



**FINANCE AND BUDGET COMMITTEE
JULY 16, 2008**

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 \$4.3 million for the 12-month period effective August 1, 2008 through July 31, 2009.

RATIONALE

Our excess liability insurance policies expire July 31, 2008. Our 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. A Receive and File Report on Excess Liability Insurance was previously submitted to the Finance and Budget Committee June 18, 2008.

BACKGROUND

Excess liability coverage insures against losses 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, we would be exposed to catastrophic operating losses from bus and rail accidents. We would also be in violation of the contracts and agreements, such as sale/leaseback, requiring us to carry excess liability insurance.

FINANCIAL IMPACT

Funding for eleven months of this \$4.3 million in premiums is included in the FY09 budget. The remaining month of premiums will be included in the FY10 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. In FY08, \$4.9 million will be expensed on this item.

ALTERNATIVES CONSIDERED

Staff considered various deductibles and limits of coverage options (see Attachment A). Our estimated penetration of the excess layer and premium history is also shown in this attachment. Casualty loss premiums seem to be stable in the current environment of relatively favorable investment returns. Therefore, we received a slight decrease in premiums for coverage identical to last year.

The recommended Option A secures a self-insurance retention (SIR) at \$4,500,000 per occurrence with \$95,500,000 in coverage excess of this retention. In a change from last year's terms, Option A adds a \$250,000 excess of the SIR "loss corridor" that we would need to pay before receiving recovery from our insurers. Effectively, the loss corridor increases the SIR by \$250,000 for the first claim, but saves us \$253,000 in premiums, a clear net benefit even in years in which the loss corridor needs to be paid. Attachment B shows the final carriers selected and pricing. Attachment C details carriers contacted regarding participation in our program.

The recommended Option A includes limited terrorism risk coverage in those insured layers where pricing is reasonable. Last year, we 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 \$35.0 million). For this renewal we are recommending adding terrorism coverage in the second layer (\$10.0 million excess of \$10.0 million). These three layers of terrorism coverage increase premiums by approximately \$54,000. To fill out the balance of the \$100.0 million in limits with terrorism coverage would cost roughly \$1.2 million and is not recommended.

ATTACHMENTS

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

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ATTACHMENT A

OPTIONS, PREMIUMS AND LOSS HISTORY

CURRENT PROGRAM	OPTIONS							
	A Final	B Final	B Prelim	C Prelim	D Prelim			
Self-Insured Retention (\$ millions)	4.5	4.5*	4.5	4.5	5.0	7.5		
Limit of Coverage (\$ millions)	100.0	100.0	100.0	100.0	100.0	100.0		
Not to Exceed Premium (\$ millions)	4.9	4.3	4.5	5.1	5.0	4.8		

* Option A has \$250,000 loss corridor

	HISTORY OF POLICIES FOR THE FOLLOWING FISCAL YEARS									
	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008			
Self-Insured Retention (\$ millions)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Premium (\$ millions)	2.8	4.1	5.4	5.4	5.1	5.0	4.9			
Claims in Excess of Retention	1	-	2	1 (est.)	0 (est.)	0 (est.)	unknown			
Estimated Amount in Excess of Retention (\$ millions)	0.9	-	2.3	8.6	unknown	unknown	unknown			

ATTACHMENT B

FINAL PRICING AND CARRIERS

Layer	Carrier	Coverage	Retention	Premium	Taxes / Fees	Premium and Taxes/Fees	Terrorism	TRIA Elected	Premium including Terrorism
1	Insurance Company of the State of PA	\$10,000,000	\$4,500,000 w/ \$250,000 corridor	\$ 2,251,042	\$ -	\$ 2,251,042	\$ 25,040	Yes	\$ 2,276,082
2	Lexington Insurance	\$10,000,000	\$4,500,000	427,450	13,358	440,808	12,839	Yes	453,647
3	Great American	\$15,000,000	\$4,500,000	515,000	-	515,000	515,000	No	515,000
4	XL Insurance America	\$15,000,000	\$4,500,000	327,150	-	327,150	16,357	Yes	343,507
5	Starr Excess Liability Insurance	\$50,000,000	\$4,500,000	\$ 683,000	\$ 21,344	\$ 704,344	\$ 704,344	No	\$ 704,344
									\$ 4,292,580
	\$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							
	\$25,000,000	TRIA/Terrorism (\$10mm xs retention and \$15mm xs 35mm)							

ATTACHMENT C

EXCESS LIABILITY PROGRAM POTENTIAL MARKETS August 1, 2008 to July 31, 2009

<u>COMPANY</u>	<u>BEST RATING</u>
CV Starr – Everest Re	A+ XV
Insurance Company of the State of PA	A+ XV
Liberty Mutual	A XV
Lexington	A+ XV
Munich Am Re	A+ XV
ACE	A+ XV
Admiral	A+ XII
Chubb	A++ XV
Scottsdale	A+ XV
XL	A XV
Arch RE	A XV
Axis RE	A XV
Winterthur	Bermuda
RLI	A+ XI
Starr Excess	A+ XV
Lloyds' of London	A XV
Genesis	A++ XV
Clarendon	A- IX
Lancer	A- VIII
Progressive	A+ XV
ICW	A- IX
Zurich	A XV
Axa Re	A- XII
Newmarket Underwriters	A XIV
Steadfast	A XV
Great American	A XIII