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March 18, 2016

**SENT BY EMAIL**

Ms. Elsa Jaramillo-Velez, Esq.  
Human Resources Director  
City of Coral Gables  
Department of Human Resources  
2801 Salzedo Street, 2nd Floor  
Coral Gables, Florida 33134

Subject: City of Coral Gables  
Siver Summary and Recommendation  
Commercial Property and Casualty Insurance Program

Dear Ms. Jaramillo-Velez:

At the request of the City of Coral Gables, Florida ("the City"), Siver Insurance Consultants ("Siver") has reviewed various renewal options presented to the City by Arthur J. Gallagher and Company ("Gallagher") for renewal of the City's public entity liability insurance package policy ("the Package"), the City's commercial property insurance program ("the Property Program"), the Cyber-Liability policy and seven other miscellaneous policies purchased by the City.

As a result of our review of these proposals and additional supporting documentation, we offer the following recommendations and commentary.

## **RECOMMENDATION**

### **Public Entity Package Policy**

Siver recommends that the City accept the Package, including the Excess Liability proposal, from Underwriters at Lloyd's/Brit Syndicate 2987 ("Brit"), as presented by Gallagher. The Public Entity Package policy provides a total limit for the City of \$5,000,000 per occurrence

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(\$4,650,000 in excess of the City's self-insured retention levels of \$350,000 per occurrence) for the liability coverages included in the package.<sup>1</sup> The Workers' Compensation coverage provided by the Package is subject to a limit of \$500,000 for any one accident in excess of a self-insured retention of \$500,000 per occurrence. The premium for this package from Brit, before Florida fees and assessments, is \$726,000.

We also recommend the purchase of the excess workers' compensation proposal from New York Marine and General Insurance Company, which provides statutory limits over the Package's workers' compensation coverage (i.e., excess of \$1,000,000 per occurrence) for a premium (before fees and assessments) of \$184,643.

### **Commercial Property Insurance**

Our recommendation is that the City accept the proposed Property Program to be provided by a combination of Underwriters at Lloyd's ("Lloyd's"), Liberty Surplus Insurance Company ("Liberty"), Evanston Insurance Company ("Evanston"), and Landmark American Insurance Company ("Landmark"), as presented by Gallagher.

The recommended program includes \$25,000,000 of Named Windstorm coverage, \$10,000,000 of flood coverage, and \$243,201,290 of coverage for "all other perils," subject to a deductible of \$50,000 per occurrence, except for the perils of Named Windstorm and flood from Named Windstorms, which are subject to a deductible of 5% of the total insurable value of each "unit of insurance"<sup>2</sup> at each damaged location.<sup>3</sup> Flood losses from other than a Named Windstorm are subject to a \$100,000 deductible per occurrence, except for those locations within a special flood hazard area where coverage will be provided in excess of the maximum limits available from the National Flood Insurance Program.

The premium, including Florida fees and assessments, for the recommended Property Program, is \$882,200.

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<sup>1</sup> The Public Entity Package includes the City's general liability (including law enforcement liability), automobile liability, public officials' liability, employee benefits liability, workers' compensation and employer's liability coverages.

<sup>2</sup> Having the City's Named Storm percentage deductible apply on a per "unit of insurance" basis is a major advantage for the City and, in many circumstances, results in much lower Named Storm deductible calculations for the City than if the deductible applied on a per location or similar basis.

<sup>3</sup> The Named Storm percentage deductible is subject to a \$250,000 minimum for windstorm damage. For Named Storm related flood, the minimum deductible is \$500,000 for buildings and \$500,000 for contents, which is consistent with the maximum limits available from the National Flood Insurance Program.

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In addition, we recommend that the City renew the Boiler and Machinery coverage through Travelers Property and Casualty Insurance Company (“Travelers”) with a limit of \$50,000,000 at a premium of \$9,578.

**Cyber Liability**

We are also recommending that the City accept the renewal proposal presented for Cyber/Privacy Liability coverage from AIG Specialty Insurance Company (“AIG”), which has a limit of liability of \$3,000,000 per claim/aggregate for a flat renewal of \$37,333.

**Miscellaneous Policies**

In addition, we recommend that the City purchase the renewal of the following additional miscellaneous property and casualty policies for which renewal was offered by Gallagher:

<b>Coverage</b>	<b>Insurer</b>	<b>Premium</b>
<b>Accidental Death &amp; Dismemberment – Business Travel</b>	Hartford Life and Accident Insurance Company	\$360
<b>Accidental Death &amp; Dismemberment – Police and Fire</b>	Hartford Life and Accident Insurance Company	\$12,338
<b>Public Official Bond – Finance Director</b>	Hartford Fire Insurance Company	\$1,750
<b>Storage Tank</b>	Commerce and Industry Insurance Company	\$2,375
<b>Excess Crime</b>	Travelers Casualty and Surety Company of America	\$4,942
<b>Sports Liability</b>	Scottsdale Insurance Company	\$22,639
<b>Accidental Death and Dismemberment – Amateur Sports</b>	National Casualty Insurance Company	\$16,716
<b>TOTAL PREMIUM</b>		<b>\$61,120</b>

**DISCUSSION**

**Public Entity Package**

*Premium*

Last year, the City purchased its Package Policy from Brit, which provided \$5,000,000 of coverage using a combination of a primary \$1,000,000 limit policy and an excess policy with a limit of \$4,000,000. The combined premium for the expiring Brit Package, including

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the Excess Liability policy and Excess Workers’ Compensation policy is \$938,205. For the 2016/17 renewal, Brit offered to reduce their premium for the City’s liability package program from \$750,000 to \$726,000, and New York Marine and General Insurance Company offered to reduce the Excess Workers’ Compensation premium from \$188,205 to \$184,643.

Therefore, on the whole, the overall premium for the Public Entity Package was reduced by a total of \$27,562 from \$938,205 to \$910,643. In our opinion, this premium reduction is due to the combination of a competitive insurance market environment and considerable improvement in the City’s claims experience over the past five years.

**The Property Program**

*Background*

The City’s expiring Property Program is provided by a combination of five different insurers, with Lloyd’s providing the primary layer. The Property Program includes \$25,000,000 of coverage for Named Storms and \$5,000,000 of coverage for flood. For perils other than Named Storm, Landmark provides property coverage excess over the first \$25,000,000 up to the City’s 2015/2016 total insured values of \$239,023,569. The deductible in the City’s Property Program is \$50,000 per occurrence, for all perils except for the perils of named windstorm and flood, which are subject to a deductible of 5% of the total insurable values at the damaged location, subject to a minimum of \$250,000 per occurrence.

The total program cost of the City’s expiring Property Program is \$1,000,435.

The chart below is intended to summarize the renewal costs and overall rates of the Property Program in comparison to the rates and costs of the expiring program.

<b>Policy/Program</b>	<b>2015/2016 Policy Year</b>	<b>2016/2017 Policy Year</b>	<b>Percentage Change</b>
<b>Total Insurable Values</b>	\$239,023,569	243,201,290	+0.1%
<b>Property Program Premium</b>	\$1,000,435	\$882,800	-11.8%
<b>Program Rate (per \$100 of Insurable Value)</b>	0.042	0.036	-13.3%

*Renewal Terms*

Gallagher has offered a renewal proposal to the City on the same terms as the expiring program, but with some changes in excess insurers. This reduces the total number of insurers in the Property Program from five to four. While Lloyd’s will remain the insurer of

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the primary layer, the excess property insurance will now be provided by a combination of Liberty, Endurance and Landmark. The proposed renewal premium is \$882,200, which represents a reduction in premium of \$118,235 or approximately 11.8%.

### *Coverage Enhancements*

In addition to the premium reductions, due to the competitive insurance market for property insurance, Gallagher was able to obtain several enhancements to the City's coverage terms this year. Most notably, these enhancements include:

- The Flood sublimit was increased from \$5,000,000 to \$10,000,000;
- Flood damage caused by a Named Storm (i.e., "Storm Surge") was moved from the Flood sublimit to now be subject to the "Named Storm" sublimit, which makes this type of damage now subject to a \$25,000,000 sublimit;
- The Fine Arts sublimit was increased from \$1,000,000 to \$2,500,000;
- Coverage was added to the program for the City's seawalls, wharves, docks, piers and bridges; and
- Coverage was added for damage caused by "Mold," up to the policy limits, when the Mold results from another covered loss.

### *Boiler and Machinery*

Boiler and Machinery/Equipment Breakdown coverage is not covered in the Property Program. As a result, the City purchases stand-alone Boiler and Machinery/Equipment Breakdown from Travelers. The Travelers policy provides \$50,000,000 of Boiler and Machinery/Equipment Breakdown coverage. The expiring premium for the Travelers Boiler and Machinery/Equipment Breakdown is \$9,628. For 2016/2017, Travelers has offered to renew the policy for a premium of \$9,578. This represents a reduction in premium of \$50 (0.5%).

### *Probable Maximum Loss*

For the 2016 renewal, Gallagher provided catastrophe modeling studies using the newest version of the RMS modeling software (RMS 15.0). In our opinion, these modeling results are a very useful guide to help determine the reasonableness and appropriateness of the Named Storm limits that the City purchases (i.e., \$25,000,000 per occurrence).

Using the results of the RMS model, the following probable maximum losses were projected for the City, both on a "ground up" basis (i.e., total loss with insurance recoveries not considered) and on a "loss net of deductible and layering" basis (i.e., the portion of the loss predicted to be paid by the insurer after taking into account deductibles), over the following catastrophic event intervals.

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Essentially, the results of both models are intended to represent, for each given time interval, the largest loss the City should expect to suffer from a catastrophic event. In other words, with the 100 year loss, this translates into a 1/100 or 1% probability that the City would experience that size loss in a given year. Likewise, the 250 year storm would represent a 1/250 or 0.4% probability that a loss of that size would occur in a given year.

Time Interval (years)	Probable Maximum Loss "Ground Up" (i.e., total loss)	Projected Loss Amount Subject to City's Current Deductibles	Probable Maximum Loss "Net of Deductibles and Layering" (i.e., net of deductibles)
1,000	\$41,275,925	\$4,320,855	\$37,620,718
500	\$28,336,538	\$3,535,793	\$25,523,604
<b>250</b>	<b>\$19,796,940</b>	<b>\$2,701,068</b>	<b>\$17,563,951</b>
100	\$10,583,023	\$1,742,498	\$8,922,934
50	\$5,490,656	\$1,307,078	\$4,183,578

One very helpful feature of the new version of the RMS software is that it now projects the financial impact of the deductible that the City would be responsible for in a Named Windstorm event (i.e., 5% of the value of each damaged unit of property on the City's schedule).

Taking a conservative approach, for our analysis, we have only used the projections from RMS, which take into account "Loss Amplification" (formerly known as "Demand Surge"). Models which use Loss Amplification generate higher loss predictions because they take into account that, due to scarcity, building and labor costs in a post-catastrophe environment will be higher than the current prices in the marketplace. In our opinion, such projections with Loss Amplification are a more accurate representation of the actual situation the City would face if a hurricane caused widespread damage in South Florida.

The 250 year storm level is considered by many to be a reasonable amount to use as a benchmarking tool for property insurance purchasing decisions. The City's 250 year "ground up" probable maximum loss was estimated by RMS at \$19,796,940.

Based on our experience with the limits maintained by other Florida public entities, in our opinion, the City's \$25,000,000 Named Storm coverage is a reasonable amount for the City to purchase.

Of course, as always, we caution the City should not base its entire insurance buying decision on such computer catastrophe models. Typically, our advice is to use such studies as benchmarking tools, which can assist the analysis and decision-making process with respect to named windstorm limits. Regardless of the results of any study, we still often recommend our clients purchase named windstorm limits beyond their 250 year probable

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maximum loss projections when such coverage is available for a reasonable price. In our opinion, one of the most helpful uses of the catastrophe study is in determining the relative reasonableness of the pricing of a particular coverage, not whether there is a reason to purchase the coverage if reasonably priced.

### **Cyber Liability**

#### *Current Policy*

The City's Cyber-Liability policy is written by AIG Specialty Insurance Company and provides a \$3,000,000 per claim/aggregate limit for the following coverages:

- Security & Privacy Liability;
- Specialty Professional Liability;
- Event Management;
- Regulatory Action;
- Media Content Liability;
- Cyber Extortion; and
- Network Interruption.

Regulatory Action is subject to a \$1,000,000 sublimit. Event Management (including notifications, credit monitoring, and ID theft coverage) is subject to a \$250,000 sublimit,<sup>4</sup> and Network Interruption is subject to a \$500,000 sublimit.

The AIG policy is subject to a \$50,000 self-insured retention. The premium for the expiring AIG policy is \$37,333.

#### *Renewal Terms*

Gallagher has offered a renewal proposal to the City on the same terms as the expiring program with AIG for a flat renewal of \$37,333.

### **Miscellaneous Property and Casualty Policies**

#### *Premium Summary*

We have also recommended that the City purchase the renewal of the additional miscellaneous property and casualty policies which are shown below. With the exception of some changes in premium, which you can see in the chart, these policies have been offered for renewal without any significant changes in coverage unless otherwise noted.

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<sup>4</sup> Event Management coverage also includes coverage for notification, credit monitoring and ID theft for up to 500,000 affected people, outside of the policy limit.

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As you can see from the chart below, most of the coverages either stayed at the expiring premium or increased marginally. For those coverages that did increase in premium, the increases were within the reasonable expectations of the current insurance marketplace, and the increases were also, to some extent, caused by increases in the exposure basis of the particular policy.

<b>Coverage</b>	<b>Insurer</b>	<b>2015/2016 Premium</b>	<b>2016/2017 Premium</b>	<b>% Change</b>
<b>Accidental Death &amp; Dismemberment – Business Travel</b>	Hartford Life and Accident Insurance Company	\$360	\$360	0.0%
<b>Accidental Death &amp; Dismemberment – Police and Fire</b>	Hartford Life and Accident Ins. Company	\$12,338	\$12,338	0.0%
<b>Public Official Bond – Finance Director</b>	Hartford Fire Insurance Company	\$1,750	\$1,750	0.0%
<b>Storage Tank</b>	Commerce and Industry Ins. Company	\$1,757	\$2,375	35.2%
<b>Excess Crime</b>	Travelers Casualty & Surety Co. of America	\$4,518	\$4,942	9.4%
<b>Sports Liability</b>	Scottsdale Insurance Company	\$21,504	\$22,639	5.3%
<b>Accidental Death and Dismemberment – Amateur Sports</b>	National Casualty Insurance Company	\$16,161	\$16,716	3.4%
<b>TOTAL PREMIUM</b>		<b>\$58,388</b>	<b>\$61,120</b>	<b>4.7%</b>



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**Financial Strength of Insurers**

The insurers proposed by Gallagher have the following financial ratings from A.M. Best:

<b>Insurance Company</b>	<b>Coverage</b>	<b>Best's Rating</b>
Underwriters at Lloyd's (Brit)	Public Entity Package Policy	A (XV)
New York Marine and General Ins. Co.	Excess Workers Compensation	A (IX)
Underwriters at Lloyd's	Property – First \$10,000,000 including named windstorm	A (XV)
Liberty Surplus Ins. Co.	Property - \$7,500,000 part of \$15,000,000 excess of \$10,000,000 including named windstorm	A (XV)
Evanston Insurance Company	Property - \$7,500,000 part of \$15,000,000 excess of \$10,000,000 including named windstorm	A (XV)
Landmark American Insurance Company	Property - \$218,201,290 excess of \$25,000,000 excluding named windstorm	A+ (XIII)
Travelers Property Casualty Insurance Co.	Boiler and Machinery	A++ (XV)
AIG Specialty Ins. Co.	Cyber Liability	A (XV)
Hartford Life and Accident Ins. Co.	Accidental Death & Dismemberment – Business Travel/Police and Fire	A (XIV)
Hartford Fire Ins. Co.	Public Official Bond – Finance Director	A+ (XV)
Commerce and Industry Ins. Co.	Underground Storage Tank	A (XV)
Travelers Casualty and Surety Co. of America	Excess Crime	A++ (XV)
Scottsdale Insurance Company	Sports Liability	A+ (XV)
National Casualty Co,	Accidental Death and Dismemberment – Amateur Sports	A+ (XV)

In our opinion, all of the insurers being used to place the City's insurance programs are acceptable and have very sound financial ratings.

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**SUMMARY AND CLOSING**

To summarize, Siver recommends that the City accept the Package from Brit as presented by Gallagher. The premium for this package option from Brit, before Florida fees and assessments, is \$726,000. We also recommend the purchase of the excess workers' compensation proposal from New York Marine and General Insurance Company, which provides statutory limits over the Package's workers' compensation limits for a premium (before fees and assessments) of \$184,643 (total premium of \$910,643).

We recommend that the City accept the proposed Property Program to be provided by a combination of Lloyd's, Liberty, Evanston, Landmark, and Travelers as presented by Gallagher. The premium, including Florida fees and assessments, for the recommended Property Program is \$882,200.

We recommend the City accept the purchase of Boiler and Machinery insurance from Travelers Property and Casualty Insurance Company for a premium of \$9,578.

We recommend that the City accept and purchase the proposed Cyber Liability coverage from AIG Specialty Insurance Company for a premium of \$37,333.

In addition, we recommend that the City purchase the renewal of seven additional miscellaneous property and casualty policies for which renewal was offered by Gallagher. These policies include the policies for Accidental Death & Dismemberment – Business Travel, Accidental Death & Dismemberment – Police and Fire, Public Official Bond – Finance Director, Storage Tank, Excess Crime, Sports Liability and Accidental Death and Dismemberment – Amateur Sports. The combined premium for these seven policies before any applicable fees and assessments is \$61,120.

In total, all of the insurance programs we have recommended to the City can be summarized as follows:

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COVERAGE	2015/2016 COST	2016/1017 COST
<b>Package (including Public Entity Package, Excess Liability and Excess Workers' Compensation)</b>	\$938,205	\$910,643
<b>Property Program</b>	\$1,000,435	\$882,200
<b>Boiler and Machinery</b>	\$9,628	\$9,578
<b>Cyber Liability</b>	\$37,333	\$37,333
<b>Miscellaneous Property and Casualty Policies (7 total)</b>	\$58,388	\$61,120
<b>Citizens – State of Florida Assessment</b>	\$10,004.35	\$0
<b>EMPA – State of Florida Assessment</b>	\$20	\$16
<b>Total after surcharges</b>	\$2,054,013.35	\$1,900,890
<b>Broker Fee</b>	\$120,000	\$120,000
<b>Total Cost of Program</b>	<b>\$2,174,013.35</b>	<b>\$2,020,890</b>

We note that the above Total Cost of Program for the 2016/2017 policy year is \$153,123.35 (or 7.0%) less than last year's program.

We appreciate this opportunity to be of service to the City of Coral Gables. If you have any questions, please let us know.

Very truly yours,

SIVER INSURANCE CONSULTANTS  
 George W. Erickson, JD, CPCU, LLM