Association of Bay Area Governments

PLAN CORPORATION

Pooled Liability Assurance Network

Association of Bay Area Governments

Date: June 24th, 2015

To: ABAG PLAN Board of Director's

From: ABAG PLAN Executive Committee

Subject: **Agenda #7b – Actuary Committee Report**

Action Required

7b. Approval of PLAN Excess Liability Premium

Attachments 7b:

1. Excess Property and Liability Insurance Program Update – (Alliant)

ABAG PLAN Board of Directors Meeting

June 24, 2015

Alliant, the specialty insurance leader.

Alliant

Presentation Outline

- P&C Market Update
- Property Renewal
- Excess Liability Renewal
- Crime Renewal
- Earthquake Disaster Financing

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State of the Market Highlights

- Natural catastrophes in 2014 were marked by low levels of global claims. Overall insured CAT losses at US $15.5B were considerably below the average for the past ten years *(US $25B)*
- P&C industry combined ratio for 2014 was 97.2%
- Policyholder surplus is $674.7B as of 12/31/14 (record high)
- P&C industry net income fell modesty in 2014 – 12.5% 2014 v 2013
- P&C industry investment earnings still below their 2007 pre-crisis peak; falling again in 2014
- Insurers continue to be concerned about catastrophic weather events. So far in 2015, 12 federal disasters have been declared, mostly winter storms.

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Commercial Insurance Prices Increase 2% in the First Quarter

- Commercial insurance prices increased by a modest 2% in aggregate during the first quarter of 2015, according to the latest Commercial Lines Insurance Pricing Survey (CLIPS)
- Price changes reported by carriers mark a continued moderation of price increases that began in the first quarter of 2013.
- Price increases were comparable to those reported one quarter ago for most lines, with the exception of workers compensation, excess umbrella liability, employment practice liability (down modestly) and professional liability (up slightly).
- The largest price increases reported were in the commercial auto line, followed by employment practice liability.
- Commercial property data have fluctuated between flat and a mild decrease for the last four quarters.
- Loss ratio improved by 2% in accident year 2015

Source: Towers Watson Commercial Lines Insurance Pricing Survey

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Property – Renewal Comments

- Favorable Markets Conditions in 2015
  - Expected Flat to 5% Rate Decrease
- Stay the Course
  - Alliant Property Insurance Program (formerly known as PEPIP)
- Property Values ~2% Trend
- Coverage Highlights
  - $1 Billion Per Occurrence Limit
  - $25 Million Flood / $25 Million Flood Zone A/V
  - Boiler & Machinery, Terrorism, Cyber, Pollution
- Pollution Enhancements - $2M limit, $2M sublimit per indoor environmental condition (mold), $250K sublimit for catastrophe management costs
- Cyber Enhancement Option (CEO)
- City of Gilroy

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APIP CEO Coverage

Currently, APIP members have $2 million in cyber limits to include all services related to a data breach with a sublimit up to $1 million for Privacy Notification Costs. The Cyber Enhancement Option increases the coverage and services available to include:

- Separating breach notifications from the dollar limit and specifying the number of covered notifications so that notifications do not erode the limit
- No monetary cap for credit monitoring and call center services
- Lower deductibles for privacy notification services
- Separate, standalone limits for Legal, Forensics, Crisis Management or Public Relations Firms
- **Hands-on pre** and post **loss consultation from an expert team of cyber risk professionals**
- Extensive risk management resources available for your organizations' stakeholders (Legal, IT, Risk, Compliance, etc.)

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Property Renewal

ABAG Plan Corporation	14-15	**15-16	Variance
Total Insurable Values:	$2,499,185,359	$2,354,874,062	-5.77%
Account Rate (per hundred dollars):	0.0459188	0.0436912	-4.85%
*Total Annual Cost:	$ 1,147,594.68	$ 1,028,873.53	-10.34%

*Total Annual Cost includes All Premiums, Underwriting Fees, Commissions, Loss Control Expenses, Program Administration and Applicable Taxes

**Excluding Gilroy

Excess Liability – Renewal Comments

- Marketed Coverage Extensively in 2014
- Stay the Course
  - AIG / Civic Risk
  - Targeted Flat Rate Renewal
- SIR Buy Down (buffer layer)
  - $2.5M xs $2.5M - Premium $664,522
- Optional Excess Limits
- City of Gilroy

Excess Liability Renewal

Excess Liability	Expiring	*Renewal "As Expiring“	*Renewal "SIR Buy-Down“
Carrier(s)	Insurance Co. of State of PA (AIG) National Casualty (Civic Risk)	Insurance Co. of State of PA (AIG) National Casualty (Civic Risk)	Evanston Insurance Co. (Markel) Insurance Co. of State of PA (AIG) National Casualty (Civic Risk)
Limit of Liability			
Markel	NA	NA	$2,500,000
AIG	$10,000,000	$10,000,000	$10,000,000
Civic Risk	$15,000,000	$15,000,000	$15,000,000
TOTAL:	$25,000,000	$25,000,000	$27,500,000
Sublimit: Crisis Response	$50K Crisis Mgmt / $250K Public Response	$50K Crisis Mgmt / $250K Public Response	$50K Crisis Mgmt / $250K Public Response
Self-Insured Retention	$5,000,000	$5,000,000	$2,500,000
Premium (including TRIA & Taxes/Fees)	**$606,057**	**$590,843**	**$1,255,365**

*Excluding Gilroy

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Crime – Renewal Comments

- Expiring
  - Carrier: Fidelity & Deposit
  - Limit: $1mil
  - 14/15 Premium: $23,122
    - 3rd Year of 3 Year Policy
- Renewal
  - Marketed Coverage
    - Fidelity & Deposit, AIG, Hannover
  - Option to Increase Limits
  - Fidelity & Deposit Enhancements
    - Impersonation Fraud/False Pretense – Pending ISO Approval
    - Expenses Incurred to Establish Amount of Covered Loss ($25K)
    - Theft of Client's Property ($250K) - Option - Additional Premium $1,004
  - City of Gilroy

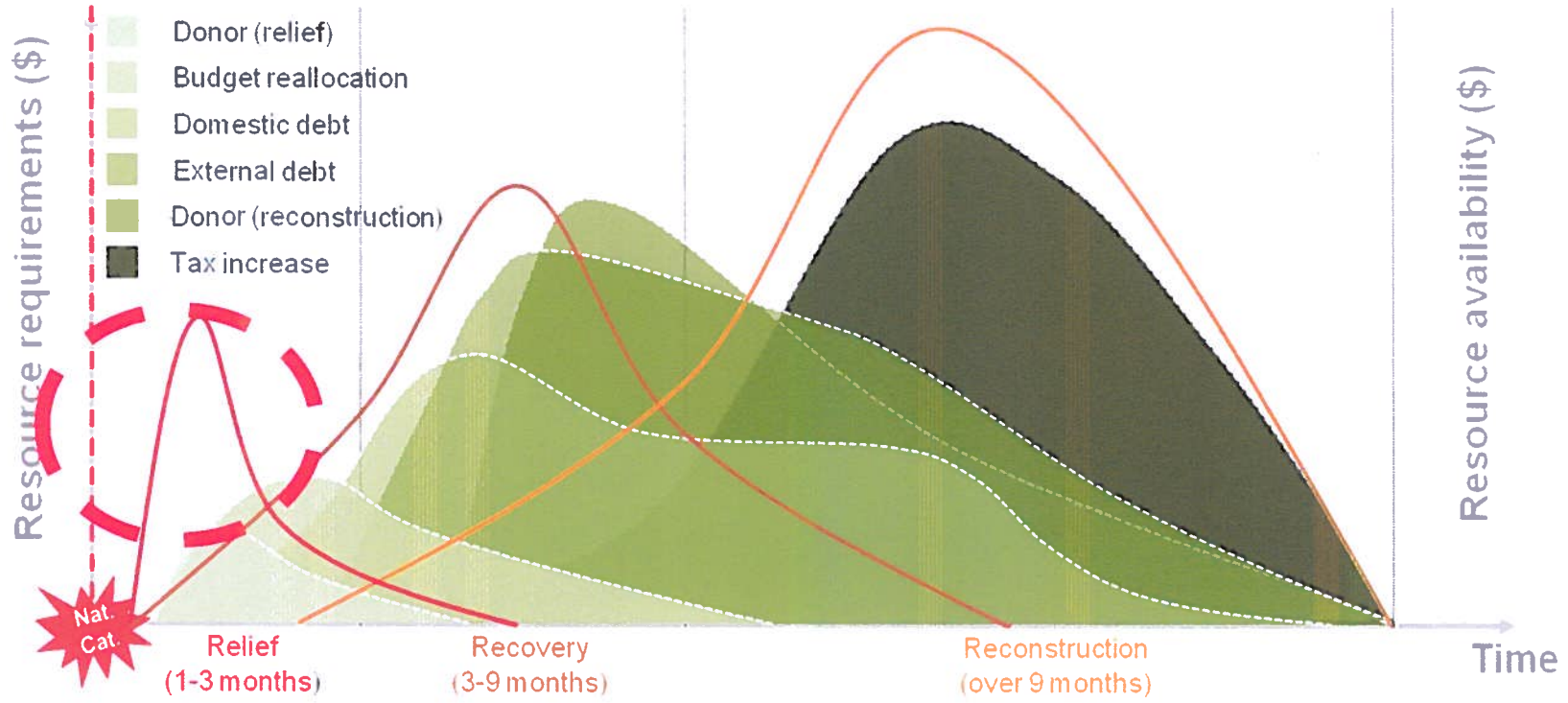
Crime Renewal

Crime	Expiring	Renewal "As Expiring"	Renewal Option 1	Renewal Option 2	Renewal Option 3
	Fidelity & Deposit	Fidelity & Deposit	Fidelity & Deposit	Fidelity & Deposit	Fidelity & Deposit
Limits	$1,000,000	$1,000,000	$2,000,000	$3,000,000	$5,000,000
Deductible	$5,000	$5,000	$10,000	$15,000	$25,000
Premium	**$23,122**	**$22,372**	**$26,561**	**$30,652**	**$38,239**

*Excluding Gilroy

Post-event disaster financing (such as tax-free bonding and government relief) can be slow in emerging

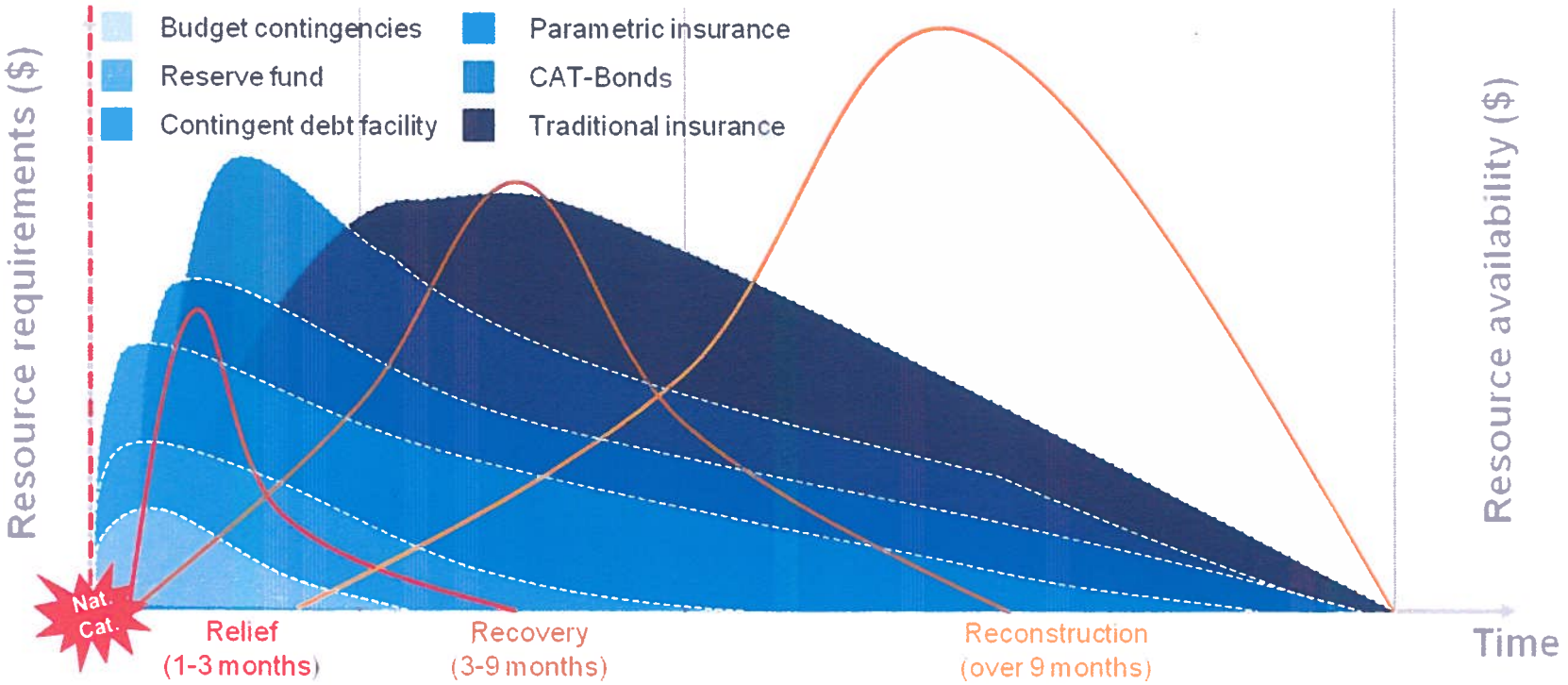
Demand for – and availability of – resources can change significantly following a quake



- Post-event financial resources may build up slowly
- Requires asking for support when most vulnerable, which may have expensive terms
- Delay in support may cause resources to be unavailable during the early period of greatest critical need

Pre-event disaster financing jump-starts recovery

Critical demand in the short-term is often NOT satisfied by conventional means: neither budget reallocation, emergency FEMA funds nor traditional insurance



- Coverages are secured prior to a disaster
- Defined triggers allow quicker distribution of funds after the disaster strikes – for repaid repairs
- Parametric triggers, linked to "occurrence" rather than "indemnification", provide quickest relief payments

To bridge a short-term liquidity gap, we propose a product that…

- … is informed by and integrated into ABAG's disaster risk management
- … contributing to preparedness (ex-ante financing of a contingency plan)
- … guarantees a quick pay-out in the aftermath of a catastrophic event
- … provides protection in scenarios that expect significant damages
- … is related to economic vulnerability, not just property damage
- … is correlated with the severity of events
- … is affordable

Munich Re has the knowledge, experience and financial capacity to deliver such a product

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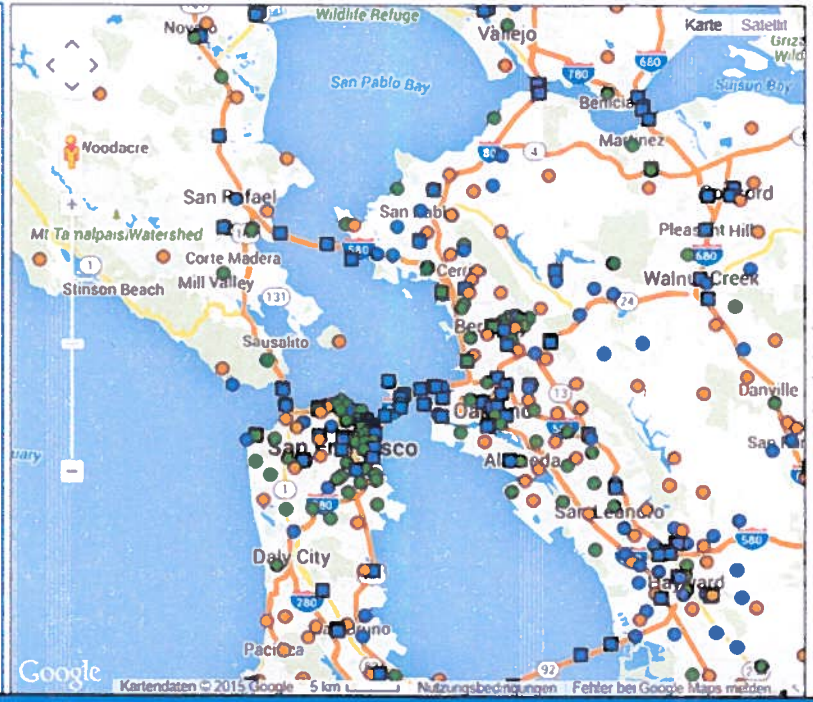
With ABAG, we will develop a unique "ground-shaking" index responsive to events that may harm vulnerable populations

- The Bay Area is densely covered by several complementary networks of ground-motion sensors
- Selection of sensors will correspond to locations that are economically vulnerable, rather than just tied to specific property damage
- Thus, the trigger is NOT tied to property proof-of-loss
- The intent is to accelerate payments needed to cover expenses such as:
  - additional building inspection staff
  - hospital support
  - police/fire overtime, etc.



- California Geological Survey CGS - CSMIP
- U.S. Geological Survey USGS - NSMP
- N. Calif Seismic Network USGS NCSN
- S. Calif Seismic Network USGS + Caltech
- Berkeley Digital Seismic Network BDSN
- Other

- Ground Station
- Structure Station

Index Value Formula

- For each earthquake, the "Index Value" would be calculated by a formula similar to the following:

$$\text{Index Value} = \sum_{j=1}^{J} w_j \left(\max\left(\min\left(S_i,1\right)-0.1,0\right)\right)^{1.6}$$

Where:

- "j" refers to the sensor located in the j^{th} district or neighborhood and "J" is the total number of sensors employed
- "w_j" is the weighting factor applied to the j^{th} sensor – this will be tied to poverty statistics or income statistics in each district or neighborhood
- "S_j" is the "spectral acceleration" (in g-force units) for the j^{th} sensor

QUESTIONS?
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