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

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FINANCE, BUDGET AND AUDIT COMMITTEE
JUNE 15, 2016

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 $4.25 million for the 12-month period effective August 1, 2016 to August 1, 2017.

ISSUE

The excess liability insurance policies expire August 1, 2016. Staff typically brings this item to the Board for approval in July with final carriers and pricing, however because the Board is not meeting in July we are bringing this item in June. 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. We typically approach the Board in July with final firm pricing and carriers identified.

In December 2015, H.R. 22, the Fixing America’s Surface Transportation (FAST) Act, was passed, raising the liability cap for commuter rail transit providers for passenger liability from $200 million to $295 million. As such, our broker requested options at renewal to increase Metro’s current $250 million limit to $300 million to comply with the new Federal statutory requirements. Along with the impact of the FAST Act increasing required liability caps, we expect higher premiums this year because of new Gold Line and Expo Line service.

After years of positive acceptance, the casualty insurance market for the transportation sector is undergoing change with insurers revisiting their underwriting methods. 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. In addition, negative nationwide transportation risk perception is increasing the difficulty in placing primary insurance coverage with the domestic markets.

Staff and Wells developed a 2016/2017 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. Thirdly, we desired to increase total limits to $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 other layers of our insurance program. We met with markets personally in April. 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. We are awaiting underwriter quotes from our broker.

We have been a beneficiary of soft pricing for several years. Last year, we obtained $250 million in coverage with a $7.5 million retention for $3.6 million. This year's recommended program increases coverage to $300 million and maintains a $7.5 million retention for an estimated $4.25 million. The premium increase represents a 19% increase in premium expense over 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.

Attachment B provides an overview of the current program, renewal options and estimated associated premiums, and the agency's loss history. The Recommended Program, Option B, increases total limits to $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 $4.2 million for this action is included in the FY17 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 FY16, an estimated $3.6 million will be expensed for excess liability insurance.

Impact to Budget

Approval of this action has no impact on the FY17 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 B. Our estimated penetration of the excess layer and premium history is also shown in this attachment. Option A maintains $250 million limits with a SIR of $7.5 million. This option is not recommended because maintaining current insurance limits does not conform to the minimum $295 million liability cap as required by the FAST Act. Option B increases our limits to $300 million limits while maintaining a SIR of $7.5 million and will satisfy the increased liability requirements of the FAST Act.

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, 2016.

ATTACHMENTS

Attachment A - Shared Use Agreements with the Freight Railroads
Attachment B - Options, Premiums and Loss History

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