



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

5/12/2020 Board Meeting

9-3

Subject

Renewal Status of Metropolitan's Property and Casualty Insurance Program

Executive Summary

Pursuant to Metropolitan's Administrative Code, this letter reviews the current status of Metropolitan's insurance coverages and anticipated charges for fiscal year (FY) 2020/21. The premium estimates which follow are expected costs, but not actual quotes, at this writing. These expected costs are derived from Metropolitan's broker's experience with our current insurance carriers, other insurers that may be willing to quote our program, and because of the condition of the current marketplace overall. At this writing, we have reasonable confidence that the estimates or "indications" provided by the insurance carriers will not exceed the aggregate total estimated. Our broker will provide actual binding quotes once the insurance 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 those actual quoted premiums for the various lines of coverage.

Details

The existing Casualty and Property Insurance Program consists of the lines of insurance and coverage amounts listed below. Coverages expire June 30, 2020.

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 (D&O) coverage in excess of a \$25 million self-insured retention.
6. Statutory 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. Stated property value up to \$25 million Property Damage coverage limit.

Metropolitan's property and casualty excess and specialty insurance renewal cost is expected to increase by up to approximately *10 percent* over FY 2019/20. The anticipated premium increases are due to the insurance market pricing in three consecutive years of catastrophic losses due to wildfires, storms, and hurricanes, historically low investment yields, and *the anticipated economic fall-out arising from the COVID-19 coronavirus pandemic*. In addition, an increase in law enforcement and road design liability exposure for public entities is also contributing to higher premium costs. Pressure continues on workers' compensation premiums due to higher medical costs and uncertainty over future medical cost trends.

Attachment 1 compares the current coverages and premiums to those anticipated for FY 2020/21. Premiums for the two layers of excess General Liability make up the largest portion of Metropolitan's casualty insurance budget. We expect up to a *12 percent* premium increase from an aggregate amount of \$673,713 for FY 2019/20, to about \$754,560 for the coming year. The excess fiduciary policy premiums are anticipated to also increase by about 12 percent, from \$82,560 to \$92,470. The excess D&O policies are projected to cost \$276,905, up from \$247,237 in FY 2019/20. Premiums for excess workers' compensation, and the first dollar coverage policy for Washington, D.C. employees, are expected to rise up to 10 percent from a combined \$111,058 in the current fiscal year to about \$122,100 for FY 2020/21. From FYs 2002/03 to 2005/06, the self-insured retention for workers' compensation coverage was incrementally 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 premiums 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. Metropolitan's risk exposure has remained stable since that review.

Because premiums for this line of coverage stabilized and then later decreased, Metropolitan maintained the self-insured retention of \$5 million but raised the coverage limit from \$25 million to \$50 million in FY 2010/11. In FY 2015/16, Metropolitan was able to obtain excess workers' compensation coverage with statutory limits over the \$5 million retention without a price increase. As premiums are expected to be moderately higher than last year, at this time, staff anticipates maintaining the same self-insured retention and coverage limit. Over the last five years, excess workers' compensation premiums have remained fairly stable with increases due mostly to increasing medical industry costs. Beginning in FY 2010/11, Metropolitan purchased a separate "first dollar" policy for the Washington, D.C. employees. That first dollar policy cost \$1,358 last year and is included in Metropolitan's total premium figure for workers' compensation coverage.

For all coverages, staff continues to investigate the cost-benefit of various options to maximize coverage values without significantly increasing premium costs and other 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. As long as premium costs and Metropolitan's risk exposures remain stable, the actuarial recommendations for retention and excess coverage levels remain in place. Staff also reviews and evaluates the viability of obtaining other lines of coverage such as fire, flood, cyber liability, and earthquake coverage as risks and needs change. In past years, Metropolitan has not purchased these coverages because it has not been financially favorable, compared with the risk exposure, and because Metropolitan can raise funds if repairs are required.

Premium costs for other excess and specialty policies will vary by line of coverage, but are expected to have mild or moderate increases due mostly to unusually weak insurance industry investment performance, and increased claims payments in some lines of coverage. The Aircraft Liability and Hull Policy premium is expected to increase from \$50,230 paid in FY 2019/20, to approximately \$64,000. The majority of that increase is due to the added cost of insuring a new plane valued at approximately \$2.5 million, compared with the \$476,000 value of the older plane it is replacing. Without having added a more valuable plane, the premium would have risen by up to 10 percent. Metropolitan's Crime policy premium is also anticipated to rise by approximately 10 percent from \$9,788 to approximately \$10,800.

Metropolitan also maintains a property damage policy due to fire damage that occurred near the Diemer Facility in the fall of 2009. This policy was originally purchased in order to obtain reimbursement of over \$500,000 from the Federal Emergency Management Agency for damage repair. Last year, the premium was \$2,379; and due to the wildfire-related losses weighing on the insurance market, it is expected to rise by up to 20% to approximately \$2,855 for FY 2020/21. Metropolitan also carries Travel Accident and Special Contingency three-year duration policies, last purchased in July of 2019, and not up for renewal until 2022/23. In 2019, they cost \$23,310 and \$4,263, respectively.

To complete the insurance renewal for FY 2020/21, with similar limits and retentions, staff anticipates renewal premium costs of about \$1.324 million compared with approximately \$1.205 million for FY 2019/20.

Policy

Metropolitan Water District Administrative Code Section 6413: Insurance Program

Metropolitan Water District Administrative Code Section 9101: Risk Retention and Procurements of Insurance

Fiscal Impact

The total premium costs are anticipated to increase from \$1.205 million to approximately \$1.324 million for FY 2020/21.



Katano Kasaine 4/20/2020
Assistant General Manager/ Date
Chief Financial Officer



Jeffrey Kightlinger 4/20/2020
General Manager Date

Attachment 1 – Metropolitan’s Casualty and Property Insurance Program Insurance Premium Comparison in Dollars

Ref# cfo12675557

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2019/20 Insurance Premiums	2020/21 Estimated Premium Cost	2020/21 Estimated Insurance Premium Cost Change	2020/21 Estimated Insurance Premium % Change
Excess General Liability [■]	\$25 million	\$75 million	673,713	754,560	80,847	12
Fiduciary and Employee Benefits Liability [■]	\$25 million	\$60 million	82,560	92,470	9,910	12
Public Officials Directors and Officers Liability [■]	\$25 million	\$65 million	247,237	276,905	29,668	12
Crime	\$150,000	\$5 million	9,788	10,800	1,012	10.3
Aircraft Liability and Hull	\$1,000	\$25 million	50,230	64,000	13,770	27.4
Excess Workers' Compensation, CA	\$5 million	Statutory	109,700	120,700	11,000	10
Excess Workers' Compensation, D.C.	\$0	Statutory	1,358	1,500	142	10
Property	\$0	Asset value	2,379	2,855	476	20
Special Contingency *	\$0	\$5 million	4,263	NA	NA	NA
Travel Accident *	\$0	\$250,000	23,310	NA	NA	NA
Total Premiums	NA	NA	1,204,539	1,323,790	119,251	9.9

[■] Premium costs for two layers of General Liability, Fiduciary and Employee Benefits Liability, and Public Officials Directors and Officers Liability coverage.

* Three-year policies last purchased July 2019. Premium costs were \$4,263 for Special Contingency and \$23,310 for Travel Accident.