



Agenda Item No. (6)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of February 25, 2021

From: Kelli Vitale, Director Risk Management and Safety
Kellee J. Hopper, Deputy General Manager
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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, 2021, with a renewal package totaling \$900,523, as follows:

1. Renew Protection & Indemnity coverage with the Steamship Mutual P&I Club for a one-year term, with a limit of \$1 billion for each occurrence/annual aggregate in excess of a per occurrence deductible of \$50,000 and annual aggregate deductible of \$350,000 for a total premium of \$486,875;
2. Bind Hull & Machinery coverage including Terrorism and Risk Insurance Act (TRIA) coverage with Travelers and The Hartford for a one-year term, with insured hull limits per attached addendum in excess of a \$200,000 deductible for a total premium of \$256,246;
3. Renew Vessel Pollution Liability coverage with Great American for a one-year term, with a limit of \$5 million for a total premium of \$7,052;
4. Renew Marine General Liability coverage with Liberty Mutual for a one-year term, with a limit of \$1 million occurrence and \$2M aggregate, in excess of a per occurrence deductible of \$10,000 for a total premium of \$17,850;
5. Bind Excess Marine General Liability Insurance program with Aegis, Beazley, Convex, CNA Hardy, Canopus, Axis, AIG, Markel, and Antares, for a one-year term with a liability limit of \$50 million for each occurrence/annual aggregate in excess of a \$10,000 self-insured retention (SIR) for a total premium of \$132,500;

with the understanding, those requisite funds in the amount of \$900,523 are available in the FY 20/21 Ferry Division Operating Budget and that requisite funds will be budgeted in the FY 21/22 Ferry Division Operating Budget.

This matter will be presented to the Board of Directors at its February 26, 2021, meeting for appropriate action.

Background

This report summarizes the staff recommendation for the annual renewal of the Marine Insurance Program. The Marine Insurance Program covers the vessels, crew, and marine terminal liability. All policies in this report expire on February 28, 2021.

This report contains discussions of the renewal recommendations, the overall insurance market conditions, and specifics on premium costs, coverage limits and the work on the renewals for the Marine Insurance Program performed by USI Insurance Services (USI), the Golden Gate Bridge, Highway and Transportation District's (District) insurance broker.

I. Marine Insurance Program

The Golden Gate Bridge, Highway and Transportation District's (District) Liability Insurance Program is currently comprised of the following components:

- Protection & Indemnity (P&I)
- Hull & Machinery/Increased Value (H&M/I.V.)
- Marine General Liability (MGL)
- Excess Marine General Liability
- Vessel Pollution

A. Protection & Indemnity Insurance

The P&I market has been extremely challenging in recent years across all marine industries. This has been driven primarily by the increased cost of Jones Act Crew claims resulting in many marine insurance carriers exiting the P&I market entirely. Observed renewal rate increases for most entities with any significant P&I losses range from between 15% - 30% and corresponding occurrence/aggregate deductibles doubling and tripling.

Despite these conditions, the Steamship Mutual P&I Club has agreed to a renewal rate increase of 2.5% instead of their stated goal of a 5% rate increases to all members, for an annual premium of \$486,875. Further, the Club's standard practice is to provide cancelling returns only to members but has agreed to continue offering layup returns for vessels not in operation due to the impact of COVID-19. To date, this has resulted in return P & I premiums of \$127,371.

Taking into account the current hard market conditions, the benefits to the District of maintaining a full Steamship Mutual P & I Club entry cannot be overstated. Re-approaching the domestic marine insurance markets for P & I risks would not be a cost-effective solution. Recent marketing efforts for a similar account in the domestic marine marketplace developed a \$25,000,000 P & I and Vessel Pollution limit for premiums roughly equal to a P & I Club's \$1,000,000,000 limits.

B. *Hull & Machinery*

Experience in the H&M marketplace has mirrored the rest of the maritime insurance industry with average increases in vessel hull premiums in the 10% - 20% range. That said, the continued investment in upgrading and overhauling of the District's fleet has resulted in new interest from other marine markets. Because of the positive risk characteristics of the recent vessel repairs and upgrades, Travelers and The Hartford have provided competitive hull quotes. In addition, coverage for vessel collision liability is now included in the Steamship Mutual P & I Club entry versus the H&M program. This consolidates all the vessel liability coverages with the P & I Club.

This consolidation resulted in a 9.6% decreased rate equating to a total renewal premium of \$256,246 with insured hull values of \$71,058,723. Expiring hull values were \$56,808,723 generating a premium of \$252,053. This is a positive outcome considering the 25% rise in insured hull values attributed to the major overhauls of the Marin, Sonoma and San Francisco ferries.

Two other improvements to the H&M program are the 5% No Claims Bonus paid six months after policy expiration and continued 30% layup returns for vessels out of operation. Travelers has also agreed to grant these premium adjustments up front in contrast to the incumbent's requirement that premium be returned at expiration.

C. *Marine General Liability*

The District's Marine General Liability exposure is essentially limited to the risk of injury to passengers unloading/loading at terminal facilities. This fact in combination with the greatly decreased projected revenues has resulted in a renewal quote of \$17,850, the minimum for incumbent carrier Liberty Mutual.

D. *Excess Marine Liability Program*

Similar to last year, some Excess Liability carriers are continuing to leave the market and others are reducing capacity. As a result, the District had to replace \$100 million in coverage capacity at various levels in its coverage "tower." Given the market, this was a challenge and result in increased premiums per million. The good news is that the District presents a very low exposure to Excess Liability carriers due to excellent loss history, proactive risk management/safety programs, as well as outstanding maintenance of and investment in the insured vessels. Moreover, the Excess Liability Program is no longer required to respond for catastrophic P&I, pollution, or collision liability claims as these risks are insured via Steamship Mutual with \$1 billion limits.

Staff recommends that the District move forward to purchase \$50 million total Excess Liability coverage limits instead of the expiring \$100 million for a number of reasons. First, and most importantly, the overwhelming majority of liability risk is covered via the Steamship Mutual Club entry. Second, the Excess Marine Liability market is so limited the price per \$1 million may need to be inflated to attract enough carriers to create a \$100 million program. In short, the only reason we are not proposing lower limits, regardless of cost, is due to the District's contract with the Port of San Francisco requiring \$50 million Marine General Liability limits. Moving forward the Excess Liability policy is in place to cover Terminal Operators Liability or Wharfinger's liability claims that the primary General Liability coverage. Such claims could include passenger slip, trip and falls or liability associated with damage to a third party's vessel while docked at District facilities.

Rate per layer has increased 29% for the expiring \$90 million excess of \$1 million program. At the recommended \$50 million level rate decreases per \$1 million by 6%. Total premium for \$100 million is between \$145,000 and \$197,000. Total premium for the \$50 million tower is \$132,500.

E. Pollution

The District maintains a Vessel Pollution Liability policy carrying a limit of \$5 million to act as a domestic buffer to the Steamship Mutual placement. This is beneficial as a domestic carrier, in this case Great American, is recognized as a viable carrier to state and federal agencies requiring proof of pollution coverage. Further the \$7,052 policy is a cost-effective stop gap measure as it will respond to frequency losses, primarily defense costs, insulating the much larger Club placement from premium increases.

Fiscal Impact

The premium for the recommended renewal package for the District’s Marine Insurance Program is \$900,523 (\$50M Excess), premiums are slightly lower than the expiring Liability Insurance Program policies covered in this report. The FY 20/21 Operating Budget includes funds to cover the costs associated with the renewal of the District’s Liability Insurance Program.

Note that above total premium for the recommended program is before 30% returns for laid up vessels on the H&M policy as well as up to 30% returns from Steamship Mutual on the P&I placement. Expiring returns were \$117,421.97. If ridership numbers and therefore vessel operations will only increase from this low level, we can expect that return premiums for renewal will not be more than \$116,058.

Coverage	2020 / 2021	2021 / 2022	2021 / 2022 (Recommended)
Marine General Liability	\$30,000.00	\$17,000.00	\$17,850.00
Exposure (Ridership)	26,500,000	810,000	810,000
Hull	\$252,053.90	\$256,246.00	\$256,246.00
Hull Values	\$51,298,723	\$45,058,723	\$45,058,723
Increase Limit Values	\$13,310,000	\$11,750,000	\$11,750,000
Number of Vessels	11	10	10
P&I	\$475,000.00	\$486,875.00	\$486,875.00
Limit	\$1,000,000,000	\$1,000,000,000	\$1,000,000,000
Vessel Pollution	\$7,534.00	\$7,052	\$7,052
Limit	\$5,000,000	\$5,000,000	\$5,000,000
Number of Vessels	11	10	10
Excess Marine Liabilities (\$9M x \$1M)	\$24,521.00	\$37,500.00	\$37,500.00
Excess Marine Liabilities (\$90M x \$10M)			(\$40M x \$10M)
Section I - \$15M	\$24,521.00	\$35,000.00	\$95,000
Section II - \$75M	\$91,952.00	\$125,000.00	N/A
TOTAL PREMIUM	\$905,581.90	\$964,673	\$900,523