

*Insurance  
Consultants*  
**SIVER**

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April 17, 2015

Ms. Elsa I. 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") and the City's commercial property insurance program ("the Property Program").

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 (\$4,650,000 in excess of the City's self-insured retention levels of \$350,000 per occurrence)

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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 \$750,000.

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 \$188,205.

### **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 Insurance Company ("Liberty"), Arch Specialty Insurance Company ("Arch"), Alterra Excess and Surplus Insurance Company ("Alterra"), and Landmark American Insurance Company ("Landmark"), as presented by Gallagher.

The recommended program includes \$25,000,000 of Named Windstorm coverage, \$5,000,000 of flood coverage, and \$214,023,569 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>3</sup> at each damaged location.<sup>4</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 \$1,020,087.35.<sup>5</sup>

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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>3</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>4</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.

<sup>5</sup> The \$1,020,087.35 property insurance premium includes an additional \$9,628 premium for a stand-alone boiler and machinery insurance which needed to be purchased because that coverage is not included in the

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**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:

Coverage	Insurer	Premium
Accidental Death & Dismemberment – Business Travel	Hartford Life and Accident Insurance Company	\$360
Accidental Death & Dismemberment – Police and Fire	Hartford Life and Accident Insurance Company	\$12,338
Public Official Bond – Finance Director	Hartford Fire Insurance Company	\$1,750
Underground Storage Tank	Commerce and Industry Insurance Company	\$1,757
Excess Crime	Travelers Casualty and Surety Company of America	\$4,518
Sports Liability	Scottsdale Insurance Company	\$21,504
Accidental Death and Dismemberment – Amateur Sports	National Casualty Insurance Company	\$16,161
<b>TOTAL PREMIUM</b>		<b>\$58,388</b>

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Lloyd's property insurance program. It also includes a Citizen's assessment by the State of Florida for \$10,004.35 (1%) and a \$20 EMPA fee.

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## 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 the Excess Liability policy and Excess Workers' Compensation policy was \$938,205. For the 2015/2016 renewal, Brit offered a renewal for the City's Package Program on a "flat" basis, with no changes in premium and no changes in coverage terms.

### The Property Program

#### *Background*

The City's Property Program is provided by a combination of insurers which includes Lloyd's, Liberty, Arch, Alterra and Landmark. 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 total insured values of \$214,043,969. 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 (including Boiler and Machinery) is \$1,040,558. After adding in State of Florida fees and assessments of \$34,558.96, the result is a total premium of \$1,075,116.96.

#### *Renewal Terms*

Gallagher has offered a renewal proposal to the City on the same terms as the expiring program with all of the same insurers. The proposed renewal premium (including Boiler and Machinery) is \$1,020,087.35, which represents a reduction in premium of \$55,029.61 or approximately 5.1%.

#### *Inclusion of Pumps and Fountains*

One enhancement included in the renewal of the City's property insurance for 2015 to 2016 is that the insurance program will now include coverage for approximately \$13,970,000 of

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pumps and \$11,009,600 of fountains, this addition represents property that is owned by the City but has not been insured in the program for many years because, in past years, the market for property insurance was not conducive to including such outdoor property at a reasonable cost.

*Boiler and Machinery*

Boiler and Machinery/Equipment Breakdown coverage is not covered in the Lloyd's policy. As a result, as was the case last year, the City will need to once again purchase stand-alone Boiler and Machinery/Equipment Breakdown from Travelers Property and Casualty Insurance Company ("Travelers"). The Travelers policy provides \$50,000,000 of Boiler and Machinery/Equipment Breakdown coverage. The premium for the Travelers Boiler and Machinery/Equipment Breakdown is \$9,628 which is included in the total Property premium for the City noted above.

*Renewal Comparison*

The following chart shows the new participation level of each insurer, compared to the expiring policy.

	2014/2015		2015/2016	
<b>Layer</b>	<b>Insurer</b>	<b>Limit</b>	<b>Insurer</b>	<b>Limit</b>
Primary – Includes Named Storm	Lloyd's	\$10,000,000	Lloyd's	\$10,000,000
1 <sup>st</sup> Excess – Excess of \$10,000,000 Includes Named Storm	Liberty Alterra Arch	\$7,500,000 \$3,500,000 <u>\$4,000,000</u> \$15,000,000	Liberty Alterra Arch	\$7,500,000 \$3,500,000 <u>\$4,000,000</u> \$15,000,000
2 <sup>nd</sup> Excess Excess of \$25,000,000 Excludes Named Storm	Landmark	\$188,800,563	Landmark	\$214,023,569

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

<b>Policy/Program</b>	<b>2014/2015 Policy Year</b>	<b>2015/2016 Policy Year</b>	<b>Percentage Change</b>
<b>Total Insurable Values</b>	\$213,800,563	\$239,023,569 <sup>6</sup>	.11%
<b>Property Program Premium</b>	\$1,075,116.19	\$1,020,087.35	-5.12%
<b>Program Rate (per \$100 of Insurable Value)</b>	0.0477	0.0427	-10.6%

#### *Probable Maximum Loss*

In 2013, Gallagher provided catastrophe modeling studies from two different catastrophe modeling software systems (RMS and AIR) for the City's properties. While the City's total values at risk have changed to some extent, in our opinion, the 2013 modeling results are still useful as a guide to determining the reasonableness and appropriateness of the Named Storm limits that the City purchases (i.e., \$25,000,000 per occurrence). However, because we understand that the RMS modeling software is set to again change sometime in 2015, we recommend that new catastrophe modeling studies be obtained before the 2016-2017 renewal is negotiated.

#### RMS Probable Maximum Losses

Using the results of the RMS model (version 11.0), the following probable maximum losses were projected for the City in 2013, both on a "ground up" basis (i.e., total loss with insurance recoveries not considered) and on a "gross loss" (i.e., the portion of the loss predicted to be paid by the insurer after taking into account deductibles), over the following time intervals.

<b>Time Interval</b>	<b>Probable Maximum Loss "Ground Up" (i.e., total loss)</b>	<b>Probable Maximum Loss "Gross Loss" (i.e., net of deductibles)</b>
20	\$3,640,410	\$1,705,274
50	\$11,858,239	\$9,383,682
100	\$20,401,558	\$17,410,086
<b>250</b>	<b>\$34,661,467</b>	<b>\$30,805,326</b>
500	\$47,936,984	\$43,360,357
1,000	\$63,479,990	\$58,066,260

<sup>6</sup> The increase in Total Insured Values is largely due to the addition of the pumps and fountains into the schedule of insured property.

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### AIR Probable Maximum Losses

In addition to the results from the modeling software from RMS, in 2013, Gallagher also provided results from the AIR catastrophe modeling software package. As the chart below shows, the AIR model has provided significantly lower probable maximum loss projections for the City in all time intervals than the RMS model's projections. Unfortunately, while in our opinion, the AIR model is a valuable analytical tool and should prove useful for the City in its own decision-making process, in our experience, only a few insurance companies will consider the results of the AIR model when determining the rates they will charge.

Using the results of the AIR catastrophe model, the following probable maximum losses were projected for the City.

Time Interval	Probable Maximum Loss "Ground Up" (i.e., total loss)	Probable Maximum Loss "Gross Loss" (i.e., net of deductibles)
20	\$2,098,281	\$1,140,075
50	\$7,026,127	\$3,044,818
100	\$12,603,570	\$6,690,750
<b>250</b>	<b>\$21,643,409</b>	<b>\$14,001,249</b>
500	\$27,609,443	\$19,484,237
1,000	\$39,187,538	\$30,082,304

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.

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 \$34,661,467. The City's 250 year "ground up" probable maximum loss was estimated by AIR to be \$21,613,409.

When considering an amount of named storm coverage, it is important to understand that the limit selected applies in excess of the property program's 5% deductible. When looking at the amount of that same loss that is estimated to be collectible under the City's Property Program ("the gross loss"), the projected amount that would be collected from insurance is \$30,805,326 in the 2013 RMS study, which is approximately \$5,000,000 higher than the \$25,000,000 named storm coverage currently maintained by the City. However, it is worth noting that, at the 250 year level, the AIR catastrophe model predicts insured losses significantly lower than the \$25,000,000 limit of insurance at \$14,001,249.

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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. Also, it is worth noting that, for purposes of FEMA eligibility, Gallagher obtains on behalf of the City annually, a certification of the "reasonableness" of the City's property insurance program from the Florida Office of Insurance Regulation.

In any event, while we support the City's purchase decision as being a reasonable decision, it is important for the City to recognize that at the City's current level of Named Storm insurance which the City purchases, there is a foreseeable possibility that actual losses from a major catastrophe could exceed the amount of insurance being purchased.

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 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*

Last year, the City elected to purchase Cyber Liability insurance from AIG. The current policy 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>7</sup> and Network Interruption is subject to a \$500,000 sublimit.

<sup>7</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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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**

*Sports Liability*

The only major change among the miscellaneous property and casualty insurance policies this year, is the sports liability insurance. The expiring carrier, National Casualty, proposed the renewal policy with a "brain injury" exclusion. Gallagher was able to find an alternative quote with a non-admitted insurer, Scottsdale Insurance Company (part of the same family of insurance companies as National Casualty) for a premium of \$21,504 which is only \$1,133 more than the National Casualty premium of \$20,371. Our recommendation is that the City procure the proposed Scottsdale program, which will not be subject to an exclusion for brain injuries.

*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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<b>Coverage</b>	<b>Insurer</b>	<b>2014/2015 Premium</b>	<b>2015/2016 Premium</b>
<b>Accidental Death &amp; Dismemberment – Business Travel</b>	Hartford Life and Accident Insurance Company	\$360	\$360
<b>Accidental Death &amp; Dismemberment – Police and Fire</b>	Hartford Life and Accident Ins. Company	\$11,803	\$12,338
<b>Public Official Bond – Finance Director</b>	Hartford Fire Insurance Company	\$1,750	\$1,750
<b>Underground Storage Tank</b>	Commerce and Industry Ins. Company	\$1,639	\$1,757
<b>Excess Crime</b>	Travelers Casualty & Surety Co. of America	\$4,518	\$4,518
<b>Sports Liability</b>	Scottsdale Insurance Company	\$21,296	\$21,504
<b>Accidental Death and Dismemberment – Amateur Sports</b>	National Casualty Insurance Company	\$16,003	\$16,161
<b>TOTAL PREMIUM</b>		<b>\$57,369</b>	<b>\$58,388</b>

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**Financial Strength of Insurers**

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

<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)
Arch Specialty Ins. Co.	Property - \$4,000,000 part of \$15,000,000 excess of \$10,000,000 including named windstorm	A+ (IX)
Alterra Excess and Surplus Ins. Co.	Property - \$7,500,000 part of \$15,000,000 excess of \$10,000,000 including named windstorm	A (XIV)
Landmark American Ins. Co.	Property - \$214,043,969 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 (XV)
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 Ins. Co.	Accidental Death and Dismemberment – Amateur Sports	A+ (XV)

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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 \$750,000. 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 \$188,205 (total premium of \$938,205).

We recommend that the City accept the proposed Property Program to be provided by a combination of Lloyd's, Liberty, Arch, Alterra, Landmark, and Travelers as presented by Gallagher. The premium, including Florida fees and assessments, for the recommended Property Program (including boiler and machinery insurance), is \$1,020,087.35.

We recommend that the City accept and purchase the proposed Cyber Liability coverage from AIG, with the limits of \$3,000,000 per claim/aggregate 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, Underground 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 \$58,388.

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

COVERAGE	2014/2015 COST	2015/2016 COST
Package (including Public Entity Package, Excess Liability and Excess Workers' Compensation)	\$938,205	\$938,205
Property Program	\$1,075,116.96	\$1,020,087.35
Cyber Liability	\$37,333	\$37,333
Miscellaneous Property and Casualty Policies (7 total)	\$57,369	\$58,388
<b>Total after surcharges</b>	<b>\$2,108,023.96</b>	<b>\$2,054,013.35</b>
<b>Broker Fee</b>	<b>\$120,000</b>	<b>\$120,000</b>
<b>Total Cost of Program</b>	<b>\$2,228,023.96</b>	<b>\$2,174,013.35</b>

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We note that the above Total Cost of Program for the 2015/2016 policy year is \$54,010.61 (or 2.4%) less than last year's Total Cost of Program of \$2,228,023.96.

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

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