

P&C Insurance Company, Inc.

Re: M&M Inc. Risk Management Fee Proposal

Summary of the Meeting held on Tuesday, October 8, 1996 at 3 p.m.

Attendees: Bobby Harmon, Louanne Kam, Rocco Sansone, Peter Lowe, Garrett Liu

Last year fees were \$200,000. Bobby Harmon has set a budget number of \$50,000 for this year. Rocco Sansone felt that this was not in line with the services rendered.

Bobby has requested a proposal that outlines the services to be performed, number of hours required from the various M&M personnel and the hourly rate per M&M staff. He expects the services required will be similar to last year but to exclude the KKRC business. He would like to be able to justify the costs with the services performed. P&C costs should be separate from KSBE costs.

Rocco stated that he is willing to provide Bobby with the proposal but pointed out that some of the services provided are difficult to unbundle from the services provided to KSBE. He also feels that the use of rates per hour will not fairly compensate M&M for their experience in the industry and the extensive resources available to the client in other areas. The knowledge and experience of the M&M would result in the broker putting together a program that better suits the clients needs and providing it to the client in a shorter time frame. Rocco had suggested that a fee proposal be made for the entire KSBE account and not just P&C Insurance.

Peter advised Bobby that almost all of the captives he dealt with had a flat fee arrangement with their risk managers and brokers. M&M Insurance Management Services Inc. captive management services are more clearly defined as to the type of work and the frequency of occurrence, making it easier to bill using the hours worked and rate per staff member. Insurance brokerage, risk management and claims management are special areas of expertise that are more unpredictable in frequency.

Louanne Kam pointed out that for Marsh to provide such a detailed proposal, P&C would need to provide Marsh with more details of what is expected from them for the coming year. She also raised the issue that the initial agreement was based upon a flat fee that was ultimately approved by the Board of Directors and the Trustees. She suggested that the review of services be discussed with the Board and the Trustees.