LARM Board of Directors Meeting Minutes

June 27, 2019 9:00 am CT

The agenda and supporting materials were emailed to the LARM Board of Directors, LARM members and LARM staff on June 22, 2019. Notification was also placed on the LARM website www.larmpool.org and Facebook page @larmne.

Board Vice-Chair Lane Danielzuk called the meeting of the League Association of Risk Management (LARM) Board of Directors meeting via phone conference to order at 9:03 am CT June 27, 2019 and announced that LARM is subject to the Open Meetings Act and that a memo stating this was posted in the meeting room at Gering. Danielzuk asked everyone to say the Pledge of Allegiance. After the pledge, the Board of Directors roll was taken.

For the roll call, the following members were present: Beth Bonderson, Hoskins; Lane Danielzuk, Gering; David Hunter, Auburn BPW; Shannon Stuchlik, NENEDD; and Andrew Ward, Valentine Absent: None.

Staff members present by phone were: Michael Nolan, Tracy Juranek, Elizabeth Becker, Dave Bos, Randy Peters, Fred Wiebelhaus, Paige Buffington and Diane Becker.

Guests present by phone: Mark Nestor with Independent Consulting and Risk Management Services (ICRMS); Mark Weaver, York Risk Services; Chris Cadwell, York Risk Services; John Brockschmidt, York Risk Services; Lyle Lutt, Norfolk; Sandra Schendt, Nelson; Jo Leland, Imperial; Silas Clarke, Hickman; Cathy Duncan, Emerson; Doug Schultz, Curtis; Embry Nichols, Guy Carpenter; and others not identified.

Danielzuk read the Nebraska Revised Statutes - § 84-1412 (2) which states, "It shall not be a violation of subsection (1) of this section for any public body to make and enforce reasonable rules and regulations regarding the conduct of persons attending, speaking at, videotaping, televising, photographing, broadcasting, or recording its meetings. A body may not be required to allow citizens to speak at each meeting, but it may not forbid public participation at all meetings." Danielzuk said a public comment period of 15 minutes would be held at the start of the meeting to discuss items on the agenda. Danielzuk subsequently opened the public comment period.

Schendt asked if the 10% property tax increase would be across the board for every LARM member and said she noted the proposed retention amounts for 2019-2020 have increased from 2018-2019 and what would be the potential amount of premium increase for LARM members compared to last year. She wondered if this was a LARM Board choice or if it was the reinsurers companies' choice.

Nolan said his best overview was that this does not directly have a dollar for dollar relationship to their property tax. The 10% referred to the property insurance rate that needs to go up. He said that we are still at the start of the storm season. He said she was correct, the retentions would change. He said in the last 30-45 days across the country the property insurance market has hardened, not a hard market like 1985 but is symptomatic when there are serious coastal issues -

increased hurricanes, fires, and tornadoes. The property market is responding to this and consequently when reinsurers recapitalize, we all share in creating the revenue. LARM has not had any significant events and though Nebraska suffered extensive community damage in the flood, there had not been extensive flood claims to LARM. Some pools in other parts of the country had seen increases of reinsurer premiums of 35-50%. Reconfiguring the retentions has to do with the way underwriters and actuaries are evaluating an area where the exposure has been over an extended interval of time. The actuaries who were pricing their companies' product to LARM wanted to look at LARM data back to 2013-2014 when tornadoes hit two LARM members. LARM only had in the immediate interval one claim larger than five digits. It's definitely a sellers' market right now. When people hear what the broker has accomplished they'll see they have done a good job. The retentions are always going to be managed. Property is not as susceptible to loss control as is workers' comp and liability. People have to deal with tornado damage and expect it has an impact on rating. LARM is not only dealing with how the immediate adjustment in rates will impact it but that there is going to be a market assessment according to what has happened across the country. There aren't a lot of options for the Board. There has been some non-renewal going on. Even though this has an impact on the cost of the property rate doesn't mean that in the balance of the storm season of Nebraska, there may be an event from now until September that may impact next year's rates. There is something strange happening with the weather patterns. Immediate impact would be 10% increase in property insurance rates.

Schendt said Nelson was preparing a budget for city and would like to know what property insurance costs would be.

Nolan said it was not a buyers' market but they were doing a good job of managing it. He asked Nichols and Nestor to give a report and how the 10% increase was arrived at.

Leland asked if flood coverage amounts were reduced from $50,000,000 to $10,000,000 in a past board action.

Nolan said higher limits of flood coverage were endorsed by a few members. LARM is always concerned with inundating members with information. Two thirds of LARM's property claims are from wind and hail issues – not much to do with flooding.

Nestor said the flood coverage was reduced a year ago with the reinsurer from $50,000,000 to $25,000,000 in 2017-2018 period.

Clarke said the minutes show the flood coverage was reduced to $10,000,000.

Nestor said it was $25,000,000 although the minutes a year ago said $10,000,000 but the coverage was then increased to $25,000,000 in negotiations with the reinsurer.

Nichols said she is with Guy Carpenter (previously known as JLT Re) and has been working with LARM for a few years and they met in March with interested property markets at AGRIP to gauge what's going on with rates. They knew from the fall and spring that things were turning but did not realize until April how quickly rates had turned. Two major markets who wrote billions of coverage for public entities had largely exited the market which turned the market upside down. They have a list of roughly 50 reinsurers. Forty are traditional treaty reinsurers that write for small to large companies. Eight to ten are considered public entity experts- they work with their same clients for 20-30 years since pooling started and know pooling. They told the best story they could tell for LARM and most of the traditional treaty markets weren't writing public entities. As the market continued to harden into April, they honed it done to the committed public entity pooling experts. They go back and forth every day negotiating and have had seven reiterations of pricing including a minor improvement the day before working diligently.

Any questions? (none)

Great American Insurance Company have stepped up and came in and agreed to take 100% of the first $2.5 million layer but had to change the retention based on the model. Travelers agreed to stay at 97.5% of the layer with other companies who filled out the capacity of other markets but Travelers wanted the whole thing and giving the other markets would change the Travelers' model. At the end of the day Travelers wanted to decrease the flood market but didn't. They did get an improvement in the terrorism premium.

Total property premium $1,349,000 is now $1,345,582 which is roughly an 11% increase and a half a point goes to exposure increase. There are some wholesale markets that usually respond first – their first price was about $2.5 million or almost double this. They ignored that. They got a quote from other companies who needed $500,000 wind/hail deductible minimum.

Great American needed a minimum $300,000 wind/hail deductible – half of the rest of the market. They want to increase their risk corridor.

Schendt asked what a corridor was.

Nichols said a corridor is an additional deductible. For 2019-2020 period, each occurrence-which is 96 hours of continuous loss- will carry a $300,000 deductible. For the first occurrences, for example, for the first $600,000 loss, LARM retains $600,000 but after that LARM only retains $300,000 for every other loss. If there are three $400,000 losses, LARM would retain $400,000 for each loss and then drops down to $300,000 for the rest of the period. If they go back to the 2013-2014 year there were four occurrences for wind/hail totaling $4.1 million in incurred loss. In the 2018-2019 policy period LARM would have retained $200,000 for each of those occurrences or $800,000. Under the new scenario LARM will retain an additional $700,000. So that first loss was a million so for that loss LARM would retain $600,000 and for the next three LARM would retain $300,000 each. She asked if that made sense.

Schendt said yes.

Nichols said it is a change in the terms and conditions. Most of the reinsurers would have imposed a minimum $500,000 per occurrence and under that scenario LARM would be out $2 million and they're charging up to 40% more rate. Through the negotiations they got the very best deal they could get for LARM. Weather patterns are driving the property insurance rates across the country. Nestor knows of one hail exposed account that had an 80% increase and Guy

Carpenter had one that was non-renewed. There's just a lot of volatility out there. This is one of the better deals. They have got good committed partners.

Schendt said okay.

Nichols said they got the deal for $1,345,582 with all the sub-limits and the increase in the retention. All other perils – wind/hail is big concern – but LARM has had a big fire claim. Fires went from $100,000 retention to $150,000. There is a $400,000 aggregate deductible from $300,000. If they have other losses other than wind/hail that total $400,000 for LARM, all losses are paid except for a $10,000 maintenance deductible to the next $5 million of loss. In boiler/machinery, they negotiated with Mutual Boiler Re, a really good LARM partner, for a 20% discount for a premium of $69,000+ premium for a total reinsurance cost of $1,415,093 which cuts it to a 9% increase over last year.

Nolan asked for any other questions.

No recommended actions or special presentations.

In current business, Danielzuk asked D-1.- LARM Board consideration to approve LARM's reinsurance renewal and a recommended 10% increase in property rates.

Nolan said there had been extensive discussion already unless anyone had further questions.

Schultz asked if the amount of cash reserves was taken into account when setting 10% increase or reinsurance rates.

Nolan said LARM has a very healthy surplus right now but has to be somewhat futuristic. The market is imposing higher retentions. If LARM had these retentions in 2013-2014 they would have incurred costs of $1.3 to $1.5 million. If LARM has hits between now and end of the fiscal year they'll have to be prepared for rate increases or retention increases in 2020-2021. No one has a crystal ball. The surplus right now allows LARM to take on the risk of higher retentions and without any more than 10% property rate increase.

Schultz asked if balance is calculated into rates.

Nolan said it is and that the 10% rate was less than what the insurers wanted to impose on LARM and he hopes to get through the rest of the storm season without any major impact. When a person puts a rate together they're not thinking of immediate year but unforeseen things after this year. LARM tries to look at the past as some kind of objective basis of what the future could be. It seems like every five years LARM has had a bad property event. LARM is probably due for one. The last one was not just due to a tornado but damage to recreation and some significant wind damage – one for two years in a row. This is an art not a science. The surplus has been taken into account all the way through in structuring the retention which the LARM members pay for.

Schultz said it would be fair to say the more surplus the better and it would behoove the Board to not spend cash needlessly out of the reserve for items not needed.

Nolan asked if anyone else had any comments.

Bonderson asked if the 10% increase was only on property rates.

Nolan said yes as July 1 was the date for renewal.

Danielzuk moved and Stucklik seconded to approve LARM' s reinsurance renewal and a recommended 10% increase in property rates.

Roll Call: Ayes: Bonderson, Danielzuk, Hunter, Stuchlik and Ward. Nays: Absent: None. Motion carried.

Danielzuk asked for comments on Agenda E-1.

Nolan emphasized that people should take the time to read this report.

Stuchlick moved and Danielzuk seconded to file the administrative report E-1 Report from JL T Re, Inc. entitled "June 1, 2019 US Market Observations & Latest Public Entity Pool Renewal Info".

Danielzuk asked for consideration of E-2 - Administrative report prepared by Mark Nestor with the assistance of JLT Re discussing reinsurance, markets and preliminary quotes.

Nestor said he knew of four other pools that are his pools and that it’s not LARM’s history driving this. He said one Colorado pool because of hail loss had to increase property rates 40-50% with a $1 million retention per occurrence. He said this is happening throughout the nation.

Nolan asked Nestor to explain what the term “non-admitted market” is.

Nichols said a non-admitted market is governed under another set of rules than an admitted market so would not be used. It incurs surplus lines.

Nestor said the non-admitted market affects the balance sheet negatively.

Nolan asked if the preference would be for an admitted carrier.

Nichols said Nebraska State Statute required admitted carriers be chosen over a non-admitted market. A due diligence letter from the client would have to explain why a non-admitted carrier was chosen over an admitted carrier. For example, here is no admitted terrorism coverage.

Nolan asked if LARM had a non-admitted carrier would they need to obtain the consent of the Nebraska Department of Insurance.

Nichols said yes the broker would and actually after the fact they would have to provide them with the proper documentation and they would be fined if they determined they didn’t act properly. They work on this daily.

Nolan asked if there were any other questions on the second report.

Moved by Hunter and seconded by Ward to accept the Administrative report prepared by Mark Nestor with the assistance of JLT Re.

Roll Call: Ayes: Bonderson, Danielzuk, Hunter, Stuchlik and Ward. Nays: none. Absent: None. Motion carried.

Moved to adjourn by Stucklik and seconded by Hunter. Roll Call: Ayes: Bonderson, Danielzuk, Hunter, Stuchlik and Ward. Nays: none. Absent: None. Motion carried. Meeting adjourned at 9:53 a.m.