

SUMMARY STATEMENT

ITEM NO.: DRPA-16-105

**SUBJECT: Renewal of DRPA Bridge
Property Damage and Loss of Revenue Insurance**

COMMITTEE:

Finance

COMMITTEE MEETING DATE:

September 14, 2016

BOARD ACTION DATE:

September 21, 2016

PROPOSAL: That the Board authorizes staff to bind the renewal of the Bridge Property Damage and Loss of Revenue insurance policies. This policy is placed by our Broker/Consultant, Turner Surety & Insurance Brokerage (TSIB).

Pursuant to DRPA-15-089, TSIB is paid a fixed annual service fee not-to-exceed \$107,000 payable in quarterly installments. Pursuant to the terms of the Broker/Consultant Service Agreement, TSIB understands that no commissions shall be paid on any insurance policies placed on DRPA's behalf. Therefore, the proposed policy premiums are net of commission.

TSIB marketed the DRPA's Bridge Property Damage and Loss of Toll Revenue \$500 million policy Loss Limit and a \$600 million Loss Limit to the following markets:

- **RSUI** - Declined, could not provide the necessary capacity
- **Axis Specialty** - Declined, cannot compete against current rates
- **Aspen** - Declined, could not quote six-months prior to the expiration date
- **Lexington** - Declined, cannot compete against current rates
- **Zurich, XL, Travelers and Arch, the incumbent companies proposed several renewal terms**

In addition, TSIB approached several markets for additional limits in excess of a \$600 million loss limit. These markets provided "premium ranges" of \$275,000 to \$325,000 for an additional limit of \$150 million; and \$375,000 to \$450,000 for an additional limit of \$250 million; both excess of \$600 million. Those markets were:

- **ACE/Chubb** - Quoted premium ranges
- **Arch** - Declined, could not provide the necessary capacity
- **Axis** - Declined, could not quote six-months

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| | | prior to the expiration date |
| • | HDI | - Declined, could not provide the necessary capacity |
| • | Lexington | - Quoted premium ranges |
| • | Liberty Internat'l | - Quoted premium ranges |
| • | Munich American | - Declined, could not provide the necessary capacity |
| • | Swiss Re | - Quoted premium ranges |
| • | Starr Tech | - Declined, could not quote six-months prior to the expiration date |

PURPOSE: To renew the required Bridge Property Damage and Loss of Revenue insurances to reduce the DRPA's exposure to risk, and to insure against physical damage 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 Loss Limit of the expiring policy is \$500 million, subject to a \$25 million deductible per occurrence (a \$75million Aggregate Deductible "Cap" has been added to the policy). DRPA's existing policies for the Bridge Property Damage and Loss of Toll Revenue will expire on December 31, 2016.

Covered Property

Under the Bridge Property Damage Program the covered properties and locations include:

- jurisdictional boundaries associated with the Ben Franklin, Betsy Ross, Commodore Barry and Walt Whitman Bridges (as noted in the survey maps on file);
- bridge decks, piers, anchorages, abutments supports, hangers, and approaches, including all related structures, substructures, lighting, equipment, foundations, roadways, pavement or barriers and any other property necessary or incidental to the bridges or bridge operations;
- surveillance equipment;
- underground wells, piping, mains, sewers and drains, including business property therein that is a part of the bridge.

Covered Perils

The perils insured under the Bridge Property Damage Program include:

- direct physical loss of, or damage to property insured;
- damage caused by flood, earthquake;
- both certified and non-certified acts of terrorism; and

Loss of Toll Revenue Insurance

The Loss of Toll Revenue insurance provides coverage against loss of toll revenue on our four bridges, on a per occurrence basis up to a limit of \$312,800,000. The policy excludes revenues derived from PATCO operations or the Ferry.

When a covered loss results in an interruption of toll revenue, the policy is subject to a 14-day waiting period (e.g. 14-days of toll revenue).

Structure of Current Bridge Property Damage Program

We have three policies written on a Participation-Share Property Limit for a total Loss Limit of \$500 million per occurrence with three insurance carriers. The following three (3) carriers participate as follows:

- (1) 18% (or \$90 million) – Travelers Property Casualty Company of America participates;
- (2) 42% (or \$210 million) – XL Insurance America; and
- (3) 40% (or \$200 million) - Zurich American Insurance Company

The existing Bridge Property & Loss of Toll Revenue Program is based upon a total insured value of \$2,387,247,000. In March of 2016, HNTB provided a replacement cost appraisal report for the bridges. TSIB recommends using the HNTB replacement cost value of \$2,371,587,000, which is a reduction of values by 1% for the renewal term. The current 18-month term premium for the 6/30/2015-12/31/2016 program is \$2,695,673 (including Terrorism Risk Insurance Act (TRIA) and the NJ Property-Liability Insurance Guaranty Association (NJ PLIGA) tax.

Since being named as Broker of Record, TSIB noticed that all three participating carriers were charging different rates per hundred of value for their individual participation. This is not typical of a Participation-Share program where the term exceeds 12 months. When negotiating the renewal terms with the three carriers, TSIB instructed the carriers to propose the same rate regardless of their participation level; to lower their rate; and to offer a 24-month term in order to avoid the policy being re-marketed to other carriers next year.

All three carriers agreed but the renewal quotes are subject to:

- (1) The loss ratio does not exceed 30%**
- (2) The insurable values do not exceed 5% deviation from current estimates**

TSIB has proposed three renewal options offered by Zurich, XL and Travelers for our consideration:

- 1) 12-month policy term -\$500 mil limit- Est. premium \$1,825,367**
- 2) 24-month policy term- \$500 mil limit- Est. premium \$3,406,088**
- 3) 24 month policy term- \$600 mil limit- Est. premium \$3,519,629**

Note: All three options include TRIA & the NJ PLIGA tax

For the renewal term, TSIB was successful in negotiating a \$600 million Loss Limit with all three carriers proposing the following Participation-Share of the \$600 million:

- (1) 25% (or \$150 million) – Travelers Property Casualty Company of America participates;**
- (2) 50% (or \$300 million) – XL Insurance America; and**
- (3) 25% (or \$150 million) - Zurich American Insurance Company**

The current rates for the bridge property for the 6/30/15-12/31/16 are as follows:

- XL/Catlin - .0673/\$100 of value**
- Zurich - .0651/\$100 of value**
- Travelers - .0750/\$100 of value**

TSIB was able to negotiate the following rates for a 24-month term from 12/31/16-12/31/18:

- XL/Catlin - .0657/\$100 of value**
- Zurich - .0657/\$100 of value**
- Travelers - .0650/\$100 of value**
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With the lowered negotiated rates, TSIB was able to secure a lower annualized premium and increase the limit of liability from \$500 million to \$600 million on the Bridge Property Damage program.

Bridge Property Damage and Loss of Toll Revenue Renewal Quote
\$600 million Loss Limit – 24-month term, payable in annual installments

SUMMARY STATEMENT
Finance 9/14/2016

**Renewal of DRPA Bridge Property Damage
and Loss of Revenue Insurance**

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|----------------|---|
| • Zurich | - Estimated premium \$ 822,868 (incumbent) |
| • XL Insurance | - Estimated premium \$1,899,109(incumbent) |
| • Travelers | - Estimated premium \$ <u>797,652</u> (incumbent) |
| | \$3,519,629 |

TSIB recommends option # 3 which is the most advantageous option. By taking advantage of the lowered rates in a 24-month policy term, the DRPA will be able to (a) lock in the property rate through December 31, 2018, (b) avoid rate increases into the second policy term; (c) continue to pay the premium in two equal annual installments and (d) obtain an additional \$100 million in property limits coverage for a lower premium lower than the current annual premium for a \$500 million limit. The current 18 month annualized premium is \$1,797,100 for the policy period 8/30/15-12/31/16. The annualized premium for option#3 is \$1,759,815 (including TRIA and NJ PLIGA) This is a premium decrease of \$37,285 over the current premium and a rate decrease of -1.4% from the current term rate.

Recommendation:

- TSIB recommends that we accept the 24-month policy term from 12/31/2016-12/31/2018, for the \$600 million Loss Limit with the three (3) incumbents: Travelers Property Casualty Company of America, XL Insurance America and Zurich American Insurance Company, for an estimated term premium of \$3,519,629 (including TRIA and NJ PLIGA tax), payable on an annual installments of \$1,759,815. Staff concurs with the broker's recommendation above.

SUMMARY:	Amount:	Estimated 24-month term premium: \$3,519,629 \$600 million Bridge Property Damage & Loss of Toll Revenue insurance (Including TRIA and NJ PLIGA tax); payable on an annual installments of \$1,759,815.
	Source of Funds:	Revenue Fund
	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:	December 31, 2016-December 31, 2018
	Other Parties Involved:	TSIB and Zurich, XL Insurance, and Travelers

DRPA-16-105
Finance: September 14, 2016
Board Date: September 21, 2016
Renewal of DRPA Bridge Property Damage and Loss of Toll
Revenue Insurance

RESOLUTION

RESOLVED: That the Board authorizes staff to accept the 24-month proposed policy term quote from the incumbent carriers, Zurich, XL Insurance and Travelers for the Bridge Property Damage and Loss of Toll Revenue Policies at the \$600 million Loss Limit, for the policy term December 31, 2016 -December 31, 2018, at an estimated premium of \$3,519,629 (TRIA and NJ PLIGA tax included); payable on an annual installments of \$1,759,815 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:	Estimated 24-month term premium: \$3,519,629 \$600 million Bridge Property Damage & Loss of Toll Revenue insurance (TRIA and NJ PLIGA tax included); payable on an annual installments of \$1,759,815.
	Source of Funds:	Revenue Fund
	Capital Project #:	N/A
	Operating Budget:	DRPA Risk Mgt. Commitment 770000 PATCO Admin. Insurance
	Master Plan Status:	N/A
	Other Fund Sources:	N/A
	Duration of Contract:	December 31, 2016-December 31, 2018
	Other Parties Involved:	TSIB and Zurich, XL Insurance, and Travelers