



Agenda Item No. (7)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of February 27, 2020

From: Kelli Vitale, Director Risk Management and Safety
Kellee J. Hopper, Deputy General Manager, Administration and Development
Joseph M. Wire, Auditor-Controller
Denis J. Mulligan, General Manager

Subject: **APPROVE RENEWAL OF THE MARINE INSURANCE PROGRAM**

Recommendation

The Finance-Auditing Committee recommends that the Board of Directors approve renewal of the Golden Gate Bridge, Highway and Transportation District's (District) Marine Insurance Program, effective February 28, 2020, with a renewal package totaling \$934,455.88, as follows:

1. Ratify the action of the General Manager to renew the Protection and Indemnity Liability Insurance Program and the Vessel Pollution excess coverage from \$5 million up to \$1 billion, with Steamship Mutual Club for a one-year term, at an annual premium of \$503,500;
2. Renew the Vessel Pollution Liability Insurance Program with Great American OPA/CERCLA up to \$5 million coverage no deductibles one year term for an annual premium of \$7,534;
3. Renew the Hull and Machinery Insurance Program with Starr Indemnity/Sompo/Liberty for Agreed Amount coverage for each of the vessels with \$200,000 deductible for a one-year term, for an annual premium of \$245,000; and,
4. Renew the Marine General Liability Insurance Program with Liberty Mutual at an annual premium of \$178,421.88,

with the understanding, those requisite funds in the amount of \$934,455.88 are available in the FY 19/20 Ferry Division Operating Budget and that requisite funds will be budgeted in the FY 20/21 Ferry Division Operating Budget.

This matter will be presented to the Board of Directors at its February 28, 2020, meeting for appropriate action.

Summary

This report summarizes the staff recommendation for the annual renewal of the Marine Liability Insurance Program. The Marine Insurance Program covers the Protection and Indemnity exposures, the Vessel Pollution exposures, Hull and Machinery exposure, Marine General Liability exposures, as well as Terminal Operators Liability, Wharfinger's Liability, and Sudden & Accidental Pollution Liability. All policies in this report expire on February 28, 2020.

The Protection and Indemnity Liability Insurance Program protects against damages done by the vessels as well as injury to Passengers/Crew on the wet-side of the dock. With regard to the Protection and Indemnity Insurance, staff has recommended the District place that insurance with Steamship Mutual Club out of London. Securing the insurance with Steamship Mutual Club requires a 2-day grace period before the coverage takes effect. In order to avoid a lapse in coverage from the expiring insurance with Allianz (AGCS) and AIG and the new coverage with Steamship Mutual Club, the General Manager executed the necessary documents on February 26, 2020 to ensure coverage effective February 28, 2020. Thus, staff requests that the Board ratify the General Manager's action.

Vessel. Marine General Liability exposures are defined as passengers/public once they leave the vessel gangplank to the dock and from the dock until they are through the ticket turnstile).

Alliant Insurance Services, the District's marine insurance broker, marketed the District's marine renewal needs to the world market. Following is a discussion of market conditions, recommendations, and coverage limits.

Market Overview

1. **The Marine Market has sharply contracted.** A number of domestic carriers either have left the North American marine market entirely or have downsized their limits. The London Marine Market has also contracted. Almost 50% of the 2019 market capacity has been lost.
2. **There are a number of reasons for this sharp correction.**
 - a. Claims activity driven by Social Inflation: Claims have become more expensive. Insurance companies no longer believe that they have properly reserved and priced for potential loss development.
 - b. Lack of Profitability: Lloyds of London has mandated that markets MUST be able to demonstrate that they have a business plan that ensures that they remain sustainable. Some of the insurers that have stopped writing business believed that they could not be both profitable and competitive and have ceased writing business.
 - c. Some of the largest insurers in the world (Allianz) have ceased writing all lines of marine business in North America. AIG has withdrawn from all passenger-carrying accounts in the US. Allianz (AGCS) and AIG had major positions on Golden Gate's Ferry fleet. Other markets have severely cut back on their available capacity.

- d. With the loss of capacity, rates have risen dramatically. The 'normal' increase in this market is 25%-40% if the insured has not had losses. Currently, the District has two Hull & Machinery losses pending that are valued at approximately \$1.4 million. The Protection and Indemnity/Hull and Machinery ten-year loss ratio is 183%. That means that over a 10-year period, insurers have paid \$1.83 in losses for every \$1.00 in premium paid by the District.

Recommendation Review

Protection and Indemnity Liability Insurance and Vessel Pollution Liability Excess

It is recommended that the Protection and Indemnity program be contracted with Steamship Mutual Club up to \$1 billion after the first \$350,000 is paid in aggregate and as an Excess carrier for Vessel Pollution Liability coverage beyond the \$5 million coverage provided by Great American below.

Steamship Mutual specializes in passenger carrying vessels and will provide a 'fixed' premium option that will exempt the District from any future premium assessments. They also offer an array of Loss Control and Claims services at no additional cost.

The coverage will have a liability limit of \$1 billion for each occurrence/annual aggregate with \$50,000 self-insured retention each claim. In addition to the \$50,000 per claim retention (each loss, the District must incur an additional \$350,000 in losses in any one year, before insurance coverage starts. The retention has been structured in this fashion as a premium control mechanism due to the District's historical loss activity.

The District considered two other London options. Both of these options would have made the premium subject to assessments. The expiring domestic option was not available due to market conditions and the District's historical loss ratio.

As noted above, the premium with Steamship Mutual Club requires a 2-day grace period before the coverage takes effect, which required the General Manager to execute the necessary documents on February 26, 2020 to ensure coverage effective February 28, 2020.

Vessel Pollution Liability

Great American OPA/CERCLA provided a quote for a limit of \$5,000,000 at a \$0 deductible for a premium of \$7,534. Covered losses in excess of \$5,000,000 are covered under Steamship Mutual, up to \$1 billion.

Hull and Machinery Insurance Program

It is recommended that the District renew the Hull and Machinery Insurance Program with Starr Indemnity/Sompo/Liberty for an agreed-upon coverage amount for each of the vessels with \$200,000 deductible for a one-year term, for an annual premium of \$245,000. The District suffered

two major Hull and Machinery losses in 2019 totaling over \$1,400,000. Due to these losses, the deductible has increased from \$100,000 to \$200,000 and the premium has increased by 15%.

Marine General Liability

This coverage is tailored to address the District's marine exposures. Two District contracts (Port of San Francisco and WETA) require that District provide coverage for Terminal Operations, Wharfinger's Liability, and Sudden & Accidental Pollution. These coverages are part of this policy. In addition, between the ticket turnstile and the vessel gangplank, the General Liability coverage will respond to any injuries. Once the passengers pass through the turnstile, they are insured by the Public Entity Excess Liability tower of coverage.

It is recommended that coverage be provided by Liberty Mutual with a coverage of primary \$1,000,000 per occurrence/\$2,000,000 aggregate; \$9,000,000 excess \$1,000,000 with 100% Lloyds of London; and \$15,000,000 excess \$10,000,000 with 100% Lloyds of London. The deductible will be \$10,000 per occurrence and the one-year premium is \$178,421.88.

Conclusion

The total cost of the expiring Marine Insurance Program was \$681,888. When the proposal approved last year at \$653,065, the premium for Millennium vessel was still pending. We added the vessel as of the 2/28/19 renewal date. That premium change of \$28,823 brings the total premium paid to \$681,888

The total cost for renewal of the 2020 Marine Insurance Program, including terrorism insurance, based upon the above-recommended quotes, is \$934,455.88, a 37% increase.

Fiscal Impact

Approval of the recommendation would cost the District \$934,455.88. Requisite funds are available in the FY 19/20 Ferry Division budget to cover the premium payments in FY 19/20, and will be included in the FY 20/21 Ferry Division budget to cover FY 20/21 premiums payments.

| COVERAGE | 2015 / 2016 | 2016 / 2017 | 2017 / 2018 | 2018 / 2019 | 2019 / 2020 | 2020 / 2021* |
|--|------------------|------------------|------------------|------------------|------------------|---------------------|
| Hull & Machinery Values | \$62,558,723 | \$62,558,723 | \$59,558,723 | \$56,808,723 | \$64,608,723 | \$64,608,723 |
| Hull & Machinery Premium (including TRIA) | \$200,801 | \$200,801 | \$190,819 | \$180,851 | \$212,794 | \$245,000 |
| Protection & Indemnity) | \$413,025 | \$438,375 | \$386,449 | \$436,860 | \$439,160 | \$503,500 |
| (including TRIA and Vessel Pollution excess of \$5,000,000 | (\$100,000,000) | (\$100,000,000) | (\$100,000,000) | (\$100,000,000) | (\$100,000,000) | (\$1,000,000,000) |
| Vessel Pollution Liability (Primary \$5,000,000 only) | \$6,081 | \$6,081 | \$6,081 | \$6,781 | \$7,434 | \$7,534 |
| Marine General Liability (\$1,000,000 Limits) | N/A | N/A | N/A | \$22,500 | \$22,500 | \$30,000 |
| Excess Marine General Liability \$9,000,000 x \$1,000,000 | Included in P&I | \$25,812.50 |
| Excess Marine General Liability \$15,000,000 x \$10,000,000 | Included in P&I | \$25,812.50 |
| Excess Marine General Liability \$25,000,000 x \$25,000,000 | Included in P&I | \$38,718.75 |
| Excess Marine General Liability \$50,000,000 x \$50,000,000 | Included in P&I | \$58,078.13 |
| TOTAL | \$619,907 | \$645,257 | \$583,349 | \$646,992 | \$681,888 | \$934,455.88 |

e

THIS PAGE INTENTIONALLY LEFT BLANK