Solutions	Property	Declined- Can quote excess if needed
CNA	Property	Declined – cannot compete
Diamond State Group	Property	Declined – cannot compete
Endurance	Property	Declined – cannot compete
Hallmark E&S	Property	Declined – cannot compete
Everest Reinsurance Company - Tampa	Property	Declined-Cannot compete
Hiscox USA - New York	Property	Declined-Cannot compete
IFG Companied	Property	Pending
James River Insurance Company - Richmond	Property	Declined-Cannot compete
Lexington Insurance Company - Boston	Property	Pending
Liberty International Underwriters	Property	
Markel - Glen Allen	Property	Pending
Maxum Specialty Insurance Group - Alpharetta	Property	Declined-Cannot compete
Mitsui	Property	Declined- Ex wind Only
Partner Re D&F	Property	Declined-Cannot compete

City of Riviera Beach

Rockhill Underwriting Management - Stockbridge	Property	Declined- Cannot attach at 10M
RSUI - Atlanta	Property	Declined- Too high
Scottsdale Indemnity Company	Property	Declined-Cannot compete. Attachment too low
SRU	Property	Declined-Cannot compete
C.V Starr & Company	Property	Declined-Cannot compete
Swiss Re America Group - Alpharetta	Property	Declined-Cannot compete
XL Insurance - Boston	Property	Declined-Cannot compete
Zurich North America - Atlanta	Property	Declined- Only Buffer Layer if Needed
Commerce and Industry Insurance Company	Storage Tank Liability	Quoted
AIG Specialty Insurance Co	Pollution	Pending
Ironshore	Pollution	Pending
Illinois Union Insurance-ACE	Pollution	Pending
XL Insurance America	Pollution	Pending

City of Riviera Beach

CITY OF RIVIERA BEACH 2015-2016 RISK MANAGEMENT PROGRAM



Notes:

- All SIRs (except POL/EPL) are chargeable to (i.e. erode) the loss fund. Where combined coverage loss occurs, only one SIR (the largest) will apply.
- Corridor Retention of \$175,000 applies to all lines (one time).
- Public Officials / Employment Practices Liability SIR will not erode the loss fund.
- Monoline policies, not shown: Storage Tank Liability.
- Above is for illustrative purposes only and does not convey all terms, conditions, and exclusions. Please refer to your policies for actual coverage terms and conditions.

City of Riviera Beach

Renewal Summary

We are pleased to present the following summary of the coverages proposed. The below premiums do not include terrorism or mandatory state surcharges.

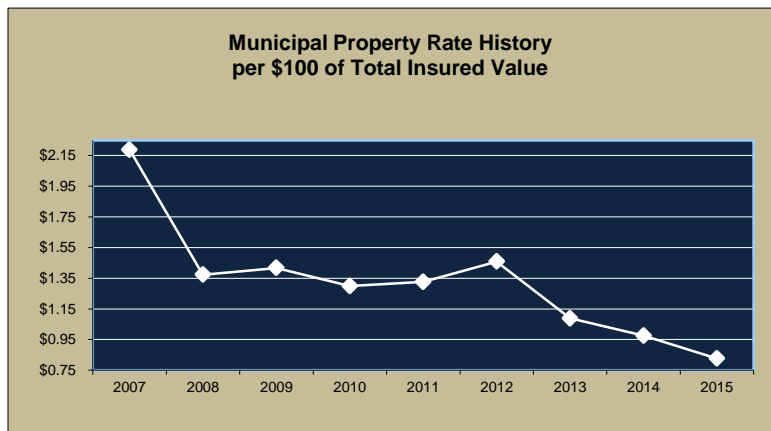
Package Program

The Package Program, written through Brit Insurance (Lloyd's of London) provides the foundation for the City's risk management program. The package is very flexible and helps to stabilize the City's program from year to year by expanding and contracting in various lines of coverage. Recently Brit has stepped in to provide Public Officials liability, when it was clear that the City needed to change from its prior insurer. Brit has also expanded their buffer workers compensation layer in order to help the City keep its program concurrent. These have been difficult lines of coverage for the majority of the market, but the relationship with Brit has ensured continuity in the City's program.

- Coverage is provided by Underwriters at Lloyd's of London.
- Enhancements:
 - Crisis Management coverage \$25,000 per event / \$50,000 annual aggregate (no SIR applies)
 - \$10,000 carrier risk control funds (for approved uses)
- Renewal premium is \$665,000 (a savings of \$80,000)

Municipal Property

- Coverage is provided by the panel as shown on the program illustration.
- We are pleased to report that we have negotiated a 15% rate and premium reduction
- Overall, the rate has decreased by more than 60% over the last several years,



- Renewal premium is \$582,000 (a savings of more than \$105,000)

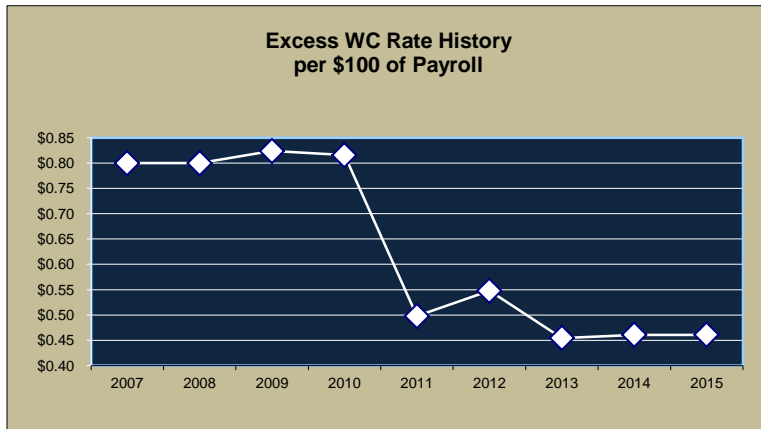
Water Utilities Property

- Coverage is provided by ACE American Insurance Company
- Terms, conditions and exclusions remain the same as expiring
- This year we were able to negotiate a 5% rate reduction
- Renewal premium is \$173,945 (a savings of almost \$20,000)
- Loss Control Engineering fee is \$6,000

City of Riviera Beach

Excess Workers Compensation

- Coverage will continue with Safety National
- The market continues to be difficult, but are happy to report that the City will continue to maintain the same retention of \$650,000,
- Due to buffer workers compensation layer, City's actual retention remains \$275,000
- Renewal premium is \$127,048 (a flat rate renewal)



Crime

- Coverage is placed with Hartford Fire Insurance Company.
- All terms, conditions, and exclusions remain the same.
- Renewal Premium is \$4,912

Boiler & Machinery

- Coverage will remain with Chubb.
- All terms, conditions and exclusions will remain the same.
- Excludes water facilities (covered under utilities property program).
- Renewal premium is \$2,725

Sports Accident

- National Union Fire Insurance Company of Pittsburg, PA will continue to provide this coverage.
- All terms, conditions and exclusions remain the same.
- Exposure decreased by 32%
- Renewal Premium is \$15,650
- This year there is an option to add coverage for the After Care program for an additional premium of approximately \$600.

Storage Tank Liability

- Commerce & Industry Insurance Company (C&I) will continue to provide this coverage,
- Renewal Premium is \$4,262
- Premium does not include new tanks at City Marina

Please note that we are proposing an option for Pollution Liability insurance. Such insurance may be in addition to the Storage Tank Liability policy.

City of Riviera Beach

Cyber Risk

- Coverage is provided by ACE
- We have been able to negotiate a 6% reduction in premium for the expiring limit
- ACE has also included Payment Card Industry Fines, Expenses, and Costs coverage for no additional premium
- The City currently has a \$1 million policy limit, however, due to the expected loss scenarios we recommend the City consider an increased limit for this coverage

Results of e-Risk Hub Data Breach Calculator (not a prediction of actual events)

Exposure	Breached Records	Expected Loss
Personally Identifiable Information	25,000	\$916,425
Protected Health Information	25,000	\$2,791,375
Payment Card Records	25,000	\$1,110,175
Personally Identifiable Information	50,000	\$991,800
Protected Health Information	50,000	\$2,866,750
Payment Card Records	50,000	\$1,525,050

- Program options shown on the next page

City of Riviera Beach

Cyber Risk Options

Carrier	ACE			
COVERAGE	Expiring Program	Renewal Option I <i>(as expiring)</i>	Renewal Option II \$2M Limit	Renewal Option III \$3M Limit
Security & Privacy Liability	\$1M	\$1M	\$2M	\$3M
Regulatory Defense, Fines & Penalties	\$500k	\$500k	\$1M	\$1.5M
PCI Fines, Expenses & Costs	N/A	\$250k	\$250k	\$250k
Breach Response Services**	\$500k <i>(outside limit)</i>	\$500k <i>(outside limit)</i>	\$1M <i>(outside limit)</i>	\$1.5M <i>(outside limit)</i>
Crisis Mgt & Public Relations	Included	Included	Included	Included
Notification	Included	Included	Included	Included
Credit Monitoring	Included	Included	Included	Included
Forensics/Legal Expenses	Included	Included	Included	Included
Website Media Liability	\$1M	\$1M	\$2M	\$3M
Network Extortion	\$1M	\$1M	\$2M	\$3M
Network Interruption	NA	NA	N/A	N/A
RETENTION - COINSURANCE				
Retention	\$25k	\$25k	\$25k	\$25k
Notification & Credit Monitoring	\$25k	\$25k	\$25k	\$25k
Legal Services/Computer Expert Services/PR & Crisis Management	\$25k	\$25k	\$25k	\$25k
Network Interruption -Wait Period	N/A	N/A	N/A	N/A
Total Annual Premium	\$ 19,998 (plus FCHF)	\$18,804	\$29,434	\$35,249
		** If ACE's Data Breach Team is utilized, limits for Breach Response are as listed above. If ACE's Data Breach Team is <u>NOT</u> utilized, limits will be as follows: Option I: \$250k Option II: \$500k Option III: \$750k		

City of Riviera Beach

Program Cost Comparison

	2014-2015	2015-2016
	Expiring Program	Renewal Program
Package	\$ 745,000	\$ 665,000
Municipal Property	\$ 687,410	\$ 582,000
Water Utilities Property	\$ 193,647	\$ 173,945
Excess WC	\$ 123,374	\$ 127,048
B&M	\$ 2,721	\$ 2,725
Sports Accident	\$ 24,365	\$ 15,650
Crime	\$ 4,918	\$ 4,912
Storage Tank	\$ 4,177	\$ 4,262
Cyber Risk (renewing as expiring)	\$ 19,998	\$ 18,804
Optional Coverages (estimated premiums)		
Adding Student Accident for Aftercare	N/A	\$ 600
Adding Pollution Liability (possibly removing STL)	N/A	\$ 25,000
Increasing Cyber limit to \$3M	N/A	\$ 20,000
Total Fixed Cost before fees	\$ 1,805,610	\$ 1,639,946
FCHFEA (1.3%)	\$ 21,553	N/A
Citizens (1%)	\$ 8,811	N/A
EMPA	\$ 28	\$ 28
Other surcharges	\$ 6,000	\$ 6,000
Total Fixed Cost after fees	\$ 1,842,002	\$ 1,645,974
Loss Fund	\$ 1,625,000	\$ 1,500,000
Maximum Program Cost	\$ 3,467,002	\$ 3,145,974

Notes:

- Above is only a cost comparison and does not describe all terms, conditions, or exclusions.
- Above premiums do not include TRIA Terrorism, except where it cannot be excluded.
- Storage Tank Liability premium does not include new tanks at City Marina.
- We continue to work with the Pollution Liability markets, and this is subject to responses to carrier underwriting questions.

Notes of Importance

- Coverages will require compliance with carrier subjectivities.

Recommended Coverages

There are additional coverages available that can enhance the City's overall program. Accordingly, we believe you should consider the following.

- Pollution Liability
- Increased Cyber Risk Limit
- Terrorism coverage (Standalone or TRIA) for property and liability (quotes can be obtained upon request)

Please let us know if you would like to pursue these options, or additional coverages not listed above.

City of Riviera Beach

Conclusion and Recommendation

We are very proud of the results that we have been able to obtain for the City, and we continue to work with the markets to optimize your program. Management's commitment to safety, as well as Gallagher's market leverage have resulted in a significant reduction in pricing, along with improvements in coverage. We recommend the City renew the program presented herein, including the optional coverages presented.

Thank you for allowing us to serve you. We value the City's trust, and pledge our personal and corporate commitment to servicing your needs.