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Metro

FINANCE, BUDGET AND AUDIT COMMITTEE
JUNE 19, 2013

SUBJECT: EXCESS LIABILITY INSURANCE PROGRAM

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file report on the proposed excess liability insurance program.

ISSUE

Our excess liability insurance policies expire on August 1, 2013. This report summarizes the current insurance marketplace for excess liability coverage and discusses a planned structure for replacement policies.

DISCUSSION

Our insurance broker, Wells Fargo Insurance Services ("Wells"), is responsible for marketing the excess liability 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, will not be available until approximately 30 days prior to binding coverage. Wells advises us that we will likely not be able to renew our expiring program with the same self-insured retention with an unknown impact on year-over-year pricing.

After years of relative softness, the property and casualty insurance market is starting to harden with insurers revisiting their underwriting discipline. We have been a beneficiary of very soft pricing in recent years. Last year we were able to obtain $250 million in coverage with a $5 million retention for $3.9 million. In 2004/2005, $100 million in limits with a $4.5 million retention cost $5.4 million or $1.5 million more than we are currently paying with lower limits and a comparable deductible.

In its "Market Realities 2013 Spring Update," global insurance broker Willis Group Holdings indicates the range of anticipated price increases is moving higher for most key insurance product lines. Casualty line prices, including general liability and commercial automobile insurance, are expected to rise 2% to 10% according to the report.

The Property and Casualty industry, as a whole, has struggled with profitability, with 2012 results continuing a multi-year string of underwriting losses. The 2013 commercial property and casualty insurers are in the words of AM Best, "still grappling with competitive market conditions, less favorable loss reserve development, sluggish economic growth and depressed investment yields," although "accident-year margins likely will continue improving, due to price firming."

In marketing our risks this year, insurance executives both nationally and internationally expressed that increased underwriting discipline was returning to the market. In that context, many insurers asked for detailed loss information on Metro risks and had detailed actuarial valuations performed on our book of business. Some commercial casualty insurance purchasers are finding that insurance terms and pricing are no longer available at expiring rates. Some insurance purchasers with poor quality risks are discovering primary coverage is unavailable at any price.

Our insurance marketing was complicated this year by Chartis Insurance's settlement of the Cuthbertson v. MTA (i.e., Blue Line fatality) appeal for $15 million inclusive of our $4.5 million self-insured retention. Two additional occurrences, including a double fatality pedestrian accident in West Hollywood, also made our marketing effort significantly more difficult.

In particular, our lead insurer, Starr Indemnity, is reevaluating its willingness to continue to offer a self-insured retention at the current $5 million level. The London market has given indications that they would likely require a minimum $10 million retention. Therefore, we are anticipating the need to increase our retention from its current $5 million level, to at least $6 million, and more likely, at least $7.5 million.

Nevertheless, Staff and Wells developed a 2013/2014 excess liability insurance renewal strategy with the following objectives. First, our insurance underwriter marketing presentations emphasized the very low risk of light rail and bus rapid transit services added over the past few 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 foster competition and reduce our dependence on any single insurance carrier. Finally, we desired to maintain total limits of $250 million while 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.

Staff and Wells continue to meet with multiple domestic and foreign insurance underwriters to present our liability risks and supplemental data in order to mitigate increasing rate and terms pressure. Given the current marketplace for coverage and our greater loss experience, we expect a modest or flat premium while increasing our exposure to large losses by increasing our self-insured retention.

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

Our current program is layered with several insurance carriers participating and contributing portions of coverage at levels within the "tower". Some layers are shared by several insurers. Throughout the year, staff and Wells 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 July 2013 with final pricing and insurance carriers for the recommended 2013/2014 liability insurance program. Should our self-insured retention increase as we expect, we will also be presenting the Board with a budget amendment necessary to fund the resulting estimated increased self-insured losses as determined by our actuary at Aon Risk Services.

ATTACHMENTS

A. Premium and Loss History
B. 2012/2013 Final Pricing and Carriers

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ATTACHMENT A

Premium and Loss History

Premium History for Excess Liability Policies
Ending in the Following Policy Periods

	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
Self-Insured Retention	$4.5 mil	$4.5 mil	$4.5 mil	$4.5 mil	$4.5 mil	$4.5 mil	$4.5 mil	$5.0 mil	$5.0 mil
Insurance Premium	$5.4 mil	$5.1 mil	$5 mil	$4.9 mil	$4.3 mil	$3.8 mil	$3.8 mil	$3.9 mil	$3.9 mil
Claims in Excess of Retention	1	-	-	-	2	1 (est.)	0 (est.)	0 (est.)	1 (est.)
Estimated Amount in Excess of Retention	$8.6 mil	-	-	-	$14.1 mil	unknown	unknown	unknown	unknown

ATTACHMENT B

2012/2013 Final Pricing and Carriers

Excess Liability Insurance
Policy Term: August 1, 2012 to August 1, 2013

Excess Limit		Layer(s)	Participation	Carrier	Pricing	A.M. Best Rating
$250M	Excess Liability	$50M xs $200M	$40,000,000 $10,000,000	Argo Re Swiss Re	$160,000 $41,300 $201,300	A XII A XV
$200M	Excess Liability	$100M xs $100M	$40,000,000 $25,000,000 $12,500,000 $12,500,000 $10,000,000	Aspen IronStarr Endurance Canopius Argo Re	$227,150 $137,500 $68,750 $70,984 $55,000 $559,384	A XV A- XIII A- XV A XV A XII
$100M	Excess Liability	$50M xs $50M	$15,000,000 $15,000,000 $10,000,000 $10,000,000	Great American AWAC Lexington Ironshore	$150,000 $150,000 $103,250 $103,250 $506,500	A XIV A XV A XV A- XIII
$50M	Excess Liability	$10M xs $40M	$10,000,000	XL Specialty	$157,500	A XV
$40M	Excess Liability	$10M xs $30M	$10,000,000	Great American	$195,000	A XIV
$30M	Excess Liability	$10M xs $20M	$10,000,000	Starr Surplus	$239,540	A XV
$20M	Excess Liability	$10M xs $10M	$10,000,000	National Casualty	$300,000	A+ XV
$10M	Primary Liability	$10M	$10,000,000	Starr Indemnity	$1,734,000	A X
		Total Limits:	$250,000,000	Total Pricing:	$3,893,224	
				Rebate:	$3,098	
				Final Pricing:	$3,890,126	