



Agenda Item No. (7)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of February 24, 2022

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 the Marine Insurance Program, effective February 20, 2022, as follows:

1. Renew Protection & Indemnity coverage with the Steamship Mutual Protection and Indemnity 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 \$55,000 and annual aggregate deductible of \$350,000 for a total premium of \$467,133.09;
2. Renew 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 \$269,055;
3. Bind Vessel Pollution Liability coverage with Great American for a one-year term, with a limit of \$5 million for a total premium of \$6,920;
4. Renew Marine General Liability coverage with Liberty Mutual for a one-year term, with a limit of \$1 million occurrence and \$2million aggregate, in excess of a per occurrence deductible of \$10,000 for a total premium of \$18,250; and,
5. Bind Excess Marine General Liability Insurance program with Aegis, Beazley, Convex, CNA Hardy, Canopus, Axis, AIG, Markel, Antares, et al. 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 \$198,087.

These recommendations are made with the understanding that the requisite funds are available in the FY 21/22 Operating Budget.

This matter is presented to the Board of Directors for approval at the February 25, 2022 meeting for appropriate action.

Summary

The Marine Insurance Program covers the vessels, crew, and marine terminal liability. All policies in this report expire on February 20, 2022, however coverage is held bound until board approval on February 25, 2022.

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, which renews on February 20, 2022, is currently comprised of:

- 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

Protection and Indemnity coverage covers nearly all maritime liability risks associated with the operation of a vessel other than those covered under workers' compensation, Jones Act or collision which is covered under the hull policy. This coverage is separate and distinct from the Marine General liability and the Excess Liability coverage.

As experienced over the past few renewal cycles, the Protection and Indemnity market continues to present serious challenges for all sectors of the marine industry. In the past year market hardening has been driven by the increased cost of Jones Act Crew claims and frequency of catastrophic claims (i.e. individual claims \$10 million - \$100 million) all exacerbated by the persistent increase of COVID-19 related claims. Observed renewal rate increases for most entities with any significant Protection and Indemnity losses range from between 15% - 60% and corresponding occurrence/aggregate deductibles are doubling and tripling.

Despite these conditions the Steamship Mutual Protection and Indemnity Club (Club) has agreed to a renewal rate increase of 6.25% instead of their stated goal of a 12.5% rate increases for all members. There was, however, no avoiding an increase in the per occurrence deductible from \$50,000 to \$55,000. This is in keeping with the Club objective to increase all deductibles by 10%. The current Annual Aggregate deductible of \$350,000 will not change. The Club also has agreed to take account of periods of time when vessels are not in operation due to the effects of the pandemic.

As noted last year, the benefits to the District with the Steamship Mutual Protection and Indemnity Club entry cannot be overstated. Re-approaching the domestic marine insurance markets for

Protection and Indemnity risks would not be a cost-effective solution for the District. Recent marketing efforts for a similar account in the domestic marine marketplace resulted in reduced limits and more limited coverage terms. Further, the Steamship Mutual Protection and Indemnity Club has maintained a Standard & Poor's rating of "A" while limiting general increases well below those of other Clubs.

B. Hull & Machinery

Experience in the Hull & Machinery insurance marketplace has mirrored the rest of the maritime insurance industry with continuing hull premium annual increases of between 10% - 15% range. Travelers and The Hartford have provided competitive quotes given the District's recent vessel repairs and upgrades. Hull and Machinery coverage protects against the vessel or fleet's physical damage caused by peril at sea or other covered perils.

Travelers initially proposed a 6% rate increase on the Hull & Machinery and Increased Value (IV) but after negotiations they have come back with a proposed 4% increase, with a new premium of \$269,055 while insured hull values remain \$71,058,723. Two highlights of the H&M program that remain are the 5% No Claims Bonus paid 6 months after policy expiration and continued recognition that some vessels may not be in operation.

C. Marine General Liability

Marine General Liability covers claims of liability for bodily injury or property damage. This is the first layer of coverage for those type of claims. The District's Marine General Liability exposure is essentially limited to the risk of injury to passengers unloading/loading at terminal facilities. With District ferry ridership at 20% of normal, incumbent carrier Liberty Mutual provided a quote of \$18,250.

D. Excess Marine Liability Program

Excess coverage picks up where the primary \$1 million of primary Marine General Liability stops. This year, like the past few, many Excess Liability carriers left the market, while others have reduced their capacity in the market space. Over the past few terms, the District was able to reduce Excess Liability limits from \$100 million to \$50 million due to the removal of liability risk now placed with Steamship Mutual. Moving forward, the District presents very low exposure to Excess Liability carriers due to its excellent loss history, proactive risk management/safety programs, and its outstanding maintenance of and investment in its insured vessels.

Liabilities covered by the combination of the Marine General Liability policy and Excess policy will respond to incidents that do not occur on board a vessel. All incidents that occur in association with the operation of a vessel would be covered by the Protection and Indemnity policy. The excess policy will not respond to those claims. A catastrophic incident exceeding the Marine General Liabilities limit and triggers the \$50 million excess layers will most likely involve injury to a passenger(s) during loading or unloading.

The District should continue purchasing \$50 million in excess coverage to remain in compliance with the Port of San Francisco's requirements and to protect against a catastrophic incident. Indications from the incumbent markets suggested an increase of 20% at minimum. To date, marketing efforts have resulted in a renewal increase of about 15%, assuming an estimated 60% increase in ridership. The total premium this term is \$198,087.

E. Pollution

This coverage protects against vessel pollution claims. The District maintains a Vessel Pollution Liability policy carrying a limit of \$5 million to act as a domestic buffer to the Steamship Mutual coverage state and federal agencies requiring proof of pollution coverage. Further, the \$6,920 premium is a cost-effective stop gap measure to cover more frequent small losses, while 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 \$959,445, which represents a 12.7% premium increase which is an excellent result given the state of the insurance market – increases were expected to be in excess of 15%. Carriers have tempered their increases, despite the likely increase in ridership due to the continued uncertainty presented by COVID-19, the timing of the District's return to full operations and the District's excellent loss history. The FY 21/22 Operating Budget includes funds to cover the costs associated with the renewal of the District's Liability Insurance Program.

Premium Summary

Coverage	2021 / 2022	2022 / 2023
P&I	\$435,886.005	\$467,133
Limit	\$1,000,000,000	\$1,000,000,000
Hull	\$258,067.00	\$269,055.00
Hull Values	\$56,858,723	\$56,858,723
Increase Limit Values	\$14,200,000	\$14,200,000
Number of Vessels	Eight (8)	Eight (8)
Vessel Pollution	\$7,052.00	\$6,920.00
Limit	\$5,000,000	\$5,000,000
Number of Vessels	Eight (8)	Eight (8)
Marine General Liability	\$17,850.00	\$18,250.00
Exposure (Ridership)	310,840	500,000
Excess Marine Liabilities (\$9M x \$1M)	\$37,500.00	\$56,062
Excess Marine Liabilities (\$40M x \$10M)	\$95,000.00	\$142,025
TOTAL PREMIUM	\$851,355.00	\$959,445

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