Agenda Item No. (6)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of February 23, 2023

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, 2023, as follows:

1. Renew Protection & Indemnity coverage with the Steamship Mutual Protection and Indemnity Club (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 $489,402;

2. Renew Hull & Machinery, Increased Value and War coverage including Terrorism and Risk Insurance Act (TRIA) coverage with Travelers, The Hartford and Liberty for a one-year term, with insured hull limits per attached addendum in excess of a $200,000 deductible for a total premium of $279,339;

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 including TRIA 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 $26,775; and,

5. Bind Excess Marine General Liability Insurance program with Aegis, Beazley, Convex, CNA Hardy, Canopius, 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 $112,250.

These recommendations are made with the understanding that the requisite funds will be available in the FY 22/23 Operating Budget for the appropriate District divisions.

This matter will be presented to the Board of Directors for approval at its February 24, 2023, meeting for appropriate action.

Summary

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 20, 2023, however coverage is held bound until board approval on February 24, 2023.

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 District's Liability Insurance Program, which renews on February 20, 2023, 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 or the Jones Act, or for collision, which is covered under the hull policy. This coverage is separate and distinct from the Marine General liability and the Excess Liability coverage.

Overall, the market for marine property & casualty insurance has stabilized from the negative effects of prior terms including a string of extraordinary P&I pool losses, concerns surrounding COVID-19, and dramatic increases in the expenses of litigation. Despite this, runaway reinsurance costs, inflation and suppressed investment returns have necessitated continued general increases and supplementary calls. Considering these cost pressures, we again approached multiple P&I Clubs and domestic markets to gauge whether current carriers still offered the most favorable terms. In short, we believe Steamship Mutual and other incumbents continue to present the best options for the 2023-2024 term.

The Steamship Mutual Protection and Indemnity Club has agreed to a renewal rate increase of 5% instead of their stated general increase of 7.5% to all members. Both the per occurrence and aggregate deductibles remain as they were at $55,000 and $350,000, respectively.

As noted last year, the benefits to the District of maintaining a full Steamship Mutual Protection and Indemnity Club entry cannot be overstated. Re-approaching the domestic marine insurance markets for Protection and Indemnity risks remains an ineffective solution for the District in terms of costs as recent marketing efforts for a similar account in the domestic marine marketplace resulted in an offer for reduced limits and 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

Hull and Machinery coverage protects against vessel or fleet physical damage caused by peril at sea or other covered perils. Experience in the H&M marketplace has mirrored the rest of the maritime insurance industry with continued hull premium increases averaging in the 10% - 15% range. Due to the positive risk characteristics of the recent vessel repairs and upgrades, Travelers, The Hartford and Liberty have provided a competitive hull quote.

Travelers has provided lead terms with a 3.7% increase, mostly an inflationary increase due to the increased cost of repairs and replacement parts. The H&M program continues to contain the 5% No Claims Bonus paid six months after policy expiration.

C. Marine General Liability

Marine General Liability covers claims of liability for bodily injury or property damage during the unloading/loading process. This is the first layer of coverage for those types of claims. The District's Marine General Liability exposure is essentially limited to the risk of injury to passengers unloading/loading at terminal facilities. This slice of activity is not covered by the District's Projection and Indemnity Insurance (A. above). The MGL is rated on revenue and ridership. The policy is priced as if ridership is expected to double from 500,000 to 1,000,000 in the renewal term. Liberty Mutual provided a renewal quote of $26,775. The increase is solely due to the increased exposure and equates to a 30% decrease in rate.

D. Excess Marine Liability Program

Excess coverage picks up where the primary $1 million of primary Marine General Liability ends. This year, as in the past few, Excess Liability carriers have left the market, while others have reduced capacity. Over the past few terms, the District was able to reduce Excess Liability limits from $100M to $50M due to the removal of liability risk now placed with Steamship Mutual. Moving forward 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.

The combination of the Marine General Liability and Excess policies cover incidents that do not occur on board a vessel. All incidents that occur in association with the operation of a vessel will 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 that triggers the $50 million excess layers will most likely involve injury to a passenger(s) during loading or unloading.

The District should continue purchasing $50M in coverage to remain in compliance with the Port of San Francisco contract and to protect against a catastrophic incident. Excess liability is typically rated on the same exposure as the underlying coverages.

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 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 $6,920 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 recommended annual renewal package for the District's Marine Insurance Program is expected to total **$914,936**, approximately a 4.6% decrease over the expiring Marine Insurance Program. The majority of the decrease is driven by the expected rise in ridership and revenue used as the exposure basis on the MGL and excess program. The expense for the Marine Insurance Program is sufficiently budgeted for FY 22/23 and the remaining of the plan year that falls in FY 23/24 will be budgeted accordingly in future budgets.

Premium Summary

Coverage	2021 / 2022	2022/2023	2023/2024
P&I	**$435,886**	**$467,133**	**$489,402**
Limit	$1,000,000,000	$1,000,000,000	$1,000,000,000
Hull	**$258,067**	**$269,055**	**$279,339**
Hull Values	$56,858,723	$56,858,723	$56,858,723
Increase Limit Values	$14,200,000	$14,200,000	$14,200,000
Number of Vessels	8	8	8
Vessel Pollution	**$7,052**	**$6,920**	**$6,920**
Limit	$5,000,000	$5,000,000	$5,000,000
Number of Vessels	8	8	8
Marine General Liability	**$17,850**	**$18,250**	**$26,775**
Exposure (Ridership)	310,840	500,000	1,000,000
Excess Marine Liabilities ($9M x $1M)	**$37,500**	**$56,062**	**$45,000**
Excess Marine Liabilities ($40M x $10M)	**$95,000**	**$142,025**	**$67,500**
TOTAL PREMIUM	**$851,355**	**$959,445**	**$914,936**