


CENTRAL FLORIDA EXPRESSWAY AUTHORITY

MEMORANDUM

TO: CFX Board Members

FROM: Lisa Lumbard, CFO 

DATE: May 1, 2017

SUBJECT: Approval of Roadway Insurance Policy with Zurich American Insurance Company

In order to obtain insurance on its assets, CFX utilizes an independent insurance broker, Arthur J. Gallagher Risk Management Services, Inc. (Gallagher), for risk management advice and the solicitation and evaluation of proposals for insurance coverage. CFX's current insurance policy is with Zurich American Insurance Company (Zurich). This policy which covers damage or loss to bridges, overpasses and toll plaza infrastructure, expires on June 30, 2017.

This year's policy was the final year of a three year rate guarantee program with Zurich. Gallagher was able to negotiate with Zurich another guarantee rate program for three additional years starting fiscal year 2018, with a rate reduction of 5%. Gallagher also reached out to two other carriers (Chubb Group of Insurance Companies and Starr Indemnity & Liability Company) both of which declined to give a quote. The insurance premium for fiscal year 2018 is \$631,855, and the broker fee is \$50,000. This is an increase of 6.6% over fiscal year 2017. CFX's total insured value increased 13% due to adding the Wekiva Parkway. Gallagher recommends accepting this year's policy with Zurich.

CFX staff concurs with the recommendations of the broker and requests the Board to authorize staff to execute fiscal year 2018's policy for \$681,855.

Insurance Proposal Prepared For

Central Florida Expressway Authority

Central Florida Expressway Authority
4974 ORL Tower Road
Orlando, FL 32807

Presented: April 20, 2017



Arthur J. Gallagher & Co.

Central Florida Expressway Authority

Executive Summary

Arthur J. Gallagher Risk Management Services, Inc. appreciates the opportunity to present this proposal for your consideration.

Current State of Florida Property Insurance Market

Florida's property insurance is dynamic, fluctuating dramatically when industry events occur. We have partnered with CFX during both "hard" markets and "soft" market periods. We have been able to provide CFX with competitive insurance pricing, and needed capacity during both of these periods. Over the past decade, we've seen four hard market cycles:

- The first, in 2002, was a market-wide hardening following the events of 9/11.
- The second occurred in 2005/06 for catastrophic windstorm areas of the Southeast following the widespread hurricane damage as a result of hurricanes Charlie, Ivan, Francis, Jean, Katrina, Rita and Wilma.
- Third, in 2009, following a global reduction in capacity due to the financial crisis, a brief hard market took place for catastrophe property in Q1 2009, followed by a softening in the market later that year.
- Lastly, in 2012, we experienced hard market conditions driven by two primary factors 1) industry wide-losses in 2011 and 2) increased perception of risk through new catastrophe modeling, RMS version 11. The latter had the greatest impact on our Central Florida governmental clients.

Fortunately, the past five years have been favorable to the insurance industry, with a limited amount of losses occurring. Additionally, the pace of new capital entering the industry is out-pacing demand, leading to a favorable buyers market.

CFX Bridges Program History

Despite the dynamic catastrophe property market in Florida, Gallagher has been able to help CFX achieve significant rate reductions since our inception as your broker. The initial rate reduction achieved by CFX in 2004 was approximately 35% by going to a stand-alone program. Since then, your rate has decreased by an additional 44%, including an 18% reduction in 2012 which was guaranteed through a three-year policy term.

Policy Year	Total Insured Values	Wind Limit	Annualized Premium Incl. Terrorism	TIV Change	Annual Rate	Rate Change
2004-2005	\$476,000,000	\$100,000,000	\$441,728	-	\$ 0.0928	-35%
2005-2006	\$568,096,329	\$100,000,000	\$500,004	19%	\$ 0.0880	-5%
2006-2007	\$628,563,474	\$50,000,000	\$810,761	11%	\$ 0.1290	47%
2007-2008	\$824,472,840	\$50,000,000	\$873,259	31%	\$ 0.1059	-18%
2008-2009	\$919,750,747	\$75,000,000	\$912,088	12%	\$ 0.0992	-6%
2009-2010	\$1,044,830,611	\$75,000,000	\$929,899	14%	\$ 0.0890	-10%
2010-2011	\$1,003,312,997	\$75 MM AOP \$50 MM Named Wind	\$701,316	-4%	\$ 0.0699	-21%
2011-2012	\$1,018,635,884	\$75 MM AOP \$50 MM Named Wind	\$647,343	2%	\$ 0.0635	-9%
2012-2013*	\$1,107,676,346	\$100,000,000	\$578,684	8%	\$ 0.0522	-18%
2013-2014*	\$1,107,048,341	\$100,000,000	\$578,324	-.05%	\$ 0.0522	0%
2014-2015*	\$1,126,066,391	\$100,000,000	\$589,127	2%	\$ 0.0523	0%
2015-2016*	\$1,171,174,715	\$100,000,000	\$591,933	4%	\$ 0.0500	-3%
2016-2017*	\$1,273,700,873	\$100,000,000	\$639,307	9%	\$ 0.0500	0%
2017-2018**	\$1,436,621,223	\$100,000,000	\$681,855	13%	\$ 0.0475	-5%
*Policy Issued on a 4-Year Term, with Guaranteed Policy Rate						
**Policy Issued on a 3-Year Term, with Guarantee Policy Rate						

Central Florida Expressway Authority

Executive Summary (Cont.)

2017 Property Insurance Renewal – Bridges & Toll Structures

In 2014, Gallagher recommended that CFX extend its current 3 year policy rate guarantee beyond its expiration in 2015. This allowed CFX to lock in the historically low rates through 2017 and avoid uncertainty with the Florida property insurance market. It is almost unheard of in Florida for an insurance company to guarantee property insurance rates, as reinsurance costs and markets can change dramatically year-to-year. We were extremely pleased at this guarantee, which locks in historically low rates for CFX.

Due to 2012 hard market conditions, the “as is” program at the time would have left CFX with a premium increase of 23% higher than in 2011. The Zurich program we were able to negotiate actually decreased CFX’s program costs from 2011. This was during a market when all of our clients in Central Florida felt dramatic premium increases. Overall, this led to a \$215,000 reduction for CFX between the two options!

Additionally, Zurich continues to offer broader conditions than nearly all insurance clients in the Central Florida area, including a low, flat named windstorm deductible which would reduce CFX’s insurance deductible by millions of dollars versus industry standard percentage deductibles.

In 2017, the Zurich 3 year term expires, so Gallagher actively marketed the insurance program to other specialists in the infrastructure insurance arena. We used this leverage to get Zurich to agree to a rate reduction of -5% as shown above, as well as providing CFX the option to purchase up to \$250M of coverage if it desires. The second most competitive offer was from Chubb/ACE – an underwriter who specializes in bridge placements including FDOT/FTE; however, their pricing came in at \$1,200,000 which was nearly double the Zurich renewal offer. Starr also declined to quote due to the competitiveness of the current Zurich premiums. Both other carriers like CFX’s risk; however, due to catastrophe modeling their pricing models could not be competitive.

Other Renewal Options for Consideration

- **Loss of Revenue, Non-Physical Damage** – Gallagher would recommend evaluating the alternative options that may be available to address revenue loss associated with suspensions in toll operations. Primarily regarding suspension orders that are given as a result of hurricane evacuation orders. Since this type of program has never been negotiated for any Florida toll authorities, we would recommend having Gallagher pursue this option to determine its feasibility. There is market interest in these types of programs; however, the costs are unknown.
- **Cyber Risks** – We have discussed cyber liability with the Authority as a potential insurance line to consider due to the volume of personal data maintained by the Authority. We are happy to provide further information on this should CFX desire.

We appreciate your continued business and look forward to your further review of this proposal.

Chris Connelly

In the following pages, we will demonstrate what makes our company the best fit for your insurance placement and risk management needs. Thank you again for allowing us to be your partner in this placement.

Chris Connelly
Thursday, April 20, 2017



Our Team and Commitment



Central Florida Expressway Authority

Service Team

Chris Connelly has primary service responsibility for your company. We operate using a team approach. Your Service Team consists of:

NAME / TITLE	PHONE / ALT. PHONE	EMAIL
Chris Connelly, ARM-P, ARE Area Senior Vice President	407-563-3513	Chris_Connelly@ajg.com
Carmen Bishop, AAI Client Service Manager Sr.	407-563-3546	Carmen_Bishop@ajg.com

Arthur J. Gallagher Risk Management Services, Inc.
Main Office Phone Number: **(407) 370-2320**

Central Florida Expressway Authority

Named Insured

LINE OF COVERAGE	NAMED INSURED
Property - Bridges	Central Florida Expressway Authority

Note: Any entity not named in this proposal may not be an insured entity. This may include partnerships and joint ventures.

Central Florida Expressway Authority

Location Schedule

LINE OF COVERAGE	LOCATION ADDRESS
Property - Bridges	Per Statement of Values

Central Florida Expressway Authority

Marketplace Review

We approached the following carriers in an effort to provide the most comprehensive and cost effective insurance program.

INSURANCE COMPANY	LINE OF COVERAGE	RESPONSE	PREMIUM
Zurich American Insurance Company	Property - Bridges	Recommended Quote	\$631,855.00
Chubb Group of Insurance Companies	Property - Bridges	Declined to Quote - Pricing not Competitive / \$100M Limit Pricing at \$1.2M on the \$1.436M TIV.	
Starr Indemnity & Liability Company	Property - Bridges	Declined to Quote - Pricing not Competitive / Can't Meet Target Pricing	

Central Florida Expressway Authority

Insurance Company Ratings and Admitted Status

PROPOSED INSURANCE COMPANIES	A.M. BEST'S RATING	ADMITTED / NON-ADMITTED
Zurich American Insurance Company	A+ XV	Admitted

If the above indicated coverage is placed with a Non-Admitted Carrier, the carrier is doing business in the state as a surplus lines or non-admitted carrier. As such, this carrier is not subject to the same regulations which apply to an admitted carrier nor do they participate in any insurance guarantee fund applicable in that state.

*The above A.M. Best Rating was verified on the date the proposal document was created.

Guide to Best Ratings Rating Levels and Categories

LEVEL	CATEGORY	Financial Size Categories (In \$000 of Reported Policyholders' Surplus Plus Conditional Reserve Funds)			
A++, A+	Superior	FSC I	Up to 1,000	FSC IX	250,000 to 500,000
A, A-	Excellent	FSC II	1,000 to 2,000	FSC X	500,000 to 750,000
B++, B+	Good	FSC III	2,000 to 5,000	FSC XI	750,000 to 1,000,000
B, B-	Fair	FSC IV	5,000 to 10,000	FSC XII	1,000,000 to 1,250,000
C++, C+	Marginal	FSC V	10,000 to 25,000	FSC XIII	1,250,000 to 1,500,000
C, C-	Weak	FSC VI	25,000 to 50,000	FSC XIV	1,500,000 to 2,000,000
D	Poor	FSC VII	50,000 to 100,000	FSC XV	2,000,000 or more
E	Under Regulatory Supervision	FSC VIII	100,000 to 250,000		
F	In Liquidation				
S	Suspended				

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Central Florida Expressway Authority

Insurance Company Ratings and Admitted Status (Cont.)

BEST'S FINANCIAL STRENGTH RATING GUIDE – (FSR)			
A Best's Financial Strength Rating (FSR) is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, an FSR may be displayed with a rating identifier, modifier or affiliation code that denotes a unique aspect of the opinion.			
Best's Financial Strength Rating (FSR) Scale			
Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Superior	A+	A++	Assigned to insurance companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations.
Excellent	A	A-	Assigned to insurance companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.
Good	B+	B++	Assigned to insurance companies that have, in our opinion, a good ability to meet their ongoing insurance obligations.
Fair	B	B-	Assigned to insurance companies that have, in our opinion, a fair ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Marginal	C+	C++	Assigned to insurance companies that have, in our opinion, a marginal ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Weak	C	C-	Assigned to insurance companies that have, in our opinion, a weak ability to meet their ongoing insurance obligations. Financial strength is very vulnerable to adverse changes in underwriting and economic conditions.
Poor	D	-	Assigned to insurance companies that have, in our opinion, a poor ability to meet their ongoing insurance obligations. Financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.
* Each Best's Financial Strength Rating Category from "A+" to "C" includes a Rating Notch to reflect a gradation of financial strength within the category. A Rating Notch is expressed with either a second plus "+" or a minus "-".			
FSR Non-Rating Designations			
Designation Symbols	Designation Definitions		
E	Status assigned to insurance companies that are publicly placed under a significant form of regulatory supervision, control or restraint - including cease and desist orders, conservatorship or rehabilitation, but not liquidation - that prevents conduct of normal ongoing insurance operations; an impaired insurer.		
F	Status assigned to insurance companies that are publicly placed in liquidation by a court of law or by a forced liquidation; an impaired insurer.		
S	Status assigned to rated insurance companies to suspend the outstanding FSR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.		
NR	Status assigned to insurance companies that are not rated; may include previously rated insurance companies or insurance companies that have never been rated by AMBRS.		
Rating Disclosure – Use and Limitations			
A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance and business profile or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AMBRS) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AMBRS.			
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Premium Summary

The estimated program cost for the options are outlined in the following table:

LINE OF COVERAGE		EXPIRING PROGRAM		PROPOSED PROGRAM	
		CARRIER	EXPIRING COST	CARRIER	ESTIMATED COST
Property - Bridges	Premium	Zurich American Insurance Company (Zurich Insurance Group Ltd)	\$589,307.00	Zurich American Insurance Company (Zurich Insurance Group Ltd)	\$631,855.00
	Estimated Cost		\$589,307.00		\$631,855.00
	Annualized Cost		-		-
Broker Fee			\$50,000.00		\$50,000.00
Total Estimated Program Cost			\$639,307.00		\$681,855.00

Quote from Zurich American Insurance Company (Zurich Insurance Group Ltd) is valid until 7/1/2017

Gallagher is responsible for the placement of the following lines of coverage:

Property - Bridges
Package - Property Including Boiler & Machinery and Crime, General Liability Including Public Officials E&O / Employment Practices Liability, Auto Liability and Workers Compensation

It is understood that any other type of exposure/coverage is either self-insured or placed by another brokerage firm other than Gallagher. If you need help in placing other lines of coverage or covering other types of exposures, please contact your Gallagher representative.

Central Florida Expressway Authority

Payment Plans

CARRIER	LINE OF COVERAGE	PAYMENT SCHEDULE	PAYMENT METHOD
Zurich American Insurance Company (Zurich Insurance Group Ltd)	Property - Bridges	3 Year Policy Payable in Annual Installments due Within 30 Days	Agency Bill



Your Program



Central Florida Expressway Authority

Program Details

Coverage: Property - Bridges
Carrier: Zurich American Insurance Company
Policy Period: 7/1/2017 to 7/1/2020

The following is a general summary of the Insuring Agreement. Refer to actual policy form for complete terms and conditions.

Coinurance or Agreed Amount:

DESCRIPTION	AGREED AMOUNT	COINSURANCE %
Applies	Yes	N/A

Coverage:

SUBJECT OF INSURANCE	LIMIT TYPE	AMOUNT	BASIS
Limit Of Liability	Limit	\$100,000,000	Any One Occurrence
Physical Damage Coverage to the Covered Property	Sublimit	\$100,000,000	Any One Occurrence
Loss of Revenue	Sublimit	\$100,000,000	Any One Occurrence
The maximum amount the Company will pay for loss or damage in any one occurrence, and/or in the aggregate annually for loss or damage from all occurrences, shall not exceed the following amounts		-	
By The Peril Of Earthquake	Limit	\$100,000,000	Annual Aggregate
By The Peril Of Flood	Limit	\$100,000,000	Annual Aggregate
By The Peril Of Named Storm ("Per Occurrence" Will Be Endorsed For This Peril)	Limit	\$100,000,000	Annual Aggregate

Deductibles/SIRs:

TYPE	COVERAGE	AMOUNT	ADDITIONAL INFO
Deductible	Physical loss of or damage to Covered Property, unless otherwise shown below	\$100,000	
Deductible	Physical Loss Of Or Damage To Surveillance Equipment	\$100,000	
Deductible	As Respects Earthquake	\$100,000	
Deductible	As Respects Flood	\$100,000	
Deductible	As Respects Named Storm	\$500,000	Flat Deductible
Deductible	Loss of Revenue - Waiting Period	7 Days	

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Program Details (Cont.)

Additional Coverage:

DESCRIPTION	LIMIT TYPE	AMOUNT
The Policy Shall Pay No More Than The Following Liability In Any One Occurrence		
Accounts Receivable	Sublimit	\$5,000,000
Interruption by Civil or Military Authority		14 Days
Expediting Expense	Sublimit	\$2,500,000
Extra Expense	Sublimit	\$10,000,000
Or 25% of the amount of insured physical loss of or damage to Covered Property whichever is less - Debris Removal Coverage	Sublimit	\$10,000,000
Fire Department Service Charges	Sublimit	\$1,000,000
Ingress and Egress		14 Days
Loss Adjustment Expense	Sublimit	\$500,000
Newly Acquired Locations	Sublimit	\$10,000,000
Ordinance or Law / Demolition or Increased Cost of Construction	Sublimit	\$10,000,000
Transit - any one conveyance	Sublimit	\$2,500,000
Valuable Papers & Records	Sublimit	\$2,500,000
Terrorism	Sublimit	\$100,000,000
Pollutant Clean Up & Removal	Limit	\$250,000

Valuations:

DESCRIPTION	LIMITATIONS
Other	Covered Property: The Actual Cost To Repair Or Replace The Lost Or Damaged Property, Valued As Of The Time And Place Of Loss, With Material Of Like Kind And Quality, Less Betterment. If Not So Replaced, Loss Shall Be Settled On An Actual Cash Value Basis With Proper Deduction For Depreciation And Exclusive Of Profit And Overhead.
Other	Transit: The Invoice Cost Plus Accrued Shipping Charges Less Shipper's Liability, If Any.
Actual Loss Sustained	Loss Of Revenue Subject To The Stated Coverage And Specified Indemnity Period.

Perils Covered:

TYPE	DESCRIPTION
Special Form Perils	Applies

Endorsements include, but are not limited to:

DESCRIPTION
Policy Form: Zurich Operational Civil Works Policy; Edition Date Has Changed From Expiring. Carrier Confirmed No Material Changes.
Schedule of Locations & Values Insured

Central Florida Expressway Authority

Program Details (Cont.)

Endorsements include, but are not limited to:

DESCRIPTION
Multi-Year Policy Term - Per CWP-104
Terrorism Coverage See attached Disclosure Notice
Debris Removal Clean-Up and Decontamination Endorsement
Construction Property General Conditions
Loss of Revenue Amendment

Exclusions include, but are not limited to:

DESCRIPTION
Government Action Exclusion
War Exclusion
Nuclear Hazard, Power Failure
Property Excluded - Aircraft; Rolling Stock; Watercraft; Land/Land Values; Electrical/Gas/Water Or Other Transmission Line And Related Plants And Substations; Offshore Rigs & Platforms; Property Sold Under Conditional Sale; Shipments By Mail, Parcel Post And Those Shipments To And From Alaska Or Hawaii; Overseas Shipments And Others Per The Policy.
Exclusions - Consequential Loss; Error/Omission Or Deficiency In Design, Plans, Workmanship, Specifications Or Materials; Wear & Tear; War; Nuclear; Mysterious Disappearance & Inventory Shortage; Employee Dishonesty, Fraud & Infidelity; Fungus; Pollution & Contamination; Asbestos; Normal Subsidence & Settling; And Other Per The Policy.

Other Significant Terms and Conditions/Restrictions:

DESCRIPTION
Carrier Breakdown Of Values By Structure & Location Attached - Addendum A
Policy Territory - This Policy covers the 50 states comprising the United States of America and District of Columbia unless otherwise endorsed to the Policy.
Covered Property - This Policy Insures Against Direct Physical Loss Or Damage To Real & Personal Property From A Covered Cause Of Loss And Any Resulting Loss Of Revenue As More Fully Defined Within The Policy.
Cancellation Provision: 60 Days Except 10 Days For Nonpayment Of Premium
Multi-Year Policy Term. The following conditions apply at each anniversary date during the term of this Policy: A. The terms and conditions of this Policy are subject to review and negotiation at each anniversary date in the event either of the following circumstance(s) occur: (1) The policy loss ratio exceeds 30%. The Loss ratio shall be determined by dividing the earned premium into the total paid claims, including any allocated and unallocated claims expenses or unpaid reserves; or (2) The addition of Covered Property during the Policy term and / or an increase in LOSS OF REVENUE* and Contingent Loss of Revenue in the amount of 5% or greater. B. It is agreed that the annual rate(s) shown in paragraph 9. of the Declarations of the Policy shall be guaranteed for each consecutive anniversary period unless otherwise precluded under A. above. C. Within thirty (30) days of each anniversary, the Named Insured shall agree to provide to the Company an updated Statement of Values for all Covered Property, LOSS OF REVENUE* and Contingent Loss of Revenue (if endorsed to the Policy). Based upon the updated Statement of Values, the Company will review and adjust the anniversary premium charged.