

Industry Analysis

Rail Services

Q1 2014

Industry Overview

Almost five years after the California train disaster that spurred the passage of Rail Safety Improvement Act, another fatal accident involving a commuter train brought the law back in the spotlight. On December 1, 2013, a Metro-North train derailed just north of the Spuyten Duyvil station in Bronx, New York, killing four people and injuring dozens more. The recent tragedy highlighted the significance of Positive Train Control, or PTC, that automatically puts the brakes on trains about to collide or derail. According to the law, railroads are required to install PTC by the end of 2015 on an estimated 70,000 miles of track used by trains carrying passengers or extremely hazardous materials such as chlorine. However, the American Public Transportation Association (APTA), which represents publicly operated commuter railroads, stated this deadline cannot be met, due to the new and complex technology that involves PTC. According to the Association of American Railroads (AAR), installing PTC systems nationwide will cost about \$8 billion for privately owned freight railroads. In addition, 19 of the nation's 26 major commuter railroads estimate their cost will be at least \$2.75 billion. Only \$50 million has been allocated by the Congress to help commuter railroads pay for the new equipment, which is short of the \$228 million in grants requested in applications filed with the Federal Railroad Administration (FRA).

The rail services industry includes railroad companies (both freight and passenger), manufacturers of railroad equipment and companies that service railroads. The industry was in major financial trouble during the 1970s, in part owing to over-regulation, but it experienced somewhat of a resurgence after the Staggers Act in 1980 de-regulated the industry. Since then, however, the industry has been in relative decline, due to competition from other modes of transportation, but remains influential because of the importance of rail transport to the entire economy.

Freight Rail. Within the rail services industry, freight railroads are frequently broken up by category – Class I, Class II and Class III railroads. The distinctions between classes are a product of the railroad's revenue, with Class I being the largest and Class III being the smallest. The government's revenue standards are periodically adjusted for inflation; as of 2008, Class I railroads had revenue exceeding \$401.4 million each, according to the Association of American Railroads. Seven line-haul Class I railroads, including two Canada-based lines, operate in the U.S. Class I carriers account for most of the industry revenue and about two-thirds of overall track mileage. About 30 regional Class II railroads typically operate routes of about 500 miles between Class III railroads haul cargo 350 or fewer miles on local rail lines. Although they are still very much relevant to the modern economy. Nearly half of all interstate freight is moved by weight. While that number is impressive in its own right, it only tells part of the story. U.S. coal is transported by rail, and railroads carry a sizable percentage of heavy machinery and cars in this country. Rail also offers compelling safety and efficiency advantages over trucks, and a train can move a ton of freight over 430 miles or more in a day. Freight rail traffic is also a valuable proxy for economy activity. Carloadings and empty car activity, as do the number of railcars deployed or held in storage.

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