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FINANCE AND BUDGET COMMITTEE
JULY 17, 2003

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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 Chief Executive Officer to negotiate and award an Excess Liability Insurance program for MTA liability exposures, other than Major construction projects, at a cost estimated not to exceed $5,882,000 for a 12-month period beginning August 1, 2003 through July 31, 2004.

RATIONALE

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 projections 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.

Without the Excess Liability Insurance Program, MTA would be exposed to unlimited operations liability and be in violations of contracts/agreements requiring the MTA to carry insurance.

FINANCIAL IMPACT

Funding for this program is included in the FY04 proposed budget in cost center 0531, Risk Management – Non Departmental Costs, under projects 100001, General overhead, 301001, San Fernando Service Sector, 302001, San Gabriel Service Sector, 303001, Gateway Cities Service Sector, 304001, South Bay Service Sector, 305001, Westside/Central Service Sector, 300022, Rail Operations – Blue Line, 300033, Rail Operations – Green Line, 300044, Rail Operations – Red Line, and 300055, Rail Operations –Gold 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 FY03, $4.057 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 with broadest coverage available.

Due to adverse changes in the liability insurance market, including the September 11th losses (estimated at $30 billion), stock market decline, major corporate bankruptcy filings, and the current war in Iraq, insured are facing non-renewals, exclusions of perils previously covered, higher deductibles and dramatic increases in premiums. Coverage for acts of terrorism is now among these new exclusions. Further, the total insured values of the MTA has increased by over 10% ($0.6 billion) with the addition of the Gold Line coupled with projected new Gold Line ridership of 30,000 per weekday. This has increased the insurance program cost for the renewal period.

A large portion of the increase is driven by the issues mentioned above which has led to an industry wide loss/decrease in reinsurance capacity. This loss and/or decrease of capacity directly impact the pricing of all Casualty insurers.

The option of increasing the coverage limit 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. Staff considered various options on the level of self-insured retention (SIR). The option of increasing the SIR (see table below) was rejected because the associated premium savings would not justify the added exposure to the MTA. Specifically, any single loss exceeding the SIR with a self-insured retention greater than $4.5 million eliminates all potential premium savings. Increasing the SIR does not reduce premiums enough to offset potential self-insured losses.

The 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 $5.88 million.

	PROPOSED OPTION	**OPTION A**	**OPTION B**	**OPTION C**	**OPTION D**
Self-Insured Retention	$4.5 mil.	$5 mil.	$6 mil.	$8 mil.	$10 mil.
Limit of Coverage	$100 mil.	$100 mil.	$100 mil.	$100 mil.	$100 mil.
Not to Exceed Premium	$5.88 mil.	$5.36 mil.	$4.73 mil.	$3.57 mil.	$3.05 mil.

The chart below shows the premium history for MTA's Excess Liability Insurance Program

PREMIUM HISTORY FOR EXCESS LIABILITY INSURANCE POLICIES ENDING IN THE FOLLOWING FISCAL YEARS					
	FY 99	FY 00	FY 01	FY 02	FY 03
Premium (Millions)	$1.41	$1.32	$1.39	$2.76	$4.057

The chart below shows claims history by policy year.

PUBLIC LIABILITY/PROPERTY DAMAGE CLAIMS ALL CLAIMS TOTAL INCURRED BY POLICY YEAR			
POLICY YEAR (i)	NO. OF CLAIMS FILED	TOTAL INCURRED (ii)	NO. OF CLAIMS EXCEEDING SIR ($4.5 MILLION)
1998 –1999	3,457	$12,690,281	0
1999 – 2000	4,012	$33,429,280	1
2000 – 2001	3,716	$29,377,426	0
2001 – 2002	3,963	$33,149,941	1
2002 – 2003 (ii)	2,564	$15,722,246	0

(i) Policy Year = 8/1 to 7/30
(ii) Total incurred = total paid on all accidents occurring within the policy year plus total outstanding on those claims. All information as of 4/30/03.

Data presented above obtained from Hertz Claim Management database and Aon All Risk Non-Construction Brokerage Services.

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