

PROPERTY PROGRAM SUBCOMMITTEE MEETING

ACWA/Joint Powers Insurance Authority
2100 Professional Drive
Roseville, California 95661
(800) 231-5742

Monday, January 31, 2011

COMMITTEE MEMBERS PRESENT

Chair: Tom Cuquet, South Sutter Water District
Guido E. Collo, Solano Irrigation District
Ken Deck, Rowland Water District
Robert Noonan, Orchard Dale Water District
Jace Schwarm, San Dieguito Water District

COMMITTEE MEMBERS ABSENT

Vice Chair: Randy Record ACWA Vice President
Jack Cunningham, Goleta Water District
Mark Gilkey, Tulare Lake Basin Water Storage District
Ed Muzik, Hi-Desert Water District

STAFF PRESENT

Chief Executive Officer/Secretary: Daniel N. Klaff
Chief Operations Officer: Walter "Andy" Sells
David deBernardi, Director of Finance
John Gilstrap, Director of Member Services
Jody Murphy, Administrative Assistant II, Recording Secretary
Nancy Stangel, Director of Administration
Dianna Sutton, Finance Manager
Jeanette Waterstradt, Executive Assistant to the CEO
Bobbette Wells, Executive Assistant

OTHERS PRESENT

Tom Coleman, Orchard Dale Water District
Joseph Dion, Citrus Heights Water District
David Hodgin, Scotts Valley Water District
E. G. "Jerry" Gladbach, Castiac Lake Water Agency
W. D. "Bill" Knutson, Yuima Municipal Water District
William Malone, WGM & Associates, tele-communicated in at 2:03 PM
Melody McDonald, San Bernardino Valley Water Conservation District
Charles Muse, Helix Water District
Lou Reinkens, Tahoe City Public Utility District

CALL TO ORDER

Chairman Cuquet called the meeting to order at 1:30 p.m.

PUBLIC COMMENT

Chairman Cuquet stated that members of the public would be allowed to address the Property Program Subcommittee on any agenda item. There were no members of the public in the audience to address the Subcommittee.

CONSENT AGENDA

The consent calendar consisted of the minutes of January 21, 2010.

M/S/C (Schwarm, Noonan) (Ayes-5, No-0): That minutes of the January 21, 2010 Property Program Subcommittee meeting be approved as submitted.

ADMINISTRATION

Chairman Cuquet asked if anyone had attended meetings on behalf of the JPIA. No one had attended any meetings.

MEMBERSHIP

Review of program membership

Mr. Gilstrap, Director of Member Services, stated that there are two new members in the Program: Clearlake Oaks County Water District, joined on July 1, 2010 with total insurable values of \$10,072,414; Wynola Water District, joined on November 1, 2010 with total insurable values of \$343,503. Property quotations have been provided to Pajaro Sunny Mesa Community Services District and West Stanislaus Irrigation District.

Update of Letters to withdraw/rescind

Mr. Gilstrap reported that two members, Chowchilla Water District and Sacramento Suburban Water District advised their intent to withdraw effective April 1, 2011. Subsequently, both members have rescinded their notices and will remain in the Property Program for the 2011/12 year. Upper San Gabriel Valley Municipal Water District advised its intent to withdraw from the Property Program effective April 1, 2012.

LOSS REPORTS

Reported Losses per \$1 Million of Insured Values

Mr. Sells, Chief Operations Officer, reviewed the graph of reported losses per \$1 million of insured property. The JPIA currently has over \$4 billion in insured values. The policy years since the 2002/2003 year show a positive downward trend, which includes a \$1 million Boiler and Machinery loss. The Southern California fires in 2003/2004 and again in 2007/2008 have impacted those years and a hydroelectric plant was damaged in 2006/2007 and is currently valued at \$1.5 million. A large electrical transformer was damaged in the 2009/2010 policy year and a large transformer fire, the result of a lightning strike, is included in the 2010/2011 policy year. The Property Program is very stable. The information for the 2010/2011 policy year represents nine months of data. The actual dollar amount of insured values has more than tripled between 1990 and the present.

Occurrences per \$1 Million of Insured Values

There has been a moderate downward trend in the frequency of claims since the 2002/2003 policy year. Trends in the Property Program are hard to project due to the

small amount of claims. As always, the Property Program is designed to provide coverage primarily for large losses.

NEW BUSINESS

Review Chubb ServicePOINT Stewardship Report

Each year a stewardship report is prepared and presented to JPIA staff by the Chubb loss control services group. The report outlines and recaps many of the services provided by Chubb. The report was reviewed with the committee.

Review and take action on excess/reinsurance coverage proposals for the Property Program renewal of April 1, 2011

The Property Program renews on April 1, 2011. The excess coverage (currently on a reinsurance basis) renews at the same time. The current reinsurer is Federal Insurance Company, a Chubb & Son subsidiary. JPIA's broker, Mr. Bill Malone of WGM & Associates, was asked to remarket the excess coverage. The process began in early October, with considerable amounts of data being gathered and submitted to interested underwriters.

Chubb had given early indications that it would seek a "substantial" rate increase at renewal due to the loss history of the last few years. Because of the number of large losses, particularly on the property line, the account was no longer seen as profitable by Chubb management.

After reviewing the various proposals the committee focused on two: Chubb, and a layered excess program with four carriers. Chubb's proposal is to renew "as is", with no change in overall rates, terms or conditions. The B&M proposal actually reflects a rate decrease of over 10%. There is, however, a new "flat charge" of \$126,000 on the Property Program for the business income exposure. This equates to about an 8% surcharge on the property premium. The two rate changes essentially offset each other. Chubb did provide an optional quote to increase the JPIA's retention from \$50,000 to \$500,000; this would save approximately \$288,000 on the property annual premium. However, it would also potentially expose the JPIA Property Pool to an additional \$450,000 in retained losses for each claim. JPIA staff analysis of the last 5 years' loss history showed that had the \$500,000 retention been in place, there would have been an average additional annual cost to the Property Program of \$664,000, more than double the premium savings. There would have been a net saving in only 1 of the 5 years.

The layered proposal involves four separate carriers, each of whom would assume a "quota share" of the risk; LIU (Liberty Mutual subsidiary) would carry 50%; Lloyd's would carry 30%; Ironshore and Allied World Assurance Company (AWAC) would each assume 10%. One of the difficulties of arranging layered excess insurance programs, especially quota share arrangements, is in getting all of the various underwriters/companies to agree to concurrent policy language, terms and conditions.

There are two major differences between the two proposals: price and JPIA retentions. The annual premium for the layered proposal is approximately \$488,000 less than Chubb's. However, because the minimum retentions under the layered proposal are

higher than Chubb's, there would be additional loss costs that would be passed on to the Property Program's members. Staff recommends accepting Chubb's proposal to renew the reinsurance of the Property Program as expiring.

M/S/C (Schwarm/Deck) (Ayes-5, No-0): That the Property Program Subcommittee recommends to the Executive Committee to accept Chubb's proposal to renew the reinsurance of the Property Program as expiring.

Review and take action on renewal pricing of the Property Program

Currently, the rates paid by Property Program members are:

\$.10 per \$100 of Real and Personal Property
\$.15 per \$100 of Mobile Equipment
\$.85 per \$100 of Licensed Vehicles

Mr. Sells stated deposit premiums for the 4/1/11-12 policy year are to be mailed to the members at the end of February. For the 4/1/08-09 policy year, the Real and Personal Property rate was reduced from 11.5 cents per \$100 of value to 10 cents. The change resulted in an approximate net rate reduction of 10%. There has been no change in pricing since the 4/1/08-09 year. Staff recommended no change in the rates.

M/S/C (Schwarm, Deck) (Ayes-5, No-0): That the Property Program Subcommittee recommends no change in rates charged to members to the Executive Committee

Review and take action on rental towing extra expense

JPIA currently pays up to \$300 for towing after a covered vehicle is disabled due to a covered loss. We also pay up to \$50 per day to a maximum of \$1,500 for transportation expense incurred because of loss of use of a covered vehicle due to a covered peril. The cost to tow a disabled vehicle often exceeds \$300. This is especially true for some of the members' larger vehicles, such as trucks. Also, multiple tows are often required to move a vehicle to a specialized repair facility. The cost to rent a replacement vehicle often exceeds \$50 per day, unless it is a private passenger car. Some larger or specialized vehicles can be significantly higher.

Staff recommends that we pay up to \$5,000 for towing or recovery of a covered vehicle or mobile equipment item after it is disabled due to a covered loss. Staff also recommends amending the Memorandum of Property Coverage to include under the Extra Expense Coverage the cost to rent temporary replacement vehicles and mobile equipment when such covered property is damaged in a covered loss

M/S/C (Noonan/Schwarm) (Ayes-5, No-0): That Property Program Subcommittee accepted staff's recommendation that the rental towing extra expense be approved.

AVAILABILITY OF SUBCOMMITTEE MEMBERS FOR UPCOMING MEETING

There is no meeting scheduled at this time.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at 3:00 p.m.