SUMMARY STATEMENT

ITEM NO.: DRPA-12-034

SUBJECT: Bridge Property Program & Claims Made Excess Liability Policy - Extension

COMMITTEE:

New Business

COMMITTEE MEETING DATE:

March 21, 2012

BOARD ACTION DATE:

March 21, 2012

PROPOSAL:

Staff seeks Board authorization to extend for six (6) months the existing Bridge Property & Loss of Toll Revenue Program (“Bridge Property Program”), which will expire on June 30, 2012. If approved, the existing Bridge Property Program would be extended until December 30, 2012. If approved, the extension policies will contain the same terms and conditions as the current policies.

Staff also seeks Board authorization to extend for six (6) months the DRPA’s Claims Made Excess Liability Policy, which will expire on June 30, 2012. If approved, the policy would be extended until December 30, 2012. If approved, the extension policies will contain the same terms and conditions as the current policies.

All extension policies associated with the Bridge Property Program, as well as the Claims Made Excess Liability extension will be placed by our broker, The Graham Company.

PURPOSE:

To extend for six months the required insurances necessary to reduce the DRPA’s exposure to risk, physical damage, and economic loss, and exposure to liability.

BACKGROUND:

The Bridge Property Program consists of two distinct components. The Bridge Property portion of the program consists of a primary layer of bridge property damage insurance with a Loss Limit of $300 million, and two excess layers of bridge property damage insurance providing a $100 million Loss Limit each, for a total of a $200 million excess of the primary layer of $300 million. Together, the primary and excess property layers total $500 million in Bridge Property Damage coverage. For each occurrence, the limits for the primary and two excess layers are reinstated.

The perils insured under the Bridge Property Program include direct physical loss of, or damage to property insured. The policy provides coverage for damage caused by flood, earthquake, and both certified and non-certified acts of terrorism, and any resulting loss of toll revenue to the bridges.
Bridge Property Program
The Loss Limit of the expiring primary layer of the Bridge Property Program is $300 million, subject to a $25 million deductible per occurrence. A $75 million aggregate deductible “cap” is in place, and would remain in place throughout the extension period.

The primary layer of the Bridge Property Program is written on a quota share basis. Three carriers participate in the primary layer of the Quota Share Program. They are:

Arch Insurance Company – 21.7%
Current Annual Premium = $336,809
Proposed 6-Month Extension Premium = $168,872 (10% commission)

Travelers Property Casualty Company of America – 33.3%
Current Annual Premium = $518,626
Proposed 6-Month Extension Premium = $262,170 (10% commission)

Zurich American Insurance Company – 45%
Current Annual Premium = $699,553
Proposed 6-Month Extension Premium = $350,735 (10% commission)

After the $300 million primary layer of the Bridge Property Program is exhausted, the first excess layer of Bridge Property insurance would respond up to $100 million. There is one carrier at that level:

Ace American Insurance Company – 100%
Current Annual Premium = $149,683
Proposed 6-Month Extension Premium = $74,991 (10% commission)

The second excess layer of the Bridge Property Program is written on a quota share basis for an additional $100 million in coverage, bringing the total value of the program to $500 million. Two carriers participate on a quota share basis on the second excess layer. They are:
Landmark Insurance Company – 50%
Current Annual Premium = $56,275
Proposed 6-Month Extension Premium = $28,182 (10% commission)

AXIS Surplus Insurance Company – 50%
Current Annual Premium = $56,275
Proposed 6-Month Extension Premium = $28,182 (10% commission)

Claims Made Excess Liability Policy
The DRPA’s Claims Made Excess Liability Policy provides coverage for claims involving bodily injury, personal injury, property damage and advertising injury, which are first made in writing against the DRPA during the policy term. The coverage only applies to claims that first commenced at a specific time after the June 1, 1986 retroactive date, and prior to the expiration date of the policy (and reported up to 120 days thereafter).

The current carrier is the Lexington Insurance Company. The policy limit for the expiring policy is $25 million each accident/aggregate, subject to a $5 million self-insured retention. The policy includes an annual aggregate reinstatement option (excess of $5 million each accident self-insured retention) for 125% of the annual premium provided written notice is made within 125 days of the expiring policy. The current annual premium is $843,291.

The 6-month extension estimated premium for the term 6/30/2012 to 12/30/2012, including terrorism is:

Lexington Insurance Company
Current Annual Premium = $843,291 (9.5% commission)
Proposed 6-Month Extension Premium = $464,738 (9.5% commission)
Note: The Chief Underwriting Officer for Lexington would not release an extension option without a 10% increase.

Terrorism Coverage
The expiring Bridge Property Program and Claims made Excess Liability policies includes terrorism coverage as provided through the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIA 2007). Under TRIA 2007, an “act of terrorism” is covered if certified as an “act of terrorism” by the Secretary of the Treasury of the United States. The definition of an “act of terrorism” has been expanded in the 2007 TRIA extension to include not only acts committed by individuals acting on behalf of “foreign” persons or interests, but also “domestic” terrorism.
In the past, the Board has elected this terrorism coverage option.

**SUMMARY:**

- **Amount:** Total: $1,377,870
  - Total Bridge Property Program $913,132.
  - Primary Layer: estimated $781,777
  - 1st Excess Layer: estimated $74,991
  - 2nd Excess Layer: estimated $56,364
  - Claims Made Excess Liability: $464,738

- **Source of Funds:** Revenue Fund and General Fund (PATCO portion)

- **Capital Project #:** N/A

- **Operating Budget:** DRPA Risk Mgt. C/E #8

- **Master Plan Status:** N/A

- **Other Fund Sources:** N/A

- **Duration of Contract:** June 30, 2012 to December 30, 2012

- **Other Parties Involved:** Arch Insurance Company; Travelers Property Casualty Company of America; Zurich American Insurance Company; ACE American Insurance Company; Axis Surplus Insurance Company; Landmark American Insurance Company and Lexington Insurance Company
RESOLUTION

RESOLVED: That the Board authorizes staff to bind for six months (from June 30, 2012 to December 30, 2012), an extension of the existing primary layer of the Bridge Property Program, which carries a loss limit of $300 million with the existing carriers (Arch, Travelers, and Zurich), for an estimated extension premium of $781,777; and be it further

RESOLVED: That the Board authorizes staff to bind for six months (from June 30, 2012 to December 30, 2012), an extension of the existing first layer of the excess coverage with a loss limit of $100 million, excess of $300 million at 100% with ACE American Insurance Company, for an estimated extension premium of $74,991; and be it further

RESOLVED: That the Board authorizes staff to bind for six months (from June 30, 2012 to December 30, 2012), an extension of the existing second layer of the excess coverage with a loss limit of $100 million, with Landmark American Insurance Company and AXIS Surplus Insurance, on an equal quota share basis for a total of $100 million, excess of $400 million. The estimated extension premium for each carrier is $28,182; and be it further

RESOLVED: That the Board recognizes that all premiums are estimated and contingent upon the insurance companies obtaining facultative reinsurance within 30 days prior to binding coverage effective June 30, 2012. Pricing or coverage terms may be subject to change during this 30 day period; and be it further

RESOLVED: That the Board authorizes staff to bind, for six months (from June 30, 2012 to December 30, 2012) the existing Claims Made Excess Liability policy with Lexington Insurance Company. The policy limit is $25 million each accident/aggregate, subject to a $5 million self-insured retention. The estimated premium for this policy is $464,738; and be it further

RESOLVED: That the Board recognizes that the estimated six-month extension premium is contingent upon the Lexington obtaining the necessary facultative reinsurance within 30 days prior to binding coverage
effective June 30, 2012. Pricing or coverage terms may be subject to change during this 30-day period; and be it further

RESOLVED: The Chair, Vice Chair and the Chief Executive Officer must approve and are hereby authorized to approve and execute all necessary agreements, contracts, or other documents on behalf of the DRPA. If such agreements, contracts, or other documents have been approved by the Chair, Vice Chair and Chief Executive Officer and if thereafter either the Chair or Vice Chair is absent or unavailable, the remaining Officer may execute the said document(s) on behalf of DRPA along with the Chief Executive Officer. If both the Chair and Vice Chair are absent or unavailable and if it is necessary to execute the said document(s) while they are absent or unavailable, then the Chief Executive Officer shall execute such documents on behalf of DRPA.

SUMMARY: Amount: Total: $1,377,870
Total Bridge Property Program $913,132
Primary Layer: estimated $781,777
1st Excess Layer: estimated $74,991
2nd Excess Layer: estimated $56,364
Claims Made Excess Liability: $464,738
Source of Funds: Revenue Fund and General Fund (PATCO portion)
Capital Project #: N/A
Operating Budget: DRPA Risk Mgt. C/E #8
PATCO Admin. C/E Insurance & Claims
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: 6/30/2012 – 12/30/2012
Other Parties Involved: Arch Insurance Company; Travelers Property Casualty Company of America; Zurich American Insurance Company; ACE American Insurance Company; Axis Surplus Insurance Company; Landmark American Insurance Company and Lexington Insurance Company