



- Board of Directors
Finance and Insurance Committee

5/8/2012 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 consist of the lines of insurance and coverage amounts listed below. The coverages expire June 30, 2012, 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. \$7 million coverage for stated property value

Metropolitan's property and casualty insurance renewal premiums are generally expected to increase about 10.5 percent, with larger premium increases for workers' compensation and property coverage. These increases are attributed to global underwriting losses resulting from catastrophic property damage events potentially causing premium increases across other lines of insurance coverage; increased financial exposures arising from the current economic condition and mild, but increasing inflation. While economic losses are sure to affect the property insurance market, the effect on general liability and other lines of coverage is still somewhat unclear.

Attachment 1 compares the current coverages and premiums to those anticipated for fiscal year 2012/13. Premiums for excess liability coverage, the largest portion of Metropolitan's casualty insurance budget, are

expected to rise up to 10 percent from the current aggregate of \$942,899 to about \$1,037,200. Premiums for workers' compensation and the first dollar coverage policy for Washington D.C. employees are expected to rise up to 15 percent from a combined \$95,559, to about \$109,893 for fiscal year 2012/13. 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 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 in fiscal year 2010/11. As premiums are expected to be slightly to moderately higher than last year, staff anticipates maintaining the same self-insured retention and coverage limit. Beginning in 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 increasing premium cost, and options to reduce premium costs without increasing Metropolitan's risk exposure. Staff also reviews and analyzes the suitability of the retention levels and coverage limits along with input from actuaries and comparisons to other 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 buildings. In past years, it has not been financially favorable to insure these risks with commercial coverage, and because Metropolitan can raise funds if repairs are required. Because of a variety of catastrophic natural disasters during the last five years, premiums for property coverage, particularly earthquake and flood, continue to be volatile.

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 up to 10 percent from \$25,876 paid for 2011/12, to \$28,463 for 2012/13. The cost of the crime policy is expected to increase from \$12,097 to about \$13,307. The Fiduciary Liability premium is expected to increase by as much as 10 percent from \$21,063, to about \$23,170 for this fiscal year. In order to obtain reimbursement of over \$500,000 from the Federal Emergency Management Agency (FEMA) for damages arising out of the 2009 fall season fires, and to protect Ozone equipment stored offsite, Metropolitan maintains property insurance which was \$7,692 last year. The premium for that policy is expected to increase by about 15 percent to \$8,846. The travel accident and special contingency coverages were purchased July 2010, and are not up for renewal until 2013.

To complete the insurance renewal for fiscal year 2012/13, with similar limits and retentions, and without adding new coverages, staff anticipates renewal costs of approximately \$1,198,082 compared with \$1,084,122 expended in fiscal year 2011/12. The increase of about \$113,960 represents a total increase of about 10.5 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 \$1,084,122 to about \$1,198,082 for fiscal year 2012/13.



Fidencio M. Mares
Director of Human Resources

4/23/2012

Date



Jeffrey Nightlinger
General Manager

4/24/2012

Date

Attachment 1 – Insurance Premium Comparison

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

Insurance Policy Type	2011/12 Actual Insurance Premium	2012/13 Estimated Insurance Premium	Estimated Insurance Premium Cost Change	Estimated Insurance Premium % Change
Excess General Liability - \$35 million excess of \$25 million SIR	400,900	440,990	40,090	10%
Excess Liability Umbrella [■]	370,861	407,947	37,086	10%
Fiduciary and Employee Benefits Liability - \$35 million excess of \$25 million SIR	21,063	23,163	2,100	10%
Public Officials Directors and Officers Liability - \$25 million excess of \$25 million SIR	150,074	165,081	15,007	10%
Crime - \$5 million; \$150,000 deductible	12,097	13,307	1,210	10%
Excess Workers' Compensation - \$5 million SIR; and first dollar policy for Washington DC employees	95,559	109,893	14,334	15%
Aircraft Liability and Hull - \$25 million liability coverage	25,876	28,463	2,587	10%
Property Damage - \$7 million for stated property value	7,692	8,846	1,154	15%
*Special Contingency - \$5 million	5,959		NA	NA
*Travel Accident - \$250,000 coverage	27,586		NA	NA
Total Expected Premiums	1,084,122	1,198,082	113,960	10.5%

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