



- Board of Directors  
*Finance and Insurance Committee*

5/10/2022 Board Meeting

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9-2

## Subject

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Renewal Status of Metropolitan's Property and Casualty Insurance Program

## Executive Summary

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Pursuant to Metropolitan's Administrative Code, this letter reviews the current status of Metropolitan's insurance coverages and anticipated charges for fiscal year (FY) 2022/23. 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 or "indications" provided by the insurance carriers will not exceed the aggregate total estimated. Our broker will provide actual 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 those actual quoted premiums for the various lines of coverage.

## Details

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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 Employers 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.
- \$250,000 Travel Accident.
- \$5 million Specialty Crime.

Metropolitan's property and casualty excess and specialty insurance renewal cost is expected to increase by up to nearly 22 percent over FY 2021/22. The cost increase is due to significant global trends and factors affecting the insurance market. These include the economic fallout caused by the global pandemic, increased frequency climate change-induced mega-catastrophic weather events such as extreme storms and historic wildfires, and a continuation of significant social and political unrest. More recently, a historic spike in

inflation caused by COVID-19-related supply chain issues, and later exacerbated by the war in Ukraine, is causing additional havoc in the insurance market. These events and conditions in addition to pre-existing pricing pressure trends, such as low investment yields and the expectation of rising medical costs, are causing both higher pricing and more restrictive policy terms and conditions. Metropolitan is somewhat well positioned by being significantly self-insured; consequently, the effect of price increases and policy restrictions is expected to be somewhat muted, but nonetheless will be more noticeable than during the pre-pandemic era. The cost increases for the coming year are expected to be less dramatic than experienced for the FY 2021/22 renewal despite a continuation of the same pressures affecting the markets last year and the addition of a couple of new ones. Lastly, the three-year duration Specialty Crime and Travel Accident Policies, last purchased in 2019, are now up for renewal requiring additional premium costs that were not necessary for FY 2022/23.

**Attachment 1** compares the current coverages and premiums to those projected for FY 2022/23.

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 25 percent premium increase from an aggregate amount of \$929,106 for FY 2021/22 to an estimated \$1,161,383 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 \$90,847 to an anticipated \$104,474. The excess D&O policies are projected to cost \$340,280, up 12 percent from \$303,821 in FY 2021/22. Premiums for excess workers' compensation, and the first dollar coverage policy for Washington, D.C. employees, are expected to rise more mildly by about 10 percent from a combined \$123,721 in the current fiscal year to an estimated \$136,093 for FY 2022/23. 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 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 increasing medical industry costs. Beginning in FY 2010/11, Metropolitan purchased a separate "first dollar" policy for the Washington, D.C. employees. That first dollar policy cost \$1,358 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.

Premium costs for other excess and specialty policies will vary by line of coverage but are expected to have mild or moderate increases due mostly to unusually weak insurance industry investment performance, increased claims payments in some lines of coverage, and inflation. The Aircraft Liability and Hull Policy premium is expected to increase from \$81,219 paid in FY 2021/22 to a projected \$89,341. Metropolitan's Crime policy premium is anticipated to rise by approximately ten percent from \$10,816 to \$11,898.

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 was \$4,256; and due to the continued wildfire-related losses occurring in the western United States weighing on the insurance market, it is expected to rise again by up to 20 percent to \$5,106 for FY 2022/23.

Metropolitan also carries Travel Accident and Special Contingency three-year duration policies, last purchased in July of 2019, which are now up for renewal. In 2019, the premiums were \$23,310 and \$4,263 respectively. It is anticipated that those premiums will increase to \$26,807 and 4,263, a 15 percent increase.

To complete the insurance renewal for FY 2022/23, with similar limits and retentions, staff anticipates renewal premium costs of about \$1.880 million compared with approximately \$1.544 million for FY 2021/22.

## Policy

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Metropolitan Water District Administrative Code Section 6413: Insurance Program

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

## Fiscal Impact

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The total premium costs are anticipated to increase from \$1.544 million for FY 2021/22 to approximately \$1.880 million for FY 2022/23.

	4/28/2022
Katano Kasaine	Date
Assistant General Manager/ Chief Financial Officer	
	4/28/2022
Adel Hagekhalil	Date
General Manager	

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

Ref# cfo12681808

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

<b>Insurance Policy Type</b>	<b>Self-Insured Retention (SIR)</b>	<b>Coverage Limits</b>	<b>2021/22 Insurance Premiums</b>	<b>2022/23 Projected Premium Cost</b>	<b>2022/23 Projected Insurance Premium Cost Change</b>	<b>2022/23 Projected Insurance Premium % Change</b>
Excess General Liability <sup>■</sup>	\$25 million	\$75 million	929,106	1,161,383	232,277	25
Fiduciary and Employee Benefits Liability <sup>■</sup>	\$25 million	\$60 million	90,847	104,474	13,627	15
Public Officials Directors and Officers Liability <sup>■</sup>	\$25 million	\$65 million	303,821	340,280	36,459	12
Crime	\$150,000	\$5 million	10,816	11,898	1,082	10
Aircraft Liability and Hull	\$1,000	\$25 million	81,219	89,341	8,122	10
Excess Workers' Compensation, CA	\$5 million	Statutory	122,530	134,783	12,253	10
Excess Workers' Compensation, D.C.	\$0	Statutory	1,191	1,310	119	10
Property	\$0	Asset value	4,256	5,106	850	20
Special Contingency <sup>*</sup>	\$0	\$5 million	0	4,902	4,902	100
Travel Accident <sup>*</sup>	\$0	\$250,000	0	26,807	26,807	100
<b>Total Premiums</b>	NA	NA	<b>1,543,786</b>	<b>1,880,284</b>	<b>336,498</b>	<b>21.7</b>

■ 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 2019. Premium costs were \$4,263 for Special Contingency and \$23,310 for Travel Accident.