

# P&C INSURANCE COMPANY, INC.

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## MEMORANDUM

DATE: 10/1/96

MEMO TO: Peter Lowe, M&M IMS

FROM: Bobby N. Harmon, Pres. 

SUBJECT: Marsh & McLennan, Inc. - Third Party Service Provider Contract

Peter, thanks for your phone message today regarding the requested service proposal from MMI. You stated that Rocco informed you that the Proposal for Services was included in the Stewardship Report which I received on Sept 27th.

In looking through the Stewardship Report, I do not see such a proposal. I do see a table and chart entitled P&C Insurance Company Advisory Service Fee 1996/1997 which is enclosed. This, however, shows a total flat fee of \$200,000 while P&C's request for proposal stated that the proposal was to be on a time and expense basis. Also, as you know, P&C's budget for the current fiscal year for these administrative services was set at \$50,000 and P&C's renewal premiums were based on this figure.

As we have previously discussed, there are several reasons for having written contracts with all independent contractors. First, a written contract which clearly spells out the services to be performed, and what those services will cost, is common and prudent business practice. To use M&M's flat fee for the past year as an example, what services were included in this fee? Rocco's chart indicates the M&M Protection Consultants' services are included, while the records show that last year P&C paid M&M PC separately for their services. The chart indicates a percentage of the charge allocated to various tasks. Where are the figures to back-up these percentages?

Another point, contracts need to be negotiated and there must be a mutual understanding and meeting of the minds regarding the scope of services to be performed and the price. I do not believe this was the case with our previous arrangement with MMI, and we certainly have not negotiated for the 1996-97 services. We even seem uncertain as to what to call these services. In various financial reports I have seen them labeled, "Broker's Fees", "Risk Management Fees" and now "Advisory Service Fee".

Another important issue which we have previously discussed – the need for "arms-length". It is an absolute must that we keep, and clearly document, payments made by P&C to its contractors separate from the services paid for by the non-profit parent company. Therefore, actions such as including a proposal for advisory services to P&C in a Stewardship Report addressed to KSBE would seem to be inappropriate.

In short, what the Directors and Officers of P&C, and our auditors, really need are clear, written contracts with all service providers describing the scope of services and their associated costs.

As previously communicated, what P&C desires at this time is to have its service contracts on a time and expense basis, whenever practical. Services provided by your office, M&M PC and Mullen are already on this contract basis. This allows P&C greater opportunity to control expenses through eliminating inefficiencies and unneeded or unrequested services. A flat fee contract does not allow for these same controls and savings.


Still needed from MMI is the previously requested proposal indicating the scope of services, names of persons performing these tasks, and the hourly rate for each. At this point, it will not be necessary to estimate the number of hours for each task as our budget and premiums have already been set at \$50,000. A similar proposal is needed from M&MPC for safety and loss control services.

If there are still any questions regarding what is required in the way of a proposal, please let me know. If we need to meet with Rocco or others from MMI to further negotiate a contract, please arrange for a meeting.

Thanks for your cooperation and assistance.

encl.

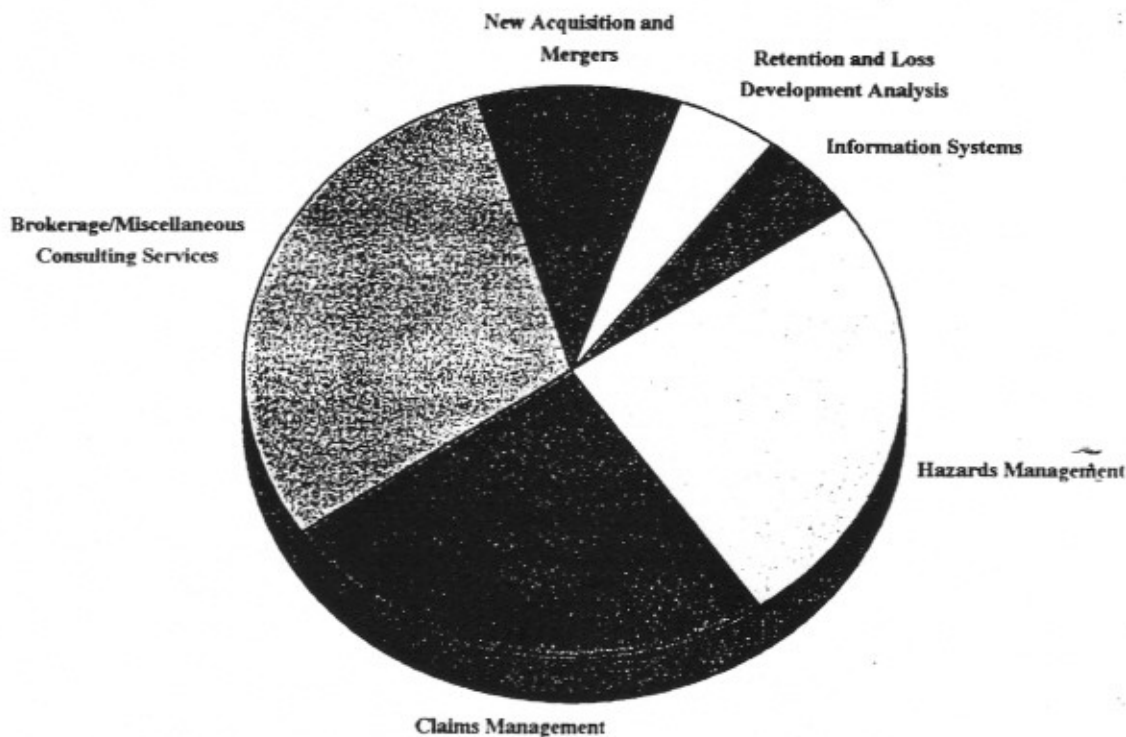
cc: Louanne Kam, Esq.  
Rocco Sansone, MMI

A handwritten signature in black ink, appearing to read "Rocco", with a long horizontal flourish extending to the right.

# **Kamehameha Schools Bishop Estate**

## **P&C Insurance Company Advisory Service Fee 1996/1997**

<b>Department</b>	<b>Task</b>	<b>Total Fee</b>
Brokerage/Market Information	Reinsurance Renewal Marketing	
Claims Consulting	TPA Analysis, Claims Management	
M&M Protection Consultants	Specified Projects	
Information Systems	Automated Certificate Tracking System	
Financial Risk Management	Retention and Loss Development Analysis	
Client Advisory Services	Miscellaneous Consulting Services	
Risk Evaluation	New Acquisition and Mergers	
		<b>\$200,000</b>



**Marsh &  
McLennan**