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

File #: 2015-0801, **File Type:** Program **Agenda Number:** 14.

FINANCE, BUDGET AND AUDIT COMMITTEE
JULY 15, 2015

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 $250 million in limits at a cost not to exceed $3.65 million for the 12-month period effective August 1, 2015 to August 1, 2016.

ISSUE

The excess liability insurance policies expire August 1, 2015. Metro is required by some agreements (e.g., shared use agreements with the freight railroads) 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 were received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims.

High profile transportation related fatality accidents including the February 2015 Metrolink truck/train collision, January 2015 Washington Metropolitan Area Transit Authority subway fire, December 2013 Metro North high speed derailment in New York, April 2014 FedEx truck/bus collision in Northern California and, most recent, May 2015 Amtrak high speed derailment in Philadelphia, are proving problematic for the transportation sector. After years of positive acceptance, the casualty insurance market for the transportation sector is undergoing change with insurers revisiting their underwriting methods. Negative nationwide transportation risk perception is increasing the difficulty in placing primary insurance coverage with the domestic markets.

To complicate the marketing of Metro’s excess liability program this year, our incumbent carrier on the lead $10 million layer for the last seven years, Starr Indemnity, withdrew from Public Entity business in California and transit business nation-wide this year, necessitating replacing them on our lead insurance layer. Starr has been involved in high value claims in California. They participated in the excess liability program procured by the Los Angeles Unified School District and is currently a party in a lawsuit regarding the $30 million settlement to 58 plaintiffs in the Miramonte abuse case. Roughly 130 additional claims have yet to be resolved.

Staff and Wells developed a 2015/2016 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. Third, we desired to maintain total limits of $250 million and $7.5 million retention but considering additional levels of self-insured retention to obtain competitive pricing at the primary layer and maintain flat premiums over the primary layer of coverage.

We conducted a global search to replace Starr Indemnity on the lead layer, meeting with all markets including personal meetings with the London markets in April. Insurance executives both nationally and internationally expressed that increased underwriting discipline was returning to the market in particular for transportation risks. In that context, more insurers asked for detailed loss information on Metro risks than last year. Insurers perform detailed actuarial valuations on our book of business to set their premiums. Because of the scope and size of Metro's operations, only four markets agreed to offer terms on the lead layer. The London markets required a self-insured retention of $10 million at nearly double the current premium indicating a low tolerance for transportation risks. Only domestic carrier Alteris quoted a program comparable to our current program with a premium decrease. Should Alteris exit the transportation sector, we would be left with higher future pricing and retention options.

We have been a beneficiary of very soft pricing for several years. Last year, we obtained $250 million in coverage with a $7.5 million retention for $3.8 million. This year's recommended program maintains the prior year coverage and retention for $3.65 million. The premium decrease in the first layer of coverage results in a premium savings of over 4% from the prior year renewal. To put this renewal in perspective, $100 million in limits with a $4.5 million retention cost $5.1 million in 2005-2006. The cost was $1.45 million more than we propose with this renewal with much higher limits.

Attachment A provides an overview of the current program, renewal options and associated premiums, and the agency's loss history. The Recommended Program, Option A, maintains total limits of $250 million and $7.5 million retention with terrorism coverage at all levels.

Attachment B shows the final carriers selected and pricing.

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 $3.4 million for this action is included in the FY16 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 FY16 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 FY15, an estimated $3.8 million will be expensed for excess liability insurance.

Impact to Budget

Approval of this action has no impact on the FY16 budget. The sources of funds for this action are bus and rail operations eligible. No other sources of funds were considered because these are the activities that benefit from the insurance coverage.

ALTERNATIVES CONSIDERED

Various deductibles and limits of coverage options were considered as described in Attachment A. Our estimated penetration of the excess layer and premium history is also shown in this attachment. The recommended Option A maintains $250 million limits with a SIR of $7.5 million. Option B keeps $250 million limits and increases the SIR to $10 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, 2015.

ATTACHMENTS

Attachment A - Options, Premiums and Loss History
Attachment B - 2015/2016 Pricing and Carriers

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