



**COMMISSION
AGENDA MEMORANDUM**

Item No. 4c

ACTION ITEM

Date of Meeting November 22, 2016

DATE: November 14, 2016
TO: Ted Fick, Chief Executive Officer
FROM: Jeff Hollingsworth, Sr. Manager Risk Management
SUBJECT: Property insurance broker services 2017

Amount of this request: \$450,000
Total estimated project cost: \$450,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a contract with an insurance brokerage firm for the purpose of procuring property insurance for the Port over a three-year period with two one-year extension options. The procurement of property broker insurance services for the three years plus the two one-year renewal options will utilize a competitive process and is estimated at \$450,000.

EXECUTIVE SUMMARY

The Port uses insurance brokerage services to assist in the purchase of property insurance from various insurance carriers. The current property insurance brokerage contract for the Port expires on March 19, 2017. Upon selection of a broker, the Port will utilize the broker to submit insurance marketing information, applications, and specifications to various insurance markets to solicit bids on property 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, pressure vessel inspections, loss prevention, endorsement issuance, and insurance certificate issuance. The scope of work will be in effect in 2017 through 2020 with two additional one-year extension options for 2021 and 2022 (insurance to expire on June 30, 2023).

The Port's property insurance renews annually and is purchased prior to or no later than July 1 for the ensuing 12 months.

Meeting Date: November 22, 2016

JUSTIFICATION

The Port purchases property insurance to provide recovery dollars in the event of physical damage to Port assets. The Port will competitively procure broker services for the purposes of procuring property insurance for Port assets. 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 to insure Port assets. Neither the Port nor other private or public entities with the operational size of the Port can approach and negotiate directly with most insurance carriers with respect to the insurance transactions involved in binding adequate coverage. Firms like the Port use a licensed broker to secure the best terms and coverage at a cost-effective price.

The solicitation process will evaluate the availability of qualified small business, minority owned business, or disadvantaged business enterprises that can do this work. If there are small business opportunities available, they will be included in the evaluation and selection process.

DETAILS

The Port is currently using Hugh Wood Inc. for the purchase of property insurance through June 30, 2017. The cost of the current annual property insurance premium renewed on June 30, 2016 was \$1,404,465.

Scope of Work

The services the broker will provide include:

- (1) Submission of marketing specifications to various insurance markets for the purposes of soliciting quotes on coverage from qualified and financially solvent insurance markets.
- (2) Coordinate with the selected insurer the completion of all state and city required pressure vessel inspections.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) Coordinate additional coverage for new capital projects as needed to ensure assets under construction are adequately insured during the course of construction.
- (7) Provide insurance support services in the area of loss control, property valuations, and underwriting studies as requested by the Port.

Meeting Date: November 22, 2016

Schedule

The Port will hire a broker by April 1, 2017, to allow for binding of property insurance coverage on July 1, 2017.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not hire a licensed insurance broker and do not purchase commercial property insurance.

Cost Implications: There are no direct costs to the Port with this option.

Pros:

- (1) The Port is not required by statute to purchase property insurance. The Port could choose to wholly self-insure all property assets any commercial insurance. If the Port self-insured all property risks, without any commercial insurance, it would not require the services of a licensed insurance broker and would generate premium savings.

Cons:

- (1) This could have a severe financial impact on the Port if a catastrophic unforeseen event damaged one or several of the Port’s properties. This would require the need to use other funds for repairs or rebuilding critical facilities. This could then impact the Port’s funding of future projects if funds have to be diverted for rebuilding assets in lieu of developing future projects.
- (2) No other public entities similar in size to the Port use this approach.

This is not the recommended alternative.

Alternative 2 – Do not hire a licensed insurance broker and try to purchase sufficient commercial property insurance coverage without a broker.

Cost Implications: The Port would save on broker service fees but not on the insurance itself.

Pros:

- (1) The Port could seek insurance companies who may work directly on providing the Port a policy for property insurance, and thus save on the fee for a broker.
- (2) In the event of a claim involving the insurance, the Port could negotiate directly on the adjustment of the loss rather than dealing with its broker.
- (3) There is the opportunity of more tailored servicing by dealing directly with an insurer.

Cons:

- (1) There is only one identifiable property insurer who would work directly with the Port. This could reduce competition on price.
- (2) If the Port needed specialized insurance the selected insurer may not have the ability to meet this need, thus then requiring the Port to hire a broker to find suitable coverage for the specialized need.
- (3) If the Port could not reach agreement on the price or on terms of coverage with the direct insurer, the Port could end up with no coverage (Alternative 1 above).

Meeting Date: November 22, 2016

- (4) The Port does not have the staff or resources to perform the functions of an insurance broker. The Port does not purchase enough insurance throughout the year to justify adding this resource internally.

This is not the recommended alternative.

Alternative 3 – Hire a licensed broker to search the property insurance market place and bring back proposals from various insurance carriers who have the ability to provide the various property policies of insurance that the Port needs.

Cost Implications: \$ 90,000 estimated average annual broker service fee.

Pros:

- (1) The benefit of using a licensed broker is the broker’s ability 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 transact 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.
- (2) The cost of using a broker is less than 10% of the cost of the policy itself. The savings in the insurance product through a competitive selection of insurance using a broker, and the ability of the broker as an intermediary will often cover the cost of the broker service fee.
- (3) Using a broker frees up staff time to focus on other projects and tasks.
- (4) In the event of an insurance claim, the broker has access to adjusters and loss investigators that can speed up the adjustment of the claim and negotiate the claim directly with the insurer using internal resources the Port does not have.
- (5) In the event a project or an acquisition would require additional property insurance, the broker would have the ability to procure this coverage in a cost effective manner by reaching out to appropriate insurance carriers who could cover this need.

Cons:

- (1) A service agreement takes time to solicit and procure, and then manage over the term of the contract.
- (2) If a broker is selected, and the ensuing performance is poor, or the insurance proposals that the broker provides to the Port are unsatisfactory, the Port may end up with insurance that does not meet its needs.
- (3) In the event the Port is not happy with the selected broker, the Port would have to terminate the contract, and initiate a new solicitation process to find a replacement broker.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

The estimated cost of the property broker services fee on an annual basis is \$90,000.

Meeting Date: November 22, 2016

The request for authorization is only for the broker service fees and not for purchase of insurance.

Annual Budget Status and Source of Funds

Funding will be included in the annual operating budgets of Corporate Division.

ATTACHMENTS TO THIS REQUEST

None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

June 28, 2016 – Commission briefed on the renewal of the property insurance program.

August 2, 2011 – Commission authorized request for property insurance broker services.