



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 8f

**ACTION ITEM**

**Date of Meeting** November 9, 2021

**DATE:** November 1, 2021  
**TO:** Stephen Metruck, Executive Director  
**FROM:** Jeff Hollingsworth, Director, Risk Management  
**SUBJECT:** Insurance Broker Services – Property Insurance Program

**Amount of this request:** \$550,000  
**Total estimated project cost:** \$550,000

**ACTION REQUESTED**

Request Commission authorization for the Executive Director 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 \$550,000.

**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 at the end of March 2022. 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 for the Port’s current assets as well as builder risk insurance for future major capital projects during their construction. The Port’s portfolio of assets insured is valued at over \$6.8 billion dollars.

The broker will be licensed in accordance with RCW 48.17 and authorized to serve as a broker (agent) of the Port in all insurance transactions. Premium payments for insurance will be paid directly to the broker who in turn will pay the insurance carriers. The broker will also provide on-going service throughout the policy year in other areas such as property loss control; mandatory jurisdictional pressure vessel inspections as required by the State of Washington and City of Seattle; claim advocacy, and the evaluation of specialized insurance products for certain hazards such as earthquake, tsunami, and flooding.

The scope of work will be for an overall three-year term, with two additional one-year options which would make it a five-year term, from March 29, 2022 to March 29, 2027. The Port’s property insurance renews annually and is purchased prior to or no later than July 1 for the ensuing 12 months.

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### **JUSTIFICATION**

The Port purchases property insurance to provide recovery dollars in the event of physical damage to Port assets. The Port utilizes the services of a WashingtonState 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**

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

### ***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 lines 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 must 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 insure the Port and replace carriers as needed if they fall below an acceptable financial solvency rating.
6. Coordinate and purchase appropriate property insurance coverage for new capital projects while they undergo construction. This coverage known as "builder's risk insurance" provides insurance for the physical asset or improvement being constructed. The insurance covers both the interests of the Port and the contractor. The insurance protects against physical damage and loss to building and contents while being built. Following completion, the improvement is then added to the schedule of insurable property on the main Port insurance schedule. Thus, this coverage is only in effect during construction.

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7. Provide insurance support services in the areas of loss control, property valuations, and underwriting studies as requested by the Port.
8. Provide insurance upon request for certain valued goods and products purchased by the Port while in transport to the Port from the vendor.
9. Provide special insurance as required by contract for goods and other property not owned by the Port but either lent or in the possession of the Port by contract or other agreement. This includes items such as TSA explosion detection screening machines and/or art exhibits being lent to the Port for display purposes.
10. Provide the purchase of property insurance to the North Harbor Port properties that are managed by the Northwest Seaport Alliance.
11. Provides the purchase of property insurance to the North Harbor Port properties that are managed by the Rental Car Facility.

### ***Schedule***

The Port will hire a broker by April 1, 2022, to allow for binding of property insurance coverage on July 1, 2022.

### **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 without the purchase of 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.
2. The immediate savings would be the \$2.5 million in premium (cost of recent insurance for one year) and the \$110,000 for broker services.

#### Cons:

1. This could have a severe financial impact on the Port if a catastrophic unforeseen event caused physical damage to one or several of the Port's properties. The premium savings in any one year, say \$2.7 million would be substantially less than the cost to rebuild a major facility should such a loss occur from a natural or man-made peril. 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 or completion of current projects underway if funds have to be diverted for rebuilding assets in lieu of developing future projects. It could also impact the short-term cash and liquid asset savings the Port carries for immediate cash use if these are used to fund a large loss.

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2. FEMA (Federal Emergency Management Association) which provides monetary assistance following large scale disasters is a potential source of funds, however, their relief is contingent on the entity carrying property insurance on the property that is damaged (or property that could be damaged in the future).
3. The property insurance program funds the required jurisdictional pressure vessel inspection and certification program that is required by both the City of Seattle and State of Washington. The Port would have to pay another source to do these inspections which takes one person about 9 weeks of work on site. The fee to do this specialized work would be roughly 2/3 of the estimated broker fee of \$110,000 or \$73,333.
4. No other public entities similar in size to the Port use the approach of wholly self-insuring their assets without any form of commercial insurance.
5. Not using commercial insurance in some form would be viewed by the public as not properly taking care of the assets that are under the Port's stewardship.
6. Large capital projects which require a builder risk insurance policy would require the contractor to purchase this policy instead of the Port. This would be at a much higher cost than the Port could purchase such a policy if it were purchasing commercial property insurance.
7. No other public entities similar in size to the Port use the approach of wholly self-insuring their assets without any form of commercial insurance.
8. Not using commercial insurance would be viewed by the tax paying public as not properly taking care of the Port's assets.
9. The NWSA and the RCF utilize the Port properties for their operations and there is an expectation that the Port will adequately insure these important properties.

***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 for property insurance, and thus save on the fee for a broker, which could save \$110,000.
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 that the Port knows about. This could be problematic if this insurer declined to offer coverage for certain perils or had limited capacity to insure certain types of property.

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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. This would require a broker fee and could apply to specialty coverage the Port currently includes in its property insurance such as active assailant coverage; first party mobile equipment coverage and terrorism coverage.
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).
4. The property insurance program funds the required jurisdictional pressure vessel inspection and certification program that is required by both the City of Seattle and State of Washington. The Port would have to pay another source to do these inspections which takes one person about 9 weeks of work on site. The fee to do this specialized work would be roughly 2/3 of the estimated broker fee of \$110,000 or \$73,333.
5. Port would have to add a person to perform the broker services as current staff could not handle this added task with current staffing.
6. In the event of an insurance claim, a broker can offer services to adjust the loss and assist in the repairs or providing resources to minimize loss and damage. This includes access to 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. This would include damage assessment and damage mediation. The Port would have to provide all this on its own.
7. In the event a new capital project or an acquisition, the broker has the resources to obtain coverage quickly and facilitate any requirements of the purchase. This would include any insurance the local jurisdiction may require.
8. Property insurers have available resources in code compliance, fire and life safety regulations, and other regulatory areas to assist the policy holder, often at no charge as a benefit to the policyholder and the insurer if building and property are in compliance with codes and properly protected with engineered fire and life safety systems.

***This is not the recommended alternative.***

**Alternative 3** – Hire a licensed broker to search the property insurance marketplace and bring back proposals from various insurance carriers who can provide the various property policies of insurance that the Port needs and provide the resource for the pressure vessel inspection and certification needs imposed by the State and City of Seattle.

Cost Implications: \$ 110,000 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 contacts with several different insurance companies, around the world that they transact business with on a day-to-day basis. They also have knowledge of new insurance carriers who have the solvency to underwrite large accounts like the Port. They can also negotiate coverage terms and price for the Port.

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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 to serve as an intermediary will cover the cost of the broker service fee.
3. Using a broker frees up staff time to focus on other projects and tasks and thus reduces need for staff. The broker also stays current on trends and legal changes that affect insurance which Port staff does not have the time to do themselves.
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. The insurance company will also have specialty forensic firms to assist in the damage assessment and damage mediation
5. In the event a new capital project or an acquisition, the broker has the resources to obtain coverage quickly and facilitate any requirements of the purchase. This would include any insurance the local jurisdiction may require.
6. Property insurers have available resources in code compliance, fire and life safety regulations, and other regulatory areas to assist the policy holder, often at no charge as it is a benefit to the policyholder.

### 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 or is too costly for the coverage obtained.
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 \$110,000.

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 budget Risk Management within the Corporate Division.

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**ATTACHMENTS TO THIS REQUEST**

None

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

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

November 22, 2016 – Commission requested to authorize funds to procure property insurance broker services for the 2017-2022 policy years using a competitive process.