Metropolitan Transportation Authority

Metro

One Gateway Plaza
Los Angeles, CA 90012-2952

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REGULAR BOARD MEETING
JULY 28, 2005
~~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 a~~Award Excess Liability insurance policies, excluding ~~terrorism and~~ major construction risks, at a cost ~~not to exceed~~of ~~$5,650,000~~ 5,104,858 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~~were 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~~quotations. Staff ~~will review~~ reviewed all quotes received by the broker to ensure that the policy has been adequately marketed and ~~identify~~ identified the carriers offering the best terms and price. After analyzing options and the broker's recommendations, Staff ~~will provide~~ has provided 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.

At the June Meeting, the Board of Directors requested staff to bring back final pricing of the recommended insurance program and to provide a list of underwriters for approval in July.

FINANCIAL IMPACT

Funding for 11 months of this ~~$5,650,000~~ $5,104,858 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 has been 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~~ $2,139,380 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. Final pricing, at slightly lower than expected, allows for the purchase of some terrorism insurance at a reasonable price. The first layer of coverage for terrorism insurance will pay $5.5 million in excess of Metro's $4.5 million retention for a premium of $26,403. A second layer of coverage available for a reasonable price of $31,401 in the $35 to $50 million layer was also selected.

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 of $4,500,000 and $95,500,000 in coverage excess of this retention, identical to the expiring program, except for the addition of limited terrorism coverage. 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. Attachment C shows the final carriers selected, and pricing for each layer of coverage.

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.~~ includes limited terrorism insurance, paying $5.5 million in excess of the first $4.5 million self-insured retention and a second in the $35 to $50 million layer. 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
C. Excess Liability Final Pricing and Insurers

Greg Kildare
Executive Officer
Risk Management

Roger Snoble
Chief Executive Officer

ATTACHMENT A

	CURRENT PROGRAM	PRELIMINARY PRICING OPTIONS						
		A	B	C	D	E	F	G
Self-Insured Retention (millions)	$ 4.50	$ 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	$100.00	$150.00	$200.00	$300.00
Not to Exceed Premium (millions)	$ 5.39	$ 5.65	$ 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~~ 5.08
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

COMPANY	BEST RATING
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
Great American	A XIV

ATTACHMENT C

EXCESS LIABILITY FINAL PRICING AND INSURERS

Layer	Carrier	Coverage	Premium	Taxes and Fees	Total Premium	Terrorism	Proposed Layers including Terrorism
1	**Insurance Company of the State of PA**	$ 10,000,000	$ 2,640,300	$ -	$ 2,640,300	$ 26,403	$ 2,666,703
2	**Lexington Insurance**	10,000,000	515,000	16,609	531,609	A	531,609
3	**Great American**	15,000,000	635,000	-	635,000	B	635,000
4	**XL Insurance America**	15,000,000	366,152	-	366,152	31,401	397,553
5	**Starr Excess Liability Insurance**	50,000,000	846,688	27,306	873,994	C	873,994
		$ 100,000,000	$ 5,003,140	$ 43,914	$ 5,047,054	$ 57,804	$ 5,104,858
	A. Terrorism declined at a premium of $531,609						
	B. Terrorism declined at a premium of $675,960						
	C. Terrorism declined at a premium of $873,994						