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28

**FINANCE, BUDGET AND AUDIT COMMITTEE
MARCH 14, 2012**

SUBJECT: PROPERTY INSURANCE PROGRAM

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file report on the proposed property insurance program.

ISSUE

The All Risk Property and Boiler and Machinery insurance policies will expire on May 10, 2012. This report summarizes the current insurance marketplace for property coverage and discusses a structure for the replacement policy.

DISCUSSION

Our insurance broker, Wells Fargo Insurance Services, is responsible for marketing the property insurance program to qualified insurance carriers. Quotes are currently being received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims. The premium indications below are based upon current market expectations. Final pricing, however, is not available until approximately 30 days prior to binding coverage.

Property insurance protects against losses to our structures and improvements, which are valued at approximately \$9.3 billion up from last year's \$8.5 billion. The increase in total insured value is due to the addition of Expo Phase I rolling stock, revised replacement costs of two railroad bridges acquired with the purchase of Union Station, replacement cost growth on fixed facilities, technical changes in the calculation of rolling stock replacement costs, the addition of the Orange Line Extension and general construction cost growth. Property insurance is required by many contracts and agreements, such as our lease/leaseback deals involving a number of our operating facilities.

MTA continued to capitalize on the favorable market for property insurance over the past several years, sending our rates to the lowest levels in MTA history. However, the market has recently seen increases in property renewal rates. Broker Marsh reports that almost 60% of January property renewals experienced premium rate increases.

U.S. commercial insurance rates are expected to climb across many lines of business in 2012, continuing a trend that began in the second half of 2011 according to the Navigating the Risk and Insurance Landscape: US Insurance Market Report 2012 published in January by Marsh, one of the top brokerage firms in the world. Substantial catastrophe losses and reduced investment returns prompted many U.S. insurers to seek rate increases in 2011, most notably in the property market.

"Entering 2012, the U.S. insurance market has continued the trajectory developed during the fourth quarter of 2011 and is now in an obvious state of transition", said David Bidmead, Marsh's U.S. CEO. Although not classified as a hard market, increasingly consistent signs of market correction are prevalent.

Staff and Wells Fargo will continue to meet with multiple domestic and foreign insurance providers to present our property risks and supplemental data in order to mitigate increasing rate pressure. During these discussions we provide an overview of the system, including its extensive security infrastructure and fire protection. We also provide information and statistics on system operations, assets, and our loss history over the past nine years (no fixed property insurable events, only one loss of rolling stock at \$750,000 and only one loss of a non-revenue vehicle currently at \$75,000).

This marketing effort along with demonstrable evidence of superior loss experience may serve to hold premium increases below 10%, given both rate pressure and increasing total insurable value from the addition of the Orange Line Extension and Light Rail Vehicles.

As in prior years, earthquake coverage is only available with low limits at high premiums; \$30 million in limits could cost as much as \$3 million, or more. In just over ten years, premiums would total more than the coverage afforded by the policies. As in last year's renewal, the recommended program will not include earthquake coverage. The lack of earthquake coverage is consistent with decisions made by other large organizations such as BART, Los Angeles Department of Water and Power, Metropolitan Water District and most Los Angeles County and City locations. The absence of this coverage will mean greater reliance on FEMA for recovery. As demonstrated by recent hurricane related property losses, municipal services, public utilities, and public transportation received priority FEMA funding for disaster relief.

Terrorism coverage may be available. However, in prior years terrorism coverage has not proven cost effective. For this renewal cycle we will evaluate terrorism coverage options. We have generally rejected this coverage because of the very high likelihood of federal and state funding in the case of a serious terrorism incident.

Attachment A is a premium history. Attachment B shows the outline of the current property program structure.

The current program of insurance is a layered in that several insurance carriers participate with each contributing a portion of coverage. Continual monitoring through internal methods as well as updates provided by our insurance broker ensure that all carriers maintain the required financial ratings indicated by financial reporting agencies and as determined by A.M. Best.

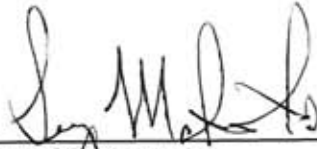
NEXT STEPS

We will return to the Board for approval in April 2012 with final pricing and insurers for the recommended FY13 property insurance program.

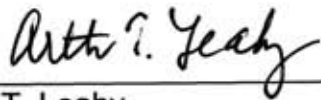
ATTACHMENTS

- A. PREMIUM HISTORY
- B. FY12 FINAL PRICING AND CARRIERS

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ATTACHMENT A

PREMIUM HISTORY

Premium History for Property and Boiler and Machinery Policies
For Property Insurance Policies Ending in the Following Fiscal Years

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13 est.
All Risk	\$4.6 Mil	\$3.9 Mil	\$3.1 Mil	\$2.1 Mil	\$2.1 Mil	\$2.0 Mil	\$2.0 Mil	\$2.3 Mil
Boiler & Machinery	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Total Premium	\$4.7 Mil	\$4.0 Mil*	\$3.2 Mil*	\$2.2 Mil*	\$2.2 Mil*	\$2.1 Mil*	\$2.1 Mil*	\$2.4 Mil*
TTV = Total Ins. Val.	\$6.5 Bil	\$6.7 Bil	\$6.7 Bil	\$6.9 Bil	\$7.6 Bil	\$7.8 Bil	\$8.6 Bil**	\$9.3 Bil**
Rate per Mil Ins. Val.	\$723	\$597	\$478	\$319	\$289	\$271	\$245	\$258

* Excludes Earthquake Insurance

** Includes Expo Phase I and Los Angeles Union Station

FY12 FINAL PRICING AND CARRIERS

Los Angeles County Metropolitan Transportation Authority
 Primary/Excess Property Insurance
 Policy Term: May 10, 2011 to May 10, 2012

Limit	Coverage	Carrier	Participation	Total
\$200MM	All Risk Excluding Flood & Earthquake	AXIS Insurance Company - A XV	\$50,000,000	\$100,000
		Continental Casualty Company - A XV	\$50,000,000	\$100,000
		Commonwealth Insurance Co. - A IX	\$50,000,000	\$103,250
		Endurance American Specialty - A XV	\$50,000,000	\$92,925
			\$200,000,000	\$396,175
\$150MM	All Risk Excluding Earthquake	Lexington Insurance Co. - A XV	\$100,000,000	\$1,146,075
		Liberty Mutual Fire Insurance Co. - A XV	\$37,500,000	\$416,250
		Starr Specialty Insurance Agency*	\$12,500,000	\$143,259
			\$150,000,000	\$1,705,584
				\$2,101,759

*Starr Specialty Insurance Agency consists of the following carriers:
 Starr Surplus Lines Insurance Company - A XV
 Chubb Custom Insurance Company - A++ XV
 General Security Indemnity Company of Arizona A XV