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August 19, 2020

**SENT BY EMAIL**

Ms. Sheritta Johnson  
Risk Manager  
City of Fort Pierce  
P.O. Box 1480  
Fort Pierce, FL 34948

Subject: RFP #2020-027: Request for Proposals for Various Property and Casualty  
Insurance Coverages  
Consultant Summary and Recommendation

Dear Ms. Johnson:

At the request of the City of Fort Pierce (“the City”), Siver Insurance Consultants (“Siver”) has reviewed the proposals received in response to the City’s RFP #2020-027 for Various Property and Casualty Insurance Coverages (“the RFP”). As a result, we offer the following recommendations and commentary.

### **RECOMMENDATION**

It is Siver’s recommendation that the City accept the proposal presented by the Florida League of Cities (the “League”) offering the major lines of coverage through the Florida Municipal Insurance Trust (“FMIT”) for a combined total cost to the City of \$2,092,411.

Our recommendation is based upon our overall review of the total cost, the coverage provided and the services available to the City under each of the proposals. More specifically our recommendation is based upon the following material considerations of the three proposals received:

- The total cost to the City of selecting the FMIT program will save the City 8.05% from the expiring premium. Additionally, FMIT has offered the City a two-year rate guarantee.

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- The coverage proposed in the FMIT program offers the best overall coverage option for the City.
- In our opinion, all three insurance trusts proposed are financially sound, stable and acceptable options for the City.
- There are inherent risks to the City anytime they switch an existing property and casualty insurance program from one insurer to another. As a result, we typically do not recommend switching to a competing program unless there are material cost savings, improvements in coverage, concerns about financial stability or dissatisfaction with the service provided in the existing program. We do not find that any of these conditions exist.

## GENERAL ISSUES

### *Scope of Request for Proposals*

The City received responses to the RFP on July 17, 2020. The purpose of the RFP was to solicit proposals for the City's various property and casualty insurance coverages. The Scope of Request for Proposals stated in Section II, page II-1, clearly specified which coverages were being requested from respondents to the RFP, and stated the following were included:

- Property and Equipment Breakdown Coverage – City and Fort Pierce Redevelopment Agency (FPRA)
- Inland Marine Coverage – City
- Crime Coverage – City
- General Liability Including Employee Benefits Liability and Law Enforcement Liability – City and FPRA
- Privacy and Network Security Liability – City and FPRA
- Public Officials and Employment Practices Liability – City and FPRA
- Automobile Liability & Physical Damage Coverage – City and FPRA
- Workers' Compensation and Employers' Liability – City

### *Proposals Received*

The City received three proposals from the following vendors:

- Brown & Brown/Public Risk Insurance Advisors submitted a proposal with coverages being provided by Preferred Governmental Insurance Trust ("PGIT");
- The Florida League of Cities submitted a proposal with coverages being provided by the FMIT; and

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- World Risk Management, LLC submitted a proposal with coverages being provided by Public Risk Management of Florida (“PRM”).

## DISCUSSION

### *General Observations*

In the RFP, the City outlined numerous specific terms and conditions that the City was requesting for the insurance programs being proposed by the respondents. In most cases, these requested terms and conditions were set forth based upon the terms and conditions in the City’s current insurance program, which to the greatest extent possible, the City wanted, at a minimum, to match these terms and conditions in any program considered.

However, it is important to understand that these terms and conditions were not set forth as “minimum requirements” for the proposers, but instead they were intended to be guidelines for what would be considered preferred terms and conditions. The RFP explicitly allowed for deviations from the requested terms and conditions and allowed for proposers to present programs with terms and conditions that provided broader coverage and programs which provided more restrictive coverage.

### *Caveat*

Siver would like to reiterate that the spreadsheets prepared by Siver comparing the proposals are summary spreadsheets meant to provide an objective overview of each proposal and are not meant to be all inclusive of the terms listed in the proposals. Please see each proposal for its full terms and conditions.

### *Summary of Premiums and Costs*

The annual costs of the three proposals, as compared to the expiring program, are summarized below:

	<b>Expiring (FMIT)</b>	<b>FMIT</b>	<b>PGIT</b>	<b>PRM</b>
<b>Insurance Premiums – City of Fort Pierce</b>	\$2,218,903	\$2,052,442	\$1,946,481	\$2,172,071
<b>Insurance Premiums – FPCRA</b>	\$56,784	\$39,969	Included in City’s premiums	\$24,066
<b>TOTAL COST TO THE CITY</b>	<b>\$2,275,687</b>	<b>\$2,092,411</b>	<b>\$1,946,481</b>	<b>\$2,196,137</b>
<b>Multi-Year Rate Guarantee</b>		<b>Yes</b>	<b>No</b>	<b>Yes</b>

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For additional information about the annual costs and premiums involved in the programs proposed, see the detailed cost breakdown in Proposal Comparison Spreadsheets.

**Multi-Year Rate Guarantee:** The “Contract Period” provision in Section IV of the RFP, page IV-1, stated that any offers of a multi-year policy would be considered by the City. During the evaluation process, the City determined it would be in its best interest to confirm whether the respondents were offering a multi-year guarantee of either premium or rates.

On August 7, 2020, the Fort Pierce Purchasing Department formally forwarded a letter by email to the three respondents, which in part, stated the following:

As part of the City’s evaluation process, the City is asking all respondents to provide the following information:

- Please confirm if your proposal includes any form(s) of multi-year guarantee of either premium or rates. If your proposal does include a multi-year guarantee, please describe, in detail, the governing terms and conditions of the guarantee and also clearly specify which lines of coverage are subject to the guarantee.
- Also, if your proposal does not include any multi-year rate or premium guarantees, please provide a response indicating that no such guarantees apply to your proposal.

FMIT confirmed that it would offer a two-year rate guarantee. It clarified that this rate guarantee is applicable to the General Liability, Automobile Liability, Auto Physical Damage and Property coverages, subject to changes in exposure. A copy of the FMIT Two-Year Rate Program Endorsement was also attached.

PGIT responded that its proposal does not include a multi-year rate or premium guarantee.

PRM confirmed that its proposal includes a two-year rate guarantee for all lines of insurance purchased through PRM, including Property, Crime, Boiler and Machinery/Equipment Breakdown, General Liability, Automobile Liability, Public Officials and Employment Practices Liability and Workers’ Compensation, subject to changes in exposure.

In our opinion, a multi-year rate guarantee is a significant benefit to the City, especially given the current climate and the state of the world. As the insurance markets continue to harden, we anticipate that rates will increase next year leading to increased premiums. The ability of the City to “lock in” existing rates for the 2021 to 2022 policy year is a significant advantage. To clarify, a rate guarantee does not mean that the City’s

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premiums will not increase next year. Any changes in exposure basis, such as insurable values or payrolls, may affect the premium; however, the rates themselves will remain the same.

**Savings for the City:** The City has been offered the potential to realize savings over the cost of last year's program. When considering the total cost to the City, the savings to the City over last year is approximately 8.05% under the FMIT option, 14.5% under the PGIT option and 3.5% under the PRM option.

In our opinion, based upon our experiences with other clients, had the City not gone through this RFP process, we would have expected the overall premium to at best stay the same as the expiring premium or even increase slightly. As such, we believe that the competitive process has delivered overall beneficial results for the City.

**PRM Program – Exit Restrictions and Projected Cost of Administration of Open Claims:** In addition to the current costs and premiums of this policy year, the City must also consider any known potential future costs, such as costs associated with terminating its relationship with any of the respondents. Unlike FMIT and PGIT, under PRM's current agreement with its members, the PRM program only includes the cost of handling claims while the City remains a member of PRM. If the City decided to terminate its relationship with PRM, the City would be required to pay the cost of handling the City's ongoing open PRM claims after the City exits the program. Any such restrictions should be carefully considered before entering into a relationship. In our opinion, this is a significant disadvantage of the PRM program.

#### *Coverage*

In our opinion, based upon our review and analysis of the proposals presented and the sample policy forms provided, the terms and conditions of the proposed FMIT insurance coverage offers the best overall coverage option, and would provide the best protection, for the City. For additional information about the various coverage terms and conditions proposed, please see our supplemental documentation, the Proposal Comparison Spreadsheets.

**PRM Proposal:** PRM provided a proposal for all lines of coverage in the City's expiring FMIT package program, except Privacy and Network Security Liability coverage. In our opinion, the following items have eliminated the PRM program from further consideration:

**Public Officials and Employment Practices Liability Retroactive Date** – The RFP specifically stated that preference would be given to proposals with full prior acts coverage. This essentially means that the policy would cover claims arising from acts that took place at any time prior to the inception date of the policy. If the policy instead included a retroactive date, there would be no coverage under that policy for any claims

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made against the City for claims that arose from a wrongful act that took place before the retroactive date. Both the FMIT and PGIT programs offer full prior acts coverage. In contrast, the PRM proposal states that the retroactive date for Public Officials and Employment Practices Liability coverage is 10/1/2020.

In regards to Public Officials and Employment Practices Liability coverage, given the current climate and state of the world and the significant uncertainty about the potential for municipalities to potentially face future litigation from the decisions being made by public officials in 2020, we are concerned that if the City changes this coverage to a different policy it may face coverage issues for losses that may occur now, but for which a claim would ultimately be made against the City under the new policy. At this time, we do not recommend changing the insurer for the Public Officials and Employment Practices Liability coverage.

Defense Costs Outside the Policy Limits – Unlike the FMIT and PGIT programs, the defense costs under the PRM program for the General Liability and Automobile Liability coverages erode the limits of coverage available to the City.

Privacy and Network Security Liability Coverage – The PRM proposal did not include a quote for Privacy and Network Security Liability coverage. PRM noted in its proposal that “Cyber Liability Supplemental Application required prior to providing quote. None was issued with RFP.” To the best of our knowledge, PRM did not request that the City complete a Cyber Liability Supplemental Application during the RFP process. The City would have addressed such a request if it were submitted by a proposer before the question deadline of July 7, 2020. The City prepared and released three (3) addenda throughout the RFP process, all of which included the release of additional data and information requested by proposers. If PRM had made such a request, the City would have completed the application and included it in an addendum.

Property Limits Shared by All PRM Members – The property program limits and sublimits in the PRM program are shared among all program members in a single occurrence that impacts multiple PRM members, such as a hurricane. If multiple members suffer damage in the same occurrence, the amount of coverage available to the City could be greatly reduced.

In our opinion, the shared sublimits of the PRM program are not necessarily a disadvantage of the program. Generally, the shared sublimits are higher than the individual limits of the competing proposals; however, this difference needs to be considered by examining the programs in their entirety.

Under the PGIT program, there is also an overall program limit that is shared by the members. PGIT did not disclose in their proposal the amount of this shared program limit

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for property insurance, but they did disclose the existence of a shared per occurrence program limit for their property coverage.<sup>1</sup>

In our opinion, combined with the above-mentioned issues, the shared sublimits under the PRM program are not desirable for the City at this time. Under the FMIT<sup>2</sup> program, the limits shown in the property policy are guaranteed to be available for each insured.

In our opinion, the above-mentioned items have eliminated the PRM program from further consideration. For that reason, the subsequent discussion of coverage issues will concentrate on the FMIT and PGIT proposals.

**FMIT Proposal:** FMIT has proposed basically the same coverage as the expiring package program. In addition to the premium savings and the two-year rate guarantee discussed above, coverage advantages of the FMIT program include:

*Property Limits Not Shared* – As addressed in more detail in the PRM coverage discussion, the FMIT property program is not subject to limits or sublimits which are shared with other FMIT members.

*Named Storm Deductible* – The FMIT reduced the named storm deductible from 5% to 3% of the scheduled building, personal property and business income values at locations where a loss occurred. This is on a per item basis, meaning that the deductible applies to each scheduled item, rather than the total values at each location. The enhancement of the deductible to 3% matches the named storm deductible under the PGIT program. However, the PGIT named storm deductible is 3% of the Total Insurable Value (the sum of the full value of the insured's covered property and business income values) per occurrence/per location, subject to a minimum of \$35,000 per occurrence. In our opinion, since the FMIT program would, in many circumstances, apply the 3% to a lower amount to determine the applicable deductible, the FMIT deductible is preferred.

*Crime Coverage Limits* – FMIT offered \$1,000,000 for most crime coverages versus the \$500,000 limit offered in PGIT's proposal. A commercial crime policy generally covers losses arising from employee dishonesty, forgery or alteration, computer and funds transfer fraud, and theft of money and securities. In our opinion, the increased limit offered by FMIT is a significant advantage over the PGIT program.

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<sup>1</sup> Per the PGIT proposal, the property program is a shared limit. The limits purchased are a per occurrence limit and in the event an occurrence exhausts the limit purchased by PGIT on behalf of the members, payment to the City for a covered loss will be reduced pro-rata based on the amounts of covered loss by all members affected by the occurrence.

<sup>2</sup> Per the FMIT proposal, the property limit in the City's policy is dedicated solely to the City and is not shared among the membership.

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Active Assailant Event Coverage – The FMIT program offers a \$1,000,000 per occurrence/aggregate combined limit for property damage and third-party liability coverage for active assailant events. Although the PGIT program also offers a \$1,000,000 limit for third party liability, the coverage in the PGIT program has a number of sublimits including a \$250,000 sublimit for property damage.

Privacy and Network Security Liability Coverage:

- Limits – FMIT enhanced the limit for Privacy and Network Security Liability coverage to \$2,000,000 from the expiring policy limit of \$1,000,000. This limit applies to first party losses that the City might incur in the event of a cyber event (such as business interruption, cyber extortion losses and data recovery costs), as well as third party losses, which are claims made by third parties against the City arising out of a cyber event (such as network liability, media liability and payment card industry (PCI) fines.)

Although the PGIT program also offers a \$2,000,000 limit for Cyber Liability, some of the sublimits are lower. Specifically, the PGIT program only offers a \$500,000 sublimit for PCI fines versus the \$2,000,000 limit offered under the FMIT program. In our opinion, this is a significant disadvantage under the PGIT program.

- Deductibles – Additionally, FMIT reduced the deductible from the expiring policy deductible of \$35,000 each incident to a \$0 deductible.<sup>3</sup> In contrast, the PGIT program has a \$25,000 per claim deductible for Cyber Liability.
- Full Prior Acts Coverage vs. Retroactive Date – For Privacy and Network Security Liability coverage, the RFP specifically stated that preference would be given to proposals with full prior acts coverage versus policies that instead included a retroactive date. According to the FMIT sample policy forms, FMIT is offering full prior acts coverage. In contrast, the PGIT proposal states that the retroactive date is 10/1/2020.

Coverage for COVID-19 Related Claims – The League’s proposal included the following information relating to COVID-19 coverage:

- FMIT will NOT be adopting a broad Communicable Disease Exclusion similar to the industry.

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<sup>3</sup> Per the FMIT proposal, the Privacy and Network Security Liability deductible/per claim retention will be \$35,000 or the General/Professional Liability per occurrence deductible, whichever is less. Per the FMIT proposal, there is no deductible under the General Liability policy.

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- FMIT will provide coverage to defend and indemnify members for COVID-19 claims arising from professional liability. Additionally, it will be adding coverage to defend and indemnify members for COVID-19 claims arising from Bodily Injury and Property Damage liability.

FMIT Proposed Coverage Changes – As part of its proposal, FMIT included a summary of its proposed coverage changes for the 2020 to 2021 policy year, which are summarized below:

Appraisal Process Endorsement (FMIT APPRAISAL 1020)

This endorsement will add more detail to the policy regarding the scope, timing and other aspects of the appraisal process.

Coverage Extensions (FMIT PROP 03 1020)

This endorsement is to be amended to add a new subsection to clarify how sign coverage and other outdoor property is covered for Named Storms. This endorsement is also amended to clarify how Property Damage Mitigation Coverage applies, what deductibles apply and when coverage is excluded.

Flood Coverage Extension (FMIT FLOOD 1020)

This endorsement will be amended so that deductibles conform automatically with any change enacted by Congress to the National Flood Insurance Program (NFIP). This endorsement will also be amended to clarify Increased Cost of Compliance coverage.

Named Storm Deductible Language (FMIT PROP DEC 1020, FMIT PROP 11NS-A 1020, and FMIT PROP 11NS-B 1020) Wording is to be amended on these forms to better describe how the Named Storm percentage deductible is applied and how the deductible is applied to losses caused by Storm Surge Flooding.

Turnkey Recovery Service Endorsement (FMIT RECOV 1020)

This endorsement is to be amended to add a provision creating a 120-day period for members to elect to utilize the Turnkey Recovery Program.

Asset Survey Disclosure and Acknowledgment (FMIT ASSET SURVEY DA 1020) This is a new endorsement explaining the Asset Survey Program.

Specified Value Policy Coverage Disclosure (FMIT SPECIFIED VALUE DA 1020) This is a new endorsement explaining how valuation of a loss occurs when Specified Value coverage applies.

GL/Public Officials 3<sup>rd</sup> Party Liability Coverage Agreement (FMIT CA 1020)

The agreement is to be amended to include an annual aggregate limit of

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\$3,000,000 for claims of Sexual Abuse and/or Sexual Action. Exclusion EE titled Sexual Action, Sexual Abuse, or Communicable Disease was amended. Exclusion NN titled Bio-Organism, Microorganism, Viral and Other Contaminants was amended.

Employer Provided Vehicles – Automobile Liability (FMIT AE 1020)

This form is to be amended to add wording to provide coverage for drivers of member-provided take-home vehicles operated pursuant to the applicable take home vehicle policy at the time of an occurrence.

**PGIT Proposal:** PGIT provided a proposal for all lines of coverage in the City’s expiring FMIT package program. Coverage advantages of the PGIT proposal include:

Crime Coverage Deductible – The PGIT proposal offered a \$1,000 deductible for all crime coverages versus the various deductibles in the FMIT proposal, which range from \$1,000 to \$10,000, depending on the coverage. (The various deductibles in the FMIT proposal matched the deductibles in the expiring program. The FMIT proposal also offered an additional option to reduce all crime deductibles to \$1,000 (thus matching the PGIT proposal). This would increase the proposed FMIT crime premium by \$50.00.)

Privacy and Network Security Liability – Social Engineering Financial Fraud – The PGIT proposal offered a sublimit of \$250,000 for Social Engineering Financial Fraud versus the lower sublimit of \$100,000 offered by FMIT. Social Engineering Fraud coverage is for losses resulting from insureds transferring monies or revealing confidential information based on what appears to be legitimate instructions to transfer the money or provide confidential information (e.g., phishing). In our opinion, this is a valuable coverage and the higher sublimit offered by PGIT is preferable.

In our opinion, while the coverage proposed by PGIT could be a reasonable alternative to that provided by FMIT, the premium savings of the PGIT proposal does not outweigh the coverage advantages and the two-year rate guarantee of the FMIT proposal.

*Insurers*

In our opinion, the proposed governmental insurance trusts (FMIT, PGIT and PRM) are acceptable in terms of financial security. All three proposed insurance trusts have been successfully operating as stable, well managed, governmental self-insurance trusts in the State of Florida for at least the last 20 years. While we would prefer that all of the trusts were rated by an approved rating authority such as A.M. Best, Moody’s or Standard and Poor’s, unfortunately none of these trusts have been rated by such an outside agency. The trusts did however submit their financial statements, which we did review, and we find them to be acceptable and stable options for the City.

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*Transition Concerns*

As a general concern whenever we review proposals for insurance coverage for an entity that has a long relationship with a current vendor, we believe it is important to consider the possible risks and costs of a transition from one program to another. The City's property and casualty insurance program is a very complicated contractual relationship, with many people and entities involved in providing the insurance coverage and all of the related services. Moving such a program from one vendor to another does create a controllable, but not entirely removable, risk of potential problems developing including the creation of coverage gaps, claim administration issues, the unforeseen loss of valuable services, and the loss of beneficial relations with attorneys or other advisors.

As a result, we only will recommend that an entity move its program in a process like this RFP if one of the other proposers can demonstrate that its proposal will provide a significant advantage to our client that is not available from the current provider. Such an advantage can be significant cost savings, major coverage enhancements, or new and innovative services.

With respect to our review of the proposals received in response to the RFP, we did not find any such compelling advantage proposed by PGIT or PRM that was strong enough to shift our recommendation from FMIT to PGIT or PRM. We found that the proposed FMIT program was the best in terms of cost and coverage. Also, by staying in the same insurance program, the City does not need to be concerned that it will lose or suffer a reduction in quality with respect to any services which the City is now receiving.

**RECOMMENDATION**

For the reasons outlined above, Siver recommends that the City accept the proposal from the Florida League of Cities offering the lines of coverage through the Florida Municipal Insurance Trust for a total cost to the City of \$2,092,411.

**CLOSING**

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

Very truly yours,

SIVER INSURANCE CONSULTANTS



George W. Erickson, JD, CPCU, LLM