



333 Bush Street
 San Francisco, CA 94104
 (415) 263-5400
 www.statefundca.com

Date: August 7, 2015

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 3g – Consent Calendar: Renewal of Expiring 4th Quarter Insurance Policies
II. NAME AND PROGRAM:	Randy Hogan, Risk Management
III. ACTIVITY:	<input type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input checked="" type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<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 current property and casualty program is due for renewal on November 4, 2015. The expiring program consists of the following insurance policies: Primary Property, Excess Earthquake & Flood, Commercial General Liability, Automobile, Umbrella & Excess Liability.

Risk Management recommends that the President/CEO be authorized to secure a renewal program for 2015 at terms most favorable to State Fund.

VI. ANALYSIS:

The insurance policy renewals fulfill a prime Risk Management responsibility. The following table details the expiring property and casualty program:

Coverage Type	Expiring Insurer/Premium	Details
Primary Property	Zurich \$416,000	<ul style="list-style-type: none"> • \$200M limit <ul style="list-style-type: none"> ○ \$100,000 deductible • \$10M limit earthquake & flood
Excess Earthquake and Flood	Quota Share – 3 insurers Arrowhead Program \$260,600	<ul style="list-style-type: none"> • \$70M, excess of \$10M
Property Sub-total	\$676,600	
Commercial General Liability	CNA \$51,172 subject to audit	<ul style="list-style-type: none"> • Limits: <ul style="list-style-type: none"> ○ \$1M per occurrence ○ \$2M aggregate • No self-insured retention
Automobile	CNA \$152,781	<ul style="list-style-type: none"> • \$1M limit <ul style="list-style-type: none"> ○ \$1,000 deductible • No self-insured retention
GL/Auto Sub-total	\$203,953	

Umbrella/Excess Liability 1 st Layer	CNA \$57,588	• \$25M limit, excess of primary
Umbrella/Excess Liability 2nd Layer	Quota Share – 4 insurers Zurich; Great American; XL, and Chubb \$75,750	• \$100M limit, excess of 1 st layer
Umbrella Sub-total	\$133,338	
Total Premium	\$1,013,891	

The current program is stable, providing broad coverage, financial security and quality services at favorable prices. Excess Liability limits were increased in 2014 to obtain alignment with State Fund Risk Tolerance. No material changes across all lines are required in 2015 to maintain alignment. Market conditions are favorable and material changes in premium for current coverage are not anticipated, although the following issues may result in modest premium increases.

Risk Management is exploring the need and costs of increasing Earthquake and Flood coverage limits. While net exposure (based on insured square footage) has decreased statewide, inflation in construction and replacement cost have offset indications for lower limits. In light of the favorable market conditions and forecasts of above-normal rainfall, there may be an opportunity to strengthen our coverage at renewal at a risk-appropriate price.

State Fund's reduction in the number of owned fleet automobiles is being viewed by auto and general liability insurers as increasing the potential exposure to loss related to employees driving their personal vehicles. Of specific concern to the insurers is that State Fund no longer requires employees to carry higher-than-statutory limits on their personal auto coverage. Currently, 83% of authorized drivers carry limits above the legal minimum (\$15,000) and 64% are at or above the limits previously required by State Fund (\$100,000). However, the fact that increased limits are optional presents a greater risk in the eyes of the insurers. As reinstating the prior limit requirement is not consistent with State Fund's motor vehicle model, Risk Management is reviewing other insurance products (such as group personal umbrella coverage) that would bridge the perceived liability gap for a net cost that would be less than the potential premium increase.

VII. RECOMMENDATION:

To authorize staff to secure renewal of the November 2015 expiring policies at terms most favorable to State Fund.