

Meeting Agendas/Info

CITY COUNCIL
COMMUNICATION:

ITEM _____

01-625

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

AGENDA:

DECEMBER 17, 2001

SYNOPSIS -

SUBJECT:

EXTENDED
COVERAGE FOR
WAR, HI-JACKING,
AND OTHER PERILS
EFFECTIVE
JANUARY 1, 2002

On June 18, 2001, by Roll Call No. 01-1895, the City Council approved the City's annual insurance renewal effective July 1, 2001, including Airport Liability Insurance placed through Phoenix Aviation Managers, Inc. Attached to that policy, at no additional charge, was an endorsement that extended coverage for war, hi-jacking, and other perils. The limits of that endorsement were equal to that of the policy as a whole, \$200,000,000.

In reaction to the devastating acts of terrorism on September 11, 2001, the insurance industry suffered losses in the tens of billions of dollars. Liability insurers, workers compensation insurers, and property insurers were all heavily impacted. Shortly thereafter, all insurers of aviation industry-related business cancelled the extended coverage endorsement. The language in the endorsement permitted the cancellation.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

On November 5, 2001, the City's Airport Liability insurer, Phoenix Aviation Managers, offered the City a new endorsement for extended coverage for war, hi-jacking, and other perils. The coverage is limited to a total of \$50,000,000 for any and all covered losses, with the exception of coverage for bodily injury to airline passengers, which continues to carry the full limits of the policy, \$200,000,000. The annual premium for this endorsement is \$96,538.

SUBMITTED BY:

MERRILL STANLEY
FINANCE
DIRECTOR

MARK SCHULTZ
RISK MANAGER

Upon review by the Aviation Department; the Legal Department; the Risk Management Office; and the City's insurance advisor, Jester Insurance Services, Inc., it was concluded that it is in the best interest of the City to purchase this coverage for the last six months of the current policy year at a cost of \$48,269. On December 4, 2001, the Airport Board approved a resolution recommending to the City Council approval of this new endorsement (see attached).

FISCAL IMPACT -

Based on the current Signatory (landing rights) Agreements with the

individual airlines, the Airport will be reimbursed the premium cost of the Extended Coverage - War, Hi-jacking, and Other Perils endorsement. Thus, the net financial impact of this purchase is zero. However, the funds to make the initial payment for this coverage will be accounted for in the Aviation Department's revised budget request for Fiscal Year (FY) 2001-2002.

RECOMMENDATION -

Approval.

BACKGROUND -

In reaction to the acts of terrorism on September 11, 2001, the insurance industry suffered losses in the tens of billions of dollars. Liability insurers, workers compensation insurers, and property insurers were all heavily impacted. (It is anticipated that the effects of these losses will be reflected in significant price increases at the City's July 1, 2002 insurance renewal for all insurance coverages.)

Shortly thereafter, all insurers of aviation industry-related business cancelled coverage under the Extended Coverage - War, Hi-jacking, and Other Perils Endorsement. This included the policy written for the Des Moines International Airport. This cancellation of coverage was possible because those endorsements were written so as to allow such action at anytime by the insurers. This action took place so as to allow the aviation sector of the insurance industry time to assess the financial impact of the September 11 loss and to reassess the cost of insuring this risk exposure into the future.

Following the cancellation, the City sought other sources for this coverage and found none, or at least none that were reasonably priced. The City also attempted to "piggy back" on to the federal coverage being offered to airline companies, but the Federal Aviation Administration (FAA) ruled that this extension of coverage was not allowable.

On November 5, 2001, the City's Airport Liability insurer, Phoenix Aviation Managers, offered the City a new endorsement for extended coverage for war risk liability. This endorsement is very similar to those being offered throughout the aviation insurance market. The coverage is similar to that included in the previous endorsement, however, the limit of coverage is limited to a total of \$50,000,000 for any and all losses covered by this endorsement, with the exception of

coverage for bodily injury to airline passengers which continues to carry the full limits of the policy, \$200,000,000. However, rather than being offered at no additional cost as before, this endorsement has been priced at an amount of about \$0.10 per enplaned passenger. Based on the Airport's current estimate of enplaned passengers, Phoenix Aviation Managers is offering this coverage at an annual (or fiscal year) cost of \$96,538.

Upon reviewing this offer with the Aviation Department; the Legal Department; and the City's insurance advisor, Jester Insurance Services, Inc., it was determined that the City should purchase the extended war liability coverage for the last six months of this policy year (fiscal year). The fact that the United States of America is currently at war and is, therefore, still under high risk of further terrorist attack was an important consideration in this determination. The need for this endorsement in the future will continue to be monitored over time. The ongoing status of military action and how the insurance market continues to react to the risks involved will be strong determining factors.

Therefore, it is the recommendation of the Aviation Director; the Airport Board; Jester Insurance Services, Inc.; and the Risk Manager that the City Council approve the purchase of the extended war liability coverage for the Des Moines International Airport.

Attachment
