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Metropolitan Transportation Authority

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Metro

FINANCE, BUDGET AND AUDIT COMMITTEE
JULY 16, 2014

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 $3.8 million for the 12-month period effective August 1, 2014 to August 1, 2015.

ISSUE

The excess liability insurance policies expire August 1, 2014.

DISCUSSION

Our insurance broker, Wells Fargo Insurance Services ("Wells"), is responsible for marketing the excess liability insurance program to qualified insurance carriers. Quotes were received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims.

After years of relative softness, the casualty insurance market is starting to harden for the transportation sector with insurers revisiting their underwriting methods. Recent high profile transportation related fatality accidents including the Lac Megantic crude oil train derailment in Canada, the FedEx/student bus accident in Northern California, BART rail worker accidents in the Bay Area, and the Metro-North commuter train derailment in New York are problematic for the sector.

Further, Metro has its own high profile, catastrophic accident which was reported to the underwriters. The litigation arises out of an incident which occurred February 22, 2012, when a vehicle entered the bus only lane at the northbound Harbor/105 Freeway Transit Station, jumped the curb and struck six passengers waiting to board a Metro Silver Line bus. The driver of the vehicle was insured with minimal policy limits. All six passengers were seriously injured. One remains in a persistent vegetative state and is not expected to make any further significant recovery. Caltrans, a co-defendant, designed and owns the transit station and Metro is responsible for the maintenance. This litigation is pending and the outcome is yet to be determined.

Staff and Wells developed a 2014/2015 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 wanted to maintain a 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 $250 million and $7.5 million retention but 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.

Insurance executives both nationally and internationally expressed that increased underwriting discipline was returning to the market in particular for transportation risks. In that context, some insurers asked for detailed loss information on Metro risks and insurers had detailed actuarial valuations performed on our book of business to set premiums.

We have been a beneficiary of very soft pricing in recent years. Last year we were able to obtain $250 million in coverage with $7.5 million retention for $3.6 million. This year's recommended program maintains the prior year coverage and retention for $3.8 million. A moderate premium increase in the first two layers of coverage contributes to the overall increase of 4%. For perspective, in 2005/2006, only a $100 million in limits with a $4.5 million retention cost $5.1 million; $1.3 million more than we propose with this renewal.

"Rate increases for U.S. commercial property/casualty liability insurance should continue throughout this year, but at a slower rate than in 2013", according to an analysis released in June by Moody's Investors Service Inc. "As insurers look to retain existing profitable business and shift toward growth for casualty lines, rate increases could slow further as the year progresses, although we don't expect rate declines in 2014."

Attachment A provides an overview of the current program, renewal options and associated premiums, and the agency's loss history. The Recommended Program, Option A, maintains total limits of $250 million and $7.5 million retention 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 $3.5 million for this action is included in the FY15 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 FY16 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 FY14, an estimated $3.7 million will be expensed on this item.

Impact to Budget

Approval of this action has no impact on the FY15 budget.

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. Our estimated penetration of the excess layer and premium history is also shown in this attachment. The recommended Option A maintains $250 million limits with a SIR of $7.5 million. Option B keeps $250 million limits and increases the SIR to $10 million. Option B is not recommended because the estimated cost of retaining a loss exceeds the cost benefit of decreasing the total premium.

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, 2014.

ATTACHMENTS

A. Options, Premiums and Loss History
B. 2014/2015 Pricing and Carriers

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ATTACHMENT A

Options, Premiums and Loss History

	CURRENT PROGRAM	OPTIONS (Estimated)	
		A	B
Self-Insured Retention	$7.5 mil	$7.5 mil	$10.0 mil
Limit of Coverage	$250 mil	$250 mil	$250 mil
Terrorism Coverage	Yes	Yes	Yes
Not to Exceed Premium	$3.65 mil	$3.8 mil	$3.3 mil

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

	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Self-Insured Retention	$4.5 mil	$4.5 mil	$4.5 mil	$4.5 mil	$4.5 mil	$4.5 mil	$5.0 mil	$5.0 mil	$7.5 mil
Insurance Premium	$5.1 mil	$5 mil	$4.9 mil	$4.3 mil	$3.8 mil	$3.8 mil	$3.9 mil	$3.9 mil	$3.7 mil
Claims in Excess of Retention	-	-	-	2	-	0 (est.)	1	0 (est.)	0 (est.)
Estimated Amount in Excess of Retention	-	-	-	$13.7 mil	-	unknown	$1.0 mil	unknown	unknown

ATTACHMENT B

2014/2015 Pricing and Carriers

Excess Liability Insurance
Policy Term: August 1, 2014 to August 1, 2015

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/AXV
			$12,500,000	Endurance	$68,750	A XV
			$12,500,000	Canopius	$68,750	A- VII
			$10,000,000	Argo Re	$55,000	A XII
					$557,040	
$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 Specialty	$100,000	A XV
			$10,000,000	Ironshore	$103,200	A XIV
					$503,200	
$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+ 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	$309,000	A+ XV
$10M	Primary Liability	$10M	$10,000,000	Starr Indemnity	$1,582,021	A XIV
		Total Limits:	$250,000,000	Total Pricing:	$3,744,465	
				Less Rebate:	-$3,098	
				Final Pricing:	**$3,741,367**	