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Metropolitan Transportation Authority

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Metro

FINANCE, BUDGET AND AUDIT COMMITTEE
APRIL 17, 2013

SUBJECT: PROPERTY INSURANCE PROGRAM

ACTION: PURCHASE ALL RISK PROPERTY AND BOILER AND MACHINERY INSURANCE

RECOMMENDATION

Authorize the Chief Executive Officer to purchase All Risk Property and Boiler and Machinery insurance policies for all property at a not to exceed price of $2.4 million for the 12-month period May 10, 2013 through May 10, 2014.

ISSUE

The All Risk Property and Boiler and Machinery insurance polices expire on May 10, 2013.

DISCUSSION

Property insurance protects against losses to our structures and improvements, which are valued at approximately $9.4 billion up from last year's $9.3 billion. The increase in total insured value is due to the addition of the El Monte Bus Station and general replacement cost growth. Property insurance is required by many contracts and agreements, such as our lease/leaseback deals involving a number of our operating assets.

Last month, we presented a Receive and File report outlining preliminary insurance estimates while our insurance broker, Wells Fargo Insurance Services ("Wells Fargo"), marketed the property program to qualified insurance carriers to obtain final property insurance pricing. Final quotations for the property insurance program recommended last month have now been received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims.

The Recommended Program secures the All Risk deductible at $250,000 with no earthquake coverage and a flood deductible at 5% per location subject to a $250,000 minimum. If a loss exceeds the deductible, All Risk coverage is provided up to $350 million per occurrence for losses except for flood related damages that are covered up to $150 million. The program is the same as the prior year program. Attachment A is a premium history. Attachment B shows the outline of the recommended program structure.

The recommended program does not include earthquake coverage. We received quotes at $5 million for $50 million in limits. MTA has not purchased earthquake coverage in previous years. In the aftermath of Superstorm Sandy, the Senate Appropriations Committee provided $10.9 billion to the Federal Transit Administration under the Disaster Relief Appropriations Act of 2013 to provide disaster relief. Some of these funds will be used to rebuild public transportation systems impacted by the storm. FTA administration advises that the remaining funds in the FTA Public Transportation Emergency Relief Program will be used to mitigate the effects of future disasters. In the event of a major disaster, we believe funding would be available through Federal and State sources to restore public transportation in Southern California. The lack of earthquake coverage is consistent with decisions made by other large government agencies including BART, Department of Water and Power, Metropolitan Water District and most Los Angeles County and City locations.

We evaluated terrorism coverage options this renewal cycle and have not opted to purchase the coverage. Terrorism coverage is available but does not appear to be cost effective. In the past, we rejected this coverage because of the high likelihood of federal and state funding to restore transportation services as a result of a serious terrorism incident.

The current and recommended programs of insurance are layered structures. Several insurance carriers participate in the program with each contributing a portion of coverage. Continual monitoring through internal methods, as well as updates provided by Wells Fargo ensure that all carriers maintain the required financial ratings indicated by financial reporting agencies and as determined by A.M. Best.

In February and March, Wells Fargo contacted multiple domestic and foreign insurance providers to present our property risks and supplemental data. Wells Fargo provided an overview of the Metro transit system during discussions with the underwriters, including our extensive security infrastructure, fire protection and minimal risk of flood exposures. We provided a tour of the Gateway Building, Union Station, Maintenance Support Services Center, Metro Red Line and Metro Gold Line to one insurance carrier. Wells Fargo provided information and statistics on system operations, assets, and our excellent loss history over the past twelve years with no fixed property insurable events, only one loss of rolling stock at $750,000 and only one loss of a non-revenue vehicle at $75,000.

The MTA property program is very well received by insurers due to our favorable loss record, the growth of the account from $6.7 billion in values in 2006 and to $9.4 billion for this renewal and that no earthquake insurance is purchased. As such, Wells Fargo presented the submission to several competing insurers in order to create additional competition in the insurance program. The marketing effort resulted in a renewal of the current program by all but one incumbent insurance carrier. Our collaborative marketing effort in addition to our noteworthy evidence of exceptional loss experience held our premium increases to 1.3%.

A recent survey from The Council of Insurance Agents & Brokers ("CIAB") shows an overall 5% rate increase across all account categories in the fourth-quarter 2012 – a higher rate of any increase in the past three quarters. CIAB President and CEO Ken A. Crerar states, "I think you can characterize the fourth quarter as more of the same. Carriers were still cautious about the risks they were putting on their books and pushed for price increases where they could get them."

A correction in the insurance market continues as commercial rates have risen eight consecutive quarters. David Bidmead, Marsh's U.S. CEO remarks, "Although Superstorm Sandy will rank as one of the costliest storms in U.S. history, it is not forcing a rapid hardening of the overall market as insurers' capital positions were strong enough to weather the storm". This year's increase of 1.3% in comparison to last year's 8.5% increase reflects our favorable insurability. Our rates per million dollars of insurable value continue to reflect historic lows.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The funding for two months of $400,000 for this action is included in the FY13 budget in cost center 0531, Risk Management – Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 – Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 320011 – Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). The remaining ten months of premiums will be included in the FY14 budget, cost center 0531, Risk Management – Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 – Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 320011 – Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). In FY13, an estimated $2.3 million will be expensed on this item.

Impact to Budget

There is no impact on the FY13 budget. No other sources of funds were considered for this activity because these are the funds that benefit from the insurance. This activity will slightly increase operating costs from the prior fiscal year.

ALTERNATIVES CONSIDERED

The following table compares the current program, the recommended program and three options, which are not recommended. Based upon our favorable renewal and loss histories, we recommend continuing the current program of insurance as the most cost effective and prudent program. Option B is not recommended because the high cost of the earthquake premium does not justify the benefit of the coverage.

	Current Program	Recommended Program (Quota Share Primary)	Option B – With Earthquake
Deductibles	$250,00 All Risk / 5% of location value for Flood	$250,00 All Risk / 5% of location value for Flood	$250,000 All Risk/5% of structure value for Earthquake and Flood
All Risk Limits	$350 Million	$350 Million	$350 Million
Flood Limits	$150 Million	$150 Million	$150 Million
Earthquake Limits	None	None	$50 Million after first 5% per location deductible
Terrorism	None	None	None
Total not to Exceed or Actual Premium	$2,286,471	$2,316,859	$7,316,859

NEXT STEPS

Upon Board approval of this action, we will advise Wells Fargo to proceed with placement of the property insurance program outlined herein effective May 10, 2013.

ATTACHMENTS

A. PREMIUM HISTORY
B. 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 in the Following Years

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
All Risk	$3.9 Mil	$3.1 Mil	$2.1 Mil	$2.1 Mil	$2.0 Mil	$2.0 Mil	$2.2 Mil	$2.3 Mil
Boiler & Machinery	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
Total Premium	$4.0 Mil*	$3.2 Mil*	$2.2 Mil*	$2.2 Mil*	$2.1 Mil*	$2.1 Mil*	$2.3 Mil*	$2.4 Mil*
TIV = Total Ins. Val.	$6.7 Bil	$6.7 Bil	$6.9 Bil	$7.6 Bil	$7.8 Bil	$8.6 Bil**	$9.3 Bil***	$9.4 Bil
Rate per Mil Ins. Val.	$597	$478	$319	$289	$271	$245	$246	$255

*** Excludes Earthquake Insurance**
**** Includes Expo Phase I and Los Angeles Union Station**
***** Includes Metro Orange Line Extension**

ATTACHMENT B

FINAL PRICING AND CARRIERS

Wells Fargo Insurance Services USA, Inc.
Proposed Property Insurance Summary 2013-2014
Los Angeles County Metropolitan Transportation Authority

Limit	Coverage	Carrier	Participation	Total
$200MM	All Risk Excluding Flood & Earthquake	AXIS Insurance Company - A XV	$50,000,000	$109,750
		Continental Casualty Company - A XV	$50,000,000	$108,000
		Lloyd's of London - A XV	$50,000,000	$103,250
		Starr Specialty Insurance Agency**	$50,000,000	$113,059
			$200,000,000	**$434,059**
$150MM	All Risk Excluding Earthquake	Lexington Insurance Co - A XV	$100,000,000	$1,258,455
		Liberty Mutual Fire Insurance Co- A XV	$25,000,000	$308,333
		Starr Specialty Insurance Agency**	$15,000,000	$188,671
		Ironshore Specialty Ins Co - A- XIII	$10,000,000	$127,341
			$150,000,000	**$1,882,800**

Estimated Program Total **$2,316,859**

**Starr Specialty Insurance Agency consists of:

33.34% Starr Surplus Lines Insurance Company - A XV

33.33% Chubb Custom Insurance Company - A++ XV

33.33% General Security Indemnity Company of Arizona - A XV

Terrorism pricing is not included above