

Financial Services
Richard H. Hinds, Chief Financial Officer

SUBJECT: PROPERTY INSURANCE

COMMITTEE: INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS

LINK TO STRATEGIC FRAMEWORK: FINANCIAL EFFICIENCY/STABILITY

The School Board is required to carry property insurance on all school buildings (except buildings of three classrooms or less) and all school plants, including contents, boiler and machinery, pursuant to the provisions of Section 1001.42(9)(b)(8)(d), Florida Statutes.

At the Board meeting of February 13, 2013, the Board authorized staff, through Arthur J. Gallagher Risk Management Services, Inc., to secure and bind maximum available limits of all-risk, replacement cost property insurance coverage in anticipation of obtaining \$250 million per occurrence with annual premiums for such coverage not to exceed \$25 million, effective May 1, 2013. This recommendation reflected global property market conditions which changed with Tropical Storm (Super Storm) Sandy which is now expected to produce insured claims in excess of \$25 billion, making it the third costliest storm to hit the United States after Hurricane Andrew in 1992 and Hurricane Katrina in 2005.

Contained in the 2012-2013 Millennial Access Platform (MAP) initiatives was MAP Property Insurance Program Re-Structuring. Outlined in the MAP is that amount of property coverage secured by the District has ranged from a high of \$750 million per occurrence to a low of \$150 million per occurrence, with costs and terms subject to annual changes. Key worldwide carriers have been meeting with staff to review opportunities which could include multi-year commitments for coverage capacity as well as introduction of a loss sensitive strategy where carriers would specify a portion of the net paid premium as a "no claim bonus" in years without any reported or paid losses.

Specifically, Swiss RE, one of the world's largest reinsurance companies, which has provided coverage to the District in a traditional approach for many years, has taken the lead on an innovative approach to a portion of the primary \$100 million of coverage, specifically for named windstorm losses. Staff is very excited about the prospect of such innovative coverage terms, which includes a three-year commitment for capacity for the portion of named windstorm coverage being provided by Swiss Re in the primary \$100 million layer.

As outlined in Agenda Item E-66, Board meeting of February 13, 2013, the prior property insurance program was confirmed at the Board meeting of May 16, 2012 consisting of \$200 million of all risk, replacement cost property insurance coverage with all premiums, including applicable state fees, totaling \$21,969,025.60.

E-66

As also referenced in the February 13, 2013 Board item, the Office of Insurance Regulations (OIR) was skeptical of the District's decision to purchase \$200 million of coverage for the 2012-2013 policy year, which was why staff made the recommendation to increase the level of coverage back to \$250 million (\$250MM) at renewal.

Staff is pleased to report to the Board that the recommended \$250MM in all risk, replacement cost property insurance has been secured and bound effective May 1, 2013, with all premiums, including applicable state fees totaling \$24,417,939.40, representing premium savings from the authorized budget of \$25 million (\$25MM) of \$582,060.60

In addition to being able to fully complete the program's capacity goal of \$250MM, consisting of four layers including a primary \$100 million (\$100MM) layer and three excess \$50 million (\$50MM) layers, staff was successful in partnering with Swiss RE on an innovative approach of windstorm coverage contained within the primary \$100MM layer. Specifically, effective May 1, 2013, the primary \$100MM layer is broken down into two sub-layers for purposes of named windstorm versus all other peril coverage. The Swiss Re layer which consists of 30% of that layer (30% part of 100% or \$30MM) is named windstorm/flood coverage only. The remainder of that layer (70% part of 100%) or \$70MM is traditional all risk, replacement cost coverage which covers named windstorm/flood and all other perils coverage. The Swiss RE \$30MM named windstorm/flood only portion is matched with a separate all other peril (AOP) coverage also totaling \$30MM (\$30MM part of \$100MM) provided by Lexington Insurance Company in order to provide concurrent coverage for that layer. This AOP coverage is now subject to a per loss deductible of \$1,000,000. The previous per loss AOP deductible was \$500,000. The Swiss RE named windstorm/flood coverage portion is subject to a corridor/aggregate deductible consisting of 30% of \$25MM or \$7.5MM. As has been the case since 2008, all named windstorm coverage is subject to a flat per occurrence named storm deductible of \$100MM.

SWISS RE COVERAGE

As outlined in the 2012-2013 Property Insurance MAP initiative to re-structure property insurance coverage, staff has been meeting with worldwide markets to create some form of risk sharing where the District could benefit from years when no losses were paid, as well as developing some consistency in access to worldwide catastrophic-specific named windstorm capacity beyond a 12-month commitment. After lengthy negotiations and much work assure that there are no gaps in coverage or inconsistencies in policy language, an innovative approach to \$30MM part of the primary \$100MM coverage layer has been finalized for a three-year program, premium fully earned, payable annually, with Swiss RE, the one of the world's largest and most financially secure reinsurance companies. Specifically, the program will consist of the following components:

Carrier:	Swiss RE (A.M. Best A+ XV)
Policy Term:	One, three-year policies effective May 1, 2013 – May 1, 2014; May 1, 2014 – May 1, 2015; and May 1, 2015 – May 1, 2016 (premium fully earned, payable annually)
Coverage Provided:	Named Windstorm/Flood Only
Corridor/Aggregate Deductible:	\$25MM (30% applicable or \$7.5MM) after \$100MM per occurrence Named Windstorm/Named Windstorm Flood (subject to 20% change in TIV)

Named Windstorm Limits

Per Occurrence: 30% of Primary \$100MM layer or \$30MM, subject to Corridor/Aggregate deductible of 30% of \$25MM (\$7.5MM) and per occurrence Named Windstorm/Named Windstorm Flood of \$100MM

Primary \$100 MM Pricing: \$13MM (30% of program equaling \$3.9MM) (2013-2014 premium)

No Claim Bonus (reported/paid): 10% of annual premium installment net of any broker compensation – payable annually

Total annual premiums for this layer of coverage including applicable state fees are \$3,993,604.

LEXINGTON INSURANCE COMPANY COVERAGE (PRIMARY \$100MM)

Lexington Insurance Company (AIG)(A.M. Best A+XV) will provide all other peril (AOP) coverage for the \$30MM part of primary \$100MM layer of coverage. The annual premium for this AOP coverage is \$300,000. Total annual premiums for this coverage, including applicable state fees is \$306,904. This coverage will now be subject to a per loss deductible of \$1,000,000.

TRADITIONAL PROGRAM:

The remainder of the 70% of the primary \$100MM layer of the coverage will be provided on a quota shared basis consisting of both named windstorm coverage and all other peril (AOP) coverage by the following companies:

Landmark American Insurance Company (A XIII)
Liberty Surplus Insurance Corporation (A XV)
Ironshore Specialty Insurance Company (A- XIII)
Axis Surplus Insurance Company (A XV)
Allied World Assurance Company (A XV)
Westchester Surplus Lines Insurance Company (A+XV)
Lloyds of London (various syndicates)(AXV)
Lexington Insurance Company (AXV)

Premiums attributable to the \$70MM part of \$100MM primary layer are \$9,810,602.10.

Total premiums, including applicable state fees for the primary \$100MM layer is \$14,111,110.10.

Premiums attributable to excess coverage layers are as follows:

\$50MM excess of primary \$100MM layer, including applicable state fees is \$4,552,390.10

\$50MM excess of \$150MM coverage layers, including applicable state fees is \$3,401,507.20.

\$50MM excess of \$200 MM coverage layers, including applicable state fees is \$2,352,932.00.

Total premiums attributable to the property insurance program effective May 1, 2013 to May 1, 2014, including state fees is \$24,417,939.40.

PROPERTY COVERAGE IN EFFECT AS OF MAY 1, 2013

<u>Property Limits</u>	<u>Deductibles</u>	<u>Total Annual Premium</u>
\$250 million Named Windstorm	\$100 million/loss*	\$23,865,000
	\$25 million/corridor/aggregate**	
\$250 million other perils (AOP)	\$1,000,000/per occurrence	included
Sub Limits		
\$25 million Flood Annual Agg.***	see above	included
\$25 million Extra Expense	see above	included
\$50 million Increased Cost Of Construction	see above	included
\$50 million Demolition	see above	included
\$25 million Off Premises Power Deprivation	see above	included
\$75 million New Property	see above	included
\$ 5 million Ingress/Egress (not to exceed 30 days)	see above	included
\$16,600,000 million Antennae/ Aerials	see above	included

*Named Windstorm Deductible

**Swiss RE Program which includes \$25MM corridor/aggregate deductible subject to percentage of coverage provided (30% for 2013-2014)

***Swiss RE Flood sub-limit is not subject to an annual aggregate.

Fees:

Florida Emergency Management Trust Fund (FEMTF)	\$552,939.40
Citizens Property Insurance Emergency Assessment (CPIEA)	
Florida Hurricane Catastrophe Fund Emergency (FHCFEA)	

TOTAL PROPERTY ANNUAL PREMIUM \$24,417,939.40

TERRORISM

<u>Limits of Coverage</u>	<u>Deductibles</u>	<u>Total Annual Premium</u>
\$50 million	\$100,000/loss	\$115,000
Fee:		
FHCFEA		\$ 1,495
TOTAL TERRORISM PREMIUM		\$116,495

GRAND TOTAL PROGRAM OF PROPERTY AND TERRORISM \$24,534,434.40

Confirmations of coverage have been provided to The Bank of New York Mellon Trust Company, NA, which requires that they be named as Loss Payee on the property insurance policies to protect their interests for properties financed with Certificates of Participation (COPs).

Section 5.3 of the Master Lease Purchase states that any policy of all risk property insurance must be obtained from a commercial insurance company or companies rated A+ by A.M. Best Company, or in one of the two highest rating categories of Moody's or S&P, or otherwise approved by the Credit Facility Issuer. An annual report from the District's Insurance Consultant outlining the coverage is also required.

The following requests are sought pursuant to the authority provided within State Board Rule 6A-1.012(15), wherein the District, when entering into risk management programs, may make such acquisitions by direct negotiations and contract:

1. The Board previously authorized consulting fees for property insurance-related issues, including the required annual report, policy review and oversight, be charged to the Board's self-insured property fund in an amount not to exceed \$75,000 per year, with an hourly fee of \$150/hour. Staff is recommending that this authority be renewed for the new policy year.
2. Five years ago when the Board assumed the current windstorm deductible of \$100 million per named hurricane from \$1 million per loss minimum to \$25 million per loss minimum, the Board approved a contract with GAB Robins, for property adjusting services on an as-needed basis following a loss to real property, with funding to come from the District's self-insured property fund. The firm is currently named in the District's property policies as the authorized adjusting firm, which is crucial when numerous insurers participate in a layered property program. GAB was purchased by Cunningham Lindsey as of January 1, 2011.

Continuation of this contract is more important than ever as the District moves into its fifth year, having assumed a hurricane deductible of \$100 million flat per occurrence. The focus of this contract would be to coordinate efforts for determination of a scope of loss to access FEMA funds for losses within the District's retention, and then to represent the carriers in a loss which exceeds the deductible. Effective May 1, 2012 the fee structure was re-negotiated reflecting an overall 15% reduction in previously quoted rates:

	<u>2013-2014</u>
Adjuster	\$92/hour
Branch General Adjuster	\$114/hour
Regional General Adjuster	\$133/hour
Protégé Adjuster	\$150/hour
National General Adjuster	\$165/hour
Executive General Adjuster	\$215/hour
Senior Executive General Adjuster	\$225/hour

As of this date, no fees have been paid to GAB Robins/Cunningham Lindsey.

3. For the past several years, the Board has approved the use of contracted surveying/engineering firms to provide sealed elevation certificates in order to procure necessary flood coverage through the National Flood Insurance Program (NFIP). Staff is requesting this authority be continued for the upcoming policy year to access such certificates through Special Project Consultants (SPC) with expenses not to exceed \$50,000, with funding to come from the District's self-insured property fund.

A letter of "reasonableness" from the Florida Office of Insurance Regulation is sought annually to comply with the provisions of Section 406 of the Federal Stafford Act, which requires that the individual state's Insurance Commissioner certify that the property insurance carried by an insured is "reasonable" based upon market conditions. Staff is requesting authority once again to seek such a letter from the commissioner's office.

RECOMMENDED: That The School Board of Miami-Dade County, Florida:

1. confirm placement of its excess, all risk, replacement cost property insurance program, through Arthur J. Gallagher Risk Management Services, Inc., effective May 1, 2013 to May 1, 2014 consisting of total insurance limits of \$250,000,000, per occurrence with the following insurers and annual premiums, inclusive of all state-required fees and assessments:

Carrier	Premium incl. Fees/Taxes
Allied World Assurance Co / (Amwins)	\$ 350,381.50
Alterra Excess & Surplus Ins. Co / (Amwins)	\$ 227,621.50
Arch Specialty Ins. Company / (Amwins)	\$ 455,239.00
Aspen Specialty Insurance Company (RPS)	\$ 170,077.80
Axis Surplus Insurance Company / (RPS)	\$ 602,653.30
Axis Surplus Insurance Company/(AJGUK)	\$ 596,417.00
Chubb Custom Insurance Company/ (Starr)	\$ 458,102.50
Colony Insurance Company / (Amwins)	\$ 227,621.50
Essex Insurance Company/(Amwins)	\$ 183,125.00
General Security Indemnity AZ /(Starr)	\$ 229,016.90
Great Lakes Reinsurance / (AJGUK)	\$ 714,194.00
Ironshore Specialty Insurance Co. / (RPS)	\$ 1,092,035.00
Landmark American Ins. Company / (RPS)	\$ 1,795,377.10
Lexington Insurance Company / (AJGUK)	\$ 2,739,090.50
Liberty Surplus Ins. Co. / (RPS)	\$ 671,611.50
Lloyds of London various syndicates/ (AJGUK)	\$ 8,293,825.60
Lloyd's of London Hiscox syndicate/ (Amwins)	\$ 227,621.50
Scottsdale Surplus Lines Ins. / (RPS)	\$ 690,533.00
Swiss Re International SE / (AJGUK)	\$ 3,993,604.00
Westchester Surplus Lines Ins. / (RPS)	\$ 699,791.20
TOTAL	\$24,417,939.40

2. confirm purchase of terrorism coverage, including domestic and foreign (T-3 form), subject to an aggregate limit of

\$50,000,000 property damage, \$10,000,000 bodily injury from Lloyd's of London, through Arthur J. Gallagher Risk Management Services, Inc., effective May 1, 2013 to May 1, 2014, with an annual premium of \$116,495; inclusive of all state-required fees and assessments;

3. authorize consulting expenses to be paid to Siver Insurance Consultants to assist in policy review and issuance, preparation of the annual consultant's report to The Bank of New York Mellon Trust Company, NA, and other required technical services with such fees to be paid at \$150/hour, in an amount not to exceed \$75,000 for the policy year with funding for such expenses to be paid from the District's self-insured property fund;
5. authorize renewal of the adjusting services performed by GAB Robins (Cunningham Lindsey) for property adjusting services to be used on an as-needed basis when a loss would result in a liability to the District's self-insured property program, with adjusting expenses to be as follows with expenses to be paid from the District's self-insured property fund:
Adjuster - \$92/hour
Branch General Adjuster - \$114/hour
Regional General Adjuster (RGA) - \$133/hour
Protégé Adjuster - \$150/hour
National General Adjuster - \$165 /hour
Executive General Adjuster - \$215/hour
Senior Executive General Adjuster - \$225/hour
6. authorize the use of any of the Special Projects Consultants (SPC) firms under contract to the District, with associated fees, to access firms to produce sealed elevation certificates, pursuant to NFIP guidelines, subject to these firms' current contracts with the District with expenditures for these services not to exceed \$50,000 to be paid from the District's self-insured property fund; and
7. authorize the Superintendent of Schools to seek a letter of reasonableness of its current property insurance program from the State of Florida, Department of Insurance Regulation, or designee, pursuant to the requirements of Section 406 of the Federal Stafford Act.

RHH:sbc