



Agenda Item No. 4

To: Finance-Auditing Committee/Committee of the Whole
Meeting of February 22, 2007

From: Joseph M. Wire, Auditor-Controller
William Stafford, Director Risk Management/Safety
Teri Mantony, Deputy General Manager Administration
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 the following actions relative to the renewal of the District's Marine Insurance Program:

- a. Approve the Hull & Machinery/Protection & Indemnity Insurance with St. Paul Travelers at a premium of \$255,000. Terrorism Risk Insurance Act (TRIA) is included in the premium for the 2007 Policy Year;
- b. Approve the Vessel Pollution Liability Policy at a premium of \$4,194; and,
- c. Approve the Excess Marine Liability Program with AIG and various underwriters at a premium of \$108,435. This policy has coverage limits to \$100 million;
- d. Approve TRIA coverage endorsement on the Excess Liability layers at a premium of \$5,050.

These recommendations come with the understanding that sufficient funds, totaling \$372,679, are available in the FY 06/07 Ferry Division budget to cover the premium payments in FY 06/07, and will be included in FY 07/08 Budget to cover FY 07/08 premium payments.

This matter will be presented to the Board of Directors at its February 23, 2007, meeting for appropriate action.

Summary

Overview of Marine Insurance Program

The District's Marine Insurance Program, which renews on February 28, 2007, is comprised of the Hull & Machinery/Protection & Indemnity Insurance and Marine Liability Insurance (including Terminal Operator's Legal Liability and Excess Insurance).

Currently, the District purchases Hull & Machinery/Protection & Indemnity Insurance in amounts equal to the approximate replacement costs of the Ferry vessels along with primary Protection & Indemnity limits of \$1 million.

The limits of liability for the excess Protection & Indemnity and Marine Liabilities currently total \$100 million.

Marine Insurance Market Conditions

Following a few years of some moderate fluctuations in premium in the Hull & Machinery/Protection & Indemnity classes of business, we are now witnessing a very competitive marketplace, particularly for accounts like the District's Ferry operation that have a favorable loss history. Several new insurers have entered the marketplace recently, intensifying the competition by offering premium reductions from 15% to 30 %.

In order to take advantage of the current market, the District's Broker, Marsh Risk and Insurance Services (Marsh), was directed to focus their efforts on our incumbent carriers as well as to expand into selected alternative markets. The District also directed Marsh to seek quotes for an option with an annual aggregate of \$150,000 versus the current \$350,000 annual aggregate deductible. Eight markets were asked to quote on the District's Marine program for 2007.

Operations Experience

The District's Hull and Machinery/Protection & Indemnity loss experience has continued to improve. The number and severity of hull and machinery damage claims, as well as the amounts paid for crew injuries, has been dramatically reduced. This is due to Ferry and District Management actively controlling hazards and mitigating areas of potential risk, including Ferry maintenance.

There have been no claims that have reached the marine excess liability limit.

Proposed Renewal

Hull & Machinery/Protection & Indemnity Insurance

This renewal period we obtained three highly competitive quotes including the current carrier, St. Paul Travelers. We also received competitive quotes from AIG and Starr Marine.

The St. Paul Travelers quote is \$255,000, the AIG quote is \$246,830 and the Starr Marine quote is \$290,371. All three quotes include TRIA coverage.

Only one carrier, AIG, quoted the \$150,000 annual aggregate deductible. That quote was for \$319,977.

Although AIG was slightly less than St Paul/Travelers, risk management practices suggest staying with the incumbent if the price differential is less than 5%. This is because a long-term relationship with an insurance carrier can further reduce premiums in the future.

It was decided to not recommend reducing our aggregate to \$150,000 in 2007, but to wait and see if more markets are willing to respond in 2008 to our favorable loss experience, should it continue.

The recommended option is to enter into an agreement with St. Paul Travelers for the complete Marine Insurance package. The renewal price of \$255,000 coverage is a 31% decrease over last year.

Vessel Pollution

The renewal quote for the District's Vessel Pollution Liability Policy with Great American is \$4,194. This premium is a 4% decrease from 2006.

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

Starr Marine and various existing insurers on the Marine Excess Liability program will renew at the existing rate for a total premium of \$108,435, a 12% decrease from 2006.

Terrorism Exclusion Coverage

The recommended renewal options include terrorism exclusions. Separate terrorism insurance endorsements must be purchased to cover these exclusions. The District's Broker and staff recommend that the District accept the additional premiums for the terrorism coverage because of their relatively low prices. The renewal premium for TRIA coverage is 12% lower for 2007. The TRIA insurance at our Excess Marine Liability Program coverage limits can be purchased for \$5,050. The premium was computed on 5% of the Excess Marine Liability Program premium and has not changed from last year.

The total cost for renewal of the Marine Insurance Program, including terrorism insurance and based upon the above-recommended quotes, is \$372,679, an overall decrease of 26% on the existing program structure.

The letter from the Marsh is attached and includes the following exhibits:

- Exhibit I - Hull/P&I Insured Values 2006
- Exhibit II - 2006 Renewal Option
- Exhibit III - 5 Year Premium and Loss History
- Exhibit IV - 2006 Options

District Insurance Renewal Calendar for 2006

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.

Renewal Date	Insurance Policy
2/28/2007	<ul style="list-style-type: none">• Marine Insurance Renewal
4/4/2007	<ul style="list-style-type: none">• Property• Boiler & Machinery• Bridge Physical Damage and Use & Occupancy
7/1/2007	<ul style="list-style-type: none">• Commercial Crime• Umbrella/Excess Liability• Railroad Liability• Excess Workers Compensation• Public Officials Liability

Fiscal Impact

Approval of the recommendation would cost the District \$372,679. Sufficient funds are available in the FY 06/07 Ferry Division budget to cover the premium payments in FY 06/07, and will be included in FY 07/08 Budget to cover FY 07/08 premium payments.

Attachments



**The Marsh report
relative to
Agenda Item No. 4,
Approve Renewal of the Marine Insurance Program
can be obtained by contacting
the Office of the District Secretary at (415) 923-2223.**