

July 16, 1999

To: Board of Directors (Budget and Finance Committee--Information)
(Legal and Claims Committee--Information)

From: General Manager _____

Submitted by: Lambertus H. Becker _____
Chief Financial Officer

Subject: Stewardship Report on Metropolitan Operations Insurance Program for Fiscal
Year 1998-1999

RECOMMENDATION(S)

For information only.

EXECUTIVE SUMMARY

The second annual Stewardship Report on Metropolitan Operations Insurance Program is provided as an Executive Summary, which highlights significant components of the program for fiscal year 1998-1999, and details the renewal efforts and the cost of the program for the current fiscal year.

Highlights of the report include:

1. The completion of a two-year excess liability insurance placement with the Insurance Company of the State of Pennsylvania (AIG) for a total premium of \$648,000; \$328,000 for fiscal year 1999-2000, and \$320,000 for fiscal year 2000-2001. The two-year program affords Metropolitan stability in the insurance market and consistency in coverage terms and conditions. The excess liability premium for fiscal year 1998-1999 was \$328,000. **Exhibit A** outlines the excess liability insurance renewal and all other lines of coverage.
2. The purchase of the Public Entity Group of Sedgwick of California (Sedgwick) by the Robert Driver Insurance Agency (Driver) resulting in an amendment to the existing three-year insurance brokerage contract with Sedgwick to reflect the name change to Driver Insurance Services.
3. The exploration of the property insurance market in consideration of quantifying the cost of earthquake, flood and fire insurance based upon the Probable Maximum Loss study producing anticipated premiums ranging from \$1.4 to \$4 million. The Probable Maximum Loss study is currently under review by staff.

Both staff and Driver are exploring other risk financing alternatives such as joint-power authorities, blended risk programs, and the continuation of an uninsured property program.

Driver's Executive Summary and Accomplishments accompany this Board letter as **Exhibit B**.
Their detailed report is available upon request.

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Exhibit A

Exhibit B

Exhibit A**Insurance Premiums (1998 - 2000)**

	Coverage Limits	Premiums ¹	
		1998-1999	1999-2000
Excess Liability	\$75,000,000 ²	\$328,000	\$328,000*
Excess Workers' Compensation	Statutory ³	\$ 29,000	\$ 27,093
Aircraft Liability	\$25,000,000	\$ 16,550	\$ 16,900
Fidelity Bond (Crime)	\$5,000,000	\$ 11,739	\$ 11,605
Group Travel Accident	\$ 250,000	\$ 37,830 ⁴	
Specialty Coverage	\$ 5,000,000	\$ 8,750 ⁵	
Business Development Liability	\$10,000,000	\$ 56,093	\$ 52,000
Total Premium		\$487,962	\$435,598

*Board approved coverage for two-years: 2000-2001 cost is \$320,000

¹ All premium payments cover a one-year policy period unless otherwise specified

² \$75,000,000 policy limit in excess of Metropolitan's \$25,000,000 self insured retention

³ Statutory policy limits in excess of Metropolitan's \$400,000 self insured retention

⁴ Premium payment covers a three-year policy period, July 1, 1998 - June 30, 2001

⁵ Premium payment covers a three-year policy period, July 1, 1998 - June 30, 2001

Exhibit B

II. Executive Summary



Over the past year, Driver Insurance Services has worked diligently to accomplish the goals set up in the 1998 Work Plan as agreed to by both Metropolitan Water District and Driver Insurance Services. To this end, it is our pleasure to report on those goals and outcomes. As usual, Metropolitan Water District's Risk Management Branch provides Driver Insurance Services with the resources and key contacts to accomplish these goals.

Noted below are the major achievements that have allowed Metropolitan Water District to reduce exposure to loss in the insurance layers and reduce future costs, as well as identify potential future areas of exposure.

Excess Liability Policy

- The Excess Liability Policy has been modified to delete the subsidence and inverse condemnation exclusion.
- The Excess Liability Policy features a drop down facility. This ensures that should Metropolitan Water District use up their liability Self-Insured Retention of \$25,000,000, all future covered losses in that policy year will become "first dollar" subject to a \$2,000,000 each and every loss deductible. This is especially important given Metropolitan Water District's catastrophic exposures that could easily eat up their Self-Insured Retention in one single incident.
- One other area of improvement in the liability form is the addition of Employment Practices Liability coverage. This provides recourse for hiring and firing, as well as sexual harassment-type losses.

By obtaining these concessions from the current insurance company, AIG, Metropolitan Water District is availing itself of the current soft market conditions.

Insurance Market Place

The global insurance market continues to remain in this "soft" condition with one or two exceptions. As of this writing, Driver Insurance Services has negotiated a two-year agreement with AIG to provide a premium guarantee to Metropolitan Water District for the second year of the Excess Liability coverage. This is based on no change to the overall exposure and no losses penetrating the excess layer over the next year.

The current trend of the insurance marketplace on a whole is to continue to seek profitable business and offer long-term deals where possible. This will lock-in insureds to the insurance companies during a competitive period.

Given this, it should also be noted that AIG remains one of the most competitive companies, whilst offering cutting-edge coverages as can be seen by the deletion of the subsidence and inverse condemnation exclusion.

The other coverages that Driver Insurance Services has placed for Metropolitan Water District are again subject to the overall current market conditions other than aircraft, which is very volatile depending on current losses worldwide. The Excess Workers' Compensation coverage continues to maintain a very low rate, as does the Crime and Business Development program. As mentioned earlier, the Aircraft policy saw a slight increase in premium due to the recent losses in this area. These increases can be specifically traced back to global losses involving, for example, Value Jet, TWA 800, American Airlines crash in South America and the loss of the Swiss Air flight over the North Atlantic.

Property Evaluation

One area that Metropolitan Water District and Driver Insurance Services have been working on is to produce a Property Coverage Evaluation Report. Over the past year, Metropolitan Water District has compiled a listing of all buildings and structures either owned or that Metropolitan Water District is made responsible for through contractual relationships.

Once the finished report was made available, Driver Insurance Services set about evaluating the cost of insurance and selecting an insurance company to provide coverage terms and conditions. This exercise tied in with the proposed FEMA changes, where it is presumed that public agencies within California will have to purchase some form of catastrophic coverage, i.e. Earthquake and Flood, in the near future.

Travelers Insurance Company was selected to provide a very competitive "All Risk" property quotation, whilst an earthquake and flood quotation was sought from local and international markets. It should be noted that if this type of coverage is to be purchased, it should be done expeditiously as the capacity for such exposures will rapidly diminish as FEMA regulations are finalized and put in place by late 1999 or early Year 2000.

Again, Driver Insurance Services, working with Metropolitan Water District's Risk Management Branch and the various insurance companies, has continued to negotiate savings in premium over last year. Although not as large a drop in premium from last year which saw approximately a 17% reduction, the overall cost savings to the District this renewal has been \$5,634. This could be an indication that the current soft market is bottoming out; however, the competitive nature of insurance companies, as well as buoyancy of the stock market allows the current soft market to continue. MWD should, and does, take advantage of these conditions so far.

III. 1998 - 1999 Contract Year Accomplishments and Activities

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Service Contract

The 1998/99 fiscal year brought us to our second year of the three-year contract between Sedgwick/Driver and The Metropolitan Water District. Below is a chart that summarizes the financial activity so far.

Fiscal Year	Amount Invoiced	MBE/WBE Portion	MBE/WBE Percentage
FY 97/98	\$62,000	\$15,500	20%
FY 98/99	\$65,000	\$16,250	20%
FY 99/00	\$68,000	\$17,000	20%

It should be noted at this point that Sedgwick sold their Public Entity Group to Driver in November of 1998. At that time all clients were purchased as well as all staff of the Sedgwick Public Entity Group. Driver continues in the trend set by Sedgwick, to provide quality services to its core business of Public Entity Clients.

The table above notes revenue to Driver and does not include any commissions or interest income earned from the placement of insurance as Driver is on a strictly fee basis.

Driver has continued to contribute to the District’s goal of ensuring that MWD is provided access to the broadest coverage available at reasonable costs. This includes coverage terms and conditions that are at the cutting edge of the available market, whilst not exceeding budget parameters.

The following activities and accomplishments relate to activities other than the 1999 renewal. The recent renewal will be discussed in section IV.

Administration

The 1998 coverage documents were checked for accuracy and delivered to the Risk Management Branch on time. These were set up in an ISO 9000 format as requested by the Risk Manager. The check-in included policy language review, rate confirmation and certificate issuance. Driver performed a task study for a procedural desk manual and a draft guide was presented to Dickerson for execution.

Excess Liability

The Excess Liability policy was issued by the American International Underwriters group, a member of the American International Companies, A.M. Best rated A++ XV, the highest rating possible. The form used is the UTEL (UTilities Excess Liability). This is a very comprehensive excess liability form that includes public officials errors and omissions coverage, limited sudden and accidental pollution, as well as employers liability, and the deletion of the subsidence and inverse condemnation exclusions.

The business development coverage has been scheduled as underlying to the excess liability policy. This allows any business development losses to erode the excess liability self-insured retention. The aviation policy has also been scheduled as underlying.

Excess Workers' Compensation

The National Union coverage document was received and reviewed. All was found to be in order. A rate of .0208 was used per \$100 of payroll. This was a 60% reduction over the previous year. The District's excellent record, with no losses reported to the excess carrier for yet another year, resulted in this superior rating.

Aircraft Liability

US Aviation Underwriters issued the policy based on the two aircraft exposure. During the term a new aircraft was added to the schedule with one of the aircraft deleted.

Non-owned and hired coverage was added to the program following discussion with the Risk Manager. MWD faces this exposure and it was deemed prudent to add it since the additional cost was minimal.

At this time MWD's new headquarters includes a helipad on the roof and discussions have taken place with the Risk Management Branch regarding exposures and associated risk. This exposure has been mentioned to the underwriters. MWD's coverage includes non-owned and hired for non-fixed wing aircraft as well.

Crime

The crime coverage was renewed with Travelers Insurance Company. No changes to the policy were included. No losses were reported to the carrier.

Special Contingency

We are in the second of a three-year policy period. No changes have been made to this program. Due to certain changes to management structure new details must be provided to the carrier.

Business Development

This coverage provides protection to MWD's design engineers and also products liability for exposures faced by MWD when getting into contractual relationships related to their current scope of work. The Insurance Company of the State of Pennsylvania, a member of the American International Companies, provides coverage in this regard. The premium is based on projected activities for the next 12 months. Coverage is provided up to \$10,000,000.

Other Related Items

- Arranged for Travelers Insurance Company to provide a property site inspection prior to providing property all risk Boiler & Machinery (B&M) coverage proposal.
- Met with Prentis Donegan Finite Risk experts to discuss possibility of integrated risk program incorporating all MWD coverage lines.
- Attended EQE meetings as needed.
- Property program feasibility study.
- First Dollar Workers' Compensation quote.

All Policies limits, self-insured retentions and deductibles have been included in the exhibit section of this report.