PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No. 7a

Date of Meeting September 30, 2014

DATE: **September 10, 2014**

TO: Tay Yoshitani, Chief Executive Officer

FROM: Jeff Hollingsworth, Risk Manager

SUBJECT: Briefing on the Port Liability Insurance Renewal for the Policy Year beginning on October 1, 2014

SYNOPSIS

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

BACKGROUND

The Commission presentation will focus around the issues of renewing the insurance liability program. The primary insurance policies to be renewed include the airport operators general liability, the non-aviation general liability, police professional liability, public official's liability, fiduciary liability, and employee dishonesty (crime). The renewal process for these policies include updating the Port underwriters on current and forecast finances, the operating budget, current and ongoing operations, and on-going and new claims. The Port uses an insurance broker, Alliant Insurance Services, Inc., 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.

Additional factors to those mentioned above, include the strength of the Port's indemnity agreements with its lessees, prime tenants, and contractors as well as in personal and professional service agreements. The distinction between operations the Port controls and runs itself versus what our tenants do is also a factor. The number and magnitude of current and recently closed claims is also part of the underwriting review.

The current state of the insurance markets also dictates the type of pricing that the Port will obtain on its renewal. Cost of coverage for general liability insurance continues to be mainly flat, while areas such as errors and omissions, directors/officers, and public official's liability have had market increases of 2% to 5% compared to 2013. The Port self-insures auto liability for the first million but then insures this exposure (to include all Port vehicle operations) through excess insurance coverage, up to $50 million limit. The size of the Port's fleet has a direct impact on the cost for this coverage.

Each policies specific deductible and the limits of the policy will also impact the cost of coverage. In general, higher deductibles and lower limits will result in lower premium costs. Adding on non-standard coverage such as for terrorism or cyber liability will add to the cost insurance.

One issue that could potentially impact coverage in the upcoming year, following the renewal, is the outcome of the proposed re-authorization of the Terrorism Risk Insurance Program Reauthorization Act. Following 9/11 – insurance companies added exclusions into their policies to void coverage for losses caused by acts of terrorism. Congress in 2002 passed the original Terrorism Risk Insurance Act. This original act, which has been extended several times, will expire on 12/31/2014.

The House and the Senate currently have two bills that are in committee which would both extend the act (coverage) and modify the current structure of the coverage. The Senate version has already passed its committee vote in June of this year. The House version has not been put to committee vote. Both versions have differences, but essentially continue having the Federal Government serve as a backstop (or excess carrier) behind primary insurance issued by licensed private carriers. The House Bill would clarify the process in how a terrorism event is certified, as currently, the language on what exactly constitutes a covered terrorism event is unclear; as well as who exactly would make this certification.

For many companies, the terrorism backstop that the TRIA (Act) coverage provides, allows private insurers to continue to offer terrorism coverage under workers compensation policies. The Port currently is 100% self-insured for workers compensation, thus, whether the Act is reauthorized or not, does not impact this exposure area of the Port. However, the Port does purchase terrorism coverage for exposures that are non-aviation related, thus the failure of the act to pass in Congress could impact Port renewals in 2016. The Port has not purchased terrorism coverage through the Act for its airport liability exposures. This has been due to cost, and the uncertainty in what defines a covered terrorism activity in accordance with language in the Act. Terrorism coverage is available in the surplus lines markets and in the London syndicates, outside of what the Act provides; however there are limitations on limits of coverage per event, annual caps on coverage as a whole, and narrowly written coverage forms. The Port, for its property insurance policy (renewed on July 1, 2014), has a non-TRIA terrorism coverage sublimit as part of that policy.

The Port is also looking to purchase cyber coverage for its network exposures to include data breach, privacy liability, network security, and network extortion. The Port has not purchased this coverage in the past. In the past five years, coverage forms for these exposures have improved in terms of the coverage available to the insureds, limits have gone up, cost of coverage has gone down, and exclusions in the policies been made more clear. At the same time, exclusions for wrongful acts, and other liabilities associated with running a network have been added to traditional policies purchased by insureds. Thus, the cyber liability coverage policies now offered, in some ways add back coverage that the Port's other policies now exclude. Risk Management is working with ICT in reviewing the coverage, terms and conditions, and assisting with the completion of the information the underwriters need in order for to make a quote of coverage to the Port. It is estimated the cost of the coverage will be $60,000 to $70,000. This additional cost could be accommodated within the 2014 insurance budget.

Risk Management will review quotes our broker provides and then consider options to limit or enhance coverage. The goal is to minimize cost increases but at the same time not under-insure critical operations. Risk Management will review options with division budget and finance to get their input prior to binding coverage on September 30th.

The insurance renewed on September 30, 2013 at a cost of $801,000. The renewal cost for September 30, 2014 is anticipated to be between $805,000 and $815,000 (or $870,000 to $885,000 with cyber coverage).

ATTACHMENTS TO THIS BRIEFING

- Computer slide presentation.