SUMMARY STATEMENT


COMMITTEE:  Finance

COMMITTEE MEETING DATE:  June 4, 2014

BOARD ACTION DATE:  June 19, 2014

PROPOSAL:  That the Board authorizes staff to bind the renewal of the DRPA Marine Insurance Program. This program includes three policies: (1) Marine General Liability, and (2) Hull & Machinery, which includes Protection & Indemnity Coverage; and (3) Excess Marine Liability Insurance. These policies are placed by our Broker/Consultant, Aon Risk Services.

Pursuant to DRPA-12-006, Aon is paid a fixed annual service not-to-exceed $129,000, payable in quarterly installments. Therefore, the proposed policy premiums are net of commission.

Starr Indemnity & Liability Insurance Company is the incumbent carrier since 12/31/2012 when the former carrier, The Chubb Group, exited from this class of business. Starr has been flexible with the offering of an extended policy term and has provided very competitive pricing. At the renewal strategy meeting, Aon advised that since this coverage was last marketed, Aon has observed large general rate increases +5 to 15%, however, Starr has proposed a flat renewal marine program.

PURPOSE:  To reduce the DRPA’s marine exposure to risk, liability for loss of life and contractual liability, including Excess Marine Liability coverage related to the Authority’s Ferry and Public Safety operations.

BACKGROUND:  The expiring Marine Insurance Program, includes the following three components: (1) Marine General Liability, (2) Hull & Machinery, which includes Protection & Indemnity coverage; and (3) Excess Marine Liability Insurance. A summary of the three program components, along with premium quotes for each component for policy term 12/31/2012 – 8/1/2014 follows:

Component #1 – Marine General Liability ($11,161 including taxes & TRIA)
The Marine General Liability Policy provides coverage for marine operations pertaining to the Public Safety Patrol Boat. The Marine General Liability Policy includes a $1 million limit for any one occurrence, subject to a $2 million general aggregate. The deductible per any one occurrence is $10,000.
Component #2 – Hull & Machinery, including Protection & Indemnity ($28,868 including taxes & TRIA)
The Authority owns one Ferry Boat, which is currently operated by National Ferry Corporation (NFC). Pursuant to the terms of the Ferry Services contract, the operator is obligated to provide Hull & Machinery, including Protection & Indemnity coverage for the Ferry Boat. However, a recent letter of amendment changed the expiration of the agreement to continue until November 1, 2014, unless earlier terminated and with no option to extend the agreement. Therefore, while the ferry is not being operated Port Risk Hull & Machinery insurance must be in place for the Ferry Boat.

The DRPA owns one Patrol Boat, which is operated by the Marine Unit of the Public Safety Division. The Patrol Boat is a 2005 Safe Boat International 27’ cabin boat. DRPA is responsible for providing the Hull & Machinery, including Protection & Indemnity for the Patrol Boat.

Under the current policy with Starr, the Hull & Machinery deductible is $15,000 per occurrence for the Patrol Boat and $20,000 per occurrence for the Ferry Boat while port-side. The insured value of the Patrol Boat for Hull & Machinery is $300,675. The insured value of the Ferry Boat for Hull & Machinery is $2.5 million. The Protection & Indemnity limits of liability are $1 million per occurrence, with no policy aggregate. The Protection & Indemnity deductible per occurrence is $5,000 for Bodily Injury and $10,000 deductible per occurrence for Property Damage.

Component #3 – Marine Umbrella Liability ($13,599 including taxes & TRIA)
The Marine Umbrella Liability Insurance provides coverage excess of the Marine General Liability and the Protection & Indemnity Liability policies. The Marine Umbrella Liability insurance limit is $4 million per occurrence and in the aggregate.

Total Premium for Components 1, 2, and 3:
Starr Indemnity issued a long-term policy from 12/31/2012-8/1/2014 for the premium of $54,426, including taxes and TRIA. On January 2, 2014, the Hull & Machinery policy was endorsed to provide port-risk only coverage for the Ferry Boat, when NFC no longer provided the coverage.

Starr has offered a renewal quote with the same rates, terms and conditions as expiring including another 18-month policy term. Starr has increased its TRIA rate from 1% to 2.5% upon renewal.
The Terrorism Risk Insurance Act (TRIA) was enacted in 2002 following the September 11, 2001, terrorist attacks to address the near complete withdrawal of private terrorism coverage from the property and casualty commercial lines market. It provides private insurers with a Federal “backstop” for certain large terrorism events and requires that carriers of “covered lines” make coverage available for losses resulting from certified acts of terrorism. Last reauthorized in 2007, TRIA is set to expire on December 31, 2014, unless extended by Congress. Three bills that would extend TRIA are currently pending before the US House of Representatives. In the event Congress does not extend TRIA, Starr will not provide TRIA post expiration and there will be a pro-rata return premium under all three policies. We will not continue to have terrorism coverage throughout the full term of the policy should Congress not extend TRIA.

Aon’s Recommendation
The current 18-month premium is $53,628 (including taxes and TRIA), net of commission. Aon recommends that we move forward with the proposed renewal quote from Starr Indemnity & Liability Insurance Company for the 18-month policy term from 8/1/2014-2/1/2016. If approved, the estimated premium will be $54,426, including NJ PLIGA tax & TRIA, and net of commission. If approved, the 18-month premium will increase by $798.

The approved 2014 operating budget for the Marine Insurance Program provided for a total premium of $42,321. The budget did not contemplate the additional port-risk Hull & Machinery coverage for the ferry boat or the new WQIS policy for the ferry port-risk Pollution coverage. Both marine coverages were placed in January 2014 when NFC no longer provided these necessary insurance coverages while the Ferry was portside.

Staff agrees with Aon’s recommendation that we accept the 18-month renewal proposal from Starr Indemnity & Liability Insurance Company for the Marine General Liability, Hull & Machinery, including Protection & Indemnity, and Marine Umbrella Liability Insurance policies for the policy term 8/1/2014-2/1/2016, at an estimated premium of $54,426, including NJ PLIGA tax & TRIA, and net of commission.

SUMMARY:

<table>
<thead>
<tr>
<th>Amount:</th>
<th>Estimated $54,426, 18-month policy (including NJ PLIGA tax &amp; TRIA) and net of commission</th>
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</thead>
<tbody>
<tr>
<td>Source of Funds:</td>
<td>Revenue and General Funds</td>
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<td>Capital Project #:</td>
<td>N/A</td>
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<tr>
<td>Operating Budget:</td>
<td>DRPA Risk Mgt. C/E #8 – TBD (DRPA)</td>
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<td>Master Plan Status:</td>
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<td>Other Parties Involved:</td>
<td>Aon Risk Services and Starr Indemnity and Liability Insurance Company</td>
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RESOLUTION

RESOLVED: That the Board authorizes staff to accept the long-term renewal quote from Starr Indemnity & Liability Insurance Company, for the Marine General Liability, Hull & Machinery, including Protection and Indemnity, and Marine Umbrella Liability Insurance Policies, for the 18-month policy term August 1, 2014 – February 1, 2016, at an estimated 18-month premium of $54,426, including NJ LIGA tax & TRIA, and net of commission; and be it further

RESOLVED: That the Chairman, Vice Chairman 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 Chairman, Vice Chairman and Chief Executive Officer and if thereafter either the Chairman or Vice Chairman 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 Chairman and Vice Chairman 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: Estimated $54,426, 18-month policy (including NJ PLIGA tax & TRIA) and net of commission
Source of Funds: Revenue and General Funds
Capital Project #: N/A
Operating Budget: DRPA Risk Mgt. C/E #8 – TBD (DRPA)
Master Plan Status: N/A
Other Fund Sources: N/A
Other Parties Involved: Aon Risk Services and Starr Indemnity and Liability Insurance Company