



Agenda Item No. 4

To: Finance-Auditing Committee/Committee of the Whole
Meeting of February 13, 2009

From: William L. Stafford, Director Risk Management/Safety
Z. Wayne Johnson, Deputy General Manager, Administration/Development
Joseph M. Wire, Auditor-Controller
Celia G. Kupersmith, General Manager

Subject: **STATUS REPORT OF THE MARINE INSURANCE PROGRAM**

Recommendation

No recommendations are being made at this time. Recommendations for renewal of the Marine Insurance Program will be made at the Finance-Auditing Committee meeting on February 26, 2009.

Summary

The District's Marine Insurance Program, which renews on February 28, 2008, is comprised of Hull & Machinery, Protection & Indemnity and Marine Liability Insurance Programs (including Terminal Operator's Legal Liability and Excess Insurance). The District also purchases a Vessel Pollution Liability Policy.

Currently, the District purchases Hull & Machinery and in amounts equal to the assigned market value of the ferry vessels along with primary Protection & Indemnity limits of \$1,000,000. The limits of liability for the excess Protection & Indemnity and Marine Liabilities are currently \$100,000,000, the scope of potential loss from Marine operations.

Marine Insurance Market Conditions

On November 4, 2008, the District started our relationship with our new Marine Insurance Broker, Alliant Insurance Services.

The Hull & Machinery and Protection & Indemnity premiums have been favorable for the District since 2004-2005, and we have seen a significant decrease in premiums over the following 4 years. In 2008 the premiums began to level off.

At the start of 2009, for Marine accounts with favorable loss history like the District, the insurers are typically requesting renewal premiums of -15%. This is partly being driven by the

significant level of competition in the Marine insurance market in Hull & Machinery coverages, particularly with good loss histories. The District has asked Alliant to expand their marketing efforts to the most competitive markets this year. Recent feedback from Alliant indicates that initial premiums will remain flat, even though the District purchased two pre-owned high-speed ferries in early January.

The combined market value of these new high-speed ferries, once they are refurbished, along with the District's existing fleet, will be the focus of Marine survey appraisals starting in March 2009. The District will review the insurance coverage in place for Hull and Machinery Insurance at the completion of the surveys. It is possible that the District may need to pay some additional Hull and Machinery premium but, according to Alliant, it is not anticipated at this time to be substantial.

Operations Experience

The District continues to work aggressively on loss prevention and claims management practices and programs in order to maintain our above-average loss history. The District had two potentially significant Protection and Indemnity claims in 2008. However, these claims have not, according to current marketing efforts, changed the District's reputation as a very good Marine risk. This is a significant change from five years ago, when the District had significant losses in this area.

The following actions have been taken to maintain a favorable loss history:

- An on-going accident investigation and hazard analysis program.
- Prompt reporting of all claims and incidents and thorough follow-up of open claims.
- Good maintenance programs.
- Installation of new engines in the Mendocino in 2008. The planned installation of new engines in the Del Norte in 2009.
- On-going training of Vessel Masters and Deck Hands.

Future Action

The Marine insurance premium quotes are expected on February 13, 2009. The District anticipates the 2009-2010 premium quotations in the range (+ 0-5%) of the expiring premium, \$362,678. The premiums have been budgeted. The District will be reviewing the Marine insurance marketing results and asking the Finance Committee to approve our Marine Insurance Program at the February 26, 2009, Finance-Auditing Committee meeting.

Fiscal Impact

There is no fiscal impact associated with this informational report.