Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

File #: 2017-0306, **File Type:** Program **Agenda Number:** 10.

FINANCE, BUDGET AND AUDIT COMMITTEE
JUNE 14, 2017

SUBJECT: EXCESS LIABILITY INSURANCE PROGRAM

ACTION: PURCHASE EXCESS LIABILITY INSURANCE

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to negotiate and award excess liability insurance policies with up to $300 million in limits at a cost not to exceed $4.5 million for the 12-month period effective August 1, 2017 to August 1, 2018.

ISSUE

The excess liability insurance policies expire August 1, 2017. Insurance underwriters will not commit to final pricing until roughly six weeks before our current program expires on August 1. Consequently, we are requesting a not-to-exceed amount for this renewal pending final pricing and carrier identification. Metro is required by some shared use agreements with the freight railroads (Attachment A) to carry excess liability insurance. Without this insurance, Metro would be subject to unlimited liability for bodily injury and property damage claims resulting from, primarily, bus and rail operations.

DISCUSSION

Our insurance broker, Wells Fargo Insurance Services ("Wells"), is responsible for marketing the excess liability insurance program to qualified insurance carriers. Quotes are in the process of being received by our broker from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims.

The casualty insurance market for the transportation sector is undergoing change with insurers revisiting their underwriting methods after many years of declining real premium rates. In past years, Metro was able to add the Expo Line to Santa Monica and the Gold Line Extension to Azusa for no additional premium. Over the last several years; however, the insurance industry's assessment of transportation and transit risks has deteriorated for a variety of factors.

High profile rail accidents in the Northeast commuter rail corridor, a derailment at the CTA's O'Hare Airport Station, a SEPTA derailment and continuing safety concerns at WMATA have negatively affected rail liability insurance pricing. Liability insurance coverage for our bus system has also been negatively affected because of the substantial increase in nationwide and California highway fatalities. For example, the National Safety Council has recently reported that California highway fatalities are up 18% between 2014 and 2016. Finally, competitive pressure, which has kept prices low in California, is lessening, because of industry concerns regarding California public entity loss experience. Two years ago, a leading public entity insurer, CV Starr excited the public entity liability insurance business in California altogether. This year, another leading public entity insurer, National Casualty (Scottsdale), will be exiting the California public entity marketplace. Both of these insurers were represented in prior years on Metro's liability insurance tower and have been, or will be replaced. Although negotiations are ongoing with replacements for National Casualty, a premium increase is expected in the replacement's layer of participation and possibly up Metro's tower of insurance. Attachment B shows Metro's current liability insurance carriers.

Staff and Wells developed a 2017/2018 excess liability insurance renewal strategy with the following objectives. First, our insurance underwriter marketing presentations emphasized the low risk of light rail and bus rapid transit services added over the past years in order to mitigate insurer's concerns with increased operating exposures. Second, we wanted to maintain a diversified mix of international and domestic insurers to maintain competition and reduce our dependence on any single insurance carrier including replacing our second tier carrier. Third, we desired to maintain total limits of $300 million while maintaining a $7.5 million self-insured retention.

Wells Fargo is presenting the submission to several competing insurers in order to create competition in the layers of our insurance program. Our broker contacted the markets in April and is conducting a global search to replace National Casualty. Insurance executives both nationally and internationally expressed continuing increased underwriting discipline in particular for transportation risks. In that context, insurers asked for detailed loss information on Metro risks. Insurers perform detailed actuarial valuations on our book of business to establish their premiums. We are awaiting final insurance quotes from our broker.

Metro continues to benefit from favorable pricing in the market place. Last year, we obtained $300 million in coverage with $7.5 million retention for $3.75 million. We are anticipating a roughly flat renewal with pricing within 5% of last year's pricing, and possibly no increase in pricing. To cover an unexpected quote, we are asking the Board's approval for a not-to-exceed $4.5 million.

Attachment C provides an overview of the current program, renewal options and estimated associated premiums, and the agency's loss history. The Recommended Program, Option A, retains total limits of $300 million with $7.5 million retention and provides terrorism coverage at all levels.

DETERMINATION OF SAFETY IMPACT

Approval of this recommendation will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

The funding for eleven months of $4.4 million for this action is included in the FY18 budget in cost center 0531, Risk Management - Non Departmental Costs, under projects 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 - Rail Operations - Expo Line, 301012 - Metro Orange Line, 306001 - Operations

Transportation, 320011 - Union Station, and 405533 - Commuter Rail in account 50602 (Ins Prem For Gen Liability). The remaining month of premiums will be included in the FY19 budget, cost center 0531, Risk Management - Non Departmental Costs, under projects under projects 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 - Rail Operations - Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 320011 - Union Station, and 405533 - Commuter Rail in account 50602 (Ins Prem For Gen Liability). In FY17, an estimated $3.7 million will be expensed for excess liability insurance.

Impact to Budget

Approval of this action has no impact on the FY18 budget. The current fiscal year funding for this action will come from the Enterprise, General and Internal Service funds. No other sources of funds were considered because these are the activities that benefit from the insurance coverage. This activity will result in a negligible change to operating costs from the prior fiscal year.

ALTERNATIVES CONSIDERED

Various deductibles and limits of coverage options were considered as described in Attachment C. Our estimated penetration of the excess layer and premium history is also shown in this attachment. Option A maintains $300 million limits with a SIR of $7.5 million. This option conforms to the minimum $295 million liability cap as required by the FAST Act. Option B maintains $300 million limits but increases the SIR to $8 million. Option B is not recommended because the estimated cost of retaining a loss exceeds the cost benefit of decreasing the total premium.

NEXT STEPS

Upon Board approval of this action, we will advise Wells to proceed with placement of the excess liability insurance program outlined herein effective August 1, 2017.

ATTACHMENTS

Attachment A - Shared Use Agreements with the Freight Railroads
Attachment B - 2016/2017 Liability Insurance Carriers
Attachment C - Options, Premiums and Loss History

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