Business Item
Item: 2010-422 SW

M Management Committee

Meeting date: December 8, 2010
Metropolitan Council Meeting Date: December 8, 2010

ADVISORY INFORMATION	
Date:	11/30/10
Subject:	Authorization to procure railroad liability insurance for Northstar Operations
District(s), Member(s):	All
Policy/Legal Reference:	
Staff Prepared/Presented:	Phil Walljasper, 651-602-1787
Division/Department:	Regional Administration/Risk Management

Proposed Action

That the Metropolitan Council authorize the procurement of railroad liability insurance, effective 1/1/11-12/31/11, for the Northstar Commuter Rail Operations in an amount not to exceed $1,300,000.

Background

In its Joint Use Agreement (JUA) with the BNSF Railway, the Metropolitan Council is required to procure and maintain a railroad liability insurance policy to respond to claims related to Northstar commuter rail. This insurance is to have limit of $200 million per occurrence and must provide coverage for both the Council and BNSF.

Insurance companies are limited in the amount of insurance they can offer, which is based on the size of the company, its underwriting philosophy, and the type of risk. Because of this, when insurance of very high limits is required for a very specialized type of risk, such as railroad liability, it is normal in the industry to have more than one insurance company involved.

When multiple insurance companies are involved in an insurance program, the insurance is structured in such a way that each company provides “layers” of insurance (e.g. company “A” will provide $10 million, company “B” will provide the next $10 million, etc.), with each company/layer charging a premium. This is often times referred to as a “tower” of insurance. The premium charged with the first layer of a tower, often referred to as the lead layer, is what drives the pricing for the upper layers.

There is also a retention (similar to a deductible) that applies to this insurance and is on a per occurrence basis. With railroad liability insurance, underwriters are not willing to provide coverage from dollar one and will only quote excess of a retained loss. The retention for this renewal is $2,000,000, which is the same as the current policy.

Rationale

The Northstar program was presented to several different insurance companies, all of whom had a very favorable view of the operations and expressed a desire to be a part of the insurance tower. Two of the companies, Zurich and Lexington, provided very competitive quotes for the lead layer. In reviewing the options, it is believed that Lexington is most advantageous to the Council and is the recommended lead layer. The layers excess of Lexington provided quotes that were consistent with the pricing structure of the lead.

The pricing for the recommended insurance program represents a significant reduction in premium when compared to what was anticipated and budgeted. The proposal quote is approximately 35% lower than budgeted. This is, in a large part, due to the fact that Northstar is no longer a “start-up” commuter rail and has demonstrated a very well-managed and safe operation since revenue service began. As a result, insurance underwriters have a better understanding of the risk and price it accordingly.

Funding

Northstar has budgeted $2,000,000 for the annual premium. Additionally, the self-insured retention is fully funded at $2,000,000.

Known Support / Opposition

Not applicable