

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No. 7e
Date of Meeting September 27, 2016

DATE: September 20, 2016
TO: Ted Fick, Chief Executive Officer
FROM: Jeff Hollingsworth, Sr. Manager Risk Management
SUBJECT: Report on the Port Liability Insurance Renewal for the Policy Year beginning on October 1, 2016

SYNOPSIS

This report is on the upcoming Port's liability insurance renewal. The Port's current liability insurance program expires on September 30, 2016. The Port is in the process of finalizing the purchase of this coverage for the policy year starting on October 1, 2016, and expiring on September 30, 2017. Under the current delegation of authority, the CEO has the authority to purchase the insurance.

BACKGROUND

The update will focus around the issues of renewing the insurance liability program. The insurance policies to be renewed include the airport operator's general liability, the non-aviation general liability, law enforcement 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, changes in organizational structure, and on-going and new claims. The Port uses an insurance broker (Alliant) 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.

Airport Liability Insurance - General:

The Port purchases an airport operator's primary and excess general liability insurance policy which covers liability claims from third parties that involve property damage and/or bodily injury that arise out of airport operations. The current limit of liability is \$500 Million (\$500,000,000) with a \$1 Million (\$1,000,000) per occurrence (claim) retention. Coverage for events stemming from terrorism and/or war (broadly defined as malicious acts) are excluded from the expiring policy. The renewal proposal includes an option to add terrorism and war coverage to the first \$100 Million (\$100,000,000) of coverage for an additional premium of \$14,000.00. The war risk coverage which includes malicious acts coverage (such as those acts of a single individual not associated with a political group) will provide the Port broader coverage at the airport than what it has today.

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Airport Operations General Liability- Additional Insurance:

The Port discussed liability exposure and coverage options for the proposed employee screening operation at the airport, with its insurer Chubb. Some of the Port's potential liability for this proposed operation would be covered under the terms of its current policy. However, adding coverage for terrorism and for malicious acts would reduce the Port's financial exposure should an act occur in which the Port is a defendant in a law suit for injury or property damage by one or more injured third parties. Adding this coverage removes several exclusions that the current policy has for these types of acts. The Port has received quotes for adding this coverage and is planning on adding this coverage when binding the renewal coverage. The Port's ramp control tower operator, Robinson Aviation, is an insured on this policy to cover the liability exposure of aircraft movement on the ramp area. The airport liability policy is underwritten by Chubb Insurance and this is who the Port will renew this coverage with.

General Port Public Entity Liability Insurance:

The Port purchases a public entity commercial general liability policy (bodily injury and property damage coverage) which covers losses involving actual or alleged bodily injury and/or property damage that arises from claims made against the Port by third parties for non-aviation exposures and operations. This expiring policy has a \$1 Million per occurrence (claim) retention and a limit of \$10 Million per occurrence. The renewal proposal has options for different self-insured retention levels that range from \$750,000 per occurrence (claim) up to \$3 Million per occurrence (claim). This policy also covers exposures and liabilities that could stem from the wrongful or non-intentional acts of Port employees, directors, and Commissioners, and employment practices liability. This policy also covers alleged and actual wrongful acts of the Port's Police operations. This policy will be endorsed to add the Northwest Seaport Alliance (NWSA) as an additional insured with regards to claims and litigation brought against the NWSA.

General Port Public Entity Liability Insurance- Excess Coverage:

Excess to this public entity commercial policy is an excess policy with coverage up to a \$50 Million (\$50,000,000) per occurrence limit, which provides coverage for Port marine exposures (cargo, cruise, marina, and terminal operations). This excess liability policy also includes coverage for the Port's non-aviation operational, automobile, employee benefits, and foreign liability exposures. Coverage includes claims resulting from bodily injury and property damage arising from terrorism acts (under the Terrorism Risk Insurance Program Reauthorization Act of 2007 and Reauthorized in 2015). This policy will also be endorsed to add the Northwest Seaport Alliance (NWSA) as an additional insured with regards to claims and litigation brought against the NWSA. The Port is getting quotes to add additional limits of coverage on this policy for the NWSA properties, primarily to match the limits the Port of Tacoma purchases. The addition of

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\$100 Million (\$100,000,000) of limits for the Port, to match Port of Tacoma, would add roughly \$40,000 of premium to the renewal. Part of this cost would be allocated to the NWSA. The Port will also renew its stand-alone terrorism policy, to provide coverage over several policies, provided by Lloyd's of London syndicates. This policy has a \$15 Million (\$15,000,000) limit and there are no restrictions or requirements relative to defining a certified act of terrorism. Coverage would apply to any Port location or operation.

Specialized Liability Insurance:

The Port also purchases smaller policies with limits that range from \$ 1 Million to \$5 Million that cover its liabilities associated with its role as a fiduciary for Port sponsored employee benefit plans, employee dishonesty policy (also known as a fidelity bond), and for liabilities associated with foreign travel. The foreign travel policy has coverage for emergency medical expenses and coverage for kidnap and ransom. The Port self-insures its workers' compensation exposure. The Port self-insures all automobile liability exposures and claims up to \$ 1 Million per claim. The Port is pricing out an option to buy first party coverage on its very large fleet vehicles such as the fire department crash vehicles, fire department striker and Oshkosh vehicles, the incident command vehicle, and other vehicles valued at over \$200,000 per vehicle.

Cyber Liability Insurance:

The Port in 2014 added a cyber-liability policy that has limits that range up to \$5 Million depending on the liability, such as a breach, breach notification costs, monitoring costs, extortion, damage or loss of data, fines associated with payment card industry compliance (PCI) or liabilities around loss of personal and private protected information. The cyber policy provides coverage for cyber liabilities that are excluded from coverage in its other liability policies. The cost of this coverage for this renewal is essentially flat compared to last year.

Overview of Liability Insurance Renewal Process:

The Port's renewal rate for insurance depends heavily on 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 Risk Management Department works diligently to ensure that contracts have the protections with regard to insurance and indemnity that minimize the impact to the Port for losses and damages that stem from the work or operations of Port tenants and contractors.

Another underwriting factor is the distinction between operations the Port controls and runs itself versus what our tenants do. The number and severity of recent paid claims and litigation as well as reserves on open claims and litigation is also part of the underwriting review. Examples of Port operations (that the Port manages) that the underwriters review

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closely include the rental car busing operation, the airport airfield CoBus operations which are expected to increase, our anticipated cruise activity for 2017, marina operations, and airport parking.

The current state of the insurance markets also dictates the type of pricing that the Port will obtain on its renewal. Currently the markets are such that renewal rates for liability programs are running about 2% to 3% increase, unless there are large losses or reserves on open claims associated with the account. Early indications for the Port's 2017 renewal indicate a 40% increase in the cost of its public entity primary liability policy due to long tail litigated claims, and the reserved legal costs associated with these litigated claims. Port Risk Management is working with its broker to move this coverage to another insurance carrier and adjusting the self-insured retention to mitigate against the price increase.

Other Renewal Considerations:

Risk Management will review quotes from our broker and then consider options to limit proposed price increases. The goal is to minimize cost increases but at the same time not under-insure critical operations. Risk Management will review renewal options with division budget and finance leaders and obtain their input prior to binding coverage on September 30th. Coverage the Port does not have is excess workers compensation coverage, for which we are 100% self-insured. Quotes were received for this coverage and pricing ranges from \$210,000 to over \$300,000 with a self-insured retention options between \$1 Million (\$1,000,000) to \$5 Million (\$5,000,000). Discussions are being held internally to see if the Port wants to purchase this coverage.

Estimated Cost of 2016-2017 Liability Insurance Renewal:

The insurance renewed on September 30, 2015 at a cost of \$881,000. The renewal cost for September 30, 2016 is anticipated to be between \$875,000 and \$930,000. Insurance costs are anticipated to be within the amount put into the 2016 budget. This does not include any costs for excess workers compensation coverage.

ATTACHMENTS TO THIS BRIEFING

- None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- September 8, 2015 – Briefing on liability insurance renewal.
- June 28, 2016 – Briefing on property insurance renewal.