

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No.	<u>7b</u>
Date of Meeting	<u>June 24, 2014</u>

DATE: June 5, 2014
TO: Tay Yoshitani, Chief Executive Officer
FROM: Jeff Hollingsworth, Risk Manager
SUBJECT: Briefing on the Port Property Insurance Renewal for the Policy Year beginning on July 1, 2014

SYNOPSIS:

This briefing is on the upcoming Port's property insurance renewal. The Port's current property insurance program expires on June 30, 2014. The Port is in the process of finalizing the purchase of this coverage for the policy year starting on July 1, 2014 and expiring on June 30, 2015.

BACKGROUND:

The Commission presentation will focus around 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 basic elements of the property insurance program consist of a \$750 Million per occurrence limit at a \$500,000 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 \$500,000 deductible. Property insurance coverage extends to scheduled assets as well as new assets under construction (up to \$50 Million in value), including renovations to existing assets. The insurance is purchased on a replacement cost basis. The Port does not purchase earthquake insurance for its property or assets but reviews this coverage annually. Earthquake insurance is not currently offered at a reasonable cost nor with adequate limits for the Port to consider purchasing this coverage. The Port did review earlier this year purchasing a catastrophe bond with limits of \$100 Million but the pricing for that exceeded \$3 million in additional premium a year. The bond was deemed to be too costly for the limits offered.

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The current state of the insurance markets dictates in a large part the type of pricing that the Port will obtain on its renewal. Property coverage for the past year has been fairly flat in terms of the rate per value of insured assets. However, catastrophic peril coverage such as for wind, flood, collapse, and earthquake has had rate increases (over 10% to 15%) in 2014. The Port in the past year has had its insurable values adjusted upward about 5.5 % from \$4.437 Billion in value to approximately \$4.700 Billion in value. The value of the Port's insurable assets are the largest cost driver of the Port's insurance costs.

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 premium increases but at the same time not under-insure critical property. Risk Management will review options with division budget and finance to get their input prior to binding coverage on June 30th.

The insurance renewed on June 30, 2013 at a cost of \$1,408,643. The renewal cost for July 1, 2014 is anticipated to be between \$1,490,000 and \$1,510,000.

ATTACHMENTS TO THIS BRIEFING:

- Computer slide presentation.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- September 24, 2013 – .Briefing on liability insurance renewal
- June 25, 2013 – .Briefing on property insurance renewal