



**Metro**

Metropolitan Transportation Authority

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**FINANCE AND BUDGET COMMITTEE  
JUNE 16, 2005**

**SUBJECT: EXCESS LIABILITY INSURANCE PROGRAM FOR OPERATIONS**

**ACTION: PURCHASE EXCESS LIABILITY INSURANCE**

**RECOMMENDATION**

Authorize the Chief Executive Officer to negotiate and award Excess Liability insurance policies, excluding terrorism and major construction risks, at a cost not to exceed \$5,650,000 for a 12-month period effective August 1, 2005 through July 31, 2006.

**RATIONALE**

Metro's insurance broker, Aon Risk Services, is responsible for marketing the excess liability insurance program to qualified insurance carriers. Quotes are currently being received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims. The premium indications are based upon current market expectations. Staff will review all quotes received by the broker to ensure that the policy has been adequately marketed and identify the carriers offering the best terms and price. After analyzing options and the broker's recommendations, Staff will provide recommendations and supporting analyses to the CEO prior to executing the binding of coverage.

This coverage insures against losses by Metro for bus and rail accidents for bodily injury and property damage to third parties. The excess liability coverage also includes limited employment practices liability insurance. Without this insurance, Metro would be exposed to catastrophic operating losses from bus and rail accidents. Metro would also be in violation of the contracts and agreements, such as sale/leaseback, requiring Metro to carry excess liability insurance.

## **FINANCIAL IMPACT**

Funding for 11 months of this \$5,650,000 procurement is included in the FY06 budget in cost center 0531, Risk Management –Non-Departmental Costs, under projects 301001- San Fernando Valley Sector, 302001 – San Gabriel Valley Sector, 303001 – Gateway Sector, 304001 – South Bay Sector, 305001 – Westside Central Sector, 300022 – Blue Line, 300033 – Green Line, 300044 – Red Line, 300055 – Gold Line, 301012 – Orange Line and 610061 – Owned Property. The remaining 1 month of premium expense will be included in the FY07 Budget. In FY05, \$5.4 million will be expended on this item.

## **ALTERNATIVES CONSIDERED**

Due to changes in the insurance market, including the September 11th losses (estimated at \$30 billion), coverage for acts of terrorism is excluded from Metro's excess liability insurance policies but available for an additional \$2,300,000 through December 2005. After December 2005, Federal Legislation regarding terrorism insurance expires, with an uncertain response to terrorism risk from the insurance industry. Terrorism is defined as the use or threatened use of force or violence against person, or property, or commission of an act dangerous to human life or property, undertaken by an organization, government, power, authority or military force, when the effect is to intimidate, harm or coerce a government, the civilian, population or any segment thereof, or to disrupt any segment of the economy. Terrorism shall also include any act that is verified or recognized by the United States Government as an act of Terrorism.

Staff considered various deductibles and limits of coverage options (see Attachment A). Metro's penetration of the excess layer and premium history is also shown in this attachment.

The recommended Option A secures a self-insurance retention at \$4,500,000 and \$95,500,000 in coverage excess of this retention, identical to the expiring program. Metro has evaluated increasing deductibles and limits as shown in Attachment A. For example, increasing the retention to \$5 million from \$4.5 million only realizes a savings of \$50,000, insufficient premium savings to recommend an addition \$500,000 in risk. Attachment B details carriers interested in participating in Metro's program.

The recommended Option A continues to exclude terrorism risks, which the Metro's insurance broker Aon, has indicated is consistent with most other large public agencies. A discussion of excess liability and property insurance coverage for terrorism risks and a summary of coverage decisions by other transit agencies will be presented to the Board by Board Box in September.

## **ATTACHMENTS**

- A. Options, Premium and Loss History
- B. Potential Participants in Metro's Excess Liability Insurance Program

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Greg Kildare  
Executive Officer  
Risk Management

A handwritten signature in black ink, featuring a stylized 'R' and 'S' followed by a horizontal line.

Roger Snoble  
Chief Executive Officer

ATTACHMENT A

	OPTIONS						
	A	B	C	D	E	F	G
Self-Insured Retention (millions)	\$ 4.50	\$ 5.00	\$ 6.00	\$ 8.00	\$ 4.50	\$ 5.00	\$ 6.00
Limit of Coverage (millions)	\$ 100.00	\$100.00	\$100.00	\$100.00	\$150.00	\$200.00	\$300.00
Not to Exceed Premium (millions)	\$ 5.39	\$ 5.60	\$ 5.55	\$ 5.40	\$ 6.60	\$ 6.92	\$ 7.50

	HISTORY OF POLICIES BEGINNING IN THE FOLLOWING FISCAL YEAR					
	2001	2002	2003	2004	2005	2006
Self-Insured Retention (millions)	\$ 4.50*	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50
Premium (millions)	\$ 1.39	\$ 2.76	\$ 4.06	\$ 5.37	\$ 5.39	\$ 5.65
Claims in Excess of Retention	-	1	-	1	unk.	unk.
Amount in Excess of Retention (millions)	-	\$ 0.92	-	\$ 0.70	unk.	unk.

\*\$2 million excess of \$2.5 million

## ATTACHMENT B

### EXCESS LIABILITY PROGRAM POTENTIAL MARKETS August 1, 2005 to July 31, 2006

<u>COMPANY</u>	<u>BEST RATING</u>
CV Starr	A++ XV
Insurance Company of the State of PA	A++ XV
Lexington	A++ XV
Munich Am Re	A+ XV
Coregis	A- VIII
ACE	A XII
Admiral	A+ IX
Chubb	A++ XV
Scottsdale	A+ XV
XL	A+ XV
Arch RE	A- XII
Winterthur	A- XV
RLI	A IX
Starr Excess	A++ XV
London Markets	Various
Genesis	A++ XV
Clarendon	A- X
Lancer	A- VI
Progressive	A+ XV
ICW	A- IX
E&S Markets	Various
Zurich	A XV
RLI	A IX
Axa Re	A- XIII
Newmarket Underwriters	A+ XIV
Steadfast	A XV

