SUMMARY STATEMENT As Amended

ITEM NO.: DRPA-12-111 SUBJECT: Renewal of DRPA Bridge Property Damage and Loss of Revenue Insurance; Excess Bridge Property Damage and Loss of Revenue Insurance; and Claims Made Excess Liability Insurance

COMMITTEE: New Business

COMMITTEE MEETING DATE: November 7, 2012

BOARD ACTION DATE: November 21, 2012

PROPOSAL: That the Board authorizes staff to bind the following policies:

(1) Bridge Property Damage & Loss of Toll Revenue Policies; and
(2) Claims Made Excess Liability.

These policies are placed by our Broker/Consultant, Aon Risk Services.

Pursuant to DRPA-12-075, Aon is paid a fixed annual service fee not-to-exceed $118,250 payable in quarterly installments. Therefore, the proposed policy premiums are net of commission.

At the Board’s direction, Aon marketed the DRPA’s Bridge Property Damage & Loss of Toll Revenue and Claims Made Excess Liability Insurance policies to the following carriers:

Bridge Property Damage and Loss of Toll Revenue Marketing Results:

- ACE - provided indication $454,013 (incumbent)
- Zurich - quoted $683,522 (incumbent)
- XL Insurance - provided indication $391,952
- Travelers - quoted $339,090 (incumbent)
- Ironshore - to-be-determined
- Lexington - declined quote deadline
- Swiss Re - quoted $1,170,000
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Claims Made Excess Liability Marketing Results:

- Lexington - quoted $1,122,050 (incumbent)
- Arch - decline marine exposure
- Essex - declined not a lead umbrella market
- Gemini - declined marine exposure
- Ironshore - declined not a lead umbrella market
- Liberty Mutual - declined marine exposure
- Swiss Re - declined not a lead umbrella market
- XL Insurance - quote pending
- Zurich - declined due to current pricing
- Bermuda markets - quote pending
- London markets - quote pending

PURPOSE: To place required property and casualty insurances to reduce the DRPA’s exposure to risk, and to insure against physical damage, liability, and economic loss.

BACKGROUND: The Bridge Property Damage and Loss of Revenue insurance covers the DRPA against direct physical damage or property loss to the four bridges. The policy also insures against loss of revenue on our four bridges when the covered loss results from an interruption in toll revenue. The extension policies for the Bridge Property both primary and excess, will expire on December 30, 2012.

The current Bridge Property Damage and Loss of Toll Revenue Program consists of three property layers: (1) $300M Primary Layer (three carriers); (2) First $100M Excess Layer (one carrier); and (3) Second $100 m Excess Layer (two carriers). (See color illustration of DRPA’s current program.)

Bridge Property – Primary Layer
The loss limit of the expiring policy is $300 million, subject to a $25 million deductible per occurrence (a $75 million Aggregate Deductible “Cap” has been established). The policies are insured are insured on a quota share basis with the following carriers: Arch Insurance Company, Travelers Property Casualty Company of America, and Zurich American Insurance Company.

On the primary layer, under the Quota Share arrangement, each of the carriers share equally in losses up to the $300 million loss limit. The premium includes coverage for foreign and domestic acts of terrorism.
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Bridge Property – First Excess Layer
This layer is insured by one carrier: Ace American.

The first Excess Layer follows the terms and conditions of the primary policies insured by Arch, Travelers, and Zurich. The loss limit of the first excess policy is $100 million per occurrence, excess of the underlying primary policies with limits of $300 million.

This additional layer provides the DRPA with a total limit of $400 million coverage for bridge property damage and loss of toll revenue claims.

Bridge Property – Second Excess Layer
This additional excess layer is insured by two carriers: Landmark Insurance Company and Axis Insurance. Under the Quota Share arrangement, each of the two carriers share equally in losses up to a $100 million loss limit. This additional excess layer of $100 million provides the DRPA with a total loss limit of $500 million for bridge property damage and loss of toll revenue claims.

Aon is proposing to restructure the three-tier Quota-Share program to a four carrier one-tier Quota-Share program. The recommended carriers and participation are as follows:

- Arch 10%
- Zurich 40%
- XL Insurance 30% and
- Travelers 20%

The expiring Bridge Property & Loss of Toll Revenue Program was based upon a total insured value of $1,907,337,378. The expiring annual premium for this program is approximately $1,817,171 (including a 10% commission of $154,112).

As a result of the 2012 HNTB replacement cost appraisal, the new total insured value is $2,289,087,604 (an increase of $381,750,226). The projected annual premium for the new program is estimated to be $1,885,394 (net of commission). The estimated premium is an increase of approximately $68,223 (or 3.75% increase). (Aon is waiting to receive the Terrorism premium which is estimated to add 1% to the annual premium, or approximately $18,685)
Claims Made Excess Liability Policy
The extension policy for the Claims Made Excess Liability will expire December 31, 2012.

The Claims Made Excess Liability policy is a third-party liability policy that provides coverage to DRPA and PATCO for losses by reason of liability imposed by law or assumed under contract for claims involving bodily injury, personal injury, property damage or advertising injury. The current carrier is the Lexington Insurance Company. The policy limits for the expiring Claims Made Excess Liability policy is $25 million each accident/aggregate, subject to a $5 million self-insurance retention.

The premium for the expiring Claims Made Excess Liability Policy is $843,291 (including 9.5% commission of $80,113). The projected annual renewal premium is $810,681 (net of commission). The new premium will be a decrease of $32,610. Aon is still reviewing the terms and conditions of the policy form.

Recommendation #1 – Bridge Property Damage & Loss of Toll Revenue
Our broker recommends the following: (1) we structure the existing Bridge Property Damage Program from a three-tier Quota Share Program with six carriers to a one-tier Quota Share Program with three carriers sharing the liability in varying percentages in all losses up to the $500 million loss limits; (2) accept the proposed renewal of $1,885,394 (an increase of $68,223); and (3) authorize Aon to begin negotiating a long-term policy for the term 12/30/2013-6/30/2014 to lock in favorable rates. Staff would return to the Board with the extension quote options for review and consideration before binding same.

Recommendation #2 – Claims Made Excess Liability Policy
Our broker recommends that we accept the renewal offered by the incumbent, Lexington Insurance Company, in the amount of $810,681.
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Renewal of DRPA Bridge Property Damage and New Business 11/21/2012 Loss of Revenue Insurance; Excess Bridge Property Damage and Loss of Revenue Insurance; and Claims Made Excess Liability Insurance

**SUMMARY:**
Amount: Total Estimated: $3,007,444
Bridge Property Estimated: $1,885,394 (plus Terrorism approximately $18,685 and taxes)
Claims Made Excess Liability Estimated: $810,681

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: December 30, 2012- December 30, 2013
December 31, 2012- December 31, 2013
Other Parties Involved: Aon Risk Services and Arch, Zurich, XL Insurance, Travelers, and Lexington Insurance Company
RESOLUTION

RESOLVED: That the Board authorizes staff to accept the renewal proposal for the Bridge Property Damage and Loss of Toll Revenue Policies with Arch, Zurich, XL Insurance and Travelers for the policy term December 30, 2012 – December 30, 2013, at an estimated annual premium of $1,885,394 (plus Terrorism – approximately $18,685 and taxes); and be it further

RESOLVED: That the Board authorizes staff to direct Aon to negotiate an extension of the policies from December 30, 2013 – June 30, 2014, with the understanding staff would return to the Board with the extension quote options for approval before binding same; and be it further

RESOLVED: That the Board authorizes staff to accept the renewal proposal from Lexington Insurance Company for the Claims Made Excess Liability policy for the policy term December 31, 2012 – December 31, 2013, at an estimated annual premium of $810,681; 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 Estimated:  $3,007,444  
Bridge Property Estimated:  $1,885,394  
(plus Terrorism, approximately $18,685 and taxes)  
Claims Made Excess Liability Estimated:  $810,681  

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

Capital Project #:  
N/A  

Operating Budget:  
DRPA Risk Mg. C/E #8  
PATCO Admin. C/E Insurance & Claims  

Master Plan Status:  
N/A  

Other Fund Sources:  
N/A  

Duration of Contract:  
December 30, 2012- December 30, 2013  
December 31, 2012- December 31, 2013  

Other Parties Involved:  
Aon Risk Services and Arch, Zurich, XL Insurance, Travelers and Lexington Insurance Company