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Metro

FINANCE, BUDGET AND AUDIT COMMITTEE
JULY 17, 2013

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 $250 million in limits at a cost not to exceed $3.65 million for the 12-month period effective August 1, 2013 to August 1, 2014.

ISSUE

The excess liability insurance policies expire August 1, 2013.

DISCUSSION

As indicated in last month's Receive and File report, the renewal options reflect changes in the underwriting environment both externally and internally. The property and casualty insurance market is experiencing increased underwriting discipline because of continuing poor investment yields. According to Business Insurance, ". . . industry executives have expressed concerns about the ongoing low interest rate environment and the inability to earn adequate investment returns." As a result, insurers are looking to premiums to compensate. Specifically, insurers are taking a substantially more detailed look at loss information and are relying on actuarial valuations on insureds books of business in order to set premiums.

The marketing of our program risks was complicated this year by multi-million dollar settlements of several cases including Cuthbertson v. MTA at $15 million and Bates v. MTA at $5.5 million. Pending litigation in a double fatality pedestrian accident in West Hollywood further complicated the marketing effort. As a result of their evaluation, our lead insurer, Starr Indemnity, was unwilling to renew the primary layer of liability insurance with a self-insured retention ("SIR") of $5 million and neither was any other primary insurer.

Wells Fargo presented the submission to several competing insurers in order to create additional competition in other layers of the insurance program. Potential new markets were approached and showed interest in our program. As a result of active marketing efforts, we maintained a diversified mix of international and domestic insurers to foster competition and reduce our dependence on any single insurance carrier.

Attachment A provides an overview of the current program, renewal options and associated premiums, and the agency's loss history. The Recommended Program, Option B, maintains total limits of $250 million with the retention increased to $7.5 million with terrorism coverage at all levels.

Attachment B shows the final carriers selected and pricing.

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 $3.4 million for this action is included in the FY14 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 FY15 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 FY13, an estimated $3.9 million will be expensed on this item.

Impact to Budget

Approval of this action has no impact on the FY14 budget. However, the increase in retention from $5.0 million to $7.5 million poses the risk that should a serious accident occur additional funds may be needed.

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 A. Option A keeps $250 million limits and increases the SIR to $6.0 million. Option A is not recommended because the increase in total premium exceeds the estimated cost of retaining the loss. Option B keeps $250 million limits and increases the SIR to $7.5M. Our estimated penetration of the excess layer and premium history is also shown in this attachment.

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, 2013.

ATTACHMENTS

A. Options, Premiums and Loss History
B. 2013/2014 Pricing and Carriers

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ATTACHMENT A

Options, Premiums and Loss History

	CURRENT PROGRAM	OPTIONS	
		A	B
Self-Insured Retention	$5.0 mil	$6.0 mil	$7.5 mil
Limit of Coverage	$250 mil	$250 mil	$250 mil
Terrorism Coverage	Yes	Yes	Yes
Not to Exceed Premium	$3.9 mil	$4.5 mil	$3.6 mil

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	-	0 (est.)	1	0 (est.)
Estimated Amount in Excess of Retention	$8.6 mil	-	-	-	$13.8 mil	-	unknown	$1.5 mil	unknown

ATTACHMENT B

2013/2014 Pricing and Carriers

Excess Liability Insurance
Policy Term: August 1, 2013 to August 1, 2014

Excess Limit		Layer(s)	Participation	Carrier	Pricing	A.M. Best Rating
$250M	Excess Liability	$50M xs $200M	$40,000,000	Argo Re	$160,000	A XII
			$10,000,000	Swiss Re	$41,280	A+ XV
					$201,280	
$200M	Excess Liability	$100M xs $100M	$40,000,000	Aspen	$227,040	A XV
			$25,000,000	IronStarr	$137,500	A- XIV
			$12,500,000	Endurance	$68,750	A XV
			$12,500,000	Canopius	$70,950	A+
			$10,000,000	Argo Re	$55,000	A XII
					$559,240	
$100M	Excess Liability	$50M xs $50M	$15,000,000	Great American	$150,000	A XIII
			$15,000,000	AWAC	$150,000	A XV
			$10,000,000	XL America	$100,000	A XV
			$10,000,000	Ironshore	$103,200	A XIV
					$503,200	
$50M	Excess Liability	$10M xs $40M	$10,000,000	XL America	$157,500	A XV
$40M	Excess Liability	$10M xs $30M	$10,000,000	Great American	$195,000	A XIII
$30M	Excess Liability	$10M xs $20M	$10,000,000	Endurance	$239,424	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	$1,438,200	A XIV
		Total Limits:	$250,000,000	Total Pricing:	$3,593,844	
				Rebate:	$3,098	
				Pricing After Rebate:	$3,590,746	