



Agenda Item No. (8)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of May 28, 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: **STATUS REPORT ON THE RENEWAL OF THE LIABILITY AND
PROPERTY INSURANCE PROGRAMS**

Recommendation

This report is informational only, and no action is required at this time. Recommendations regarding the renewal of the Liability Insurance and Property Insurance Programs will be made at the June 2020 Finance-Auditing Committee meeting.

Background

I. Liability Insurance Program

The Golden Gate Bridge, Highway and Transportation District's (District) Liability Insurance Program, which renews on July 1, 2020, is currently comprised of:

- Excess Liability Insurance
- Excess Workers' Compensation & Employers Liability Insurance
- OPEB Fiduciary Liability Insurance
- Public Officials and Employment Practices Liability Insurance
- Crime/ Fidelity Coverage (currently on three-year policy)
- Environmental Pollution Insurance (three-year policy ending on 7/1/21)
- Cyber Liability Insurance

The FY 20/21 Liability Insurance Program renewal represents the eleventh year that the District's casualty insurance brokers, USI Insurance Services (USI) have marketed the District's program. For FY 20/21, USI has targeted three types of insurance carriers: existing District carriers, those carriers that have submitted price quotes in previous years, and those "new" carriers that have shown interest in underwriting the District's Liability Insurance Program. As shown below, the liability insurance market is a difficult one, and staff expects that the cost of the District's coverage, which was \$1,777,614 for the past year, will increase this year.

A. Excess Liability Insurance

The excess liability insurance market for Public Entities has been challenging for the last four years, particularly for those entities associated with transit operations, schools, police and fire. The District's Excess Liability program premiums are based largely on the exposure arising from the operation of Golden Gate Transit and take account of the number of buses, ridership levels and losses. This year, the excess liability market is seeing increasing premiums - particularly for risks with heavy auto (bus) liability exposures, and the withdrawal of some insurers from the market due to losses that have doubled, tripled, or even quadrupled over the past year especially in highly litigious states like California. This year, like last year, some Excess Liability carriers are leaving the market and others are reducing capacity. The District therefore must replace at least \$20 million in coverage capacity at various levels in its coverage "tower." Given the market, this will be a challenge and result in increased premiums. The good news is that the insurance industry considers the District a superior risk for its class. Thus, the District does attract those insurance carriers that appreciate the District's excellent loss history and its proactive risk management/safety programs.

The District's current lead excess liability carrier, Allied Public Risk (APR - an Allied World Company) has been an excellent District partner since 2014 and will provide the same \$10 million limit in the coming year. While APR could have reduced its limit to \$5 million or even increased the District's SIR to \$5 million, it instead increased the bus/ auto liability SIR to \$3 million and maintained the general liability SIR at \$2 million. APR also intends to increase its premium by 23% as it anticipates paying on a large existing District claim involving a pedestrian/ bus accident.

In addition, AWAC also has been a long-term District partner, providing insurance since 2009. AWAC has agreed to increase its limits from \$10 million to \$15 million this year with a resulting premium increase of 14%, which is an excellent result, and likely a testament to the District's excellent loss experience, attention to risk management and safety, and the long-term relationship with this insurer.

Another current District insurer, Hiscox, has advised that it likely will reduce its coverage limit from \$25 million to \$10 million. Thus, District staff and its broker must attract new carriers and/ or restructure the levels in the District's insurance coverage tower. Given this lost capacity, early estimates are that the District will see premium increases of between 15% to 28% in those missing layers.

The District has carried a coverage limit of at least \$100 million for quite some time, and while there is no science to determining the appropriate amount of insurance, this large limit is in place as catastrophic coverage. The following table summarizes the history of the District's Excess Liability Program limits, self-insured retention and premiums since FY 05/06:

F/Y	Limits (in millions)	Self-Insured Retention (in millions)	Premium (in thousands)
2005-2006	\$75	\$5	\$1,651
2006-2007	\$75	\$5	\$1,294
2007-2008	\$100	\$3	\$1,298
2008-2009	\$125	\$3	\$1,141

F/Y	Limits (in millions)	Self-Insured Retention (in millions)	Premium (in thousands)
2009-2010	\$100	\$2 (incl. defense cost)	\$1,280
2010-2011	\$110	\$2 (incl. defense cost)	\$1,200
2011-2012	\$110	\$2 (incl. defense cost)	\$1,071
2012-2013	\$110	\$2 (incl. defense cost)	\$1,052
2013-2014	\$100	\$2 (incl. defense cost)	\$934
2014-2015	\$100	\$2 (incl. defense cost)	\$870
2015-2016	\$100	\$2 (incl. defense cost)	\$870
2016-2017	\$100	\$2 (incl. defense cost)	\$869
2017-2018	\$100	\$2 (incl. defense cost)	\$908
2018-2019	\$100	\$2 (incl. defense cost)	\$920
2019-2020	\$100	\$2 (incl. defense cost)	\$1,238
2020-2021	\$100	\$2 / \$3M (incl. defense cost)	\$TBD

As shown above, the premiums from 2005 were higher than what the District is currently paying for a lower \$75 million limit and a higher \$5 million SIR. In 2009, the District increased limits from \$75M to \$100M, then to \$110 million in 2010-2011, and back to \$100 million in 2013-2014. The District of course has the choice to maintain the \$100 million limit, or it may reduce that coverage limit to pay less in premiums given that the market is more expensive this year.

In summary, the limits for the current District's Excess Liability Program are set at \$100 million for General and Bus Fleet Liability. Currently, the District has a \$2 million self-insured retention (SIR) for its Excess Liability Program and this will be increasing to \$3 million for Auto Liability and remain at \$2 million for General Liability. The current premium for the District's Excess Liability Program is \$1,228,557. It is possible that the District will see at least a 17% to 28% increase in FY 20/21.

B. Excess Workers' Compensation Program

Rising medical costs, increased litigation, and the erosion of the California reforms instituted in 2004 continue to affect the excess and California's workers' compensation insurance markets. The District's Excess Workers' Compensation program has had a Self-Insured Retention (SIR) of \$1 million for a single claim and a \$25 million limit since 2004, but has never exceeded its SIR during this time.

The FY 19/20 premium was \$380,473. The premium is based on the District's job classifications and payroll. Despite the District's diverse employee portfolio, its insurer Safety National views the District very positively given its attention to safety and efforts at timely claims closure. To date, the carrier is quoting the same cost, so long as the other factors are constant.

C. OPEB Fiduciary Liability

The OPEB (Other Post-Employment Benefits) Fiduciary program was created in response to the District's creation of the OPEB Trust Board to oversee the assets and liabilities of the OPEB Trust.

The premium for FY 2019/2020 was \$6,116 and a flat renewal amount of \$6,116 is expected for the coming year.

D. Public Official and Employment Practices Liability

The District has experienced losses on its Public Officials Liability/Employment Practices Liability insurance program over the last several years. This is typical for USI's public transit clients, and there now are a limited number of insurers offering this coverage. As a result, the District and its peer group will experience premium increases for this coverage this year.

This policy covers Public Officials and Employment Practices liabilities (EPL) with a limit of up to \$2 million for each occurrence/annual aggregate and a SIR of \$250,000 for each Directors and Officers claim and \$350,000 for EPL claims. In FY 2019/2020, the premium for this policy was \$125,300. The District has received a quote for the coming year of \$165,751, and the EPL deductible will increase to \$500,000.

E. Crime/Fidelity Bond

Crime Insurance provides coverage for up to \$1 million for Employee Dishonesty with a \$25,000 deductible. The District policy premium in FY 2019/2020 was \$4,724 for this coverage. This is a part of a three year Crime policy that commenced on July 1, 2019. The premium for this policy is expected to remain flat for the coming year, as the District is in the second year of a three-year program.

F. Environmental Pollution Liability

The District has numerous environmental exposures, including underground and above ground fuel storage, storm water run-off, and air emissions from our vehicles. The District's environmental risks are well controlled and are frequently audited by local, regional, State and Federal agencies.

The District purchased a pollution liability policy from ACE Insurance Group for a three-year term with a \$250,000 deductible and \$5 million limit for a three-year premium of \$65,448 effective July 1, 2018. The next renewal will not occur until 2021.

G. Cyber Liability

In FY 2019/2020, the District's cyber liability policy was written by AIG Specialty Insurance with a \$50,000 SIR and \$5 million aggregate limit for liability for a premium of \$32,443. Given the significantly broadened coverage with the addition of \$1 million or \$2 million in Social Engineering Fraud coverage, which will protect the District for loss when an employee is misled into sending money or diverting a payment based on fraudulent information. Given the enhanced coverage, the District expects to pay nearly double for this policy this year.

II. Property Insurance Renewal

The District's Property Insurance Program is comprised of:

- District Facilities & Buildings Insurance Program
- Bus Damage/Property Insurance Program for Marin Transit buses operated by the District
- Bridge Self-Insurance Loss Reserve

A. District's Property Insurance Program

On July 1, 2017, the District entered into a three-year Property Insurance policy, renewing each year at a rate of \$386,087 until July 1, 2020. The District also purchased excess earthquake and flood insurance for an annual premium of \$121,518 for FY 2019/2020.

Insurers are no longer offering multi-year programs, and premiums are increasing due to market conditions, which largely reflect catastrophic events such as hurricanes, earthquakes, fires and floods, either domestic or international. Due to the fires in California and hurricanes in the Gulf, property insurance rates have increased since 2017. Staff thus expects a significant increase – on the order of 15% to 30% - for this year's property insurance renewals.

In addition, insurers are adding Communicable Disease Exclusions to make clear that there is no coverage arising out of a pandemic. This is not a surprise and merely makes explicit what was implicit before.

B. Bus Physical Damage Insurance for Marin Transit Buses

The contract that was negotiated between Golden Gate Transit and Marin Transit requires the District to purchase bus property damage coverage with a \$50,000 deductible for 17 District buses whose titles were transferred to Marin Transit effective July 1, 2015. The District typically does not purchase bus property damage coverage for its own buses. The FY 2020/2021 annual premium for this coverage provided by Evanston is \$14,159, which is a slight increase over last year. This is a good result given current market conditions, even with 25% fewer Marin Transit vehicles being covered.

C. Bridge Self-Insurance Loss Reserve

The District will continue to fund the Bridge Self-Insurance Loss Reserve at \$1.3 million.

Fiscal Impact

There is no fiscal impact as this report is informational. Formal action and related financial information will be presented at the June 2020 Finance-Auditing Committee meeting.

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