CITY OF BEVERLY HILLS
STAFF REPORT

Meeting Date: June 19, 2012

To: Honorable Mayor & City Council

From: Karl Kirkman, Risk Manger

Subject: Earthquake Insurance Program

Attachments: 1. None

INTRODUCTION

Risk Management actively markets and places the insurance coverage for the City of Beverly Hills through the City's designated insurance broker. Over the years, the coverage for the peril of earthquake has become a challenge to obtain as the coverage is becoming increasingly expensive. With the exception of the post-Katrina policy year, rates for the coverage have been stable. However, the City has built and added several new buildings to the schedule of property covered under the policy.

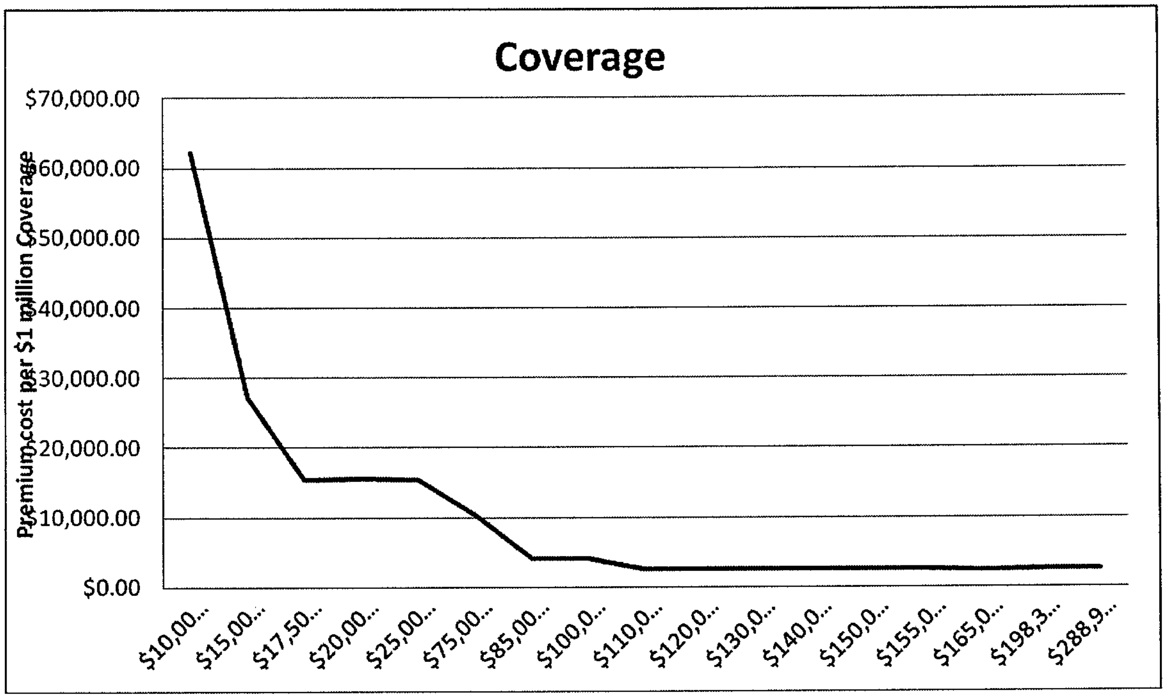
The City of Beverly Hills currently has a property schedule of about $326 million covered for earthquake. The coverage is purchased on the international catastrophic insurance market, and the coverage is written on a Difference in Conditions (DIC) form. The DIC coverage extends earthquake and flood coverage to the scheduled property, and also covers the loss of revenues generated by the parking and leasing operations. The deductible for the policy is 5% of the building value. In addition, the deductible is subject to an $11 million cap per event, so our maximum out-of-pocket expense for an earthquake is the $11 million. The premium generated for this coverage is about $2.2 million for the current policies set to expire on June 30, 2012.

Because no single insurance carrier has the capacity to withstand the loss, the DIC insurance is purchased in layers from various carriers, which in turn then reinsures the coverage on the reinsurance market. Because of the interplay of the various reinsurance treaties between carriers, bidding the coverage can be a long process, as each layer must be bid, and then each carrier has to check with the reinsurers to guarantee the coverage amounts don't exceed the insurance treaties. On the currently expiring coverage, the City has seventeen layers of insurance carriers, layered in the following manner:

Carrier	Coverage layer	Premium
Lexington	$10,000,000	$622,183
Commonwealth	$5,000,000	$136,063
ARCH	$2,500,000	$38,719
Endurance American	$2,500,000	$38,874
Landmark	$5,000,000	$77,438
Empire indemnity	$50,000,000	$516,715
Mt. Hawley	$10,000,000	$40,970
Endurance American	$15,000,000	$61,377
Westchester	$10,000,000	$25,813
Aspen	$10,000,000	$25,813
Axis	$10,000,000	$25,813
Essex	$10,000,000	$25,813
Houston Insurance	$10,000,000	$26,019
Lloyds of London	$5,000,000	$13,113
ICW	$10,000,000	$25,000
Empire indemnity	$33,360,000	$86,575
QBE Specialty	$90,636,752	$234,328
Total	$288,996,752	$2,020,623

The Crescent Drive garage is insured on its own DIC policy. The garage facility was opened mid-year, and could not be added to the existing DIC policy. Four carriers participate in the coverage, with a total insured value of $47.4 million. When added together, the total limits of our earthquake coverage come to $336.4 million in coverage limits.

The most likely layers of coverage that would suffer a loss in the event of an earthquake are the initial layers. The first $10 million of coverage account for about 30% of the total premium, and the first $100 million account for about a little over 75% of the total premium. The coverage gets significantly lower after the first $100 million, and the City is able to more than triple the coverage for less than an additional $500,000. The cost per $1 million in coverage is as follows:



The three most significant factors that affect premium are the age of the buildings, the distance between the buildings and the natural disasters that occur around the globe. Fortunately, most City buildings on the schedule are relatively new, with the exception of the Post Office Building and City Hall. Working to counter the new construction is the close proximity of the buildings. As the structures all are within a few miles of each other, an earthquake that affects one building will most likely affect many building, increasing the risk of a higher value loss.

Natural disasters also can cause the rates to rise up substantially. Because the earthquake coverage is purchased on the international market, the coverage the City obtains is from the same pool that covers hurricanes, flood and earthquakes around the world. So events such as the floods in Australia and Thailand as well as earthquakes in Italy and Chile have an impact on the rates the City has to pay for coverage. In total, there were twenty significant events worldwide that had the potential of changing the rates charged for the City's DIC policy.

DISCUSSION

Two internal factors have been considered in the annual renewal of the DIC policy. The first has been the bonding requirements on our parking structures. In the past, our bond requirements have included a caveat on the purchase of earthquake insurance. Our bonds have required that the City purchase the coverage if economically feasible.

Secondly, under Section 313 of the Robert T. Stafford Recovery Act, the Federal Emergency Management Administration (FEMA) requires that entities purchase insurance where available and forbids the use of FEMA money for any peril where FEMA money was given in the past. The Act also provides that the provisions may not be waived. As the City has already received FEMA funds for the 1994 Northridge earthquake, it is unknown how FEMA will respond to any future request for assistance.

FISCAL IMPACT

The quotes for the insurance coverage have been obtained. The renewal of the earthquake insurance coverage is available and within the existing budget.

RECOMMENDATION

Staff recommends that the purchase of earthquake be made for the current fiscal year. In addition, the purchase of earthquake insurance should be taken under review each year and an economic feasibility of the purchase be studied.

Karl Kirkman, Risk Manager
Approved By