



**Metro**

Metropolitan Transportation Authority

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**FINANCE AND BUDGET COMMITTEE  
JULY 19, 2006**

**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 not to exceed \$5.1 million for the 12-month period effective August 1, 2006 through July 31, 2007.

**ISSUE**

Metro's excess liability insurance policies expire July 31, 2006. Metro's insurance broker, Aon Risk Services, is responsible for marketing the excess liability insurance program renewal to qualified insurance carriers. Quotes have been finalized from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims. Staff has reviewed these quotes to ensure that the policy has been adequately marketed.

**BACKGROUND**

Excess liability 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 eleven months of this \$5.1 Million in premiums is incorporated into the FY07 budget. The remaining month of premiums will be included in the FY08 budget cost center 0531, Risk Management – Non Departmental Costs, under projects 301001 Bus Operations – San Fernando Valley (SFV), 302001 – San Gabriel Valley (SGV), 303001 – Gateway, 304001 – South Bay (SB), 305001 – Westside Central (WC), 301012 – Metro Orange Line, 300022, Rail Operations - Blue Line, 300033, Rail Operations – Green Line, and 300044, Rail Operations – Red Line, 300055, Rail Operations - Gold Line and 610061 – Owned Property. In FY06, \$5.1 million will be expensed on this item.

## **ALTERNATIVES CONSIDERED**

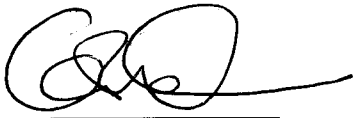
Staff considered various deductibles and limits of coverage options (see Attachment A). Metro's penetration of the excess layer and premium history is also shown in this attachment. Casualty loss premiums seem to be softening somewhat relative to the last four years' very hard market. Therefore, we received a slight reduction in premiums for coverage identical to last year.

The recommended Option A secures a self-insurance retention at \$4,500,000 with \$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, preliminary premium indications showed that increasing the retention to \$7 million from \$4.5 million only realized a savings of \$200,000, insufficient premium savings to recommend an addition \$2,500,000 in risk. Attachment B shows the final carriers selected and pricing. Attachment C details carriers contacted regarding participation in Metro's program.

The recommended Option A includes limited terrorism risk coverage in those insured layers where pricing is reasonable. Last year, Metro purchased terrorism coverage in the first layer (\$5.5 million excess of the \$4.5 million retention) and in the fourth layer (\$15.0 million excess of \$35 million) for just over \$60,000. We are again recommending this structure for an additional premium of approximately \$40,000. To fill out the balance of the \$100 million in limits with terrorism coverage would cost roughly \$1.7 million and is not recommended.

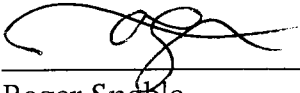
## **ATTACHMENTS**

- A. OPTIONS, PREMIUMS AND LOSS HISTORY
- B. FINAL PRICING AND CARRIERS
- C. CARRIERS CONTACTED



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Greg Kildare  
Executive Officer  
Risk Management



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Roger Snoble  
Chief Executive Officer

ATTACHMENT A

OPTIONS, PREMIUMS AND LOSS HISTORY

CURRENT PROGRAM	OPTIONS			
	A Prelim	A Final	B Prelim	C Prelim
Self-Insured Retention (\$ in millions)	4.5	4.5	7.0	10.0
Limit of Coverage (\$ in millions)	100.0	100.0	100.0	100.0
Not to Exceed Premium (\$ in millions)	5.1	5.0	4.9	4.5

	HISTORY OF POLICIES BEGINNING IN THE FOLLOWING FISCAL YEAR					
	2002	2003	2004	2005	2006	2007 (est.)
Self-Insured Retention (\$ in millions)	4.5	4.5	4.5	4.5	4.5	4.5
Premium (\$ in millions)	2.8	4.1	5.4	5.4	5.1	5.1
Claims in Excess of Retention	1	-	2	2 (est.)	unknown	unknown
Amount in Excess of Retention (\$ in millions)	0.9	-	2.3	unresolved	unknown	unknown

ATTACHMENT B

FINAL PRICING AND CARRIERS

Layer	Carrier	Coverage	Retention	Premium	Taxes/Fees	Base Premium	Terrorism	Terrorism Insurance Elected	Proposed Layer including Terrorism
1	Insurance Company of the State of PA	\$ 10,000,000	\$ 4,500,000	\$ 2,590,300	\$ -	\$ 2,590,300	\$ 25,903	Yes	\$ 2,616,203
2	Lexington Insurance	10,000,000	-	505,000	16,034	521,034	156,310	No	\$ 521,034
3	Great American	15,000,000	-	622,300	19,758	642,058	642,058	No	\$ 642,058
4	XL Insurance America	15,000,000	-	367,473	-	367,473	14,184	Yes	\$ 381,657
5	Starr Excess Liability Insurance	50,000,000	-	829,754	26,345	856,099	856,099	No	\$ 856,099
		\$ 100,000,000	\$ 4,500,000	\$ 4,914,827	\$ 62,136	\$ 4,976,963	\$ 1,694,554		\$ 5,017,050
Sublimits									
\$100,000,000	Any one occurrence except wreck removal costs or expenses								
\$100,000,000	Products/Completed Operations Aggregate								
\$50,000,000	Errors and Omissions Aggregate other than personal and advertising injury offense								
\$100,000,000	Employee Benefit Liability Aggregate								
\$10,000,000	Employment Practices Liability Aggregate								
\$500,000	Retention at Gateway Center								

## ATTACHMENT C

### CARRIERS CONTACTED August 1, 2006 to July 31, 2007

<u>COMPANY</u>	<u>BEST RATING</u>
CV Starr – Everest Re	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