SUMMARY STATEMENT

ITEM NO.: DRPA-18-106      SUBJECT: Renewal of DRPA Bridge Property Damage and Loss of Revenue Insurance

COMMITTEE: Finance

COMMITTEE MEETING DATE: October 3, 2018

BOARD ACTION DATE: October 17, 2018

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-18-054, TSIB is paid a fixed annual service fee not-to-exceed $160,380, payable in quarterly installments of $40,095. In accordance with 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 $700 million Loss Limit policy to the following markets for an optional quote for a $950 million Loss Limit:

- ACE American/Chubb - quoted, $2,300,349 (recommended)
- XL Ins America - quoted, $1,014,905 (incumbent)
- Travelers - quoted, $765,672 (incumbent)
- Zurich - quoted, $766,323 (incumbent)
- Allianz - declined, refused to sign the non-disclosure agreement to obtain copies of the biennial reports
- AmRisc - declined, no risk appetite
- Axis - declined, could not offer 3-yr. term
- Axis - declined, could not offer 3-yr. term
- Beazley - declined, could not offer 3-yr. term
- Berkshire Hathaway - declined, refused to sign the non-disclosure agreement to obtain copies of the biennial reports
- Everest - declined, no risk appetite
- HDI Global - declined, no risk appetite
- IMU (One Beacon) - declined, no risk appetite
- Ironshore - declined, capacity issues
- Lexington - declined, no risk appetite
- Markel - declined, capacity issues
- RSUI - declined, capacity issues
- Starr Tech - declined, could not offer 3-yr. term
- Swiss Re - refused to sign the non-disclosure agreement to obtain copies of the biennial reports
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Renewal of DRPA Bridge Property Damage and Loss of Revenue Insurance
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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 and 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 policies is $700 million, subject to a $25 million deductible per occurrence. DRPA’s existing policies for the Bridge Property Damage and Loss of Toll Revenue will expire on December 31, 2018.

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 sublimit of $312,800,000. The policy excludes revenues derived from PATCO operations.

When a covered loss results in an interruption of toll revenue, the policy is subject to a 10 day waiting period (e.g. 10-days of toll revenue).
SUMMARY STATEMENT
Renewal of DRPA Bridge Property Damage and Loss of Revenue Insurance

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Structure of Current Bridge Property Damage Program
We have three policies written on a Quota Share Property Limit for a total Loss Limit of $700 million per occurrence with three insurance carriers. The following three (3) carriers participate as follows:

(1) 28.57% (or $200 million) – Travelers Property Casualty Company of America participates;
(2) 42.86% (or $300 million) – XL Insurance America; and
(3) 28.57% (or $200 million) - Zurich American Insurance Company

From the March 2017 HNTB trended replacement cost estimate, the existing Bridge Property & Loss of Toll Revenue Program is based upon a total insured value of $2,462,440,079. For the renewal term, TSIB recommends trending the values by 3% over the expiring values. Therefore, the trended total insurable replacement value will be $2,530,444,657 for the renewal policy term.

The first year of the current 24-month policy term (12/31/2016-12/31/2017), had a $600 million Loss Limit at the annual premium of $1,759,815.

In December of 2017, the Board approved the purchase of an additional $100 million limit to bring the total loss limit to $700 million, for the policy term 12/31/2017 to 12/31/2018. The annual premium for the $700 million Loss Limit is $1,893,863. The total premium for the current 24-month policy from 12/31/2016-12/31/2018 is $3,653,678 (including Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) and the NJ Property-Liability Insurance Guaranty Association (NJ PLIGA) tax.

When negotiating the renewal terms for the new Loss Limit of $950 million, TSIB would have preferred for the carriers to propose the same rate regardless of their participation level. However, in this instance, it was more advantageous to accept different rates from the various carriers as it resulted in an overall lower premium. TSIB improved the policy term of the Bridge Property Damage and Loss of Toll Revenue program by successfully negotiating a 36-month policy term; locking in the rates for three years and avoiding the policy being re-marketed to other carriers next year.
After reviewing all quotations, TSIB is recommending that ACE American Insurance Company (Chubb) become the lead carrier since the ACE policy form included the following enhancements over the current lead policy form with Zurich:

- Flood, Earthquake, and Named Storm sublimits increased from $300 Million to $500 Million;
- Transit coverage sublimit increased from $10 Million to $20 Million;
- NEW Electronic Data Processing sublimit of $10 Million;
- Period of Indemnity for Loss of Revenue due to Ingress/Egress (Civil Authority) increased from 30-days to 60-days
- The Bridge Property Damage deductible of $25 million is capped at $75 million during any annual policy term; once exhausted during any annual policy term, the policy is then subject to a $1 million dollar maintenance deductible
- The Loss of Revenue waiting period (deductible) has been reduced from 14-days to 10-days

The Loss of Toll Revenue sublimit of insurance is increased from a per occurrence sublimit of $312,800,000 to a new sublimit of $336,730,057. The policy continues to exclude revenues derived from PATCO operations.

**Proposed Structure of Bridge Property Damage Program 12/31/2018-12/31/2021**

Loss Limit of $950 Million written on a Quota Share per occurrence basis with four (4) carriers as follows:

1. 47.368% (or $450 million) – ACE American Insurance Co.;
2. 21.054% (or $200 million) – XL Insurance America;
3. 15.789% (or $150 million) – Travelers Property Casualty Company of America Insurance and
4. 15.789% (or $150 million) – Zurich American Insurance Company

All four carriers have the following subjectivities in order to bind the 36-month policy:

1. The loss ratio does not exceed 50%
2. The insurable values, (both property and loss of revenue) as reported for each policy term, do not exceed 5% of the prior policy term’s estimated replacement cost values and loss of income. The carrier will utilize the ENR Construction Cost Index as a benchmark in lieu of requesting DRPA to obtain a formal appraisal (*DRPA cost savings*).
Renewal Bridge Property Damage and Loss of Toll Revenue Quote
$950 million Loss Limit – 36-month term, payable in annual installments

- ACE American Ins Co. (NEW) - Estimated premium $2,300,349
- XL Insurance (incumbent) - Estimated premium $1,014,905
- Travelers (incumbent) - Estimated premium $ 765,672
- Zurich (incumbent) - Estimated premium $ 766,323

By taking advantage of a 36-month policy term, the DRPA will be able to (a) lock in the property rates through December 31, 2021, (b) avoid rate increases into the second and third policy terms; and (c) continue to pay the premium in three equal annual installments.

Expiring Annual Premiums Bridge Property Damage and Loss of Toll Revenue:

- December 31, 2016 to 2017 - $600 million Loss Limit $1,759,815
- December 31, 2017 to 2018 $700 million Loss Limit $1,893,863

Proposed annual installments
- December 31, 2018 to December 31, 2021 $950 million Loss Limit $1,615,750

This is a premium decrease of $278,113 over the current policy term premium and a rate decrease of 7.6% from the current term rate.

Recommendation:

- TSIB recommends that we accept the 36-month policy term from 12/31/2018-12/31/2021, for the $950 million Loss Limit with the new lead market, ACE American Insurance Company (Chubb) and the three (3) incumbents: XL Insurance America, Travelers Property Casualty Company of America, and the Zurich American Insurance Company, for an estimated 36-month term premium of $4,847,249 (including TRIPRA and NJ PLIGA tax), payable in annual installments of $1,615,750 each and net of commission.
Staff concurs with the broker’s recommendation above.
**SUMMARY STATEMENT**

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

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<tr>
<th>SUMMARY:</th>
<th>Amount:</th>
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<tr>
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<td>Estimated 36-month term premium:</td>
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<td>$4,847,249</td>
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<td>$950 million Bridge Property Damage &amp; Loss of Toll Revenue insurance (Including TRIPRA and NJ PLIGA tax); payable in annual installments of $1,615,750 each; and net of commission</td>
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| Source of Funds: | Revenue Fund |
| Capital Project #: | N/A |
| Operating Budget: | DRPA Risk Mgt. Commitment 770130 |
| Master Plan Status: | N/A |
| Other Fund Sources: | N/A |
| Duration of Contract: | December 31, 2018-December 31, 2021 |
RESOLUTION

RESOLVED: That the Board authorizes staff to accept the 36-month term proposed policy quote from the new lead carrier ACE American Insurance Company, and the incumbent carriers, XL Insurance, Travelers and Zurich for the Bridge Property Damage and Loss of Toll Revenue Policies at the $950 million Loss Limit, for the policy term December 31, 2018 - December 31, 2021, at an estimated premium of $4,847,249 (TRIPRA and NJ PLIGA tax included); payable each year of annual installments of $1,615,750 each; net of commission; 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 36-month term premium: $4,847,249
$950 million Bridge Property Damage & Loss of Toll Revenue insurance (Including TRIPRA and NJ PLIGA tax); payable in annual installments of $1,615,750 each; and net of commission

Source of Funds: Revenue Fund
Capital Project #: N/A
Operating Budget: DRPA Risk Mgt. Commitment 770130
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: December 31, 2018-December 31, 2021