**INSURANCE ADVISORY BOARD MINUTES**
**City of Fort Lauderdale**
**100 North Andrews Avenue**
**$8^{th}$ Floor Conference Room**
**Wednesday, March 5, 2008– 8:00 a.m.**

| Board Members | Meeting Attendance | 1/08 – 12/08 Cumulative Attendance P | A |
|---|---|---|---|
| Joseph Cobo, Chair | P | 3 | 0 |
| Mark Schwartz, Vice Chair | P | 3 | 0 |
| Randy Swenson | P | 2 | 1 |
| Ted Hess | P | 3 | 0 |
| Christopher Prestera | A | 1 | 2 |
| Roger Bond | P | 3 | 0 |
| Joe Piechura, Sr. | P | 3 | 0 |

Staff and Guest

Robert G. Schmelzer, FM Global
David J. Thompson, FM Global
Jennifer Lindsey, Rutherfoord
Ryan Pearson, Westrope
Michael Walker, Procurement and Contracts Manager
Guy Hine, Risk Manager

Roll Call

The meeting was called to order by Chair Joseph Cobo at approximately 8:00 a.m.

Approval of Minutes – February 6, 2008

**Motion** made by Mr. Piechura and seconded by Mr. Bond to approve the minutes of the February 6, 2008 Board Meeting. Motion passed unanimously.

Unfinished Business

FM Global – Hurricane Wilma Claims Update

Guy Hine, Risk Manager, stated that they had their last internal meeting yesterday. He advised that the Board had received documentation that had been reviewed that was provided by PBS&J. He continued stating that they had about $2.4 Million that they were going to request for reimbursement, but it did not include the lifeguard stands. They also had City staff's time involved which would add up to a decent figure. As far as damages go, documentation was provided to the Board.

Mr. Piechura asked why the check had been delayed for so long. Mr. Schmelzer stated that they were not involved in the claim process, and therefore, could not provide a response to the question. Mr. Piechura asked if a written response could be provided to this Board at their next meeting. He stated that he was a local P&C agent and if he had delayed a check for such a long period of time, he would either be sued or the client would be going after loss or misuse of their funds.

Mr. Schmelzer stated that he did not have any details behind the delay and did not know the facts of the claims.

Chair Joseph Cobo stated that it would be this Board's position and recommendation that they receive a written response from FM Global at the next scheduled meeting regarding the reason for the delay, and what would be the remedy for the situation. Otherwise, he recommends that this be brought up before the Board of Commissions.

Mr. Schwartz stated that they had talked about this previously, and he asked if this was just about getting resolved. Mr. Hine confirmed. The problem is that there could be a next time. Mr. Schwartz stated that they are talking about serious money at a time when municipalities were being asked for fiscal responsibility, and he wanted to know where this had fallen through the gap. Mr. Thompson stated that such information would be provided.

Procedures for the Purchase of Insurance

Mr. Hine stated that this was not something they would want to discuss in-depth at this point in time. He wanted to follow up on the issue since it had been raised at the last meeting. This could be discussed at the next meeting.

Jennifer Lindsey stated that this would provide information as to how to deal with broker services as they move forward. She further stated that the spreadsheet was the cost savings one behind Tab #1, and that was based on the cost of the current contract, which expires at the end of the year. The spreadsheet to the left is specific to the property insurance that would be discussed later.

It was stated that the normal default bidding process would not be used this year. It was explained that this was specific to the property insurance. Regardless of which insurance carrier was used, there were hazards of marketing every year. Mr. Schwartz stated that they were in agreement about that matter, but they needed to educate other individuals.

Michael Walker, Procurement and Contracts Manager, entered the meeting at this time.

Purchase of Property Insurance

Jennifer Lindsey stated that Mr. Schmelzer would review the 2008 renewal proposal, and then the broker would then go over his program.

Mr. Schmelzer stated that the numbers have been provided, and he would focus on the services. He explained that FM Global has handled this account for a long time, and they have a very unique business model. He said that certain engineering issues were important to the City and FM Global.

Mr. Schmelzer continued stating that he wanted everyone to leave here with the understanding of the advantages of their business model, which again was very unique. The key issue is the understanding of the exposures that the City faces, and what could be done to mitigate such exposures outside of the realm of insurance. He added that he also wanted everyone to understand the key terms and conditions from FM Global's renewal proposal.

Mr. Schmelzer advised that they have been with the City for over 10 years, which is not unusual in their world. He stated that they had a client that had been with them for 50 years. He explained that they worked with their clients to maintain a strong property program, and to manage through various changes and exposures. He explained that key insurance events during the period they had been together were: 9/11, 2004 multiple hurricanes in Florida, and Hurricanes Katrina and Wilma. He stated that they were built for long-term relationships, and one of the cornerstones of their company was that "The majority of all loss is preventable." Another cornerstone was that they were in partnership with their clients to help them understand and reduce risk, and they have 1500 degreed engineers employed around the world that visit the sites and evaluate the site for risks, and then provide cost effective solutions to mitigate the risks. He reiterated that relationships were important in order to get things accomplished. Another issue that helps them look at the long view was mutual ownership. This also allows them to return to the stockholders when they overshoot their mark.

Mr. Schmelzer further stated that a key part of their business model was large net capacity, and they were less reliant on other insurance companies and re-insurers. There were no wholesale commissions. This makes them less subject to the volatile Nat Cat insurance market. He explained that they looked at the long haul, which enables them to be around during difficult times. After catastrophic events they conducted business as usual. He further stated that engineering risk improvement was the key to their success.

Mr. Thompson stated that FM Global had no actuaries on staff because their underwriting was based on their engineering results. He added that they were not a commodity player, and the only way to do that was to have a book of business that was aligned from a loss prevention standpoint.

Mr. Schmelzer stated that he wanted to talk about engineering specific to this City. Over the last five years there has been minimal progress against the risk improvement plan that was in place. Recommendations have been on the books for many years and there are known exposures and deficiencies had been pointed out. He stated that Tom Terrell did some of the low cost recommendations and capital outlay would be required. One of the key issues was personnel turnover and getting the programs up to speed.

Mr. Schmelzer remarked that windstorm was a key exposure with a loss expectancy of $21.9 Million, and the plan was to reduce this 25% per year over four years. He explained that they were attempting to protect the City's retentions and the uninsured aspects, which include loss of use of a facility. A list of recommendations would be provided for the Board's review.

Ms. Lindsey asked how they arrived at the $21 Million figure. Mr. Schmelzer stated it was through actual site-by-site and component-by-component engineering analysis of each facility, and then they would aggregate it.

Photographs were shown of damage to various facilities in comparison to approved FM Global recommendations.

In regard to renewal policy terms and conditions, Mr. Schmelzer stated that prudent strategy was to mitigate risk through risk improvement, and place coverage with catastrophe in mind. This was more of an efficient arrangement than trading dollars with a non-engineering base insurance company. The proposal also includes a named storm wind coverage limit of $25 Million per occurrence versus the $21.9 Million wind loss expectancy. The named storm wind deductible was lowered to $12.5 Million per occurrence, which was 3.6% of TIV (Total Insured Value) versus $17.5 Million for 5% of TIV. The City's TIV at this time was $350 Million.

Mr. Schwartz asked if the deductible would always be based on a TIV percentage. Mr. Schmelzer explained that he could not state what it would be, but they would be more agreeable to taking such an approach if they were to at least get a commitment to make progress with a specific action plan. He said that better terms and conditions were given to clients who implemented their recommendations. Given the risk improvement and the engineering improvements, amazing things could be done, but without them a more conservative approach would have to be taken. He advised that the flood limit was increased to $50 Million annual aggregate, and they reduced the deductible to $100 per location at specific locations due to their engineering. He stated that the $350 Million policy limit shows the strength of their surplus and their large net capacity. They offer a single policy and contract certainty was important. They also had a less complex claims process, and they did not have the problems associated with multiple carrier programs. They were admitted to do business in the State of Florida, and he was a licensed insurance broker in this State. Another key issue was the schedule of values, and prior to Guy Hine, there had been some inattentiveness with his predecessor on maintaining the schedule of values. Therefore, they had to roll it over, trend it for inflation, and reviewed the appraisals previously done by the City. It proved that what was presently on the books was adequate. The issue was the accuracy of the schedule of values. They still feel that further validation was needed, which could have coverage implications with others.

Mr. Schmelzer further stated that one of the issues they could help with was that they had an appraisal department whereby they worked with vendors who did appraisals, and they could bring some services to the table in that regard.

It was asked if the pricing included surcharges and fees. Ms. Lindsey confirmed and stated that FM's program includes everything except the 1% surcharge in connection with hurricanes. She added that the membership credit was $256,000, which was included. It was asked if this was purely cash with no payment terms. Mr. Schmelzer stated that he could arrange for financing of the premium with an interest charge, but it was cash.

Mr. Hine stated that what they were dealing with was that Tom Terrell and his team had their normal daily jobs and duties, but now had the Wilma repairs to do, and then they had the recommendations being made. All of those involve a lot of their time, and they were not going to obtain an outside contractor.

Mr. Piechura asked if the recommendations had been prioritized as to which would give the most premium credits. Mr. Schmelzer stated that it was more of a reduction of loss expectancy than a premium credit, but it did have a direct impact.

Mr. Schwartz asked if FM Global was currently entertaining larger municipalities. Mr. Thompson stated that if this was a new account coming on board, they would not look at it. He reiterated that relationship and long-term strategy was important to them, and their job was to reduce and mitigate losses and be a stable insurer over time. When FM Global merged in 1999, this account was already on the books, and they did not go after many municipalities for various reasons. One was that there was not a lot of cash coming in to do the recommendations, and that did not fit their business model. He stated they were willing to work with the clients on their books even through tough times.

It was asked if the recommendations were implemented, what would be the savings on the premium. Mr. Schmelzer stated that he did not know at this point. He further stated that they base their engineering and underwriting on a 100-year recurrent storm.

Ms. Lindsey stated that the deductible this year would only apply to named storms. The $15 Million deductible at this time was for any wind. The change was the difference between the $15 Million and $12.5 Million, along with a named storm versus any wind.

It was asked how many of the recommendations had been completed. A report was submitted as of three days ago. It appears that very little had been done in the last five years. Since they had learned more about roofs in the last couple of years, some older recommendations may have been updated. It was asked what the average time span was in regard to completing recommendations. Mr. Thompson stated that it was a different process with a municipality versus a public company, which was looking at protecting shareholder value. The City's shareholders were the citizens.

Chair Cobo stated that he believed future presenters should be given a time limit. Roger Bond stated that they were looking at a $12.6 Million deductible on a major hurricane, and asked where that figure came from. Ms. Lindsey stated that it was $12.5 Million and it was FM's plan. Chair Cobo asked where the City would come up with the money. It was stated that the matter could be discussed at a different time.

It was stated that if a citizen had damage from the hurricane, they would probably be upset that it was taking this long to resolve the matter.

Ms. Lindsey stated that she believed there was a cultural difference in how the City of Fort Lauderdale did business, and how FM Global did business. She further stated that she believed the City could have done things differently, and when everything was resolved maybe they should devise a method addressing emergencies and repairs.

Mr. Hine stated that the City did not have a general services contract previously, but they did have one now. He believed that would make a difference.

It was stated that there was a $50 Million or $60 Million reserve that the City currently had for disasters, and in 2004 there had only been about $800,000 in such reserve.

Ms. Lindsey proceeded to introduce Ryan Pearson of Westrope insurance brokers.

Mr. Pearson stated that he would answer any questions this Board might have, and that he would prefer to hold a conversation than to actually make a presentation.

Ms. Lindsey explained that Mr. Pearson would present a layered property program, which was similar to what the City had been on in 1996 and 1997 before FM Global took over.

Mr. Pearson explained that they were a full-scale broker in Kansas City, and he worked the last 10-12 years working on southeast coastal wind business. He stated they had a lot of resources available to offer. He advised that some of his current and/or past clients include Collier County, the City of Sarasota, the City of Clearwater, the City of Jacksonville, the City of Tampa, and wrote for a few years for the Hillsboro County Aviation Authority and the South Florida Water Management District. This was a class of business they were comfortable dealing with and had expertise in. He proceeded to show a graph of what the program would consist of.

Mr. Pearson further stated that the primary coverage was $50 Million per occurrence primary, and that primary was split between two carriers, which were Lexington and London. He then proceeded to explain the layers of the program. He explained that the first $100 Million included wind coverage for named storms.

Ms. Lindsey advised that the spreadsheet distributed had an error in it. She explained that the $100 Million was listed as aggregated, and it should be per occurrence.

Mr. Pearson explained that the only coverages on the placement that would be aggregated would be the flood, earthquake, and pollution coverages. He stated that he was hesitant to offer the excess coverage because he did not think it was needed, but it could be considered. If they did not do the all risk on the excess, the terrorism price would be $50,000, and he believed this was where costs could be cut. However, he stated that in the upper layers there was a named storm exclusion, but it would cover tornadoes. There was stand-alone boiler coverage, and most major carriers such as FM Global would roll the boiler in. It was easier for them to handle this on a stand-alone basis.

It was asked if a reference had been made to ordinance law coverages. Ms. Lindsey stated that it was included in the broker's program.

Ms. Lindsey asked what type of exposure information would be needed to add auto physical damage, and would it be included in the existing premium. They had indicated they could do $2.5 Million subject to exposure information.

Mr. Pearson stated that they negotiated $2.5 Million sub limit for the auto physical damage, and as with most municipal programs such schedules or limits were included. Carriers would provide whatever limit was requested, but they would want to charge for it.

Mr. Pearson stated that the deductible was a big issue because the 5% did apply per building. He added that he felt it was important for them to recognize that the 5% on wind deductible applied per location. It was still up in the air as to how to define location. He stated that they needed to ask themselves what was their biggest concern.

It was asked if they had to engage a TPA on a claim. Mr. Pearson stated that usually when Lexington was involved, they liked to use CJW as the third-party claims adjuster. It was asked who provided their loss control. Mr. Pearson stated they did not have loss control, but could offer it on a third-party basis. He explained that most of the City's peers were not buying loss control or engineering services, but were paying for appraisal services.

Ms. Lindsey stated they might want to consider throwing the loss control piece into their discussions regarding buying insurance as they move forward. All brokers of good caliber would have loss control people on staff. She has always been in support of getting loss control outside the insurance program.

Mr. Pearson stated that they ran some wind modeling and $72 Million was the net loss which was the benchmark number most people referred to. He stated that they needed to understand some of the City's exposures in order to see if they could cover them.

It was asked if they were insuring any other municipalities in the State of Florida, and how long had they been clients, and did any of them have the same type of layered structure. Mr. Pearson explained they all had similar layered structures. He explained further that he wanted to build a program that would be a long-term solution.

Mr. Schwartz stated that these carriers could obviously do a better job, but if the City was ever serious about doing some of the recommendations, it appears that 1% of time and availability should be checked into first before making a decision.

Ms. Lindsey stated that she did not know how far they would be willing to drive the deductible down. The big issue and her real concern was when the deductible after Wilma went to $15 Million. She explained that the deductible could not be bought down.

Chair Cobo stated that there was a $300,000 difference in the premiums.

Mr. Bond stated that in his opinion the key to the difference in the proposals was not the premium, but the deductible. Ms. Lindsey agreed. Mr. Bond further stated that he believed it was impractical to expect this City, especially in such economic times, to come up with the money to do the recommendations. Therefore, they have to play with what they were dealt which is a city that does not want to spend money on recommendations, and a city that did not have a lot of money. Ms. Lindsey stated they should not base insurance decisions on a little fund they had somewhere.

Mr. Hine stated that his biggest concern is that he does right by the City. Ms. Lindsey reiterated that it was a cultural issue. She stated that FM was a quality company and the loss control person was right when he stated that a large company was working for the shareholders. She stated that the claim had not gone well even though FM was not totally at fault.

It was asked if it was time to make the City Commission aware of the options and to use them as a leverage to get a beginning for some of the repairs or improvements. It was further stated that would be a challenge due to what was happening in Tallahassee and with the property taxes. Ms. Lindsey reiterated that they still did not have a commitment from FM.

Chair Cobo stated that their challenge was that the property policy expires on 4/1/08, and the meeting they were planning for by which submittals had to be made had been scheduled for March 18th, but now had been rescheduled to March 11, 2008. The next meeting would be held with the City Commission on April 1, 2008. They were expecting him to meet with them after this meeting because there were still questions to be answered.

It was stated that the stability factor definitely lied with FM Global, and in his opinion, he would tell management that the premiums had come down and terms had slightly improved, but terms could be improved dramatically if the Commission would give a commitment of $75,000 per year or whatever amount they decided upon over the next 4-5 years barring no unforeseen circumstances. It was stated that they could also ask for FM Global to provide some incentive.

Ms. Lindsey stated that when she was informed that they were coming in with a $12.5 Million wind deductible, she told them that would not be acceptable.

The problem was they did not have the time to negotiate. It was stated that they should "go back to the well" one more time.

Ms. Lindsey stated that she was told that was the maximum they were willing to put out for the City. She added that a lot of the infrastructure that was damaged by Wilma was not covered by FM unless it was connected to a building.

Mr. Schwartz stated that he supported the suggestion as to how to approach the Commission, and if Mr. Hine was not successful in obtaining a commitment, then they might have to choose the alternate. He stated further that the City had to be made aware of what they would have been paying in 2006 and 2007 if they were not using FM Global.

Ms. Lindsey explained that even with the bad market, the brokers were still able to obtain higher limits and lower deductibles. She further stated that with the $1.3 Million in premium, insurers would still pay attention.

Mr. Schwartz asked if in 2006 the $1.3 Million would not have been closer to $2 Million. Ms. Lindsey stated that was a possibility with a lower loss limit, and they did have catastrophic coverage. She further stated that any good broker could get them a deal in the market, and as long as they did business with an agent that knew the E&S market, they would be able to get the deals. Mr. Schwartz stated that they needed to make the Commission aware that even in catastrophic times the rates would go up. Ms. Lindsey confirmed.

It was stated that they still had the option of buying a high deductible.

**Motion** made by Mr. Piechura and seconded by Mr. Swenson to ask the City Commission for a commitment over the next five years to spend $100,000 per year making improvements as outlined on FM Global's recommendation list. If such commitment was given, Ms. Lindsey would then be directed to go back to FM and asked if the terms could be improved due to the fact that they now had a commitment from the City Commission. If the Commission would not give the commitment, the ramifications of purchasing the cheaper product must be explained to them, along with the potential lack of stability in the market 2-3 years down the road.

Mr. Bond offered an addendum to the motion that if an agreement was not made that they move forward with the alternate group. Seconded by Mr. Swenson. Board unanimously approved.

Purchase of Airport Liability Insurance

The Board would receive an e-mail regarding this matter.

Schedule Next Meeting

The next meeting would be scheduled for Wednesday, April 2, 2008 at 8:00 a.m.

**Motion** was made to adjourn the meeting and seconded. Board unanimously approved.

There being no other business to come before the Board, the meeting was adjourned at approximately 9:40 a.m.

Respectfully submitted,

Margaret A. Muhl