RISK MANAGEMENT HONOR ROLL 2017

Juliana Keaton

CSX Transportation



It would be difficult to find any risk manager with more passion for the business than Juliana Keaton. Now the director of insurance and business risk management for CSX Transportation, Inc. and president of CSX Insurance Company, Keaton found her calling while serving as an attorney for a law firm that worked with Lloyd's of London. It was there that she became fascinated with the business of risk management and insurance.

When Keaton joined CSX's legal department in 2011, she was asked to support the insurance group. She soon became director of insurance, while at the same time continuing her original role with the company.

The new responsibility came at a volatile time for the railroad industry. Several years ago, as crude oil became a major source of revenue for freight railroads, the dramatic increase in crude carloads raised the risks for railroads and the communities they serve. Spectacular footage of derailments and oil fires became a seemingly regular occurrence on national news stations.

Meanwhile, pressure from legislative bodies on railroads to increase the amount of insurance purchased continued to escalate throughout the industry. Working to minimize the risks of one of the largest rail transportation companies in the United States in such a challenging environment would be no easy task.

by
Emily Holbrook

Illustration
Luke Waller



Risk on the Rails

With a history that dates back more than 180 years, CSX is a class 1 freight railroad company headquartered in Jacksonville, Florida. The company has an annual revenue of more than $12 billion and operates in 23 states, as well as Canada and Mexico. Its operations include railroad, highway trucking and transloading and often involve transporting highly toxic chemicals such as ammonia and chlorine. The movement of such hazardous commodities carries with it inherent dangers, including the possibility of accidents.

Unlike a cyber breach or even an underground storage tank leak, which can cause millions of dollars in damages while going virtually undetected, an exploding tank car and its devastating effects can cause drastic harm to the community in which it operates, and to the company's reputation. Although the breach of a chlorine tank car in a densely populated area is statistically very remote, many insurance markets are unwilling to write railroad liability insurance. That is where Keaton came in.

On several occasions, Class 1 railroads have sought to join together to purchase a shared high-excess liability policy, also known as "super cat," that would respond to such an event. The policy would have multiple reinstatements were one railroad to use it, and a premium return for a railroad that did not.

In 2014, Keaton, along with risk managers from two other Class 1 railroads, rekindled the dialogue around creation of a shared program. Because previous discussions had been unsuccessful, due in part to the railroads relying on competing brokers, she proposed a dual brokerage concept with both brokers sharing the success of the program. But discussions stalled once again.

Undeterred, Keaton teamed up with Otis Tolbert and Veronica Benzinger at Aon to come up with another solution. Tapping into unused environmental markets, and with the assistance of Ironshore, the group created the Cantilever Excess Pollution Liability policy. Starting with $150 million in capacity, the Cantilever program, which has since been purchased by at least two other Class 1 railroads, is now up to $650 million in capacity and has successfully created pricing pressure on the traditional liability markets.

Cyber insurance was another issue that required Keaton to take a new approach. While the cyber insurance market traditionally has written policies addressing breaches involving the theft or manipulation of personal information, a railroad's primary concern is not necessarily about protecting personal information, but rather, preventing a cyberattack that either interferes with railroad operations or causes a derailment, particularly a derailment of tank cars carrying toxic materials.

For years, the cyber insurance market neglected to address the larger concern of the railroads when it comes to a cyberattack. Then, in 2015, Keaton met with a Brit Insurance syndicate in London. From those talks, Brit, a U.K.-based general insurance and reinsurance group, developed a cyber rail product that offers third-party property damage and bodily injury coverage for cyber-related railroad incidents.

Managing the Captive Business

Keaton is not only a leader within CSX Transportation, she is also president of CSX Insurance Company (CSXIC), the company's wholly-owned captive subsidiary. Created in 1987, CSXIC issues 14 insurance policies and writes $40 million in premium annually, for coverages that include workers compensation, longshore, property, general liability, auto/trucking liability, railroad protective liability, railroad force liability and terrorism.

As leader of this unit, Keaton is responsible for its day-to-day operations, including negotiating its fronting carriers and reinsurers, drafting its policies, setting reserves, overseeing regulatory filings and actuarial reporting, claims administration, litigation and claims resolution.

CSXIC provides a number of benefits to the CSX organization as a whole, including: savings on primary coverages, such as auto liability, workers comp and general liability; the ability to write hard-to-place coverages like Federal Employers Liability Act (FELA) and terrorism, and excess liability coverages like pollution; the generation of more than $10 million annually in third-party revenue; tax burden reductions from federal excise tax savings; access to the federal terrorism backstop (TRIA/TRIPRA); the ability to purchase insurance wholesale from reinsurance markets, which provide greater capacity; proactive management of CSX risks; and greater control over claims adjusting, management and resolution.

Further, Keaton and her team have also been able to efficiently transfer



risk through CSXIC's excess property and excess liability programs. It was recently determined that CSXIC provided an annual net benefit of approximately $25.8 million to the company as a whole while earning $41 million in revenue in 2016.

Data Detectives

In 2014, Keaton recognized the need for all CSX insurance and risk management data to be housed in one location. Using experience gained from her early years as a coverage attorney for Lloyd's, Keaton tasked her team with creating a policy "tome." Together with PriceWaterhouse Coopers, Keaton and her team devised a matrix for cataloging all available insurance policies dating back decades. The tome allows CSX to locate policies based on date, insurer, coverage type and CSX entity. It also includes salient coverage provisions.

Additionally, with the assistance of CSX's IT department, Keaton and her team have led an enterprise-wide initiative aimed at capturing, cataloging and storing all incident-related costs, whether from operational or weather events, in one centralized database. Once completed, the Incident Tracking Project will provide a user-friendly interface platform for multiple functional areas (such as environmental, legal, engineering and finance) to input and track costs associated with such incidents.

This allows Keaton and her team to assess exposures historically, in real-time and going forward, and provides even greater precision to their underwriting submissions and claims presentations. This initiative also produces benefits far beyond Keaton's team, including improved budgeting for events, external reporting, cost accountability for business units, and improved month-end reporting and bi-weekly departmental discussions.

Initially met with skepticism, Keaton was able to persuade her team to appreciate the initiative's enterprise-wide benefits, and, once galvanized, they successfully made the business case for the project, securing cross-departmental buy-in and the necessary support from management.

The Bottom Line

Since beginning her role in 2013, Keaton and her team have achieved unprecedented results on all lines of insurance and reinsurance, all while enhancing coverage. Costs associated with CSXIC's fronted program have decreased by nearly 20% and CSX has locked in profit and administration charges—and workers comp rates—for the next two years. Further, premium associated with CSX's six FINPRO lines has decreased 41%, from $3.8 million to $2.27 million.

With respect to CSX's D&O liability program alone, even after increasing retentions from $10 million to $25 million in 2014, CSX has seen a 25% premium reduction in the past two years, from $2.08 million to $1.58 million. At the same time, coverage has been significantly enhanced with D&O policies from various carriers.

Keaton and her team have also managed to lower premiums associated with CSX's excess property program by 43%, from $17.1 million to $9.9 million. Additionally, premium associated with CSX's largest and most capacity-constrained program (excess liability) has decreased 10% while CSX has maintained its retention and increased its limit by $135 million, achieved near uniformity of terms, added a sliding scale reinstatement and return premium endorsement, and confirmed cyber coverage with a majority of markets.

It is not just a matter of reducing costs, however. In her various roles, Keaton has efficiently addressed exposures and established credibility with the markets. Over the past three years she has earned a reputation for knowing her company's exposures, understanding the coverages that are—or could be—available, and appreciating that risk transfer is a partnership. Although CSX has enjoyed remarkable premium reductions in the short term, it has also developed solid business relationships that will provide long-term pricing stability and other risk transfer opportunities.

As one can imagine, Keaton's day-to-day responsibilities are demanding, but armed with a capable and nimble team, she skillfully manages her two roles, ensuring CSX appropriately identifies and addresses the countless risks the company faces.

It something that she has become passionate about. "I think we're in a time now where more and more people are appreciating the importance of risk management," Keaton said. "They're appreciating that people are dealing with risk every single day. It's fun. It's really a great time to be part of this industry. People are coming around to appreciate what we do." ◆