

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, 2019 – May 1, 2020

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.

Unfortunately, the past two years of loss activity has changed the direction of the market, summarized below:

- In 2017, industry property losses exceeded \$100 Billion mainly due to hurricanes Harvey, Irma, and Maria (HIM), leading to a tightening of the property market in 2018. Average rate increases for Florida loss-free programs were approximately +10%.
- In 2018, hurricanes Florence & Michael along with the California wildfires lead to a further hardening of the property market going into 2019's renewals
- As a result of 2 unprofitable years, nearly all carriers both domestically and internationally are re-underwriting their books of business. Certain Lloyds syndicates are shutting down their direct insurance businesses, and multiple domestic carriers are cutting back capacity, or dramatically increasing rates

These challenges have resulted in a difficult property market in 2019 – the market has actually gotten worse as the year has progressed. Many loss-free, \$1 Billion+ TIV accounts are experiencing 15% to 20% rate increases in Florida this year. Smaller accounts have experienced fewer challenges than those programs, where you have a large percentage of the overall market engaged on the program.

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. The rest of the casualty lines are flat or up slightly.

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 9.1		RMS VERSION 11 (2013)		RMS VERSION 18 (2019)	
		Ground Up	Gross Loss	Ground Up	Gross Loss	Ground Up	Gross Loss -
0.10%	1,000	\$ 84,874,916	\$77,292,696	\$ 80,633,330	\$73,681,555	\$ 57,573,043	\$ 52,708,665
0.20%	500	\$ 58,734,345	\$49,150,564	\$ 61,388,653	\$55,425,938	\$ 40,138,592	\$ 35,824,465
0.40%	250	\$ 35,108,293	\$29,864,682	\$ 44,226,431	\$39,260,026	\$ 25,659,477	\$ 22,086,589
1.00%	100	\$ 20,074,369	\$14,119,862	\$ 25,048,777	\$21,353,155	\$ 11,589,316	\$ 9,104,369
AAL		\$ 786,187	\$ 599,166	\$ 984,096	\$ 755,490	\$ 471,432	\$ 351,900

Per your request we approached three appraisal firms for updated appraisals and to obtain secondary COPE on the County's buildings. Below you will find a brief overview of what was received:

Firm	Description of Services	Estimated Cost per Building	Total Estimated Cost
ASSETWORKS	Re-Appraised Approximately 108 buildings over \$150,000 each (Valuation for Building/Structures, Modeling of Contents, COPE, GPS, Modeling of Contents, Flood Zones)	\$160	\$17,280
	Re-Appraised Approximately 123 buildings over \$100,000 each (Valuation for Building/Structures, Modeling of Contents, COPE, GPS, Modeling of Contents, Flood Zones)	\$155	\$19,065
	Additional Buildings - Per above "cost per building" option chosen		
CBIZ	Valuation of 69 buildings over \$500,000		\$15,000
	Valuation of 35 buildings over \$1,500,000		\$10,000
DUFF & PHELPS	Sampling of 29 buildings (Fire Stn, Courthouse, Health Dept, Main Library, Jail, Lift Station, Largest Water Treatment)		\$17,000
			\$17,000

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, 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. However the rate agreement was not applicable to the 2018 renewal due to 2017 and 2018 losses.

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	\$381,605,432	\$1,221,289	\$0.32	200,000,000	40,000,000
19-20	\$372,933,092	\$1,324,438	\$0.36	200,000,000	40,000,000

Hurricane Mathew & Irma Losses

The County’s renewal continues to be 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	\$2,009,443	\$935,183
MUL - Beaches	\$13,129,096	\$2,500,000	\$3,761,160	\$2,500,000
Property in the Open	\$3,171,072	\$2,500,000	\$55,135	\$ -
TOTAL	\$17,672,153	\$5,688,375	\$5,825,738	\$3,435,183
	Estimate Paid out Claims			\$9,123,558
	Total Premium last 5 years			\$7,934,268
	Loss Ratio for last 5 Years			115%

Current Property Insurance Program

Indian River County’s current property insurance program is based on total insurable values of \$381,676,150 and provides a program limit of \$200 million with \$40 million for Named Windstorm 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 Hurricane with a maximum per occurrence of \$5 million. The current total annual premium, including assessments is \$1,221,337 with a rate per \$100 in values of \$.32 excluding terrorism coverage.

The County's total insurable values for the 2018-19 renewal decreased from \$381,605,432 to \$372,933,092, a total decrease of 2.27%. We did increase the building values by 3% however the decrease in value is a result of removing the Dodger Town Property.

Where we are at Today:

We have fully marketed the County's renewal to 30 markets. This year we have been struggling with filling capacity at a reasonable price within the primary layers. The County's primary layer currently has five carriers however Evanston wanted to move to a higher layer and Ironshore wanted to decrease their participation. We have added Berkshire (National Fire & Marine), Lloyds of London – Syndicate Beazely and Endurance. We have also replaced Colony as their layer price was 11% higher than our highest quote and they no longer want to accept Hurricane deductibles. Terms continue to be scrutinized therefore the following will be changed at renewal:

- Newly Acquired Property – Changed from 120 days to 90 Days reporting
- Excluded Property
 - Miscellaneous Property in the Open – Last year the miscellaneous sublimit of \$2,000,000 was removed and the intent was to exclude this property going forward. However to clarify the intent carrier's want to add this as a specific item under the Property Excluded section of the coverage form. Miscellaneous Property in the Open will be defined as real and/or personal property within the territorial limits, which property is at risk of the Insured at inception of the policy but has not been listed on a report provided to the insurer at inception.
 - Golf Course Tees, Greens and Fairways – Again the intent is to not cover this property under the current policy however to clarify the intent this property will be specifically named within the Property Excluded section.
 - Definitions will be added further clarifying carrier's intent to not cover land, land improvements or property in the open.
 - Electronic Data – Several carriers include their own definitions for Cyber and electronic data. The majority of the marketplace is moving for all electronic data being excluded however caused Cyber and/or a Windstorm, Flood, Fire, etc. We attempt to negotiate non-cyber perils to be covered. However in 2019 we are losing the majority of these battles.
 - No coverage for pre-existing damages
- We continue to have a few other terms and conditions that are in negotiation. If we are not successful with their removal, we will let you know.

This year the final premium including surcharges is \$1,326,994; a \$105,657 increase over expiring. Overall that is a 10.97% rate increase from expiring.

Equipment Breakdown

In 2017, Travelers agreed to a 3.15% rate decrease and rate agreement through 2019 subject to a 30% loss ratio. The County's renewal premium is \$10,742; a 2.27% decrease.

The following coverage enhancements remain on the 2019 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

In 2017 we approached six markets on your behalf and received various declinations except XL. Markel, your incumbent 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.

In 2018 Markel offered a 1.22% rate increase as well as a rate agreement for the 19-20 renewal and they have agreed to offer a flat rate as long as one or more conditions in the agreement were not met.

	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	\$ 59,790	\$ 0.2383
19-20	\$ 29,592,882	\$ 67,193	\$ 0.2271
% Change	17.95%	12.38%	-4.71%

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 \$402,525,974; a 1% exposure decrease. The NCBR Property Damage coverage and Terrorism Liability including NCBR terms and conditions are per expiring. The renewal premium is \$17,807; a 5.2% decrease.

The Terrorism Property Damage policy renewal premium is \$8,729; an 8% decrease.

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.

In 2018 we negotiated 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.)

Crime

In 2018 we marketed your policy to Hanover and Travelers. The County decided to remain with Hanover and opted for another three year term with annual installments. The installment due at this time is \$5,005.

Public Entity Excess Liability

Brit has offered a renewal premium of \$151,825 which is a \$1,475 decrease from expiring. Brit offered a rate agreement for in 2018 for the 2019 renewal subject various terms and conditions which the County met. The only major change to the policy was mid-term we added liability coverage for drones.

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.

Brit continues to require Johns Eastern to follow their TPA guidelines to address how they expect them to manage and communicate claims.

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 our forced to take spit 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, 2018 and 2019.

The renewal premium is \$171,468; a \$252 increase. Please note the payroll did go down by 5%. The renewal was not quoted flat due to an increased in exposure; adding a fourth helicopter. The helicopter was obtained in May 2018 however was not reported until this renewal.

Cyber / Excess Cyber Liability

In 2014 the County purchased Cyber Liability with AIG. This year AIG has offered three options:

1. Expiring limit \$1,000,000 with expiring terms and conditions – renewal premium \$19,100; a \$343 decrease
2. Expiring limit \$1,000,000 with coverage enhancements – premium \$27,522 (\$8,422 additional premium)
3. Limit \$3,000,000 with coverage enhancements – premium \$42,829 (\$23,729)

AIG has made the following material changes to the renewal terms and conditions:

Form	Option 2 & 3	Option 1
NA	Network Interruption waiting hours <u>10 hours</u>	Network Interruption waiting hours 12 Hours
129376 06/18	Updated GDPR Endorsement – broader now includes for wrongful collection	New form included
125872 07/17	Reputation Based Income Loss Coverage Endorsement – 14 day waiting period – Provides coverage for adverse publicity as a result of an actual or alleged security failure or privacy event - Sublimit provided equals half the Event Management	No Coverage
129607 07/18	Material Interruption Definition Amended Endorsement – Adds to Network Interruption Coverage to the definition of material interruption a voluntary shutdown. This would be when you voluntary or intentionally shutdown your computer system under the ownership, operation or control of the insured, by or at the direction of the Chief Information Security Officer of the insured, after the discovery of a security failure, with reasonable belief that such shutdown would limit the loss	Coverage provided only for network interruption that is considered material – which means the interruption is measurable and is caused directly by a security failure
131159 11/18	Loss Definition Amended Endorsement – provides carve back for fines and penalties imposed by governmental agency arising from Regulatory Action, where insurable by applicable law	Excludes fine and penalties if uninsurable by law of the jurisdiction
117896 05/14	Privacy Event Services Coverage endorsement (affected person limit) = Provides coverage for notification, call centers and credit monitoring up to 1,000,000 max individuals; 100 minimum	Current coverage is capped at policy limit

Form	Option 2 & 3	Option 1
	individuals and is not subject to the limit on the policy.	
123143 01/17	Impersonation Fraud Coverage Section – Provides coverage for fraudulently-induced instruction by means of electronic, telegraphic, cable, teletype, fax, phone or written instruction directing financial institution to transfer funds from a transfer account, communicated by the insured or your employee upon the insured or your employee was fraudulently instructed who appears to authorized by your company or a vendor for \$100,000 excess of \$25,000 deductible	No coverage within current Cyber Form – Crime policy currently has \$50,000 with a \$5,000 deductible
124318 08/17	Other Insurance Clause Amended Endorsement Insured Option – Overlapping Property Policy Coverage – Allows insured to choose if duplicated coverage which policy will respond first	Policy reads Excess

Watercraft – Hull / Protection & Indemnity

The renewal premium offered by Great America is \$7,808; a flat renewal.

General Liability – Parking Lot

This year we moved the Parking lot General Liability policy to a May 1st renewal to run con-current with the other policies we place on your behalf. A flat renewal of \$1,888.00; 4.45% decrease. The carrier had one change to the policy amending the definition of “insured contract.” This change is important as it the policy will no longer provide coverage for damage to the parking lot. You should review your contract and let us know if your required to provide property damage liability or just bodily injury liability. It may not specify.

County overview of expiring vs. renewal program for all coverages

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

Coverage	18-19 Premium	19-20 Premium	Difference	% Change
Property	\$ 1,221,337.00	\$ 1,326,994.00	\$ 105,656.50	8.65%
Equipment Breakdown	\$ 10,890.00	\$ 10,742.00	\$ (148.00)	-1.36%
Inland Marine	\$ 59,790.00	\$ 67,193.00	\$ 7,403.00	12.38%
Terrorism Liability	\$ 11,500.00	\$ 11,122.00	\$ (378.00)	-3.29%
NCBR Terrorism	\$ 7,275.00	\$ 6,685.00	\$ (590.00)	-8.11%
Property Terrorism	\$ 9,500.00	\$ 8,729.00	\$ (771.00)	-8.12%
Crime	\$ 5,005.00	\$ 5,005.00	\$ -	0.00%
Public Entity Excess Liability	\$ 153,300.00	\$ 151,825.00	\$ (1,475.00)	-0.96%
Excess Workers Compensation	\$ 171,216.00	\$ 171,468.00	\$ 252.00	0.15%
Cyber	\$ 19,443.00	\$ 27,522.00	\$ \$8,079	41.55%
Hull / P&I	\$ 7,808.00	\$ 7,808.00	\$ -	0.00%
General Liability – Parking Lot	\$ 1,976.00	\$ 1,888.00	\$ (88.00)	-4.45%
Fee	\$ 175,000.00	\$ 175,000.00	\$ -	0.00%
TOTAL	\$ 1,854,040.00	\$ 1,971,980.50	\$ 117,940.50	6.36%

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:

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