



- Board of Directors
Finance and Insurance Committee

5/10/2011 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 lines of insurance and coverage amounts listed below. The coverages expire June 30, 2011, except for the Special Contingency and Travel Accident coverages which expire in 2013.

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. \$50 million Workers' Compensation, and \$1 million Employers Liability coverage, in excess of a \$5 million self-insured retention; statutory coverage for Washington, D.C. employees
7. \$5 million Special Contingency coverage
8. \$250,000 Travel Accident coverage
9. \$25 million Property Damage coverage for stated stored property value and identified locations

Metropolitan's property and casualty insurance policy renewal premiums are expected to experience an overall increase of 5 percent due to the possibility of catastrophic property losses causing premium increases across other lines of insurance coverage; increased financial exposures arising from the current economic condition, and mild inflation. In just the first quarter of 2011, catastrophic property damage is estimated to be nearly \$300 billion for the Japan earthquake, tsunami and nuclear disaster; \$12 billion from the New Zealand earthquake, and additional losses from the floods in Australia. While these economic losses are sure to affect the property insurance market, the effect on general liability and other lines of coverage is still unclear.

Attachment 1 compares the current coverages and premiums to those anticipated for FY 2011/12. Premiums for excess liability coverage, the largest portion of Metropolitan's casualty insurance budget, are expected to rise from 5 to 10 percent from the current aggregate of \$943,592, to about \$1,014,000. Premiums for the excess workers' compensation, and the first dollar coverage policy for Washington, D.C. employees are expected to rise about 5 percent from a combined \$95,642, to about \$100,425 for FY 2011/12. From FY 2002/03 to FY 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 was 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. Because premiums for this line of coverage stabilized and later decreased, Metropolitan maintained the self-insured retention of \$5 million, but raised the coverage limit from \$25 million to \$50 million last year. As premiums are flat to slightly higher than last year, staff anticipates maintaining the same self-insured retention and coverage limit. Beginning in FY 2010/11, Metropolitan purchased a separate "first dollar" policy for the Washington, D.C. employees. That first dollar policy cost \$949 last year, and was included in Metropolitan's total premium figure for Workers' Compensation coverage.

Staff continues to investigate the cost-benefit of various options to maximize coverage values without significantly adding risk or premium cost, and options to reduce premium costs without exposing Metropolitan to substantial increased risk. Staff also reviews and analyzes the suitability of the retention levels and coverage limits with input from actuaries and comparisons with other like organizations. In addition, staff continues to evaluate the viability of obtaining other lines of coverage such as fire, flood and earthquake coverage on all or selected Metropolitan structures. In past years, it has not been financially favorable to insure these risks with commercial coverage because of the volatility of premium costs, and because Metropolitan can raise capital in the event that significant property repairs are required. However, Metropolitan did purchase a limited property policy covering specific sites damaged by the 2009 fall season fires, and ozone equipment stored off site. The policy was originally purchased by Corporate Resources Group with the assistance of Metropolitan's insurance broker, but was outside of the coverages obtained through and managed by the Risk Management Unit. By expanding the coverage for the stored equipment to include sites damaged in 2009 fires, Metropolitan was eligible to obtain reimbursement of over \$500,000 in 2010 from the Federal Emergency Management Agency (FEMA). The Property Damage policy is now included in the coverages managed and renewed through the Risk Management Unit. The cost of the Property Damage policy in FY 2010/11 was \$7,385. The premium is expected to rise about 10 percent to \$8,125.

Premium costs for other excess and specialty policies will vary by line of coverage, but are expected to have mild increases due mostly to inflation. The Aircraft Liability and Hull Policy premium is expected to increase by 5 percent from \$25,876 paid for FY 2010/11 to \$27,200. The cost of the crime policy is expected to increase from \$12,097 to about \$12,700. The Fiduciary Liability premium is expected to increase by as much as 10 percent from \$17,036, to about \$18,750 for this fiscal year. The travel accident and special contingency coverages were purchased last year, and are not up for renewal until 2013.

To complete the insurance renewal for FY 2011/12, with similar limits and retentions, and without adding new coverages, staff anticipates renewal costs of approximately \$1,181,225 compared with \$1,124,594 expended in FY 2010/11. The increase of about \$56,740 represents a total increase of slightly over 5 percent.

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 require 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 \$1,124,594 to about \$1,181,225 for FY 2011/12.



Fidencio M. Mares
Director of Human Resources

4/19/2011
Date



Jeffrey Kightlinger
General Manager

4/26/2011
Date

Attachment 1 – Insurance Premium Comparison

Ref# hr12611545

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

Insurance Policy Type	2010/11 Actual Insurance Premium	2011/12 Estimated Insurance Premium	Estimated Insurance Premium Cost Change	Estimated Insurance Premium % Change
Excess General Liability - \$35 million excess of \$25 million SIR	441,424	474,530	33,107	7.5%
Excess Liability Umbrella [■]	356,015	382,720	26,701	7.5%
Fiduciary and Employee Benefits Liability - \$35 million excess of \$25 million SIR	17,032	18,750	1,720	10%
Public Officials Directors and Officers Liability - \$25 million excess of \$25 million SIR	146,153	156,750	10,600	7.3%
Crime - \$150,000 deductible	12,097	12,700	600	5.0%
Excess Workers' Compensation - \$5 million SIR; and first dollar policy for Washington DC employees	95,642	100,425	4,800	5.0%
Aircraft Liability and Hull	25,876	27,200	1,325	5.1%
Property Damage	7,385	8,125	740	10%
Special Contingency *	5,959		NA	NA
Travel Accident *	27,586		NA	NA
Total Expected Premiums	1,124,594	1,181,225	56,740	5.0%

■ 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 2013 three-year of coverage purchased in July 2010.