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Date: July 15, 2016

**TO: MEMBERS, BOARD OF DIRECTORS**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 3e – Consent Calendar: Renewal of Expiring 3 <sup>rd</sup> and 4 <sup>th</sup> Quarter Insurance Policies – Authorization to secure renewal of the 3 <sup>rd</sup> and 4 <sup>th</sup> Quarter expiring policies at terms most favorable to State Fund
<b>II. NAME AND PROGRAM:</b>	Randy Hogan, Risk Management
<b>III. ACTIVITY:</b>	<input type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input checked="" type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

**V. EXECUTIVE SUMMARY:**

State Fund's management lines and property/casualty insurance programs are due for renewal on September 30 and November 4, 2016, respectively. These programs include all lines of insurance State Fund maintains, with the exception of workers' compensation.

The existing coverage packages remain generally appropriate for State Fund's current and anticipated risk profile, appetite, and tolerance. Some adjustments to retention, limits, and terms, however, are anticipated to achieve greater alignment, but the total cost of insurance is not expected to change materially from current levels.

Risk Management recommends that the President/CEO be authorized to secure renewal programs for 2016 at terms most favorable to State Fund.

**VI. ANALYSIS:**

Insurance policy renewals fulfill a prime Risk Management responsibility. State Fund's overall risk profile has remained relatively constant since the last renewals and, as stated, the insurance package is generally aligned with the Risk Appetite and few changes are indicated.

Market conditions are currently favorable across the board and no material change in premium is expected with regard to existing coverage. However, potential adjustments to limits and terms of coverage will require additional premium expenditures. These increases are expected to be less than \$75,000, or 3% of total insurance costs.

Details of the program and analysis of changes being considered are presented below.

## Management Lines Program

Coverage	Limit	Retention	Premium
Employment Practices Liability	\$10,000,000	\$500,000	\$139,200
Financial Inst. Bond ("Crime")	5,000,000	150,000	40,000
D&O - Side A (DIC)	30,000,000	20,000,000	53,600
D&O - Sides A, B, and C	20,000,000	500,000	257,200
Insurance Company E&O	10,000,000	1,000,000	645,315
Managed Care E&O	5,000,000	100,000	73,244
Cyber: 1st Party	10,000,000	500,000	363,027
3rd Party	50,000,000	500,000	

### **Adjustments Under Consideration:**

*Directors & Officers – Possible increase in Limit on Side A, Sides B and C, or both.* While frequency of State Fund losses in this line is too low to have any predictive value, benchmarking results indicate that current program levels are within tolerance but slightly below target for this line, particularly on Side A.

*Crime – Increase in Limit and addition of Social Engineering coverage.* A gap in protection previously identified through Risk Management's review of cyber coverages is financial loss related to social engineering or "deception fraud." Coverage for this exposure is now being offered by the marketplace under Crime policies and is being considered. Although State Fund's internal controls are being strengthened against this risk, the recent proliferation of attacks has resulted in an increase in potential loss to the point where limits are well below target (but within tolerance). Along with the addition of the Social Engineering coverage, an increase in aggregate limit is being considered.

*Cyber – Increase in 1<sup>st</sup> Party Limits.* The review of cyber coverages revealed that direct costs to State Fund following a significant network or data event would exceed policy limits at a level beyond the risk tolerance for this line. Risk Management intends to increase sub-limits for 1<sup>st</sup> Party loss, specifically data restoration and business interruption, and seek broader terms under the Property coverage to bring residual exposure above tolerance and within target range. Additionally, clarified terms on 3<sup>rd</sup> Party liability are being sought in order to reduce the level of uncertainty around policy response in the event of a significant breach of confidential information.

## **Property & Casualty Program**

<b>Coverage</b>	<b>Limit</b>	<b>Retention</b>	<b>Premium</b>
Property	\$200,000,000	\$100,000	\$413,360
Earthquake & Flood	70,000,000	10,000,000	230,800
General Liability	2,000,000	0	52,261
Auto Liability	1,000,000	1,000	54,101
Excess Liability	125,000,000	Underlying	122,305
Environmental (5Yr Pol)	10,000,000	25,000	59,209

### **Adjustments Under Consideration:**

*Property – Broader terms (Definitions) applicable to network and data disruption.* Property markets are responding to clients' increasing exposures related to business interruption related to network failure/damage and data loss. Risk Management is exploring products to identify options that address gaps in the Cyber coverage and to ensure that coverage terms are aligned (no gaps or redundancies).

### **VII. RECOMMENDATION:**

To authorize staff to secure renewal of the expiring management lines and property/casualty policies at terms most favorable to State Fund.