



● **Board of Directors**

Finance, Audit, Insurance, and Real Property Committee

5/9/2023 Board Meeting

9-2

Subject

Renewal Status of Metropolitan's Property and Casualty Insurance Program

Executive Summary

Pursuant to Metropolitan's Administrative Code, this letter reviews the current status of Metropolitan's insurance coverages and anticipated charges for Fiscal Year (FY) 2023/24. The premium estimates that follow are expected costs, but not actual quotes, at this writing. These expected costs are derived from Metropolitan's broker's experience with our current insurance carriers, other insurers that may be willing to quote our program, and the condition of the current marketplace overall. At this writing, we have reasonable confidence that the estimates provided by the insurance carriers will not exceed the aggregate total provided. Our broker will provide binding quotes once the insurance carriers have completed their review of Metropolitan's underwriting and risk profile information. In June, staff will present a board letter to request authority to purchase insurance based on the actual quoted premiums for the various lines of coverage.

Details

Background

The following list includes the Casualty and Property Insurance Program lines of insurance, with coverage amounts, which expire June 30, 2022:

- \$25 million aircraft liability coverage; \$10 million liability for Unmanned Aerial Vehicles, and aircraft hull coverage up to the planes' assessed values.
- \$5 million Crime coverage for exposures such as fraud, theft, faithful performance, and employee dishonesty in excess of a \$150,000 deductible.
- \$75 million General Liability coverage in excess of a \$25 million self-insured retention.
- \$60 million Fiduciary and Employee Benefits Liability coverage in excess of a \$25 million self-insured retention.
- \$65 million Public Officials, Directors and Officers Liability (D&O) coverage in excess of a \$25 million self-insured retention.
- Statutory Workers' Compensation, and \$1 million Employer's Liability coverage, in excess of a \$5 million self-insured retention; statutory coverage for Washington, D.C. employees.
- Stated property value up to \$25 million Property Damage coverage limit.

Metropolitan's property and casualty excess and specialty insurance renewal cost is expected to increase by approximately 15 percent over FY 2022/23. The cost increase is due to a continuation of significant global trends and factors affecting the insurance market. These include the extended economic fallout stemming from the global pandemic, increased frequency of climate change-induced mega-catastrophic weather events such as extreme storms and historic wildfires, and a continuation of significant social and political unrest. Escalating inflation over the past year, resulting from multiple national and international factors, is putting

additional upward price pressure on the insurance market. These events, combined with already existing pricing pressure trends, such as the expectation of rising medical costs, are causing both higher pricing and more restrictive policy terms and conditions. The effect of price increases and policy restrictions is expected to be somewhat muted because Metropolitan is significantly self-insured. Nonetheless, premium increases will continue to be more noticeable than during the pre-pandemic era. The rate of cost increases for the coming year is expected to be similar to that experienced for FY 2022/23.

Attachment 1 compares the current coverages and premiums to those projected for FY 2023/24. These projections are pegged to the upper end of the expected price range. Premiums for the two layers of excess General Liability make up the largest portion of Metropolitan's casualty insurance budget. We expect up to a 20 percent premium increase from an aggregate amount of \$1,054,491 for FY 2022/23 to a projected \$1,265,389 for the coming year due to the factors discussed above, and additional costs due to an anticipated wildfire surcharge for risks in California. The excess fiduciary policy premiums are anticipated to rise by about 15 percent, from \$94,990, to an anticipated \$109,240. The excess D&O policies are projected to cost about \$358,480, up 12 percent from \$320,068 in FY 2022/23. Premiums for excess workers' compensation, and the first dollar coverage policy for Washington, D.C. employees, are expected to rise more mildly by up to 10 percent from a combined \$121,727 in the current fiscal year to an estimated \$133,900 for FY 2023/24. To add context for this price trend, from FYs 2002/03 to 2005/06, the self-insured retention for workers' compensation coverage was incrementally raised from \$1 million to \$5 million in response to terror-risk-related premium spikes in that line of coverage. The rationale to increase the self-insured retention was that the premiums saved over a ten-year period would offset the financial risk of a "once in a decade" claim that would exceed the self-insurance coverage in that particular year. That analysis was based on calculations derived from the annual actuarial study. Metropolitan's risk exposure has remained stable since that review.

Because premiums for this line of coverage stabilized and then later decreased, Metropolitan maintained the self-insured retention of \$5 million, but raised the coverage limit from \$25 million to \$50 million in FY 2010/11. In FY 2015/16, Metropolitan was able to obtain excess workers' compensation coverage with statutory limits over the \$5 million retention without a price increase. As premiums are expected to be mildly to moderately higher than last year, at this time staff anticipates maintaining the same self-insured retention and coverage limit. Over the last five years, excess workers' compensation premiums have remained fairly stable, with increases due mostly to medical inflation. Beginning in FY 2010/11, Metropolitan purchased a separate "first dollar" policy for the Washington, D.C. employees. That first dollar policy cost \$1,296 last year and is included in Metropolitan's total premium figure for workers' compensation coverage.

For all coverages, staff continues to explore the cost-benefit of various options to maximize coverage without significantly increasing premium costs, and other options to reduce premium costs without increasing Metropolitan's risk exposure. Staff also reviews and analyzes the suitability of the retention levels and coverage limits along with input from actuaries and comparisons to other organizations. As long as premium costs and Metropolitan's risk exposures remain stable, the actuarial recommendations for retention and excess coverage levels remain in place. Staff continues to review and evaluate the viability of obtaining other lines of coverage such as fire, flood, cyber liability, and earthquake coverage as risks and needs change. In past years, Metropolitan has not purchased these coverages because it has not been financially favorable, compared with the risk exposure, and because Metropolitan can raise funds if repairs are required. Metropolitan did a deeper dive into cyber liability coverage and obtained board authority of up to \$100,000 to obtain a policy to help finance and provide expertise and logistics in financing that risk. The costs were still too high, and above the approved board authority amount, and consequently the policy was not purchased for FY 2022/23. Staff continues to seek cost-effective options to insure a portion of the potential cyber liability exposure as an addition to Metropolitan's robust cyber liability defense.

Premium costs for other excess and specialty policies will vary by line of coverage but are expected to have varying cost increases due to inflationary pressures but also increased claims payment trends globally in some lines of coverage. The Aircraft Liability and Hull Policy premium is expected to increase from \$81,820 paid in FY 2022/23 to an estimated \$90,000. Metropolitan's Crime policy premium is anticipated to rise by approximately five percent from \$10,901 to \$11,450.

Metropolitan also maintains a property damage policy due to fire damage that occurred near the Diemer Facility in the fall of 2009. This policy was originally purchased in order to obtain reimbursement of over \$500,000 from the Federal Emergency Management Agency for damage repair. Last year the premium renewal cost was \$5,236, and due to continued wildfire-related losses in the western United States weighing on the insurance market, it is expected to again rise by up to 25 percent, to \$6,545 for FY 2023/24.

Metropolitan also carries Travel Accident and Special Contingency three-year duration policies, last purchased in fiscal 2022/23, which are not up for renewal until July 2025. In 2022, the renewal premiums cost \$21,633 and \$4,442, respectively.

To complete the insurance renewal for FY 2023/24, with similar limits and retentions, staff anticipates renewal premium costs of about \$1.974 million compared with approximately \$1.715 million for FY 2022/23.


Policy

Metropolitan Water District Administrative Code Section 6413: Insurance Program

Metropolitan Water District Administrative Code Section 9101: Risk Retention and Procurements of Insurance

Fiscal Impact

The total premium costs are anticipated to increase from \$1.715 million for FY 2022/23 to approximately \$1.974 million for FY 2023/24.



Katano Kasaine
Assistant General Manager/
Chief Financial Officer
4/25/2023
Date



Adel Hagekhalil
General Manager
4/26/2023
Date

Attachment 1 – Metropolitan’s Casualty and Property Insurance Program Insurance Premium Comparison in Dollars

Ref# cfo12695428

**Metropolitan's Casualty and Property Insurance Program
Insurance Premium Comparison
In Dollars**

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2022/23 Insurance Premiums	2023/24 Estimated Premium Cost	2023/24 Estimated Insurance Premium Cost Change	2023/24 Estimated Insurance Premium % Change
Excess General Liability [■]	\$25 million	\$75 million	1,054,491	1,265,389	210,898	20%
Fiduciary and Employee Benefits Liability [■]	\$25 million	\$60 million	94,990	109,240	14,250	15%
Public Officials Directors and Officers Liability [■]	\$25 million	\$65 million	320,068	358,480	38,412	12%
Crime	\$150,000	\$5 million	10,901	11,450	549	5%
Aircraft Liability and Hull	\$1,000	\$25 million	81,820	90,000	8,180	10%
Excess Workers' Compensation, CA	\$5 million	Statutory	120,431	131,207	10,776	10%
Excess Workers' Compensation, D.C.	\$0	Statutory	1,296	1,397	101	10%
Property	\$0	Asset value	5,236	6,545	1,309	25%
Special Contingency [*]	\$0	\$5 million	4,442	NA	NA	NA
Travel Accident [*]	\$0	\$250,000	21,633	NA	NA	NA
Total Premiums	NA	NA	1,715,308	1,973,708	258,400	15%

[■] Premium costs for two layers of General Liability, Fiduciary and Employee Benefits Liability, and Public Officials Directors and Officers Liability coverage.

^{*} Three-year policies last purchased July 2022. Premium costs were \$4,442 for Special Contingency and \$21,633 for Travel Accident.