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

File #: 2018-0239, **File Type:** Program **Agenda Number:** 5.

FINANCE, BUDGET AND AUDIT COMMITTEE
JUNE 20, 2018

SUBJECT: EXCESS LIABILITY INSURANCE PROGRAM

ACTION: PURCHASE EXCESS LIABILITY INSURANCE

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to negotiate and purchase excess liability insurance policies with up to $300 million in limits and an $8 million self-insured retention at a cost not to exceed $4.5 million for the 12-month period effective August 1, 2018 to August 1, 2019.

ISSUE

The excess liability insurance policies expire August 1, 2018. 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 selection. Metro is required by some 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, USI Insurance Services (“USI”), 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.

To put the insurance marketplace in perspective, US property/casualty insurers saw underwriting losses more than double to $5.1 billion for the first half of 2017 compared with the year before. Losses led by higher catastrophe and auto claims drove net income down by 29% in the first half; even before third quarter hurricane losses were included.

Casualty premiums remain relatively flat, except as to auto liability where losses have increased in number and severity. Liability insurance coverage for our bus system has been negatively affected because of the substantial increase in nationwide and California highway fatalities. Auto lines are up by 5 to 9%, even on risks with no losses. Insurers are looking more selectively at risks and more carefully underwriting programs. Two years of auto liability rate increases have not offset loss trends and adverse development. Auto liability loss costs are significantly outpacing inflation, rising 36%

from 2015 through 2017. Retail and reinsurance markets are also finding abnormal, negative developments in their liability loss portfolios. Damage from the 2017 California wildfires generated over 45,000 claims and $12 billion in losses, many which will be subrogated to the utilities as a proximate cause of the fires. This affects casualty premium as many of the same reinsurers provide coverage to public entity risks such as Metro.

Staff and USI developed a 2018/2019 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 desired to maintain a continuing 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 $300 million while maintaining a $7.5 million self-insured retention but were open to increase our self-insured retention if needed to retain reasonable premium pricing.

USI is presenting the submission to competing insurers in order to create competition in the layers of our insurance program. Our broker contacted the markets in April, May and June. Insurance executives both nationally and internationally expressed continuing increased underwriting discipline in particular for transportation risks. As in prior years, 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 by carriers from our broker.

Metro continues to benefit from favorable acceptance of our risk in the marketplace. More differentiation of risk benefits Metro as we have a newer rail system, implemented Automatic Train Protection (ATP) technology earlier than many other transit agencies and have a robust claims management process. Last year, we obtained $300 million in coverage with $7.5 million retention for $4.1 million. We are anticipating a nearly flat renewal if we increase our self-insured retention (SIR) to $8 million as suggested by carriers.

Attachment A provides an overview of the current program, renewal options and estimated associated premiums, and the agency's loss history. The Recommended Program, Option A, includes total limits of $300 million with $8 million retention and provides terrorism coverage at all levels. Attachment B shows the tentative carriers selected and program structure.

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 FY19 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 FY20 budget, cost center

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Impact to Budget

Approval of this action is included in the FY19 budget. The current fiscal year funding for this action will come from the Enterprise, General and Internal Service funds paralleling funding for the actual benefiting projects charged. 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 outlined in Attachment A. Our estimated penetration of the excess layer and premium history is also shown in this attachment. Option A maintains $300 million limits but increases the SIR to $8 million. This option is recommended because insurance carriers are insisting on higher retentions to offset fast rising insurance premiums in the marketplace. Option B maintains $300 million limits and the current SIR of $7.5 million. Option B is not recommended.

NEXT STEPS

Upon Board approval of this action, we will advise USI to proceed with placement of the excess liability insurance program outlined herein effective August 1, 2018.

ATTACHMENTS

Attachment A - Options, Premiums and Loss History
Attachment B - Proposed Carriers and Program Structure

Prepared by: Tim Rosevear, Manager, Risk Financing Manager, (213) 922-6354

Reviewed by: Greg Kildare, Chief Risk, Safety and Asset Management Officer, (213) 922-4971

Phillip A. Washington
Chief Executive Officer