



Agenda Item No. 4

To: Finance-Auditing Committee/Committee of the Whole  
Meeting of February 21, 2008

From: William Stafford, Director of Risk Management/Safety  
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 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 an annual premium of \$245,000. Terrorism Risk Insurance Act (TRIA) is included in the premium for the 2008 Policy Year;
- b. Approve the Vessel Pollution Liability Policy at an annual premium of \$4,194; and,
- c. Approve the Excess Marine Liability Program with AIG and various underwriters at an annual premium of \$113,484. TRIA is included in the coverage premium for the 2008 Policy Year. This policy has coverage limits to \$100 million.

These recommendations come with the understanding that sufficient funds, totaling \$362,678, are available in the FY 07/08 Ferry Division budget to cover the premium payments in FY 07/08 and funds for FY 08/09 will be included in the FY 08/09 budget.

### **Summary**

#### ***Overview of Marine Insurance Program***

The District's Marine Insurance Program, which renews on February 28, 2008, 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 two years of dramatic premium decreases of approximately 35 percent in the District's marine insurance premiums in the Hull & Machinery/Protection & Indemnity classes of business, we are still seeing a very competitive marketplace. However, declines have moderated significantly as minimum premiums begin to be quoted specifically in the Marine Excess coverage layers. For accounts which have a favorable loss history, such as the District's Ferry operation, premiums remain very favorable. According to Marsh Risk and Insurance Services (Marsh), premium renewals have declined in the marine insurance coverage lines by 0 to 5 percent range for accounts with a favorable loss history.

### *Operations Experience*

The District's Hull & Machinery and 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 deductible of \$350,000, in the last five years.

### ***Proposed Renewal***

#### *Hull & Machinery/Protection & Indemnity Insurance*

This renewal period, the District obtained two competitive quotes including the current carrier, St. Paul Travelers, and another from AIG. A total of eight carriers were approached by Marsh. The five existing excess layer carriers quoted but did not reduce premiums. Three carriers did not offer favorable quotes or wanted only limited participation in the District's Marine Insurance Program.

The St. Paul Travelers quote is \$245,000 and the AIG quote is \$246,831. Both quotes include Terrorism Risk Insurance Act (TRIA) coverage.

The recommended option is to enter into an agreement with St. Paul Travelers for the complete Marine Insurance package. The renewal price of \$245,000 coverage is an approximate 3 percent decrease from 2007.

### ***Pollution***

The renewal quote for the District's Vessel Pollution with Great American is \$4,194. This premium is the same as 2007's.

***Excess Marine Liability Program 1<sup>st</sup> Excess-5<sup>th</sup> Excess Marine Layer***

Starr Marine and various existing insurers on the Marine Excess Liability program will renew at the existing rate, with a total premium of \$113,484. There is no decrease in premium from the prior year with TRIA included in the premiums in 2008/2009.

***Conclusion***

The total cost for renewal of the Marine Insurance Program, including terrorism insurance, based upon the above-recommended quotes is \$362,678 an overall decrease of 2 percent; however, the District actually changed program structure slightly by increasing the hull value of the M.V. Marin by \$1 million, due to the vessel's recent refurbishment.

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

- Exhibit I –Hull /P&I Insured Values 2008
- Exhibit II- 5-Year Premium and Loss History
- Exhibit III Marine Renewal Marketing Results 2008
- Exhibit IV- Renewal Recommended Program

***District Insurance Renewal Calendar for 2008***

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>
2/28/2008 3/1/2008	<ul style="list-style-type: none"><li>• Marine Insurance Renewal</li><li>• OPEB Fiduciary Insurance</li></ul>
4/8/2008	<ul style="list-style-type: none"><li>• Property</li><li>• Boiler &amp; Machinery</li><li>• Bridge Restricted Contingency Reserve</li></ul>
7/1/2008	<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></ul>

**Fiscal Impact**

Approval of the recommendation would cost the District \$362,678. Sufficient funds are available in the FY 07/08 Ferry Division budget to cover the premium payments in FY 07/08, and will be included in the FY 08/09 budget to cover FY 08/09 premium payments.

Attachment