



Agenda Item No. 4

To: Finance-Auditing Committee/Committee of the Whole  
Meeting of February 26, 2009

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

Subject: **APPROVE RENEWAL OF THE MARINE INSURANCE PROGRAM**

**Recommendation**

The Finance-Auditing Committee recommends that the Board of Directors approve renewal of the District's Marine Insurance Program, as follows:

- a. Renew the Hull & Machinery/Protection and Indemnity Insurance policy with Fireman's Fund (50%), AIG (25%) and Starr (25%), with an annual aggregate deductible of \$350,000 and a limit of liability of \$1,000,000, including Terrorism Risk Insurance Act (TRIA) endorsements for the 2009 Policy Year, at an annual premium of \$240,865, for a one-year term, effective February 28, 2009 ;
- b. Renew the Excess Marine Liability Insurance policy (including Terminal Operator's Legal Liability and Excess Protection and Indemnity Insurance) with Fireman's Fund, Navigators and various underwriters, with a limit of liability of \$100,000, including TRIA endorsements for the 2009 Policy Year, at an annual premium of \$132,550; and,
- c. Renew the Vessel Pollution Liability Insurance policy with Great American at an annual premium of \$5,368;

with the understanding that requisite funds in the amount of \$378,783 are available in the FY 08/09 Ferry Transit Division Operating Budget and that requisite funds will be budgeted in the FY 09/10 Ferry Transit Division Operating Budget.

**Summary**

***Overview of Marine Insurance Program***

The District's Marine Insurance Program, which renews on February 28, 2009, is comprised of the Hull and Machinery/Protection and Indemnity Insurance, Vessel Pollution Insurance and Excess Marine Liability Insurance (including Terminal Operator's Legal Liability and Excess Protection and Indemnity Insurance).

Currently, the District purchases Hull and Machinery/Protection and Indemnity Insurance in amounts equal to the approximate replacement costs of the ferry vessels along with primary Protection and Indemnity limits of \$1 million. The current limits of liability for the Excess Protection and Indemnity Insurance and the Marine Liability Insurance is \$100 million.

There were no changes to the limits or the terms and conditions for 2009 Renewal.

### ***Marine Insurance Market Conditions***

The most important change affecting this year's renewal was the purchase of two new high-speed passenger vessels from Washington State Ferries in early January. This is significant, as it represents a considerable increase in the District's Hull and Machinery values and exposures.

This year's Marine Insurance Program renewal represents the first renewal by Alliant Insurance Services (Alliant), with which the District executed a professional services agreement for Marine and Property Insurance brokerage services in November 2008. Alliant has reviewed the marine insurance marketplace and has suggested replacing several key carriers, as well as restructuring the District's excess liability programs by consolidating excess layers and replacing existing carriers. This has allowed the District to take advantage of District's favorable loss history and reduce the amount of the District's premiums for the Marine Insurance Program.

Dramatic rate decreases of approximately 55 percent during the past five years have resulted in reductions in premiums paid by the District for the Hull and Machinery/Protection and Indemnity classes of insurance. However, the market has become less competitive during the last year and several marine carriers that were on District's program last year are no longer included as underwriters. This is mainly due to reinsurance and capacity issues in large segments of the marine insurance market.

In the Marine Insurance marketplace, declines in premiums have moderated significantly as minimum premiums are beginning to be quoted, specifically for the Marine Excess coverage layers. For accounts with a favorable loss history, such as the District's Ferry Division, premiums remain very favorable. According to Alliant, premium renewals have declined in the marine insurance coverage lines by 0% to 5% range for accounts with a favorable loss history.

### ***Operations Experience***

The District's Hull and Machinery and Protection and Indemnity loss experience reflect a very favorable loss trend. The number and severity of hull and machinery damage claims, as well as the amounts paid for crew injuries, continues to be viewed as very favorable by underwriters. This is due to management in the Ferry Division actively controlling hazards and mitigating areas of potential risk, particularly with improved ferry maintenance.

There have been no claims in the last six years that have reached the deductible of \$350,000.

***Proposed Renewal***

***Hull and Machinery/Protection and Indemnity Insurance***

This renewal period, the District obtained two competitive quotes including the current carrier, Travelers, and another from a group led by Fireman's Fund. A total of eleven carriers were approached by Alliant. The Travelers quote for 2009 is \$273,099, and the Fireman's Fund quote is \$240,865. Both quotes include Terrorism Risk Insurance Act (TRIA) coverage.

The recommended option is to enter into an agreement with Fireman's Fund, AIG and Starr Marine for the complete Marine Insurance package. The renewal price of \$240,000 is 2% lower than last year, even with the addition of the two new high-speed passenger vessels.

***Pollution***

The renewal quote for the District's Vessel Pollution with Great American is \$5,368. This premium is 25% higher due to the addition of the two new high-speed passenger vessels.

***Excess Marine Liability Program 1st Excess-5th Excess Marine Layer***

Fireman's Fund, Navigator's, Great American and MOAC (Continental) are recommended as carriers for the Marine Excess Liability program. The expiring premium for these layers was \$113,484, which did not include the two new high-speed passenger vessels. The renewal premium, including the new vessels, is \$132,550.

***Conclusion***

The total cost of the expiring Marine Insurance Program with the two new vessels was \$390,417. The total cost for renewal of the Marine Insurance Program, including terrorism insurance, based upon the above-recommended quotes is \$378,823, an overall decrease of 3 percent. Overall, this is a significant premium difference due to the additional exposure of the two new high-speed passenger vessels in 2009.

***District Insurance Renewal Calendar for 2009***

The following is a timetable for all the insurance renewals for the District which will be brought forward to the Finance-Auditing Committee the month prior to the renewal date.

| <b>Renewal Date</b> | <b>Insurance Policy</b>   |
|---------------------|---|
| 2/28/2009           | <ul style="list-style-type: none"><li>• Marine Insurance Renewal</li></ul>  |
| 4/8/2009            | <ul style="list-style-type: none"><li>• Property</li><li>• Boiler &amp; Machinery</li><li>• Bridge Restricted Contingency Reserve</li></ul> |

| <b>Renewal Date</b> | <b>Insurance Policy</b>   |
|---------------------|---|
| 7/1/2009            | <ul style="list-style-type: none"><li>• Commercial Crime</li><li>• Umbrella/Excess Liability</li><li>• Railroad Liability</li><li>• Excess Workers Compensation</li><li>• Public Officials Liability</li><li>• OPEB Fiduciary Insurance</li></ul> |

**Fiscal Impact**

Approval of the recommendation would cost the District \$378,823. Requisite funds are available in the FY 08/09 Ferry Transit Division budget to cover the premium payments in FY 08/09, and will be included in the FY 09/10 Ferry Transit Division budget to cover FY 09/10 premium payments.