SUMMARY STATEMENT

ITEM NO.: DRPA-19-091

SUBJECT: Renewal of DRPA/PATCO Commercial Non-Bridge Property Policy

COMMITTEE: Finance

COMMITTEE MEETING DATE: October 2, 2019

BOARD ACTION DATE: October 16, 2019

PROPOSAL: That the Board authorizes staff to bind the renewal of the DRPA/PATCO Commercial Non-Bridge Property insurance policy. This policy is placed by our Broker/Consultant, Turner Surety and Insurance Brokerage Inc. (TSIB).

Pursuant to DRPA-18-054, TSIB is paid a fixed annual service fee not-to-exceed $160,380, payable in quarterly installments of $40,095.00. 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.

Pursuant to DRPA-18-100, the Board authorized TSIB to work with AmWINS of Edison, New Jersey, as the Wholesale Broker, on behalf of the Authority to renew the Affiliated FM Global policy. Consistent with the previous placement, AmWINS will receive a commission from Affiliated FM Global, but will not pay TSIB any commission, or any contingent, supplemental or other forms of additional compensation. Therefore, the proposed policy premium is net of commission.

TSIB marketed the Authority’s Commercial Non-Bridge property policy to the following carriers to secure the most competitive premium:

- Affiliated FM Global - premium indication of $521,452 including NJ PLIGA tax and TRIPRA (incumbent)
- ACE/Chubb - declined, required updated underwriting information; could not provide flood limit
- Allianz - declined, could not provide $100M in flood
- AXIS - declined, no risk appetite
- CNA - declined, no risk appetite
- Great American - declined, could not provide $100M in flood
- Liberty Mutual - declined, could not compete vs. current rate
- Swiss Re - declined, required updated underwriting information
- Travelers - declined, potential flood hazards
- Zurich - declined, pre-inspections/time constraints
PURPOSE: To reduce the Authority’s exposure to risk by insuring against physical damage to non-bridge property, economic loss, and business interruption.

BACKGROUND: Pursuant to DRPA-18-100, the Board approved a 12-month policy term from December 31, 2018 to December 31, 2019 with the incumbent, Affiliated FM Global. The current Commercial Non-Bridge Property policy will expire December 31, 2019.

The expiring premium for the 12-month policy is $452,728.00, including Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) and the NJ Property-Liability Insurance Guaranty Association (NJ PLIGA) tax.

The Commercial Non-Bridge Property policy provides insurance for non-bridge assets including One Port Center and the OPC Parking lot; Bridge Administration buildings; paint storage facilities; salt storage buildings; vehicle maintenance buildings; ILA Hiring Hall; and the PATCO stations, yards, and facilities. The non-bridge property policy insures DRPA and PATCO’s real and personal property (buildings, equipment, substations, computers, furniture, rental income, machinery and inventories, etc.) against direct physical loss in the event of, amongst other perils – fire, flood, explosion, collapse, interruption of utility service, theft or theft damage, and terrorism.

The policy carries a $100,000 deductible (higher deductibles apply to losses resulting from Earth Movement and Flood).

On March 15, 2016, HNTB submitted their Facility Replacement Cost Estimate Appraisal report. As a result of the 2016 report, non-bridge real property (building) values increased by 49% over the 2015 values or by approximately $795,000,000.00. Therefore, for the December 31, 2018 to December 31, 2019 policy term, Affiliated FM Global proposed a blanket loss limit of $750,000,000.00, based upon trended values of $809,856,685.00.

The trended Total Insured Values (TIV) for the renewal policy term is $810,514,086.00.

FM Global’s new 2019 corporate guidelines have mandated that the Loss Limits for all policyholders more closely reflect the same limit as the projected Probable Maximum Loss (PML).

FM Global has provided the following examples in support of a reduced Loss Limit more closely reflecting the actual PML from $750 million to $500 million for the December 31, 2019 to December 31, 2020 policy term:

The largest single location is the PATCO Lindenwold passenger station, substation & related buildings valued @ a PML risk total of $135,894,770.00 combined;
If the Pennsylvania locations suffered a catastrophic loss, the values @ PML total $169,156,736.00 combined;

If every location in Camden were to suffer a catastrophic loss, the total values @ PML are $261,808,730.00 combined.

Considering the information above, TSIB agrees that the proposed reduced Loss Limit of $500 million still represents an adequate blanket limit for all property insured under this policy.

However, as an option to return to a full blanket Loss Limit of $750 million, TSIB through AmWINS approached the marketplace to obtain pricing indications for an excess property layer of $250 Million. Pricing ranged from an indication of $75,000 to $125,000 annually. The indications are subject to the review of the firm Affiliated FM renewal proposal, including pricing, terms and conditions. The facultative reinsurance placement for the Lindenwold location will not be finalized until late October.

Another change for the renewal term is the reduction of the Data Service Provider coverage from $500,000 to $50,000. The intent is to not provide primary cyber coverage on the Affiliated FM Global property form. TSIB has confirmed that this gap in coverage is picked-up under the Allied World Network Security and Privacy Liability Policy (Cyber Liability) which provides a limit of $10 million for first party Data Restoration Coverage.

Finally, Affiliated FM Global is increasing the flood deductible on the Commodore Barry Bridge Plaza to $500,000 from $100,000. This deductible increase represents a company-wide change for those policyholders who have values located in, or close to Flood Zone A, which would be exposed to a 100 year high flood hazard loss expectancy.

Over the prior policy terms from 2013 to 2018, Affiliated FM Global had overall, reduced the annual property rate by -9.50%. In 2013, the rate was 0.0615 and in 2018, the rate was 0.0557.

Affiliated FM Global has proposed for the December 31, 2019 to December 31, 2020 renewal term, a rate of 0.0640, which represents a 15.2% increase over the expiring term.

Therefore, the proposed renewal indication for a 12-month policy term from 12/31/2019 to 12/31/2020, is an estimated premium of $521,452.00, including TRIPRA and the NJ PLIGA tax. The proposed renewal indication represents an annual increase of $68,724.00 or an increase of 15.2%, over the expiring premium of $452,728.00.

The Affiliated FM Global policy does not include property insurance for the PATCO passenger cars, rail, tracks, rail beds (inside the tracks), trestles (mainline bridges) overhead bridges, tunnels or viaducts.
Affiliated FM Global has the following subjectivities in order to bind the 12-month policy:

#1 There cannot be any increase in the reinsurance rates or any imposed restrictive terms on the reinsurance available to Affiliated FM Global between the date of the quote and the effective date of December 31, 2019;

#2 The quality of risk prevention must not deteriorate during the quote term and the protection against physical loss must not be removed or diminished in its effectiveness;

#3 Any material change to the property of the insured and/or the financial conditions or the insured during the quote term and/or property protections against physical loss or damage installed or agreed to be installed by the insured during this quote period have been substantially changed and;

#4 DRPA’s loss ratio must average less than 60% from the prior three year policy term.

TSIB recommends that staff accept the proposed renewal indication from incumbent, Affiliated FM Global, for the 12-month policy term from December 31, 2019 to December 31, 2020 at the estimated premium of $521,452.00, including NJ PLIGA tax and TRIPRA; and net of commission. Staff agrees with TSIB’s recommendation.

**SUMMARY:**

- **Amount:** Estimated 12-month term premium $521,452.00 (Including TRIPRA and the NJ PLIGA tax) net of commission
- **Source of Funds:** Revenue and General Funds
- **Capital Project #:** N/A
- **Operating Budget:** DRPA Risk Mgt. Commitment 770140 (DRPA/OPC) PATCO Admins. Commitment 770140
- **Master Plan Status:** N/A
- **Other Fund Sources:** N/A
- **Duration of Contract:** December 31, 2019 to December 31, 2020
- **Other Parties Involved:** Turner Surety & Insurance Brokerage (TSIB), Affiliated FM Global, and AmWINS of Edison, New Jersey
RESOLUTION

RESOLVED: That the Board of Commissioners authorizes staff to accept the proposed 12-month renewal quote from incumbent, Affiliated FM Global Insurance Company, for the Commercial Non-Bridge Property Policy, for the policy term of December 31, 2019 to December 31, 2020, at an estimated premium of $521,452.00 including NJ PLIGA tax and TRIPRA; net of commission; and be it further

RESOLVED: That the Board of Commissioners authorizes AmWINS of New Jersey, 105 Fieldcrest Avenue, Edison NJ 08837 as the Wholesale Broker for the placement of this policy. AmWINS will receive commission from Affiliated FM Global, but will not pay TSIB any additional income, including commission, or any contingent, supplemental or other forms of additional compensation; 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 12-month term premium $521,452.00 (including NJ PLIGA tax and TRIPRA net of commission)
Source of Funds: Revenue and General Funds
Capital Project #: N/A
Operating Budget: DRPA Risk Mgt. Commitment 770140 (DRPA/OPC)
PATCO Admins. Commitment 770140
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: December 31, 2019 to December 31, 2020
Other Parties Involved: Turner Surety & Insurance Brokerage (TSIB), Affiliated FM Global, and AmWINS of Edison, New Jersey.