



Neighborhood Risk Management
CORPORATION
NWOs working to insure safer communities

April 2012

Happenings at NRMC

Dear Member:

Welcome to the first edition of our regularly recurring newsletter. We will be sharing information with you about risk management and insurance in general and Neighborhood Risk Management Corp. (NRMC) in particular.

Over the past 12 months there have been some big developments in NRMC – exciting changes which laid the foundation for growth and enhanced services for our members. Unfortunately, all of that work has recently been overshadowed by a renewal process that feels as though it could not have gone worse. Stunning increases resulting from a combination of market forces and our own losses, last minute quotes from the markets, and a mistake in the billing process have led to an understandable degree of anger at and disappointment in NRMC. The other members of the Board and I (all representatives of NWOs) not only felt the same sting of the renewal as you, but also share the collective disappointment that we were not able to effect a better process and product for our members. *We must and can do better!*

The general response to the renewal process has called into question long held assumptions about our place in the market, the breadth of the coverage we offer, and our members' varying approaches to risk/price in different market cycles. It has also made us keenly aware of the need to regularly communicate with our members and the urgency of deploying risk management and accountability throughout our membership. These are the questions and topics which will become our agenda for the foreseeable future.

What the renewal should *not* call into question, however, is the value of the NRMC model to the network. This model offers us the most promising path to controlling our insurance costs over the long term. Its success is dependent on proper execution. This difficult renewal has taught the Board a lot. And, as members we must all commit to sound proactive risk management principles. NRMC is now positioned to implement initiatives that respond to these principles. But to ensure success, each member must be an active participant, and I urge each of you to become involved in NRMC. Read the newsletters, participate in the webinars, attend the meetings, apply the best practices and offer your insights. Become active. The value we get out of NRMC is in direct proportion to the effort we put in.

Please take the next few minutes to acquaint yourself with Happenings at NRMC, and feel free to contact me if you have any questions.

Patrick Madden, President NRMC

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Harold Nassau

The NRMC program has been supported from its inception in 2005 by Harold Nassau of NeighborWorks America. Harold has been the liaison between NRMC and our NWA members. However, the new business plan that NRMC has developed with NWA envisions an NRMC that will function totally independent of NWA. Therefore, Harold will be transferring his responsibilities to our new Executive Director, ensuring a smooth transition. We thank Harold for his many years of devotion to NRMC.

Introducing Our New Executive Director: Deborah Aschheim

We have just hired our first Executive Director: **Deborah Aschheim**. Deb has more than 25 years of experience in serving as a trusted advisor for insurance companies and global financial services companies. After she earned her J.D. / M.B.A., she began practicing law in New York City at Stroock & Stroock & Lavan and then Milbank, Tweed, Hadley & McCloy, where she received extensive training in corporate law and finance. In 1986, she went “in-house” when she was invited to join Milbank’s then largest client, The Chase Manhattan Bank. She spent more than 10 years representing Chase in hundreds of domestic and international commercial credit transactions ranging from \$50,000 to \$2.5 billion involving diverse industries, including financings for developers of affordable housing.

Following Chase, Deb joined American International Group (AIG) as General Counsel of AIG Risk Finance and later moved with her business team to ACE Limited, where she worked on structured insurance and financial products and finite risk. She has also represented the Trenwick Group, an insurance and reinsurance company in Chapter 11 and run-off, and FOJP Service Corporation, a not-for-profit and manager of the captive insurance program for hospitals and social services agencies in NYC under the auspices of UJA-Federation. Most recently, Deb served as Deputy General Counsel for Hudson Insurance Group.

A native New Yorker, Deb is a proud product of NYC’s Affordable Housing: She spent her first 22 years growing up in Inwood Terrace (a/k/a 99 Hillside Ave.), a Mitchell-Lama cooperative apartment complex in the Washington Heights / Inwood Section of Manhattan. Deb currently lives with her family on the Upper West Side of Manhattan (NYC).

Deb will be at the May 7-11, 2012 NWA Training Institute in New Orleans, and looks forward to meeting each member.

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The 2012-3 NRMC Insurance Renewal

A variety of factors made this year’s renewal particularly challenging for us, as reported in e-mails in February and the informational webinars conducted by our Willis Team on March 26 and 27. These factors – which can be considered as contributing to “The Perfect Storm” – can be summarized as follows:



1. Market Factors

- Specific to NRMC, from the program's inception in 2005 to 2010, we were very successful because of our favorable loss history.
- That changed with policy term 2011-2. NRMC's loss history for that period outpaced that of any other recent year of the program. Based on a five year history, the average losses per year increased to \$5.7 million, or \$4.8 million from the existing members.
- For the property market as a whole, 2011 was the *highest* loss year on record for economic losses globally, caused by such events as earthquakes, tsunamis, floods and tornados. This translated into \$380 billion in *economic* losses globally, a new record which exceeded the previous record of \$270 billion in 2005.
- 2011 was second worst insured loss year in history for the property markets. The top five property markets experienced over a 100% in loss ratios.
- NRMC's worst year (policy year 2011) coincided with the market's worst year. The 2012-3 renewal was driven by the fact that when the carriers looked at NRMC's 2011-12 policy year, as well as the market as a whole, they saw a very unprofitable year.
- In 2011, the market introduced a revised catastrophe model – RMS 11.0 catastrophe modeling – which also adversely impacted our renewal market and pricing at renewal.
- **During the final renewal negotiations, NRMC experienced unanticipated claims in February of 2012 of another \$4 million in property losses, bringing the total to almost \$14 million for the current term. These late losses caused the carriers to reconsider their quotes at the last moment, and further delayed final quoting by the carriers to Willis until March 23. These late-term claims also translated into increased rates, making an already bad situation even worse.**

All these factors translated into significant premium increases and contraction of capacity in the market: a hard market.

The 2012-3 renewal process was a major challenge. We have learned a lot and NRMC will become stronger and better as a result.

2. Additional Carriers

Since the program's inception, Lexington (part of Chartis/AIG) provided 100% of the primary \$25MM property layer for the program. This year, however, as Lexington scaled back their participation generally in the market; and with respect to NRMC, specifically, Lexington focused on our program's 2011 profitability from their standpoint. Three new carriers filled the gap created by Lexington's reduction and agreed to provide the *same* limits and terms and overall program structure – something we insisted upon for our members!

3. An Inadvertent Error in the Allocation Model

Following the March 26 and 27 webinars – which reported a 48% premium increase over last year – Willis released the premium allocations to the membership. Unfortunately, the allocations released by Willis late on March 28 contained a formula error which was not detected until *after* the quotes were released. Although Willis alerted the membership the following morning of the error and released corrected allocations



later that day, there is no question that a precious 24 hours were lost, and that for most members, the corrected allocation was *higher* than the initial allocation. *This made the bad news even worse.*

As we look back on this year's renewal, we recognize that there were factors beyond our control, like adverse market forces and the carriers re-pricing at the last minute due to later-term claims. And, there were factors which we must control in the future. It is a given that Willis must always use a full-proof allocation model! For 2013-4, we explore whether we should revise our program's structure by "right sizing": providing coverages that are not necessarily "the top of the line" in return for premium savings.

NRMC is a group insurance program for its members that is more than just "an insurance quote". We are committed to the future of our members, and we are all in it for the long haul.

NRMC's pricing – even with this year's huge 48% increase – is competitive. We recognize that our members may be receiving competing bids. But our members need to remember that over their membership period, their total savings have been very significant: ranging from 25 to 40%. Ask us to show you your exact savings!

Probably the most important undergirding principle of NRMC is the concept of being and remaining a cohesive group. By design, members share resources and risk (the retention pool) and a commitment to reducing losses through aggressive risk management. Turning from this key principle will, over time, undermine and erode all of the advantages that NRMC can bring to its members.

Our members cannot take a short-sighted view of their insurance needs by succumbing to the temptation of a one-time low quote. We cannot operate effectively if we are a revolving door!

NRMC is not a commodity! It is a program guided by a long-term commitment to contain the insurance costs of our members. To accurately assess the benefits of our program, members need to average their savings over the life of the program – not just this past year! Even if one factors in this year's increase, our members are still ahead of the market!

Our Expanded Risk Management Initiatives

As a group program we have significant bargaining power in the market. We have worked closely with Willis to develop risk management programs which the carriers will factor favorably in their review of the NRMC program and its members. We are ready to start implementing these programs.

However, the foundation of a successful risk management program is the commitment of each member. In the coming weeks, Deb will be contacting each member to discuss the details of our expanded NRMC risk management program and customization for your organization. You will also be receiving details about our bi-monthly risk management webinars that will begin in June 2012. And, there's more to come!

Deb and members of our Willis Team will be introducing our new risk management programs at the May - 11, 2012 NWA Training Institute in New Orleans, LA. Please reach out to Deb and our Willis team and share your thoughts and suggestions.



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Willis-Sponsored Cocktail Reception at New Orleans training institute.

NRMC Members are cordially invited to attend a Cocktail Reception hosted by Willis in New Orleans on **Monday, May 7 at 5:30 PM**. Please watch for postings at the Institute for the location and other details. We look forward to seeing you there.

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2012-13 will be a very exciting year for NRMC, and together with Deb, Willis and the other members of the NRMC Team, we will achieve our strategic goals for 2012-3. Now more than ever, we need the support and input of our members. We welcome your participation as well as your thoughts and suggestions on how NRMC can best support the needs of each of our members.

Cordially,

Patrick Madden
President, Board of Directors NRMC

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