



July 18, 2019

Dear Owners,

There has been a significant amount of concern, questions, and misinformation regarding the property insurance for ESJ Towers. While there is no doubt that the insurance market in PR, especially for our type of property, has been very difficult, ESJ Towers Inc., as manager and operator of the property, has taken its fiduciary responsibility seriously and has worked very hard to maintain insurance coverage. This challenge has been made much more difficult by 1) the confusion which has been created in the marketplace by having another group claiming to have authority to broker the insurance and by 2) the fact that the HOA, due to uncollected receivables, does not have the funds necessary to purchase the insurance which is expected to be \$1.2m+. In order to clarify the situation, we have asked our broker to document the process and current situation. This document is attached to this email and can also be found on the HOA's website www.esjcondo.com. We hope that this information will bring much needed clarity to this situation.

Note: In order to maintain coverage, ESJ Towers Inc is paying \$137,000 for a two week extension of the insurance on behalf of the HOA and for the benefit of all owners.

Regards,

ESJ Towers, Inc.

July 16, 2019

Mr. Keith St. Clair
ESJ Towers, Inc.
6165 Isla Verde Avenue
Carolina, P.R. 00979

Dear Mr. St. Clair:

Re: ESJ Towers, Inc. - Insurance Program Renewal

Following is a chronology of the various efforts our office has made to secure the renewal of ESJ Towers' Insurance Program for the 2019-20 policy year. The expiring policy ran from June 11, 2018 until June 11, 2019 with Chubb Insurance Company. As you know, as of today, we have had to request two (2) separate extensions from Chubb Insurance. The first one ran from June 11 until July 11, 2019. The last one was only for 15 days and expires on July 26, 2019.

- On April 17, 2019, Insurance Specifications for all policies were submitted to all insurance carriers authorized to do business in Puerto Rico. At that time Chubb had indicated that they were planning to provide renewal terms for all policies.
- On May 17, 2019, Chubb Insurance Company provided their renewal quotes for all their policies (General Liability, Inland Marine, Umbrella and Premises Pollution) except for the Property policy. At that time they indicated that they were finalizing negotiations with their reinsurance carriers for the Property policy.
- On May 22, Rafael Laffitte, Executive Vice President from HUB CLC, participated at an assembly at ESJ to clarify questions regarding the building's insurance program. This at the request of Mr. St. Clair. We understand that at that time all questions and concerns were addressed satisfactorily by Mr. Laffitte.
- From April 17 to June 2, 2019, we received declinations from various carriers including AIG, Liberty International Underwriters, Mapfre, Multinational Insurance, Universal Insurance, among others. The main reasons for not providing a quotation included the building's waterfront location, the type of operation (hotel/time-share/condo), and the loss history, specifically the losses related to Hurricane Maria.

- On May 27, 2019, Chubb notified us that that they were rescinding all the quotes they had presented and that they were not going to quote the Property policy. At the time of this notification, Chubb's top management indicated verbally that in order for us to have time to place the risk elsewhere they were going to provide a sixty (60) day policy extension. However, a couple of days later, they indicated that their reinsurers could only provide a 30 day extension until July 11 due to the fact that we were already in the hurricane season. Please note that the policy terms and conditions require that insurance companies provides at least 30 day notice of non-renewal
- On June 19, 2019, we circulated the risk with the Insurance Commissioner Office in order to have the option of placing the risk in the surplus lines market in case we were not able to place it with a local insurer. At the time, the London market was showing a strong interest.
- By early July we had received quotes from other carriers for all policies except for the property policy. We also had a strong interest from AIG Insurance for the property policy. Having AIG was important since that will mean that we would not have to use the surplus market, which carries a 9% tax. Also at that time, AIG's indications seemed more competitive than a Lloyd's based placement.
- On July 2, 2019, we had to formally request Chubb an additional fifteen (15) day policy extension for when the first extension expired in July 11. This because AIG was not able to finalize their reinsurance placement and asked us to request an additional extension to give them time to place 100% of their reinsurance. Please remember that as of today there is a lack of capacity in the reinsurance markets for beachfront properties. Obtaining an extension from an insurer during the "hurricane season" is not an easy and usually takes some time.

As of today, all the policies insuring ESJ Towers, Inc. are under the extension. We have secured renewal for all policies except for the Property, but we expect to receive final numbers from AIG by tomorrow.

The Commercial Automobile Policy and Garage Policy were renewed through Universal Insurance Company for the policy period: June 11, 2019 – 2020.

I would like to take this opportunity to mention that while all this was happening with the placement, on July 8, 2019, two (2) residents and one (1) resident/member of "*The Council of Co-Owners of ESJ Towers Condominiums*" ("*The Council*") visited our office requesting detailed information about the 2017-18 insurance policies and the settlement on Hurricane Maria's claim. No information was provided to them at that time due to the fact that it was scheduled to be delivered to them that same afternoon by the management of ESJ Towers, Inc.

That same day, we were notified by Chubb Insurance Company that a Broker of Record Letter was issued by "The Council" naming another broker by the name of Owner's Risk Insurance. This created a lot of confusion at Chubb at the time we were asking for the 15 day extension. At one point Chubb mentioned that they will probably not provide the extension because they were getting mixed messages from different parties and they preferred to avoid controversies. Thanks to a letter from Mr. Francisco Pavia, Esq. from McConnell Valdes, Chubb was able to help us and at the end provided the extension we desperately needed.

At a time when insurance capacity for waterfront properties is limited, causing havoc in the market is detrimental for a placement such as this one. Hurricane Maria has created many problems in the local insurance market and as a result the insurers are being a lot more stringent, selective and prices have increased dramatically, something you have already experienced in last year's renewal. Insurance companies do not like to be involved in this type of controversies and prefer to stay away from them. I am hopeful that AIG will not rescind on their interest of providing a quote by tomorrow. We heard yesterday that the agent assigned by the insurance broker of "The Council" was approaching the London markets. This can definitely stir the market the wrong way. There are a limited number of players willing to write beachfront properties in the Caribbean and Puerto Rico. AIG will need all the available capacity.

Regarding the Specialty Lines policies, (D&O, Employment Practices Liability, Crime and Cyber) they are also under an extension with Chubb and AIG until August 5, 2019.

I trust you will find this information helpful, however, if further clarifications arise, please do not hesitate to contact our office at (787) 641-2738.

Sincerely,

Carrión, Laffitte & Casellas, Inc. / HUB International CLC

Antonio R. Casellas

Antonio R. Casellas
President & CEO