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FINANCE AND BUDGET COMMITTEE
JUNE 21, 2001

Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

SUBJECT: EXCESS LIABILITY INSURANCE PROGRAM FOR OPERATIONS

ACTION: PURCHASE EXCESS LIABILITY INSURANCE

RECOMMENDATION

Authorize the CEO or his designee to negotiate and award an Excess Liability Insurance program for MTA liability exposures, other than at construction sites, at a cost not to exceed \$3.1 million for a 12-month period beginning August 1, 2001 through July 31, 2002.

RATIONALE

Without the excess liability insurance program MTA would:

- Be exposed to unlimited operations liability
- Violate contracts/agreements requiring the MTA to carry insurance

The proposed program includes a \$4.5 million self-insured retention (SIR) per occurrence and \$100 million in coverage limits.

FINANCIAL IMPACT

Funding for this program is included in the FY02 proposed budget in cost center 0531, Risk Management - Non Departmental Costs, under projects 300011, Bus Operations, 300022, Rail Operations - Blue Line, 300033, Rail Operations - Green Line, and 300044, Rail Operations, Red Line. Since this is a multiple fiscal year contract, the cost center manager will be accountable for budgeting the cost in future years, including any option exercised. In FY01, \$1.39 million was expended on this item.

ALTERNATIVES CONSIDERED

There are no viable alternatives to purchasing excess liability insurance because the MTA is contractually obligated to maintain the coverage and the recommended policy is the least expensive and broadest coverage available.

This year we are facing a significant increase in premium, as are all other insureds. An industry-wide, steady decline in policyholder surplus, the amount greater than liabilities that an insurer has available to meet future policyholder obligations, has resulted in the reversal of the soft market that lasted for the past several years. Primary insurers and re-insurers are raising rates in order to improve their underwriting results (*source: Business Insurance April 2, 2001; Business Insurance May 28, 2001; Best's Review May 2001*).

Staff considered various options on the level of self-insured retention (SIR) and limits of coverage (see chart below). The option of a \$4.5 million SIR structured as \$2 million aggregate excess of \$2.5 million per occurrence ("As Expiring") is no longer available. Underwriters have offered either a \$4 million, a \$4.5 million or a \$5 million SIR per occurrence with limits of \$100 million or \$150 million. The option of increasing the coverage limit to \$150 million was rejected because the MTA is contractually obligated to maintain \$100 million in limits, and the small likelihood of an occurrence resulting in losses in excess of \$100 million does not justify the additional premium. The option of reducing the SIR to \$4 million (Option A) was rejected because historical losses exceeding \$4 million do not justify the additional premium. The option of increasing the SIR to \$5 million (Option B) would result in the most favorable premium however, the MTA is contractually obligated to limit its SIR to no more than \$4.5 million per occurrence. Staff is working to amend the subject contract to allow us to increase the SIR to \$5 million. If successful, we propose to increase the SIR to \$5 million (Option B) saving approximately \$350,000 in premiums. We will advise the Board if we are able to amend our contract and elect Option B instead of the currently proposed option.

The currently proposed option limits the SIR to \$4.5 million per occurrence and maintains \$100 million in coverage limits for a premium that will not exceed \$3.1 million.

	"As Expiring"	Option A	Option B	Option C	Proposed
Self-Insured Retention	\$4.5 mil.*	\$4 mil.	\$5 mil.	\$4.5 mil.	\$4.5 mil.
Limit of Coverage	\$100 mil.	\$100 mil.	\$100 mil.	\$150 mil.	\$100 mil.
Not to Exceed Premium	\$1.387 mil.	\$3.25 mil.	\$2.75 mil.	\$3.45 mil.	\$3.1 mil.

* - 2 million aggregate excess of \$2.5 million per occurrence

Aon Risk Services, MTA's non-construction insurance broker, is responsible for marketing the excess liability coverage 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 above are based on current market expectations. Staff will review all quotes received by the broker to ensure that the policy has been adequately marketed and identify the carrier offering the best terms and price. After analyzing options and the broker's recommendations, staff will provide opinions and supporting analyses to the CEO prior to executing the policy.

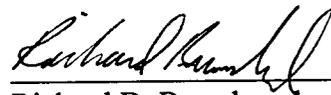
The terms of the proposed coverage as compared to the expiring program are summarized in Attachment A. The insurance markets being approached are listed on Attachment B.

The chart below shows the premium history for the excess liability insurance program.

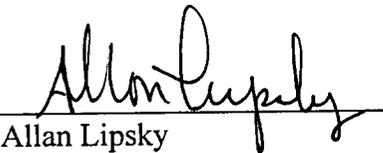
PREMIUM HISTORY FOR EXCESS LIABILITY INSURANCE POLICIES					
ENDING IN THE FOLLOWING FISCAL YEARS					
	FY 97	FY 98	FY 99	FY 00	FY 01 (Current)
Premium	\$1.75 Million	\$1.63 Million	\$1.41 Million	\$1.32 Million	\$1.39 Million



Roobik Galoosian
Managing Director
Risk Management



Richard D. Brumbaugh
Chief Financial Officer



Allan Lipsky
Office of the Chief Executive Officer

**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
EXCESS LIABILITY PROGRAM
August 1, 2001 to July 31, 2002**

	<u>PRESENT</u>	<u>PROPOSED</u>
INSURANCE COMPANIES:	1) Insurance Company of the State of Pennsylvania 2) Specialty National Insurance 3) Lumbermen's Mutual	1) Insurance Company of the State of Pennsylvania 2) Others TBD
BEST'S GUIDE RATING:	1) TBD 2) TBD 3) TBD	1) TBD 2) TBD 3) TBD
CALIFORNIA STATUS:	TBD	TBD
POLICY TERM:	August 1, 2000 to August 1, 2001	August 1, 2001 to August 1, 2002
LIMITS:	<p>1ST LAYER: Difference Between \$50,000,000 and Insureds Self-insured Retention Annual Aggregate applies only to Products/Completed Operations and Public Officials Errors and Omissions Defense Costs are included in the limit</p> <p>All policies drop down in the event of aggregate exhaustion</p> <p>2ND LAYER: \$50,000,000 Each Occurrence and Aggregate where applicable, excess of \$50,000,000 underlying and retentions</p>	<p>1ST LAYER: Difference Between \$25,000,000 and Insureds Self-insured Retention</p> <p>2ND LAYER: \$25M each occurrence and aggregate, where applicable, excess of \$25M underlying and retentions</p> <p>3RD LAYER: \$50M each occurrence and aggregate, where applicable, excess of \$50M underlying and retentions Policy form and Aggregates under negotiation</p>
SELF-INSURED RETENTION:	\$2,000,000 Aggregate Retention excess of \$2,500,000 Each Occurrence Retention (Aggregate Retention is eroded by payment of claims in excess of \$2,500,000)	\$4.5 Million any one occurrence

PRESENT

PROPOSED

**SELF-INSURED RETENTION
(Cont'd)**

\$500,000 Retention applies as respects General Liability exposures, JMC and Property Management of "Common Areas" at Gateway Plaza
Defense costs are included within the retention

\$500,000 Retention applies as respects General Liability exposures, JMC and Property Management of "Common Areas" at Gateway Plaza

COVERAGE:

OCCURRENCE FORM Applies to all Bus Operations, Rail Operations and Administration (includes MOS 3)

FORM under negotiation

Excludes All rail Construction Activities

Provides:

- Bodily Injury, Property Damage, and Personal Injury
- Premises/Operations
- Products/Completed Operations
- Contractual Liability
- Automobile Liability including all vehicles and equipment, owned and non-owned
- Public Officials Errors and Omissions
- Independent Contractors
- Incidental Medical Malpractice
- Worldwide Coverage
- Automatic coverage for newly acquired operations or organizations
- Employee Benefit Liability including improperly counseling plan participants, interpreting coverage or failure to enroll or terminate participants
- Employment Practices Liability

ANNUAL PREMIUM:

\$1,387,196

\$3,100,000

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
EXCESS LIABILITY PROGRAM
POTENTIAL MARKETS
August 1, 2001 to July 31, 2002

<u>COMPANY</u>	<u>BEST RATING</u>
AIG	A++ XV
Specialty National	A XV
Lumbermen's Mutual	A XV
Zurich	A+ XV
Royal	A+ XV
TIG	A XII
ACE	A XII
Adrimal	A+ VIII
Chubb	A++ XV
Scottsdale	A+ XV
XL	A+ XV
ACE	A XIII
Winterthur	A++ IX
RLI	A IX
Starr Excess	A++ XIV