



Metro

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**FINANCE AND BUDGET COMMITTEE
JUNE 14, 2006**

SUBJECT: EXCESS LIABILITY INSURANCE PROGRAM FOR OPERATIONS

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file report on the excess liability insurance program for Operations.

ISSUE

Metro's excess liability insurance policies expire July 31, 2006. Metro's insurance broker, Aon Risk Services, is responsible and currently marketing the excess liability insurance program renewal to qualified insurance carriers. Quotes are being received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims. 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.

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.

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. As such we are expected no premium increases and potentially some reductions from the current premium for identical coverage.

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 \$7 million from \$4.5 million only realizes a savings of \$200,000, insufficient premium savings to recommend an additional \$2,500,000 in risk. Attachment B details carriers interested in participating in Metro's program.

The recommended Option A will likely include limited terrorism risk coverage in those insured layers where pricing is reasonable. Last year, Metro purchased terrorism coverage in the first layer (\$5.5million excess of the \$4.5million retention) and in the fourth layer (\$15.0 million excess of \$35 million) for just under \$60,000. Additional terrorism coverage to fill out the balance of the \$100 million in limits was priced at more than \$2.0 million last year and was declined. We anticipate that in the layers where coverage was accepted, similar coverage will be available for renewal.

NEXT STEPS

We will pursue final pricing of the recommended Option A with the qualified insurance carriers and bring back final pricing and identified carriers to the Board in July for approval.

ATTACHMENTS

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

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Greg Kildare
Executive Officer
Risk Management

A handwritten signature in black ink, featuring a large, sweeping initial 'R' followed by a horizontal line.

Roger Snoble
Chief Executive Officer

ATTACHMENT A

OPTIONS, PREMIUMS AND LOSS HISTORY

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

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

ATTACHMENT B

**POTENTIAL MARKETS
EXCESS LIABILITY PROGRAM
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 |

