



● **Board of Directors**
Business and Finance Committee

5/11/2010 Board Meeting

9-1

Subject

Renewal status of Metropolitan's Property and Casualty Insurance Program

Description

Pursuant to Metropolitan's Administrative Code, this letter reviews the current status of Metropolitan's insurance coverages and anticipated changes for the next fiscal year. The premium estimates are expected costs, but not actual quotes. These expected costs are derived from Metropolitan's broker's experience with market conditions while securing estimates and actual binding quotes for other clients during recent months. The insurance carriers may provide indications to the broker and client as to what to expect regarding capacity for coverage limits, and expected premium rates for the coming year. Actual binding quotes are received once the carriers have completed their review of Metropolitan's underwriting and risk profile information. In June, staff will present a board letter to request authority to purchase insurance based on the quoted premiums for the various lines of coverage. The existing Casualty and Property Insurance Program consists of the following lines of insurance coverage amounts expiring June 2010:

1. \$25 million Aircraft Liability and Hull coverage for assessed value
2. \$5 million Crime coverage for exposures such as fraud, theft, faithful performance and employee dishonesty in excess of a \$150,000 deductible
3. \$75 million General Liability coverage in excess of a \$25 million self-insured retention
4. \$60 million Fiduciary and Employee Benefits Liability coverage in excess of a \$25 million self-insured retention
5. \$65 million Public Officials, Directors and Officers Liability coverage in excess of a \$25 million self-insured retention
6. \$25 million Workers' Compensation, and \$1 million Employers Liability coverage, in excess of a \$5 million self-insured retention
7. \$5 million Special Contingency coverage
8. \$250,000 Travel Accident coverage

Metropolitan's property and casualty insurance policy renewal premiums are generally expected to experience increases of up to 11 percent due to modest insurance industry investment losses, increased exposures arising from the current economic condition, and payroll growth. The excess workers' compensation premium is expected to increase up to 9 percent. The increase is due to expected payroll growth and inflation. [Attachment 1](#) compares the current coverages and premiums to those anticipated for fiscal year 2010/11.

Premiums for excess liability coverage, the largest portion of Metropolitan's casualty insurance budget, are expected to rise about 9 percent, from the current aggregate of \$952,960 to about \$1,027,030. The premium for excess workers' compensation coverage is expected to rise about 9 percent from \$117,611 for the current policy, to about \$129,196 for fiscal year 2010/11. From fiscal years 2002/03 to 2005/06, the self-insured retention for workers' compensation coverage was raised from \$1 million to \$5 million in response to terror-risk-related

premium spikes in that line of coverage. The rationale to increase the self-insured retention has been that the premium saved over a ten-year period would offset the financial risk of a “once in a decade” claim that would exceed the self-insurance coverage in that particular year. That analysis was based on calculations derived from the annual actuarial study. Now that premiums have stabilized, staff is again evaluating the self-insured retention level for this coverage. If premiums are favorable, changes indicated by the actuarial study may be possible this year. Staff is investigating the cost benefit of raising the self-insured retention from \$5 million to \$10 million, and also increasing the policy limits beyond the current \$25 million. In addition, staff continues to evaluate the viability of obtaining other lines of coverage such as fire and flood coverage on all or selected Metropolitan buildings. In past years, it has not been financially favorable to insure these risks with commercial coverage.

Premium costs for other excess and specialty policies will vary by line of coverage. The Aircraft Liability and Hull Policy premium is expected to increase 1 percent due to both inflationary and exposure growth. The cost of the current crime policy is \$14,803. The cost for similar coverage for fiscal year 2010/11, is also expected to increase by about 5 percent. The Fiduciary Liability premium is expected to increase by as much as 10 percent from \$17,032 up to about \$18,700 for this fiscal year. Metropolitan’s three-year term policies for travel accident and special contingency coverages, last purchased in 2007, are also up for renewal. The Travel Accident Policy cost in 2007 was \$27,586. The renewal cost for 2010/11, is expected to be nearly flat at about \$28,000. The Special Contingency policy, last purchased for \$7,809, is also expected to have only a slight increase to about \$8,000. To complete the insurance renewal for fiscal year 2010/11, with similar limits and retentions, and without adding new coverages, staff anticipates renewal costs of approximately \$1.249 million compared with \$1.128 million expended in fiscal year 2009/10.

Policy

Metropolitan Water District Administrative Code Section 6413: Insurance Program requires the General Manager to review any changes to the insurance program.

Metropolitan Water District Administrative Code Section 9101: Risk Retention and Procurements of Insurance requires the procurement of insurance for losses in excess of reserve (\$25 million) as specified in Administrative Code Section 5202.

Fiscal Impact

The total premium is anticipated to increase from \$1.128 million to about \$1.249 million for fiscal year 2010/11.



Fidencio M. Mares
Director of Human Resources

4/27/2010

Date



Jeffrey Kightlinger
General Manager

4/27/2010

Date

Attachment 1 – Insurance Premium Comparison

Ref# cfo12604056

**Metropolitan's Casualty and Property Insurance Program
Insurance Premium Comparison
In Dollars**

Insurance Policy Type	2009/10 Actual Insurance Premium	2010/11 Estimated Insurance Premium	Estimated Insurance Premium Cost Change	Estimated Insurance Premium % Change
Excess General Liability - \$35 million excess of \$25 million SIR	438,344	460,260	21,917	5%
Excess Liability Umbrella [■]	355,928	391,520	35,592	10%
Fiduciary and Employee Benefits Liability - \$35 million excess of \$25 million SIR	17,032	18,700	1,668	10%
Public Officials Directors and Officers Liability - \$25 million excess of \$25 million SIR	141,656	156,550	14,894	11%
Crime - \$150,000 deductible	14,803	15,550	747	5%
Excess Workers' Compensation - \$5 million SIR	117,611	128,196	10,585	9%
Aircraft Liability and Hull	41,867	42,000	133	1%
Special Contingency *	-	8,000	-	0%
Travel Accident *	-	28,000	-	0%
Total Expected Premiums	1,127,241	1,248,776	121,535	11%

■ Total SIR (self-insured retention) and excess insurance coverage equaling \$100 million General Liability, \$85 million Fiduciary and \$90 million Directors & Officers.

* Insurance premiums expiring June 2010; \$7,809 and \$27,586 for Special Contingency and Travel Accident for a three-year of coverage were purchased in July 2007.