

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No.	<u>7c</u>
Date of Meeting	<u>June 25, 2013</u>

DATE: June 17, 2013
TO: Tay Yoshitani, Chief Executive Officer
FROM: Jeff Hollingsworth, Risk Manager
SUBJECT: Briefing on the Port Property Insurance Renewal for the Policy Year beginning July 1, 2013

SYNOPSIS:

This briefing is on the upcoming Port's property insurance renewal. The Port's current property insurance program expires on June 30, 2013. The Port is in the process of finalizing the purchase of this coverage for the policy year starting on July 1, 2013, and expiring on June 30, 2014.

BACKGROUND:

The Commission presentation will focus on the issues of renewing the insurance property program. The Port's property policy covers many hazards and perils that can cause direct physical damage to Port assets and the ensuing business interruption. It also includes coverage for direct physical loss caused by electrical and mechanical equipment (equipment breakdown coverage). The renewal process for this policy includes updating the Port's underwriter on current assets, revenue streams, and future capital projects. Claims and losses from the current policy year and prior policy years are reviewed as well. The Port uses an insurance broker, Hugh Wood, Incorporated, to help collect and aggregate the renewal data and then submit the data to incumbent and prospective insurance carriers to obtain quotes for the renewal.

The Port's basic property insurance program elements consist of a \$750 million (\$750,000,000) per occurrence limit at a \$1,000,000 per occurrence deductible. Terrorism coverage is provided with a sub-limit of \$350 million per occurrence. Coverage for flood is capped at an annual aggregate of \$25 million above a flat \$1,000,000 deductible. Property insurance coverage extends to contractors of the Port, in addition to the Port, for property damage to the capital improvements that are in the course of construction. This "course of construction" coverage has a maximum limit of \$50 million per project. Projects under construction with values that exceed \$50 million must be specifically underwritten. The Port does not purchase earthquake insurance for its property unless it is part of a stand-alone builder risk property insurance policy specific to a project under construction. Earthquake insurance is not offered at reasonable cost nor at adequate limits for the Port to consider purchasing this coverage.

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The current state of the insurance markets also dictates the type of pricing that the Port will obtain on its renewal. Certain property coverage has remained fairly flat in terms of rate, while other coverage such as wind and flood, and contingent business interruption coverage have had significant rate increases (over 15%) in 2013. The impact of the 2011 Japanese earthquake and tsunami as well as the storms, wild fires, and flooding from 2012 are causing steeper rate hikes to those properties exposed to those perils. The Port in the past year has had its total insurable values adjusted upward about 3% from \$4.323 billion in value to \$4.437 billion in value. Since the Port does not purchase a lot of flood coverage, and is not located in an area subject to frequent wind events, the pricing rate increase to the Port is expected to be well below 15%.

Risk Management will review the final quotes and coverage options that our broker provides and then consider options to limit or enhance coverage. The goal is to minimize cost increases (4% to 6% over last year's renewal) but at the same time not under-insure critical property. Risk Management will review options with division budget and finance staff to get their input prior to binding coverage on June 30.

The insurance was renewed on June 30, 2012, at a cost of \$1,353,000. The renewal cost for July 1, 2013, is anticipated to be between \$1,370,000 and \$1,420,000.

OTHER DOCUMENTS ASSOCIATED WITH THIS BRIEFING:

- Computer slide presentation.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- September 11, 2012 – Briefing on liability insurance renewal.
- June 5, 2012 – Briefing on property insurance renewal.