

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**

**ACTION ITEM**

**Item No.** 4b

**Date of Meeting** January 12, 2016

**DATE:** January 5, 2016

**TO:** Ted Fick, Chief Executive Officer

**FROM:** Jeff Hollingsworth, Sr. Manager Risk Management

**SUBJECT:** Insurance Broker Services – Liability Insurance Program

**Amount of This Request:** \$385,000

**Source of Funds:** Operating Budget

**ACTION REQUESTED**

Request Commission authorization for the Chief Executive Officer to execute a contract with an insurance brokerage firm for the purpose of procuring liability insurance for the Port over a three-year period with two one-year extension options. The procurement of liability broker insurance services for the three years plus the two one year renewal options is estimated at \$385,000. The selection of the brokerage firm will utilize a competitive process.

**SYNOPSIS**

The Port purchases liability insurance to protect against third party claims and litigation and uses a licensed broker to approach markets, solicit bids, negotiate terms and coverage, and bring back options for the Port to make a purchasing decision. The current liability insurance for the Port expires on September 30, 2016.

Neither the Port nor other private or public entities with the operational size of the Port can efficiently approach and negotiate directly with insurance carriers with respect to the insurance transactions involved in binding adequate coverage. Firms like the Port use licensed brokers to facilitate this process and secure the best terms and coverage cost effectively.

Upon selection of the broker, the Port will utilize the broker to submit insurance marketing information, applications, and specifications to various insurance markets to solicit bids on liability insurance coverage. The broker will be licensed in accordance with RCW 48.17 and authorized to serve as a broker (agent) of the Port in these transactions. Premium payments for insurance will be paid directly to the broker who in turn will pay the insurance companies. The broker will also provide on-going service throughout the policy year in other areas such as notice of claim submissions, claim evaluation and consulting, loss prevention, contract reviews, issuance of bonds, coverage reviews, endorsement issuance, and insurance certificate issuance.

The scope of work will be in effect in 2016 through 2018 with two additional one-year extension options for 2019 and 2020 (insurance to expire on September 30, 2021). The Port's liability

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insurance renews annually and is purchased prior to or no later than October 1 for the ensuing 12 months.

### **BACKGROUND**

The Port is currently using Alliant Services for the purchase of liability insurance (through September 30, 2016). Alliant is currently partnering with a qualified small business insurance broker for the procurement of some of the purchased insurance. The cost of the expiring 12-month liability insurance premium is roughly \$885,000.

### **REQUEST JUSTIFICATION AND DETAILS**

The Port utilizes the services of a Washington State licensed broker to facilitate the purchase of insurance. Licensed brokers have the ability to find suitable insurance carriers that have the financial strength and interest in insuring Port operations. Due to the size of the Port's total operations, there are several insurance companies who provide coverage under different policies.

The licensed broker also has the ability to purchase bonds the Port needs such as street use, pension and notary bonds. The broker also issues evidence of insurance to interested third parties that arise out of leasing operations.

The Port purchases excess non-aviation commercial general liability insurance that covers losses involving actual or alleged bodily injury and property damage that arises from claims made against the Port by third parties. This is a primary policy with a \$1 million per occurrence (claim) retention and a limit of \$10 million per occurrence. Excess to this primary policy is a policy with coverage up to a \$50 million per occurrence limit, which provides coverage for Port non-aviation exposures such as the cargo, cruise, marina, real estate, and terminal operations.

The Port purchases a separate airport operator's insurance policy that covers liability claims from third parties that involve property damage and bodily injury that arise out of airport operations. The limit of liability is \$500 million with a \$1 million per occurrence (claim) retention.

Liability insurance is also purchased to cover exposures and liabilities that could stem from the wrongful or non-intentional acts of Port employees, directors, and Commissioners (Public Official Liability) and employment practices liability (\$10 million aggregate limit/\$1 million per claim retention); fiduciary liability (\$5 million limit/no-deductible), and law enforcement liability (\$10 million limit/\$1 million per wrongful act retention).

### ***Request Objectives***

To hire a brokerage firm who is licensed to place and bind appropriate liability insurance coverage for the Port at the least cost.

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### ***Scope of Work***

The Port will competitively procure broker services for the purposes of procuring liability insurance. The services the broker will provide include:

- a. The utilization of a qualified small business, minority owned business, or disadvantaged business enterprise, are being evaluated. If there are small business opportunities available, they will be included in the evaluation and selection process
- b. Submission of marketing specifications to various insurance markets for the purposes of soliciting quotes on coverage from qualified and financially solvent insurance markets.
- c. Evaluate alternative risk financing possibilities in lieu of standard liability coverage.
- d. The execution of all insurance purchase transactions in both the admitted and surplus markets. Premiums will be paid to the broker who in turn pays the respective insurance companies.
- e. Serve as the Port's insurance broker of record. Insurance transactions have to be done by licensed and bonded brokers or agents as defined in the Revised Code Washington.
- f. Issue all policy endorsements, bonds, insurance certificates, and notices of claim as requested by the Port.
- g. Monitor the financial solvency of insurance companies who are insuring the Port and replace carriers as needed if they fall below an acceptable financial solvency rating.
- h. Identify and evaluate new insurance carriers who are proposing on Port business for the various lines of liability coverage the Port purchases.
- i. Provide insurance support services in the area of loss control and underwriting studies as requested by the Port.
- j. Review new contracts upon request in which the Port is being asked to indemnify and insure the other party to the agreement.

### ***Schedule***

The Port will hire a broker by March 1, 2016, to allow for binding of liability insurance coverage on October 1, 2016.

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### **FINANCIAL IMPLICATIONS**

The estimated cost of the liability insurance and associated servicing fees are as follows:

- a. October 1, 2016 - Liability insurance at \$900,000 with up to \$77,000 for service fees
- b. October 1, 2017 - Liability insurance at \$910,000 with up to \$77,000 for service fees
- c. October 1, 2018 - Liability insurance at \$950,000 with up to \$77,000 for service fees

Option to Extend – Two One-Year Terms

- d. October 1, 2019 - Liability insurance at \$980,000 with up to \$77,000 for service fees
- e. October 1, 2020 - Liability insurance at \$1,000,000 with up to \$77,000 for service fees

The request for authorization is only for the broker service fees and not for purchase of insurance. The purchase of insurance is delegated to the Chief Executive Officer under the General Delegation of Authority and does not require additional approval.

### **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1) – Self-insure all casualty risks without commercial insurance.** The Port is not required by statute to purchase liability or casualty insurance. The Port could choose to wholly self-insure all casualty risks without any commercial insurance. While this would appear to be cheaper, over the long run, a single event could result in liabilities and cost that far exceed any savings received by not purchasing any commercial insurance. This could have a severe financial impact on the Port in the event of a major event in which the Port was found partially or wholly liable. The Port currently balances self-insuring some risks along with some commercial insurance, which reduces cost while protecting the Port against a large unforeseen event. If the Port wholly self-insured all casualty risks, without any commercial insurance, it would not require the services of a licensed insurance broker. This is not the recommended alternative.

**Alternative 2) – Using staff resources to purchase commercial liability insurance coverage without a broker.** A licensed broker is able to find and connect interested and financially capable insurance companies with the Port. Licensed brokers have a number of different insurance companies around the world that they can and have transacted business with on a year-to-year basis. They also have knowledge of new insurance carriers who have the solvency to underwrite large accounts like the Port's.

The Port currently does not have the resources or staff to perform the functions of an insurance broker. The Port would need to add a staff person to research and generate interest from carriers to do business directly with the Port. Many carriers only transact business through a licensed brokerage house and do not deal directly with policy holders. Attempting to approach the insurance markets directly would require a lot of work and travel from a staff person, with results that would not likely generate a lot of competitive interest from insurance carriers. This approach could result in finding inadequate insurance or no insurance at all to cover a large unforeseen event. This is not the recommended alternative.

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**Alternative 3) – Hire a licensed broker to secure commercial liability insurance.** A licensed broker has the ability to negotiate insurance rates, terms, and coverage, and select carriers that meet the financial solvency requirements of the Port. Licensed brokers have the ability to conduct this search on a worldwide basis in a cost-effective manner. A licensed broker will also assist the Port in its bonding program and in providing evidence of insurance where required by contracts. **This is the recommended alternative.**

## **ATTACHMENTS TO THIS REQUEST**

- None

## **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

- September 8, 2015 – Presentation to the Commission on liability insurance program renewal.
- January 14, 2011 – The Commission authorized procurement of liability broker insurance services.