

# Indian River County Board of County Commissioners

## Executive Summary

Arthur J. Gallagher Risk Management Services, Inc. appreciates the opportunity to present this proposal for your consideration.

We are very pleased to present Indian River County BOCC with a comprehensive property and casualty insurance proposal effective May 1, 2018 – May 1, 2019

## Market Conditions

In early 2017, insurance industry surplus was approaching record levels and the market was continuing a softening trend. With capital continuing to increase, carrier competition and demand for growth kept rates down in the core property and casualty lines with the exception of auto liability.

We have been enjoying a soft pricing environment over the past several years and as a result of this soft pricing industry results were showing some early signs of deterioration in the first half of 2017. The industry posted a combined ratio of 100.7 for the first half of 2017, the first time that the ratio has been over 100 since 2002. Additionally, carrier net income dropped 29% in the first half of 2017.

Today, the industry sits in a different position. Harvey, Irma and Maria (HIM) insured losses are estimated to exceed \$100 billion which would wipe out over 15% of the industry's surplus. While discussing and estimating the industry impact with carriers, a long-term market correction is likely needed but it will be a multi-year process. Currently, carriers are pushing for 10-25% rate increases on CAT exposed property areas including all of Florida. Clients who have faced large hurricane losses in 2017 are experiencing rate increases greater than 20% depending upon the level hurricane loss.

In addition to the pressure and hardening of the property insurance market, we continue to see deterioration of results and upward rate pressure in the Auto liability, Cyber and E&O lines.

## Catastrophe Model

In order to assist in selection of an appropriate named windstorm limit of insurance, we have included the windstorm catastrophe model.

Critical Prob.	Return Period	RMS VERSION 11 (2013)		RMS VERSION 15 (2016)		RMS VERSION 17 (2018)	
		Ground Up	Gross Loss	Ground Up	Gross Loss - 5%	Ground Up	Gross Loss - 5%
0.10%	1,000	\$ 80,633,330	\$73,681,555	\$ 73,662,617	\$ 68,606,598	\$63,029,377	\$58,028,243
0.20%	500	\$ 61,388,653	\$55,425,938	\$ 55,525,565	\$ 50,773,242	\$44,681,352	\$40,171,460
<b>0.40%</b>	<b>250</b>	<b>\$ 44,226,431</b>	<b>\$39,260,026</b>	<b>\$ 39,217,151</b>	<b>\$ 34,925,640</b>	<b>\$29,205,450</b>	<b>\$25,390,718</b>
1.00%	100	\$ 25,048,777	\$21,353,155	\$ 21,041,344	\$ 17,597,059	\$13,877,407	\$11,081,254
2.00%	50	\$ 13,488,945	\$10,697,408	\$ 10,534,676	\$ 7,852,447	\$6,178,006	\$4,061,078
5.00%	20	\$ 3,336,174	\$ 1,532,121	\$ 2,267,542	\$ 508,597	\$1,089,806	\$0
AAL			\$ 984,096	\$ 755,490	\$ 803,892	\$548,838	\$410,715

As discussed in 2017, we recommend the County obtain an appraisal to obtain accurate values as well as additional data with respect to construction. This additional data will help with your model results and will assist the carriers in the future at providing the County with competitive rates.

## Overview of 2017 Property Renewal

In 2016 the County has submitted a claim for Hurricane Mathew which currently exceeds the 40% loss ratio the rate agreement was subject to. The claim was still in its early stages during renewal negotiations and the adjuster was still collecting data to properly value the claim and evaluating coverage. As a result,



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we approached your incumbent markets early and they all agreed to the rate agreement in place. We also negotiated to extend the flat rate agreement to 2018 renewal subject to the 40% loss ratio.

## Historical Results

The chart below shows the annual changes in limits, values, premiums, rates and named storm limit back to 2007.

	Exposure	Premium	Annual Rate	Limits Purchased	Named Storm Limit
07-08	\$342,013,377	\$2,387,500	\$0.70	150,000,000	50,000,000
08-09	\$414,241,373	\$1,950,350	\$0.47	150,000,000	50,000,000
4/1/09-5/1/10	\$426,623,770	\$1,412,500	\$0.33	175,000,000	25,000,000
10-11	\$301,589,497	\$1,350,000	\$0.45	200,000,000	50,000,000
11-12	\$347,436,734	\$1,049,302	\$0.30	200,000,000	50,000,000
12-13	\$332,426,422	\$1,316,000	\$0.40	200,000,000	25,000,000
13-14	\$333,657,066	\$1,264,537	\$0.38	200,000,000	25,000,000
14-15	\$342,345,764	\$1,205,000	\$0.35	200,000,000	35,000,000
15-16	\$343,203,562	\$994,238	\$0.29	200,000,000	35,000,000
16-17	\$352,048,567	\$948,446	\$0.27	200,000,000	40,000,000
17-18	\$365,509,174	\$984,710	\$0.27	200,000,000	40,000,000
18-19	\$381,676,150	\$1,221,367	\$0.32	200,000,000	40,000,000

## Hurricane Mathew & Irma Losses

This year renewal has been very challenging due to the paid Mathew claim and the pending Irma claim. Below goes over the County's submitted claims in the last two policy years.

	Mathew		IRMA	
	Loss	Claim Payment	Loss	Claim Payment*
	*Estimate			
Schedule Locations	\$1,371,986	\$688,375	1,500,000	Unknown
MUL - Beaches	\$13,129,096	\$2,500,000	3,800,000	2,500,000
Property in the Open	\$3,171,072	\$2,500,000	1,500,000	1,400,000
TOTAL	\$17,672,153	\$5,688,375	6,800,000	3,900,000
	Estimate Paid out Claims			\$9,588,375
	Total Premium last 5 years			\$5,396,959
	Loss Ratio for last 5 Years			177.66%

## Current Property Insurance Program

Indian River County's current property insurance program is based on total insurable values of \$365,509,174 and provides a program limit of \$200 million with \$40 million for Named Windstorm



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Coverage, \$25 million each for Flood and Earthquake Aggregate Annually except \$10 million for Special Flood Hazard Area. The policy deductible is \$100,000 with a 5% Named Windstorm with a maximum per occurrence of \$5 million. The current total annual premium, including assessments is \$984,738 with a rate per \$100 in values of \$.2694 excluding terrorism coverage.

The County's total insurable values for the 2017-18 renewal increased from \$365,509,174 to \$381,676,150, a total increase of 4.42%.

## Where we are at Today:

We have fully marketed the County's renewal to 30 markets. The new capacity we approached is not helping, incumbent primary pricing is lower and the new capacity will not support incumbent's terms. Carriers have determined that they didn't do a good job vetting broker manuscript forms. The manuscript resulted in the County receiving payments for beaches and property in the open. The County would not have received coverage for these items on a carrier form. The main issue is loss history vs. premium. Lloyds non-renewed their 25% of the County's primary \$25,000,000.

Westchester your lead carrier on the primary \$25,000,000 has offered the following two options:

1. Expiring Manuscript Form – With 26 clauses to be changed for a layer price of \$1,100,000
2. Carrier Form – Layer Price \$1,000,000; we have suggested the Lexington form and our pending confirmation if Westchester will require any changes. It's our understanding beaches, piers and docks will be excluded.

Based on the assumption the County moves back to the Lexington form and keeps the current limits the total renewal premium would be \$1,221,367; a \$236,629 increase. Below you will find several options for the County to consider for the renewal allowing for a rate change of between -2.7% and 16.3% and a premium increase range from \$15,328 to \$211,629.

Named Storm Limit	AOP Limit	Savings	Rate Change	TOTAL	Premium Increase
Renewal Option at expiring limits					
\$40,000,000	\$200,000,000	Not Applicable	19.6%	\$1,221,367	\$236,629
Other Options available					
\$35,000,000	\$200,000,000	(\$25,000)	16.3%	\$1,196,367	\$211,629
\$35,000,000	\$100,000,000	(\$74,244)	11.56%	\$1,147,123	\$162,385
\$30,000,000	\$200,000,000	(\$60,297)	12.9%	\$1,161,070	\$176,332
\$30,000,000	\$100,000,000	(\$101,297)	8.9%	\$1,120,070	\$135,332
\$25,000,000	\$200,000,000	(\$135,297)	5.6%	\$1,086,070	\$101,332
\$30,000,000	\$65,000,000	(\$116,297)	7.5%	\$1,105,070	\$120,332
\$25,000,000	\$100,000,000	(\$176,297)	1.6%	\$1,045,070	\$60,332
\$25,000,000	\$65,000,000	(\$191,297)	0.2%	\$1,030,070	\$45,332
\$25,000,000	\$25,000,000	(\$221,301)	-2.7%	\$1,000,066	\$15,328

We still need to finalize the form and any other changes that maybe needed to the program. We hope to have this resolved shortly and will update the proposal once all carriers have received the final form.

## Equipment Breakdown



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## Executive Summary (Cont.)

In 2017, Travelers agreed to a 3.15% rate decrease and rate agreement for 2018 subject to a 30% loss ratio. The County's renewal premium is \$10,890; a 3.43% increase.

The following coverage enhancements remain on the 2018 renewal:

1. Expediting Expense is provided up to policy limit, the expired limit was \$1,000,000 – The carrier will agree to pay reasonable extra costs to make temporary repairs or expedite permanent repairs, which would ultimately reduce the total cost of the claim.
2. Claim data expense limit of \$25,000 which will allow you to pay for expenses you incurred in preparing the claims data, this can include appraisals, preparing income statements, and other documentation; previously no coverage was provided.
3. Deductible Waiver – Your equipment breakdown deductible will be waived if you suffer a loss that is covered via your property program and the equipment breakdown policy.
4. Off Premise Equipment Coverage – Provides coverage to covered equipment that suffers a breakdown and is located at a temporary location that is not a covered location.
5. Amend Knowledge of Occurrence to executive officer or risk manager

## Inland Marine – Vehicles over \$100,000, Contractors Equipment, Rented & Leased Equipment and Golf Carts

Last year we approached six markets on your behalf and received various declinations except XL. Markel, your incumbent has offered a 7% rate decrease and agreed to increase the loss limit from \$15 million to \$20 million. Markel agreed to remove the following "property not covered" from the Auto Physical Damage form:

- a. Property while being used or operated in other than "Fire Department activities;"
- b. Tires or Glass.

This year the renewal premium is \$57,226; a 1.22% rate increase. We have approached Markel for an option for a rate agreement for the 19-20 renewal and they have agreed to offer a flat rate as long as one or more of the following does not apply:

1. The **incurred loss ratio** is greater than **40%**;
2. There are significant market driven changes to treaty or facultative reinsurance costs and/or capacities;
3. There is any material change from the exposures insured at inception and/or any material change in the quantum of natural catastrophe (wind or hail, flood, named storm or earth movement) exposures insured from inception.

Additional conditions applicable to this endorsement:

1. Although the Company's composite rate may stay constant, such composite rate will be applied to a prospective annual adjustment of values. The annual adjustment of values will reflect any trends in inflation, along with additions or deletions to the Statement of Values.
2. The Limited Two Year Guaranteed Rate provision applies from the inception date of this policy and expires at the earliest of:
  - a. The effective date of cancellation,
  - b. The effective date of non-renewal, or
  - c. May 1, 2020

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The following definitions apply to this endorsement:

1. **Incurred loss ratio** means the sum of all **incurred losses** during the policy period divided by the total premium paid by the Insured in consideration for this Policy.
2. **Incurred losses** means the sum of paid losses plus reserved losses during the policy period. The Company shall set such reasonable reserves at its sole discretion.

Below is an historical overview:

	Exposure	Premium	Annual Rate
14-15	\$ 14,816,005	\$ 45,854	\$ 0.3095
15-16	\$ 19,531,041	\$ 53,032	\$ 0.2715
16-17	\$ 21,970,630	\$ 53,606	\$ 0.2440
17-18	\$ 22,973,220	\$ 51,771	\$ 0.2254
18-19	\$ 25,088,873	\$ 57,226	\$ 0.2281
% Change	9.21%	10.54%	1.22%

The County will need to continue the audit the current policy and the County will need to provide the rental expenditure for leased equipment.

## Terrorism Property, NCBR Property & Terrorism Liability including NCBR

The County's Terrorism & NCBR policy covers all locations currently reported on your Property program, and inland marine schedule. The total insured value for this renewal is \$406,765,023; a 1.98% exposure increase. The NCBR Property Damage coverage and Terrorism Liability including NCBR terms and conditions are per expiring. The renewal premium is \$18,775; a flat premium renewal.

The Terrorism Property Damage policy renewal premium is \$9,500; a flat premium renewal.

The Terrorism policy will remain on the Vehicle A form which follows your all risk placement with sublimits that override the all-risk in respect to terrorism only. These sublimits include Claims Preparation, Transit, Seepage Contamination and Pollution / Clean-up, etc. The policy provides financial loss as a result of a threat, loss of attraction including non-damage to the insured out to a 2.5 mile radius from an insured location and denial of access including non-damage out of 2.5 mile radius from an insured location.

We also requested an option for a three year policy subject to a 5% rate decrease with annual installments subject to no losses or major reductions in exposure (20% increase in insured value.)



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### Crime

The County's Crime policy has been on a three year annual installment policy with Massachusetts Bay Insurance Company. We approached Travelers and your incumbent. Below is a comparison of the options received. If you renew the expiring program the renewal program is \$5,005; a \$102 increase.

SUBJECT OF INSURANCE	Hanver Option 1	Hanover Option 2	Travelers	Travelers Option 2	Travelers Option 3
Form	Discovery	Discovery	Discovery	Discovery	Discovery
Limits					
Employee Dishonesty	\$ 1,000,000	\$ 2,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Forgery or Alteration	\$ 100,000	\$ 500,000	\$ 100,000	\$ 500,000	\$ 500,000
Inside Premises- Theft of Money & Securities	\$ 50,000	\$ 500,000	\$ 50,000	\$ 500,000	\$ 500,000
Inside Premises-Robbery or Safe Burglary of Other Property	\$ 50,000	\$ 500,000	\$ 50,000	\$ 500,000	\$ 500,000
Outside Premises	\$ 50,000	\$ 500,000	\$ 50,000	\$ 500,000	\$ 500,000
Computer Fraud	\$ 250,000	\$ 500,000	\$ 250,000	\$ 500,000	\$ 500,000
Funds Transfer Fraud	\$ 250,000	\$ 500,000	\$ 250,000	\$ 500,000	\$ 500,000
Money Orders & Counterfeit Currency	\$ 50,000	\$ 500,000	\$ 50,000	\$ 500,000	\$ 500,000
Credit Card Forgery or Alteration	\$ 1,000,000	\$ 2,000,000	N/A	N/A	N/A
Destruction of Electronic Data or Computer Programs	\$ 10,000	\$ 10,000	N/A	N/A	N/A
Faithful Performance of Duty Coverage for Government Employees	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
ERISA Rider	\$ 1,000,000	\$ 2,000,000	N/A	N/A	N/A
Prior Theft or Dishonesty	\$ 25,000	\$ 25,000	N/A	N/A	N/A
Computer Program and Electronic Data Restoration Expense	N/A	N/A	\$ 10,000	Not Covered	Not Covered
False Pretense/ Social Engineering Fraud	\$ 50,000	\$ 50,000	\$ 100,000	\$ 100,000	\$ 100,000
Claim Expense	N/A	N/A	\$ 5,000	\$ 5,000	\$ 5,000
Deductibles					
Per Loss except	\$ 5,000	\$ 10,000	\$ 5,000	\$ 25,000	\$ 5,000
Destruction of Electronic Data or Computer Programs	\$ 10,000	\$ 10,000	N/A	N/A	N/A
False Pretense/ Social Engineering Fraud	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Computer Program and Electronic Data Restoration Expense	N/A	N/A	\$ 10,000	Not Covered	Not Covered
Premium					
Three Year Annual Installment	\$ 5,005	\$ 9,604	\$ 5,912	\$ 6,482	\$ 7,372



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### Public Entity Excess Liability

Brit has offered a renewal premium of \$153,300 which is a \$7,300 increase from expiring. The increase is due to an increase in vehicle count and net operating expenditure. All terms and conditions per expiring except Brit did offer a rate agreement for 2019 subject to the following terms:

#### **RATE AGREEMENT AND COMMITMENT FOR 2019 RENEWAL – INDIAN RIVER COUNTY BOCC**

In return for the commitment of Indian River County BOCC to renew with Brit Global Specialty USA for their May 1, 2019 renewal, we will give our agreement to use a flat rate for the May 1, 2019 renewal premium. This agreement is subject to the following conditions:

- As of sixty days prior to the renewal date of May 1, 2019, the incurred losses (including ALAE) to Brit Global Specialty USA's 2018 Package policy is less than or equal to 50% of the 2018 policy year's gross premium.
- As of sixty days prior to the renewal date of May 1, 2019, the annual average incurred losses (including ALAE) to the 2014-2017 policies is less than or equal to 50% of the 2018 policy year's gross premium.
- Brit Global Specialty USA deem there is no material change in the physical and/or moral hazards of the Assured which significantly increases loss potential during this annual policy term or during the renewal term beginning May 1, 2019.
- Brit Global Specialty USA deem there is no material change to the terms and conditions, limits, deductibles, or policy language during this annual policy term or requested for or during the renewal term beginning May 1, 2019.
- A renewal statement of accurate exposures is provided to us no later than 30 days prior to the May 1, 2019 annual policy term.

Brit will continue to offer loss control funds, this is a cost sharing arrangement and they will reimburse you 50% of the total cost up to \$3,000. The services have to be pre-approved in order for the County to receive a refund.

As discussed during the pre-renewal the County consider signing up for the TEAM Platform which offers safety and HR trainings for your employees.

Last year Brit sent out TPA guidelines to address how they expect Johns Eastern to manage and communicate claims. This year they are requiring all TPA's to sign the guidelines and return 30 days from binding.

### Excess Workers Compensation

The Excess Workers Compensation market continues to be limited in Florida for entities that have Police and/or Fire exposures which are subject to presumption laws. As a result many entities are forced to take self-retentions with Police/Fire retentions of \$750,000 to \$1 million. In 2015, we were successful in negotiating \$650,000 retention for all classifications except \$1 million for USL&H and Jones Act.

In 2016 we negotiated on your behalf a flat rate with Safety as well as a rate agreement for 2017 and 2018. This year we approached Safety to extend the current rate agreement to 2019. In order to accomplish this request they will need to issue an endorsement to the current policy reflecting an effective date of May 1, 2018. They can only issue a rate agreement up to three years under one policy.

We recommend the County accept the option to extend the rate agreement for the 2019 renewal. The conditions of the rate agreement are attached to the proposal in the appendix.



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Below is a brief comparison of the current program vs. renewal.

	Premium	Payroll	Rate
Safety 16-17	\$154,745	\$73,766,151	\$.2097
Safety 17-18	\$164,688	\$78,516,177	\$.2097
Safety 18-19	\$171,216	\$81,628,780	\$.2097
% Change	3.95%	3.95%	0%

## Cyber / Excess Cyber Liability

In 2014 the County purchased Cyber Liability with AIG. This year AIG has offered a renewal at \$19,443; \$11 increase. AIG has made the following material changes to the renewal terms and conditions:

New Forms	
PCI Coverage Amendatory Endorsement 123724 03/17	Broadens PCI language to include servicer processor and indemnity requirements under an MSA
Cyber Extortion Coverage Enhancement Endorsement (Threat Consultant Bitcoin Ransomware) 123622 03/17	Adds threat consultant, bitcoin or other cryptocurrency as payment, specifically acknowledges ransomware
First Response Coverage Endorsement 123651 03/17	Limits \$0 retention to the first 72 hours for a First Response Advisor, after 72 hours expenses will erode the County's \$25,000 retention
Modified Cyberterrorism Coverage Endt (Delete Warlike Operation) 123681 03/17	Removes "warlike operation" from the exclusionary wording
Computer System Definition Amendatory Endorsement 125927 07/17	Adds cloud computing to definition of computer system in CE
Confidential Information and Regulatory Action Definitions Amended 124391 06/17	Adds GDPR language to definition of Confidential Information and Regulatory Action
Intellectual Property Exclusion Amended Endorsement 123624 03/17	Amends IP exclusion in S&P and EM to limit misappropriation of a trade secret which is done by or on behalf of an insured company, in effect granting a carve back for misappropriation of a trade secret by a rogue employee
Loss Definition Amended Endorsement 122777 11/16	Amends time of coverage in NI from 120 up to 150
Loss Definition Amended Endorsement (Forensic Accounting Costs; Sublimit \$50k) 123811 3/17	Gives the insured a \$50k sublimit to establish / prove their loss
Law Enforcement Cooperation Endorsement 123224 10/16	Provides for cooperation with law enforcement that keeps details of a loss confidential from the insurer to not be considered a delay in reporting or non-cooperation with the terms of the policy
EM-Loss Definition Amended Endorsement 123226 10/16	Add "cause and scope" to forensic investigation and gives express coverage for breach counsel

## Watercraft – Hull / Protection & Indemnity

The renewal premium offered by Great America is \$7,808; an \$11 premium increase.

This year Great American to offered a Vessel Pollution quote. The pollution policy would provide coverage for spills from vessels. The coverage would include clean up, third party damage, defense and fines. The premium to add this coverage is \$1,025.



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### County overview of expiring vs. renewal program for all coverages

Below you will find an expiring vs. renewal premium summary:

Coverage	17-18 Premium	18-19 Premium	Difference	% Change
Property	\$ 984,738	\$ 1,221,367	\$ 236,629	24.03%
Equipment Breakdown	\$ 10,528	\$ 10,890	\$ 357	3.43%
Inland Marine	\$ 51,771	\$ 57,226	\$ 5,455	10.54%
Terrorism Liability	\$ 11,500	\$ 11,500	\$ -	0.00%
NCBR Terrorism	\$ 7,275	\$ 7,275	\$ -	0.00%
Property Terrorism	\$ 9,500	\$ 9,500	\$ -	0.00%
Crime	\$ 4,903	\$ 5,005	\$ 102	2.08%
Public Entity Excess Liability	\$ 146,000	\$ 153,300	\$ 7,300	5.00%
Excess Workers Compensation	\$ 164,688	\$ 171,216	\$ 6,528	3.964%
Cyber	\$ 19,432	\$ 19,443	\$ 11	0.06%
Hull / P&I	\$ 7,797	\$ 7,808	\$ 11	0.14%
Fee	\$ 175,000	\$ 175,000	\$ -	0.00%
<b>TOTAL</b>	<b>\$ 1,593,132</b>	<b>\$ 1,849,530</b>	<b>\$ 256,398</b>	<b>16.09%</b>

In order to reduce cost, the following options are available:

<u>Named Storm Limit Reduction Options</u>	<u>Savings</u>
Decrease Named Storm Limit to \$35M	(\$25,000)
Decrease Named Storm Limit to \$30M	(\$60,297)
Decrease named Storm Limit to \$25M	(\$135,297)

<u>AOP Limit Reduction Options</u>	<u>Savings</u>
Decrease AOP Limit to \$100M	(\$41,000)
Decrease AOP Limit to \$65M	(\$56,000)

### Conclusion

We look forward to reviewing this proposal with you in detail and truly appreciate your business. In the following pages we will review the results, changes, enhancements and options by each line of coverage:

**Michael Gillon**  
Area President

**Erica Connick, ARM-P**  
Area Senior Vice President