



Metro

Los Angeles County
Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

213.922.9200 Tel
213.922.9201 Fax
metro.net

19

**FINANCE AND BUDGET COMMITTEE
JUNE 17, 2009**

SUBJECT: EXCESS LIABILITY INSURANCE PROGRAM

ACTION: RECEIVE AND FILE

RECOMMENDATION

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

ISSUE

Our excess liability insurance policies expire July 31, 2009. Aon Risk Services, our insurance broker, is responsible for and is currently marketing the excess liability insurance program renewal to qualified insurance carriers. Quotes are being received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims. Staff will review all quotes received by the broker to ensure that the policy has been adequately marketed and to identify the carriers offering the best terms and price.

BACKGROUND

Excess liability coverage insures against losses resulting from bus and rail accidents, including bodily injury and property damage to third parties. The excess liability coverage also includes limited employment practices liability insurance, and errors and omissions coverage. Without this insurance, we would be exposed to catastrophic operating losses from bus and rail accidents. We would also be violating certain contracts and agreements, such as sale/leaseback agreements, that require us to carry excess liability insurance.

Insured's with good credit ratings, effective risk management programs and favorable loss experience are averaging flat to slightly increasing rates given the current underwriting competitive environment. Markets are, however, firming with rate pressure in the medium term. Overall, lead and excess layer pricing continues to be competitive but is stabilizing with rate increases possible.

Staff and Aon Risk Services developed an excess liability insurance renewal strategy with several objectives. The first objective is to diversify our insurance companies to include both Bermuda and London capacity and to decrease reliance on AIG companies. We anticipate more competitive pricing as we market the program within an expanded pool

of underwriters. The second objective is to obtain terrorism coverage throughout the entire tower of insurance. The third is to explore adding another \$50 million in limits, for a total of \$150 million. The currently purchased limits of \$100 million have been our purchased limits for more than 15 years. Due to inflation, the effective coverage we purchase has declined by roughly 50% over this period.

In Attachment A, Option A maintains self-insurance retention at \$4,500,000 with \$100,000,000 in coverage excess of this retention, identical to the expiring program with added terrorism coverage at all levels. Option B increases insurance limits. We recommend considering raising the limits since Metro has not increased insurance coverage to keep pace with inflation. Option C increases the self insured retention amount. Increasing the self insured retention to \$7 million from \$4.5 million only realizes an estimated savings of \$300,000. These premium savings are insufficient to recommend an additional \$2,500,000 in risk.

Attachment B shows the outline of the current program structure. Attachment C is a list of carriers interested in participating in our program and their A.M. Best Rating.

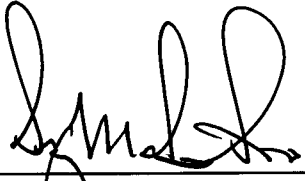
NEXT STEPS

We will pursue final pricing for Options A and B with the qualified insurance carriers and bring back final pricing and identified carriers to the Board in July for approval.

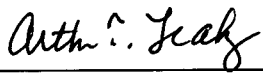
ATTACHMENTS

- A. OPTIONS, PREMIUMS AND LOSS HISTORY
- B. 2008/2009 FINAL PRICING AND CARRIERS
- C. EXCESS LIABILITY INSURANCE PROGRAM POTENTIAL PARTICIPANTS

Prepared by: Greg Kildare, Executive Officer, Risk Management



Terry Matsumoto
Chief Financial Services Officer and Treasurer



Arthur T. Leahy
Chief Executive Officer

ATTACHMENT A

OPTIONS, PREMIUMS AND LOSS HISTORY

	CURRENT PROGRAM	OPTIONS (Estimated)		
		A	B	C
Self-Insured Retention (\$ millions)	4.5	4.5	4.5	7.5
Limit of Coverage (\$ millions)	100.0	100.0	150.0	100.0
Not to Exceed Premium (\$ millions)	4.3	4.5	5.0	4.2

	HISTORY OF POLICIES FOR THE FOLLOWING FISCAL YEARS							
	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	
Self-Insured Retention (\$ millions)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	
Premium (\$ millions)	4.1	5.4	5.4	5.1	5.0	4.9	4.3	
Claims in Excess of Retention	-	2	1	-	-	0 (est.)	0 (est.)	
Estimated Amount in Excess of Retention (\$ millions)	-	2.3	8.6	-	-	unknown	unknown	

ATTACHMENT B

2008/2009 FINAL PRICING AND CARRIERS
LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
PRIMARY/EXCESS LIABILITY
POLICY TERM: August 1, 2008 Through July 31, 2009

Excess Limit	Layer(s)	Participation	Carrier	Premium	Terrorism Coverage
\$100M	\$50M XS \$50M	\$ 50,000,000	AIG Cat Excess (AIG affiliated)	\$ 704,344	Not Purchased
\$50M	\$15M XS \$35M	\$ 15,000,000	XL Insurance	\$ 343,507	Purchased
\$35M	\$15M XS \$20M	\$ 15,000,000	Great American Assurance	\$ 515,000	Not Purchased
\$20M	\$10M XS \$10M	\$ 10,000,000	Lexington Insurance (AIG affiliated)	\$ 453,647	Not Purchased
\$10M	Primary Liability	\$ 10,000,000	Insurance Company of the State of Pennsylvania (AIG Affiliated)	\$ 2,276,082	Purchased
			Total	\$ 4,292,580	

ATTACHMENT C

EXCESS LIABILITY INSURANCE PROGRAM POTENTIAL PARTICIPANTS August 1, 2009 through July 31, 2010

<u>COMPANY</u>	<u>A.M. BEST RATING</u>
CV Starr – Everest Reinsurance Company	A+ XV
Insurance Company of the State of PA (AIG)	A XV
Liberty International Insurance Company	A XV
Lexington Insurance Company (AIG)	A XV
ACE American Insurance Company	A+ XV
Admiral Insurance Company	A+ XII
Chubb Custom Insurance Company	A++ XV
Scottsdale Insurance Company	A+ XV
XL America Group	A XV
Arch Insurance Company	A XV
Axis Insurance Company	A XV
RLI Insurance Company	A+ X
AIG Cat Excess (AIG)	A XV
Lloyd's of London (multiple syndicates)	A XV
Genesis Insurance Company	A++ XV
Zurich American Insurance Company	A XV
Great American Insurance Company	A XIII
Allied World Assurance Company	A XV
Argo Re Ltd.	AXII
Torus Specialty Insurance Company	A-X
Canopus	A
Endurance American Insurance Company	AXV
Ironstar (Ironshore)	A-XI