



**UNDERWRITING COMMITTEE MEETING**  
**of**  
**JUNE 22, 2006**

**MINUTES**

The Underwriting Committee convened a meeting on Thursday, June 22, 2006, at 10:30 A.M. at The Trust Offices, 501 Wampanoag Trail, East Providence, RI 02915.

In attendance were Committee Chair Ralph Malafronte and Committee members Stephen Alfred, John Mainville, and Cynthia Brown. Member Michael Petrarca was absent. Chair Malafronte was not present at the start of the meeting, but joined the meeting during the discussion of Agenda Topic 2. Until Mr. Malafronte arrived, Mr. Alfred chaired the meeting.

Also in attendance were Trust President and Executive Director Thomas Dwyer; Colleen Bodziony, Membership Services Manager; Ronald Slovak, Chief Financial and Administrative Services Officer; Michael Riccitelli, Underwriting Analyst; and James Evans of Albert Risk Management Consultants, The Trust's independent risk management consultant.

**1. ADOPTION OF MINUTES**

**Mr. Mainville moved, seconded by Ms. Brown, to adopt the Minutes of the March 15, 2006, meeting as presented; it was so voted unanimously (Alfred, Mainville, and Brown in favor).**

**2. MEMBERSHIP DEVELOPMENTS FOR POLICY YEAR 2006-2007**

Prior to the meeting Mr. Dwyer forwarded to the Committee memorandum dated June 20, 2006 describing recent membership developments that will require action on the part of the Underwriting Committee.

**Newport County Regional Special Education Program (NCRSEP)**

Mr. Dwyer stated that the NCRSEP wishes to join The Trust's Property/Liability Pool and Workers' Compensation Pool no later than July 1, 2006. Mr. Dwyer further explained that the NCRSEP is a consortium of school districts in the East Bay area established for the purpose of providing special education programs and diagnostic services required by law to its participating member school districts.

In terms of workers compensation coverage, Ms. Brown questioned the status of individuals placed by NCRSEP in the school districts participating in the consortium. Mr. Dwyer and Ms. Bodziony described their understanding of the relationships and explained the way that workers compensation coverage would be provided in the new arrangement.

EBEC Holdings

Mr. Dwyer stated that EBEC Holdings joined the Trust's Property/ Liability Pool effective April 28, 2006. He further explained that they function as an instrumentality of The Trust Member, East Bay Collaborative. From a legal perspective, Mr. Dwyer noted that EBEC as a distinct corporate entity should be a separate Member of The Trust as opposed to a Board or Commission of the Collaborative.

Providence Water Supply Board (PWSB)

According to Mr. Dwyer and Ms. Bodziony, the PWSB has asked The Trust to quote its workers' compensation coverage for the coming Policy Year 2006-2007 because of some dissatisfaction with its current insurer. A general discussion ensued regarding the specific premium and potential impact to The Trust if the PWSB were to join the Workers' Compensation Pool, especially given that the PWSB experience modifier is quite high. Mr. Dwyer advised that Trust management believes that the quoted premium will be sufficient to cover the Board's expected losses and related costs if they were to join The Trust, and he and Ms. Bodziony described the review that management conducted before establishing The Trust premium to be quoted to the PWSB.

North Smithfield Water Authority

Mr. Dwyer explained that The Trust received notification from the North Smithfield Water Authority that it has been abolished by the Town of North Smithfield and that coverage will no longer be necessary for this entity after June 30, 2006. This change in status, Mr. Dwyer and Ms. Bodziony pointed out, raises the issue of whether an exit capitalization fee would be due to The Trust should this Member not renew. Because the Authority's duties and responsibilities are being assumed by the Town which is also a Member of The Trust, Mr. Dwyer stated that Trust management recommends that an exit fee not be charged.

**Mr. Alfred then moved, seconded by Mr. Mainville, to (1) endorse the membership applications of the NCRSEP, EBEC Holdings, and PWSB and recommend approval of these entities as new Trust Members to the full Board, and (2) to recommend to the full Board that the exit capitalization fee for the North Smithfield Water Authority be waived since its duties and responsibilities will be assumed by another entity which is a current Trust Member. It was so voted unanimously (Alfred, Brown, Malafrente and Mainville in favor).**

**3. REINSURANCE FOR 2006-2007**

Prior to the meeting Mr. Dwyer forwarded to the Committee a letter dated June 8, 2006 from James Evans, The Trust's independent risk management consultant, which summarized the July 1, 2006 renewal process including excess workers' compensation and excess property offerings. Also forwarded prior to the meeting to the Committee were memoranda dated June 20, 2006 regarding liability reinsurance and dated June 19, 2006 regarding property reinsurance. In addition to the above mentioned memoranda, Mr. Dwyer forwarded various background material including the property Self Insured Retention (SIR) analysis, an excess property reinsurance scenario, and the summary flood zone property schedule by Member.

Mr. Evans began the discussion by reviewing the process followed to obtain reinsurance quotes for the policy year commencing July 1, 2006. He explained in detail the rationale and objectives of the request for competitive reinsurance quotes for the upcoming policy year. Mr. Evans also pointed out that a Web based site was used to distribute data and information about The Trust's needs so that all the participating brokers and reinsurance underwriters in the process had access to the same information.

#### Workers' Compensation

Mr. Evans noted that the incumbent carrier NLC-MIC provided a renewal quote at the expiring retention level that was considerably higher than the expiring rate. According to Mr. Evans, HUB International, the broker assigned to market the excess workers' compensation reinsurance for The Trust, was able to provide several good alternative quotes for consideration. Ultimately, Mr. Evans and Trust management recommended the Safety National option II quote, namely: a \$500,000 per occurrence retention and an additional \$250,000 corridor aggregate retention. That option, Mr. Evans said, is the best option available as it provides additional savings with a minimal increase in retained risk.

Committee members asked a number of questions about the workings of the \$250,000 corridor aggregate retention. In response, Messrs. Evans and Dwyer guided the members through several hypothetical examples to illustrate the way the corridor retention would operate.

Regarding the Injured-on-Duty component of The Trust's workers' compensation program to municipal Member, Mr. Dwyer recommended that The Trust retain fully in-house all the risk associated with this coverage. He noted that The Trust currently assumes in-house the financial risk associated with losses in excess of each individual Member's attachment point, and would, under his recommendation for the coming year, also assume the financial risk from an individual claim exceeding \$200,000 in lost wages. Mr. Dwyer briefly explained his reasons for this recommendation, which was also set forth in his written report to the Committee.

Mr. Alfred raised the question of whether a conflict of interest might exist because Mr. Dwyer sits on the Board of Directors of The Trust's current reinsurer, NLC Mutual Insurance Company (NLC-MIC), and chairs it Underwriting Committee, but nonetheless makes recommendations to The Trust Board and its Underwriting Committee about reinsurance placements. Mr. Evans advised that he did not believe a conflict existed. After further discussion, it was concluded that Mr. Dwyer's position on the NLC-MIC Board is analogous to that of The Trust's own Underwriting Committee and Board members as they make decisions about insurance purchasing for their own local governmental entities. This arrangement, the Committee concurred, presents no conflict in that both The Trust and NLC-MIC by their very nature are Member-owned insurance entities operating effectively as "mutual" insurance companies or intergovernmental risk sharing pools.

Property

It was noted that Property reinsurance is divided into two layers: for losses at or below \$1 million and for losses above \$1 million.

Regarding losses at or below \$1 million, Mr. Dwyer elaborated briefly on management's recommendation that the reinsurance coverage for the layer continue to be secured through NLC Mutual Insurance Company, but that The Trust's retention within this layer be increased from \$100,000 to \$300,000 per occurrence pool-wide and to \$400,000 per occurrence pool-wide for claims involving the City of Pawtucket

Regarding losses above \$1 million, Mr. Evans indicated that most carriers that were contacted by the three insurance brokers seeking excess property quotes for this layer ultimately declined to participate. Only two quotes were received, and one was deemed non-competitive in terms of pricing and coverage. The reason for the lack of interest and capacity, Mr. Evans explained, was the rapidly deteriorating market for "natural catastrophe" coverage, and he cited supporting evidence of that from other insurance procurements in which he had been recently involved.

Mr. Evans stated that the element of competition, however, seemingly had a salutary effect on the incumbent carrier (RSUI) in the sense that it worked to keep the pricing and terms and conditions of coverage more beneficial than they might otherwise have been. Mr. Evans pointed out that although the changes in the flood coverage for Flood Zones A and V are material, the overall flood coverage offered by RSUI, coupled with the NLC-MIC's primary coverage, is superior to any available to municipalities in the current market.

Referring to his property reinsurance memorandum dated June 19, 2006, Mr. Dwyer stated that Members will have several options to buy the flood coverage back and that The Trust will assist in the placement process. Mr. Dwyer further indicated that The Trust was able to secure a 90 day extension before restricted Flood Zone A and V coverage is implemented so that Members had time to consider these options. Until October 1, 2006, coverage will remain as expiring, he said.

Mr. Dwyer also reviewed with the Committee an illustrative Flood Zone A and V loss scenario that could result in The Trust assuming additional financial risk by treating National Flood Insurance Program (NFIP) coverage (or a Member assumed equivalent deductible) as the second responding insurance coverage rather than the first primary coverage. He termed this coverage a "flood zone corridor retention" and explained how the decision to place the NFIP in the second position favored the Members.

Considerable discussion ensued among the Committee members, staff and the consultant about Members' options under the newly proposed Flood Zone A and V coverage structure.

Discussion also ensued regarding the shortfall created by the higher than anticipated property reinsurance premium for policy year 2006-2007. Because The Trust's premium pricing for its Members had already been set and communicated to them, Mr. Dwyer indicated that the additional unexpected cost would be absorbed by Members' Equity (Fund Balance), but the increase would need to be factored into the calculation of premium rates for the 2007-2008 year.

Excess Liability

Mr. Dwyer, referring to his liability reinsurance memorandum dated June 20, 2006, restated the fact that Trust management did not seek reinsurance quotes from any source other than NLC-MIC. Mr. Dwyer stated that the quote was about \$80,000 lower than anticipated.

Mr. Dwyer indicated that the "A" rated fronting alternative quote has not yet been received; however, he does not think it is necessary at this time for various reasons including the likely increased cost, probable reduced scope of coverage, and the fact that the lack of an "A" rating has not proven to be a Member retention issue.

**Mr. Alfred moved, seconded by Ms. Brown, that management's recommendations for change in the reinsurance program for the coming policy year commencing July 1, 2006 be endorsed and recommended to the full Board for approval as follows:**

- 1) That the workers' compensation reinsurance carrier be changed to Safety National and that a \$250,000 aggregate corridor retention for the policy year be assumed by The Trust in addition to the existing \$500,000 per claim retention;**
- 2) That all claim related financial risk from the IOD program be retained in house;**
- 3) That The Trust increase its property loss retention from \$100,000 to \$300,000 per occurrence pool-wide and to \$400,000 per occurrence pool-wide for claims involving the City of Pawtucket**
- 4) That The Trust accept the new Flood Zone A and V coverage limits and options required by the reinsurer, RSUI Indemnity Company, as part of its proposal to The Trust, and that The Trust assume the "Flood Zone Corridor" retention created by treating NFIP coverage or its Member equivalent as secondary rather than primary insurance in the event of a loss affecting Flood Zone A and V properties.**

**It was so voted unanimously (Alfred, Brown, Malafronte, and Mainville in favor).**

It was also briefly noted that Equipment Breakdown reinsurance coverage (also known as Boiler and Machinery) would remain placed with the current carrier, Hartford Steam Boiler Inspection and Insurance Company.

**4. SPECIAL POLICE OFFICER COVERAGE (SPO)**

Prior to the meeting Mr. Dwyer forwarded to the Committee a memorandum dated June 2, 2006 describing recent internal staff research regarding the legal status of SPOs.

Mr. Dwyer stated that management recommends The Trust discontinue the liability coverage that it grants to Member municipalities in exchange for a flat rate premium charge it receives per named officer. Elimination of this coverage, Mr. Dwyer said, is based on staff legal research demonstrating that it is probable that there is no legal authority for a "special" police officer to use a weapon or effect an arrest; thus, Mr. Dwyer opined, it would be inconsistent for The Trust to

offer liability coverage for activities which its own research has concluded is likely outside the law.

Mr. Dwyer also reported that three members of the Risk Management Committee concurred with management's recommendation when it reviewed the matter, though Mr. Dwyer noted that the Committee was not able to act formally on elimination of the coverage since a quorum of the Committee was not present for the last meeting.

Mr. Alfred questioned whether The Trust would still provide liability coverage for special police officers who do not possess the power of arrest or the authority to carry a weapon in the municipality's name. Mr. Dwyer said such coverage would still be provided at no charge. Further brief discussion ensued about implications of such a change in coverage scope on the Members.

**Mr. Alfred then moved, seconded by Ms. Brown, to endorse the recommendation to eliminate liability coverage for special police officers either possessing the power of arrest or the authority to carry a weapon in the municipality's name and to forward that recommendation to the full Board for its approval. It was so voted unanimously (Alfred, Brown, Malafronte, and Mainville in favor).**

## **5. COVERAGE AND MEMBERSHIP FOR THE WEST WARWICK HOUSING AUTHORITY**

Prior to the meeting Mr. Dwyer forwarded to the Committee memoranda and various related correspondence and material describing in detail developments during the past year with the West Warwick Housing Authority (WWHA) regarding property and liability risks at the Authority's Clyde Tower residential housing structure.

Mr. Dwyer recounted the history of these developments. He stressed that an independent engineering analysis conducted on behalf of the Authority identified potentially catastrophic structural problems with Clyde Tower that threatened the safety of the more than 100 residents of the structure and the integrity of the building itself. When Trust management became aware of the report about nine months after its issuance, he reported that he took immediate action to restrict property and liability coverage for the Tower arising out of a loss or damage caused by either wind or seismic activity. He added that Trust management believes that the WWHA did not address the issue properly from a risk management viewpoint and did not notify The Trust in a timely or effective manner of the structural problems which materially affected the building's insurability.

Prior to continuing coverage for the Authority into the new policy year, Mr. Dwyer said he believed it advisable to bring this matter before the Committee for its consideration as the Board committee charged with oversight responsibility in evaluating and pricing risk and passing on the suitability of local governmental entities for membership in The Trust. Mr. Dwyer concluded by noting that despite his strong reservations about the Authority's actions in this matter, he nonetheless recommended that The Trust continue to provide coverage to the Authority but with the same restrictions remaining in place that remove liability and property coverage for Clyde Tower for loss or damage arising from wind or seismic activity. He further explained his reasoning, and also discussed the reinsurer's position regarding coverage limitations which must be placed on Clyde Tower related exposures.

Mr. Alfred expressed his grave concern about whether coverage should continue in any form for the Authority given its actions and the exposure which remains. Other Committee members voiced their concern about the Authority's conduct as well. A general discussion ensued regarding the options available to address the concerns of The Trust.

Mr. Alfred also questioned whether the Town of West Warwick might be unreasonably exposed to liability relative to the review and follow-up on the issue of the Tower's structural integrity by the Town's Building Official as the local inspector and enforcement arm for life-safety codes. He suggested that management seek further legal review of the Town's potential exposure.

**Mr. Alfred then moved, seconded by Ms. Brown, that (1) the Committee recommend to the full Board that The Trust terminate coverage for property, liability, workers compensation and life insurance for the West Warwick Housing Authority effective 90 days after notification to the Authority, and (2) that management be directed to write to the Town of West Warwick to express The Trust's concern about the Town's potential liability exposure as the local inspector and enforcer of life-safety codes for structures within its jurisdiction. It was so voted unanimously (Alfred, Brown, Malafronte, and Mainville in favor)**

## **6. ADJOURNMENT**

**Mr. Mainville moved, seconded by Mr. Alfred, to adjourn the meeting. It was so voted unanimously (Alfred, Brown, Malafronte, and Mainville in favor).**

The meeting stood adjourned about 12:30 P.M.

Respectfully Submitted,



THOMAS E. DWYER