

**BOARD OF TRUSTEES
AGENDA**

<input type="checkbox"/> Workshop	<input checked="" type="checkbox"/> Regular	<input type="checkbox"/> Special
-----------------------------------	---	----------------------------------

- (A) Report Only Recognition

Presenter(s):

Briefly describe the subject of the report or recognition presentation.

- (B) Action Item

Presenter(s): ISMAEL MIJARES, DEPUTY SUPERINTENDENT FOR BUSINESS AND FINANCE
LUIS VELEZ, PURCHASING DIRECTOR

Briefly describe the action required.

CONSIDER AND TAKE APPROPRIATE ACTION ON THE REQUEST TO AWARD PROPOSAL NO. 171106 FOR STOP-LOSS REINSURANCE ONLY FOR WORKER'S COMPENSATION PROGRAM FOR A FIVE YEAR PERIOD STARTING SEPTEMBER 1, 2016 AND THE BOARD DELEGATES THE SUPERINTENDENT OR DESIGNEE THE AUTHORITY TO MAKE RELATED BUDGETED PURCHASES OF GOODS OR SERVICES AS PER BOARD POLICY CH.


- (C) **Funding source: Identify the source of funds if any are required.**

- (D) **Clarification: Explain any question or issues that might be raised regarding this item.**

SEE ATTACHED MEMORANDUM



EAGLE PASS INDEPENDENT SCHOOL DISTRICT

To: Mr. Ismael Mijares, Deputy Superintendent for Business and Finance
From: Luis A. Vélez, Purchasing Director 
Date: Wednesday, July 6, 2016
Subject: Recommendation on Request for Proposal Number 171106 for Stop-loss Reinsurance Only for Worker's Compensation Program

Digitally signed by Luis A. Vélez
Date: 2016.07.06 16:38:25 -05'00'

Based on the submitted proposals, the Department of Purchasing recommends that Request for Proposal Number 171106 for Stop-loss Reinsurance Only for worker's compensation program be awarded to Frost Insurance (Carrier Midwest Employers Casualty Company) for a two year option in accordance with the specifications and requirements of the proposal and as per the attached tabulation sheet.

If you have any questions or need more information regarding this matter, please contact me at the purchasing department.

Excess W.C. Insurance Response Form

(Make additional copies of this form, if needed.)

Name of Carrier: Midwest Employers Casualty Company

- Contact Name: Cyndi White
- Telephone: 210-220-6433
- Email: cwhite@frostinsurance.com
- A.M. Best Rating: A+ XV
- Admitted in Texas? Yes

Specific Retention with Aggregate Loss Fund Insurance Quotations

Carrier Name	S.I.R.	Term	Overall Rate Per \$100 Payroll*	Overall Rate Per \$100 Payroll for Aggregate Loss Fund	Term Minimum Premium	Estimated Annual Premium**
1. Midwest	\$400,000	One Year	Rate is % of payroll 7.47%	Rate is % of payroll 137.46%	\$46,398	\$51,554
2. Midwest	\$400,000	Two Year	Rate is % of payroll 7.47%	Rate is % of payroll 133.48%	\$92,796	\$103,108 for 2 Year Estimated
3.						Premium Payable on Annual Basis with \$51,554
4.						Deposit for First Year to Lock in Rate and SIR

* Rates per \$100 payroll are preferred for both loss fund and premium calculation. If deviation, explain: Rate is a percentage of payroll not per \$100 payroll.

**Estimated Annual Premium subject to final audit understood.

Include a copy of the insurance company's quote proposal.

Copy of Company Quotation Included under Tab 3 Company Quotation/Specimen

PREMIUM SUMMARY

Coverage	Expiring	Renewal Option I (\$400K – 1 Year Option)	Renewal Option I (\$400K – 2 Year Option)	Renewal Option II (\$400K – 1 Year Option)	Renewal Option III (\$400K – 1 Year Option)
Carrier (Best Rating)	Midwest Employers (A+, XV)	Midwest Employers (A+, XV)	Midwest Employers (A+, XV)	State National Co. (A, VIII)	Safety National (A, XI)
Policy Term	September 1, 2015/16	September 1, 2016/18	September 1, 2016/18	September 1, 2016/17	September 1, 2016/17
States Covered	Texas	Texas	Texas	Texas	Texas
Estimated Annual Payroll	\$90,752,028	\$92,567,069	\$92,567,069	\$92,567,069	\$92,567,069
Estimated Annual Manual Premium	\$1,120,092	\$690,142	\$690,142	Not Quoted	\$576,064
Estimated Term Policy Premium	\$1,120,092	\$690,142	\$690,142	Not Quoted	\$576,064
Specific Worker's Compensation Limit	Statutory	Statutory	Statutory	Statutory	Statutory
Employer's Liability Limit	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Specific Retention	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000
Carrier Aggregate Limit	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Aggregate Retention %	133.48%	137.46%	133.48%	Not Quoted	260%
Estimated Aggregate Retention	\$2,223,984	\$948,669	\$1,842,403	Not Quoted	\$1,497,766
Minimum Aggregate Retention	\$2,909,202	\$929,696	\$1,805,555	Not Quoted	\$1,452,833
Rate % of Normal Premium	5.29%	7.47%	7.47%	.0434 of Payroll	\$0.0755 of Payroll
Estimated Policy Period Premium	\$59,253	\$51,554	\$103,108	\$40,174	\$69,888
Policy Period Minimum Premium	\$52,942	\$46,398	\$92,796	\$38,165	\$67,791
Annual Deposit Premium	\$59,253	\$51,554	\$51,554	\$40,174	\$69,888
Terrorism Risk Insurance Premium (Incl.)	Included	\$1,547	\$1,547	Included	Included
Cash Flow Endorsement	\$200,000/\$200,000/\$200,000	\$200,000/\$200,000/\$200,000	\$200,000/\$200,000/\$200,000	\$175,000 per year limit	\$200,000/\$200,000/\$200,000
Professional Services for Loss Control and Claims Consulting Fee	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Total	\$74,253	\$66,554	\$66,554	\$55,174	\$84,888

**PROPERTY AND CASUALTY
INSURANCE CONCEPTS SIMPLIFIED**
A NEW BOOK, BY CHRIS BOGGS

FREE DOWNLOAD
FIRST THREE CHAPTERS

**INSURANCE
JOURNAL**

View this article online: <http://www.insurancejournal.com/news/national/2013/08/05/300687.htm>

Downgraded Meadowbrook Signs Deal with State National for 'A'- Rated Policies

After A.M. Best downgraded the financial strength ratings of the insurance operations of Meadowbrook Insurance Group on Friday, the insurer announced on Monday that it has entered into an agreement with State National Insurance Co. to provide "A" rated policies for a portion of its business.

A.M. Best's decided on Friday to downgrade Meadowbrook's financial strength rating to "B++" (good, with a stable outlook).

Robert S. Cubbin, Meadowbrook president and chief executive officer, said that following the downgrade, the insurer "immediately completed an assessment" of all its programs and specialty divisions to determine where an "A" rated policy issuer is required.

On Monday, Cubbin announced the deal to partner with State National Insurance for that "A-rated" paper.

State National Insurance Co. is an affiliate of Texas-based State National Companies, which currently writes more than \$600 million in premium. It provides national access to property/casualty products, programs and markets by acting as a policy-issuing carrier for program managers and insurers nationwide.

"I want to personally assure our agency partners, policyholders and shareholders, that despite the challenges we encounter, Meadowbrook is committed to providing secure, quality insurance products," Cubbin said. "We have taken steps to enhance our capital and we now have nearly \$500 million in statutory surplus."

On Monday, Meadowbrook Insurance Group Inc. slumped the most in the Standard and Poor's SmallCap Financials Index after news of its downgrade and the announcement that earnings in the second half could miss the company's forecast.

Meadowbrook fell about 11 percent to \$6.74 in New York. A.M. Best downgraded the Southfield, Michigan-based insurer's financial-strength rating on Aug. 2 to B++ from A-.

"The downgrade will clearly impact Meadowbrook's agent and broker relationships and its target market," Robert Paun, an analyst at Sidoti & Co., said in a research note. Paun downgraded his Meadowbrook rating to neutral from buy and cut his target price to \$6 from \$10.

CEO Cubbin said in a statement that Meadowbrook expects to "modestly" reduce its forecast for the third and fourth quarters. The insurer had forecast operating profit in the second half of 45 cents to 50 cents a share. Meadowbrook announced last week that it had hired Willis Group Holdings Plc to evaluate options for the

company.

“The formal announcement of evaluating strategic alternatives is a sign that the board is evaluating a sale,” Randy Binner, an analyst at FBR Capital Markets, said in a research note.

Bloomberg contributed to this report.

More from Insurance Journal

[Today's Insurance Headlines](#) | [Most Popular](#) | [National News](#)

Get Our Free Newsletter

Join 10,000+ of your peers! Get our latest WorkersCompensation.com articles delivered to your email inbox for free

Full name:

Email:

Recent Meadowbrook Insurance Issues Recalls P/C Carrier Financial Turmoil of Past Years

By [John D'Alusio](#) 09/09/2013 15:49:00

August 5, 2013 News Release: "Following a downgrade of its financial strength ratings (FSR) to "B++" from "A-" by A.M. Best Co., Meadowbrook Insurance Group announced that it will seek to make arrangements with an A-rated insurance company to issue some policies. In addition to seeking an arrangement relating to programs and lines of business for which a higher rating is required, Meadowbrook said its board of directors is undertaking a review of strategic alternatives and has engaged Willis Capital Markets & Advisory in connection with its evaluation."

The financial rating hammer came down on Meadowbrook Insurance Company on Friday, August 2, 2013. That was A.M. Best released its official downgrade of the Meadowbrook's financial strength, prompted by weaker than expected second-quarter results. Meadowbrook reported a net operating loss of \$4.4 million for the quarter, attributable in part of \$21.4 million of prior year adverse loss reserve development and \$8.2 million of pre-tax losses (on prior years) the result of adverse reinsurance arbitration.

This announcement brought back memories of such proud names as Reliance Insurance Company, The Home Insurance Company, Superior National Insurance Company, Mission Insurance, and a slew of others that are no longer in operation. The free market (when untouched by governmental safety nets) has a way of weeding out underperformers who have elected unsafe financial courses, which, in the long run, always have negative ramifications and repercussions on continued existence of the entity.

The Property/Casualty insurance industry is a rather simple business segment to understand. People try to make it difficult, but in reality it is quite straightforward. Insurance companies offer to underwrite coverage (whether statutory like WC, or contractual) for premiums. The premiums are collected and provide a pool from which to pay losses. The pool of funds earns interest, thus giving insurance carriers a "float" on the money.

There are three critical corollaries to a successful P/C carrier model: 1) Spread the risk, never concentrating all the

exposure in one area (by business line or geography), 2) Charge a proper amount of premium for the coverage being provided, and 3) Reserve the claims promptly and accurately.

The P/C formula for success appears facile enough. The executive management teams in insurance companies always have some measure of intelligence, and should possess a sense of industry history when choosing a strategic course of action. Then why the problems that caused the demise of so many old line insurers in the last 30 years, while brining others to the precipice of extinction?

Obviously, there are those who did not listen to the footfalls of financial disaster coming up behind them. The first mistake is usually an idea that, ironically, has its genesis in seeking improved financial results. The strategy is to increase market share. If an insurance company has greater market share, perforce it will have more money flowing into its coffers from the growing number of policy holders. This will translate to greater revenue, and a higher stock price. Sounds like an excellent strategy.

The crux of the matter is always how best to go about executing on this increased market share strategic direction. After all, there are numerous insurance companies offering the same coverage, in the same geographic locations. The simple answer is "drop price!" Reduce the premiums you quote for the business you want to place on the books. Giving that all other things are equal (financial rating of the insurer, limits of coverage, availability of a solid distribution network, etc.), consumers will gravitate toward the company that charges less. That's simply the way a free market operates.

The not so subtle result of this strategy is that underwriters are now forced to "price" policies rather than truly underwrite them. It is true that underwriting leads to pricing, but in a market share mode, pricing becomes the primary concern rather than underwriting the exposure for the correct premium. "Cash flow underwriting" is, traditionally, the nascent step on the path to economic perdition. Once the corporate emphasis is moved from true underwriting to pricing, the spiral downward had begun.

Initially, as the coffers swell with additional premiums, the strategy looks to be an excellent choice. But what is really occurring is that the premium that is being booked is not adequate to cover projected loss development. The problem is that it will take several years for the folly of a "cash flow underwriting" philosophy to be fully felt on the financial ledger. But when it becomes evident, prepare for the worst, because it is going to come.

What inevitably transpires is that losses begin to catch up with the premium that has been collected, and then greatly exceed that amount. When this becomes manifest, there are usually several emergency steps that are undertaken. This includes holding down reserve development, while instructing your distribution/sales network to obtain still more premiums (more market expansion). But the latter will ineluctably be at reduced prices, because if "correct" premiums were quoted, no one would be interested because the company has become known as a discount insurer. So the spiral downward continues unabated.

At some point, the Actuarial Department warns that massive IBNR financial injections into loss reserves is necessary as projected loss costs exceed the money presently available to pay ultimate losses. This creates another fire drill as funds are transferred from one pocket to another. But the inexorable fact cannot be changed; the financial picture is declining rapidly into the danger zone, and there is no way to ameliorate the situation. This is when the regulators usually come knocking as they notice the premium-to-surplus ratio is seriously out of kilter.

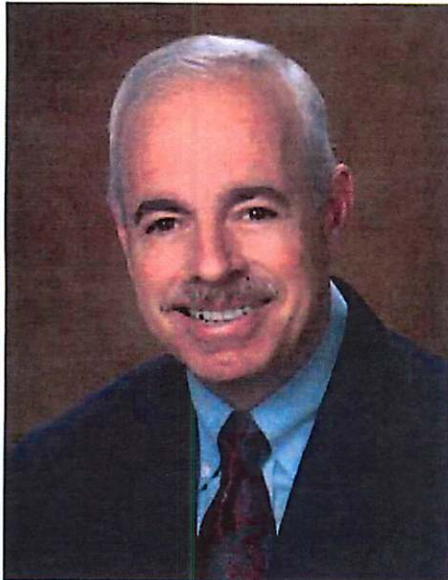
This is the point to queue up Mozart's "Funeral Requiem," because nothing of a salutary nature is going to develop. The insurance carrier will normally look for other companies who will have some interest in acquiring the organization ("seeking strategic alternatives" is the catchphrase), and if there are no takers, the plunge to financial

and corporate extinction will commence. Of course, somehow, the CEOs who began this evolution downward, wind up with multi-million dollar exit packages, as if they were retained to drive the company out of business and were successfully rewarded for accomplishing that goal.

So what did the CEO of Meadowbrook announce when faced with A.M. Best's action? Meadowbrook group has been targeting—and achieving—overall rate increases that have been in excess of the loss ratio trends, which have improved its underwriting results for the most recent accident years. But he also indicated they are investigating “strategic alternatives.”

Insurers much larger than Meadowbrook have made similar mistakes, but somehow lived to tell about it. For instance the giant Zurich experienced near-collapse in 2002 following an ill-advised market expansion strategy, and AIG was infamously on the brink of disaster a few scant years ago (though due to insuring real estate based “credit default swaps” though its Financial Products division) before being treated to a government sponsored bailout. Whether Meadowbrook will survive as an independent entity has yet to be determined. But as veterans of many of the P/C companies that are now extinct will tell you, nothing is a sure bet once you start down the worm hole.

About the Author:



John D'Alusio has over 30 years experience in P/C insurance with executive management positions in administration, field operations, and claim technical areas. Mr. D'Alusio has had many articles published in industry periodicals, and is also a contributing author to the LexisNexis published, “Complete Guide to Medicare Secondary Payer Compliance.” He writes a monthly column for Risk & Insurance Magazine and is a quarterly columnist for AMComp Magazine.

His Risk & Insurance column is located at:

<http://www.riskandinsurance.com/workerscomp.jsp>

Rate this article

0

Powered by [Vivvo CMS](#) v4.7