Management Committee

Meeting date: May 10, 2017

For the Metropolitan Council meeting of May 24, 2017

Subject: 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 renewal of its railroad liability insurance, effective 6/1/17-6/1/18, for the Northstar Commuter Rail Operations in an amount not to exceed $1,420,000.

Background

In its Joint Use Agreement (JUA) with the BNSF Railway, the Metropolitan Council is required to procure and maintain a railroad liability insurance program to respond to claims related to Northstar commuter rail. This insurance is to have a limit of $295 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, underwriting philosophy, reinsurance, and the type of risk. Because of this, when insurance with a high limit of coverage 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 a “layer” 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, has a direct impact on 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 generally not willing to provide coverage from the first dollar and will only quote excess of a retained loss. The retention for the Northstar insurance program is $2,000,000.

Rationale

The Northstar program was presented to approximately 20 different insurance companies and was very well received. After the presentations, the first objective was to identify and negotiate the lead layer. The incumbent carrier, XL, provided a quote that was most advantageous to the Council. Not only did the quote provide a premium reduction of approximately 4%, but maintains the coverage required in the JUA. After securing the lead quote, staff and the Council’s broker then identified and negotiated with insurance companies to cover the excess layers above XL.

Thrive Lens Analysis

Authorization of the Northstar insurance renewal supports the Thrive principle of Stewardship by securing the required insurance in the most cost effective manner.

Funding

The premium with the recommended insurance is included within the Metro Transit operating budget. Additionally, the self-insured retention is fully funded at $2,000,000.

Known Support / Opposition

Not applicable