Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

File #: 2020-0092, **File Type:** Program **Agenda Number:** 12.

FINANCE, BUDGET AND AUDIT COMMITTEE
APRIL 15, 2020

SUBJECT: PROPERTY INSURANCE PROGRAM

ACTION: PURCHASE ALL RISK PROPERTY AND BOILER AND MACHINERY INSURANCE

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to negotiate and purchase All Risk Property and Boiler and Machinery insurance policies for all property at the current policy limits at a not to exceed price of $4.2 million for the 12-month period May 10, 2020 through May 10, 2021.

ISSUE

The All Risk Property and Boiler and Machinery insurance policies expire on May 10, 2020.

DISCUSSION

Property insurance protects against losses to our structures, fleets and improvements, which are valued at approximately $13.3 billion up from last year's $12.3 billion. The increase in total insured value is primarily due to general replacement cost growth along with revaluation of both heavy and light rail vehicles and the addition of the Crenshaw/LAX light rail line to Metro's property program. Property insurance is required by many contracts and agreements, such as our lease/leaseback deals involving a number of our operating assets.

Our insurance broker, USI Insurance Services ("USI") marketed the property program to qualified insurance carriers to obtain property insurance pricing with coverage limits of $400 million. Quotations for our property insurance program were received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims. Final pricing is pending, so the quotes including contingency for unanticipated adjustments serve as a not to exceed cost before policy binding.

The Recommended Program secures the All Risk deductible at $250,000 with no earthquake coverage and a flood deductible at 5% per location subject to a $250,000 minimum. USI continues negotiations with carriers regarding deductible limits on selected Metro assets including rolling stock, non-revenue vehicles and potential flooding in subway tunnels. If a loss exceeds the deductible, All Risk coverage is provided up to $400 million per occurrence for losses except for flood related damages that are covered up to $150 million. The recommended program is the same as the prior year program. Attachment A shows the outline of the recommended program structure. The not to exceed premium price includes a contingency for premium adjustments, taxes and fees due to on-going negotiations with insurance carriers.

The recommended program does not include earthquake coverage. We received quotes estimated at $2.9 million for $50 million in limits with a 5% of total insured value deductible. LACMTA has not purchased earthquake coverage in previous years. In the event of a major disaster, we believe funding would be available through federal and state sources to restore public transportation in Southern California. The lack of earthquake coverage is consistent with decisions made by other large local government agencies.

We evaluated terrorism coverage options this renewal cycle and have not opted to purchase the coverage. Terrorism coverage is available but does not appear to be cost effective at a quoted cost of $410,000 for $400 million limits with a $50,000 deductible. The Terrorism Risk Insurance Act (TRIA) provides government support by providing mechanisms for spreading losses across policyholders. In the past, we rejected this coverage because of the high likelihood of federal and state funding to restore transportation services as a result of a serious terrorism incident. We will continue to reject terrorism coverage at the present time.

The current and recommended programs of insurance are layered structures. Several insurance carriers participate in the program with each contributing a portion of coverage which maintains a diversified portfolio of insurance carriers. Continual monitoring through internal methods, as well as updates provided by USI, ensure that all carriers maintain the required financial ratings indicated by financial reporting agencies and as determined by A.M. Best.

In February and March, USI contacted multiple domestic and international insurance providers to present our property risks and supplemental data. USI provided an overview of the Metro transit system during discussions with the underwriters, including our extensive security infrastructure, fire protection, loss control and minimal risk of flood exposures. USI provided information and statistics on system operations, assets and our excellent loss history over the past nineteen years with one fixed property insurable event and under $1.3 million insurable losses of rolling stock and non-revenue vehicles.

The LACMTA property program continues to be well received by insurers due to our favorable loss history and the growth of the account from $6.7 billion in values in 2007 to $13.3 billion for this renewal. As such, USI presented the submission to incumbent and competing insurers to create competition in the insurance marketplace. The marketing effort resulted in maintaining many of our incumbent carriers for the recommended program. Our rate per million dollars of insurable value is $316 for the recommended program which represents a 33.1% rate increase per million dollars of insured value over the prior year. Some of the major factors driving the rate increase are summarized in the following paragraphs.

The property insurance market is currently experiencing major upheaval. Capital (and therefore capacity) has either been exhausted or withdrawn from the market in a way that has not been seen since 2001. Losses from 2017 and 2018 continue to show higher than expected loss development. Carriers are looking to return their portfolios to profit and this has led to universal rate increases (even for insureds that are claims-free) of between 15% and 50% depending on size, business type and geography.

The rail sector has been especially hard hit. Although “rail” in this context applies largely to Class 1 railroads (Amtrak, BNSF etc.) the same carriers participate in regional rail and transit system programs. Some carriers have withdrawn from this sector altogether, such as Great American and Aspen, and most others have cut back their capacity.

Along with premium increases, carriers are looking for higher deductibles and more restrictive terms. Carriers are rating on the potential for loss (regardless of good loss history) and with increased valuations on buses and rail cars, are rating on total loss estimates. Most carriers are reducing their capacity 20%-50%, in some cases requiring more carriers to participate on programs in order to maintain limits.

Metro has enjoyed some of the lowest rates among transit systems and remains an attractive client within this space. Unfortunately, the space is not held in the regard it was just a few years ago. The rates applied to other similar accounts is often multiples of Metro’s quoted rate. This year’s renewal reflects our continuing favorable insurability and ability to take full advantage of USI marketing efforts in a very different and demanding market environment from previous years.

DETERMINATION OF SAFETY IMPACT

Approval of this procurement will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

The funding for two months of $700,000 for this action is included in the FY20 budget in cost center 0531, Risk Management - Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 - Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 320011 - Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). The remaining ten months of premiums will be included in the FY20 budget, cost center 0531, Risk Management - Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 - Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 320011 - Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). In FY20, an estimated $3.2 million will be expensed for property insurance.

Impact to Budget

There is no impact on the FY20 budget. The current fiscal year funding for this action will come from the Enterprise, General and Internal Service funds. No other sources of funds were considered for this activity because these are the funds that benefit from the insurance. This activity will result in a negligible change to operating costs from the prior fiscal year.

ALTERNATIVES CONSIDERED

The current program, the recommended program and an option with earthquake coverage are summarized in Attachment B. Based upon our past history of favorable renewal and losses, we recommend continuing the current program of insurance as the most cost effective and prudent program. The option adding earthquake coverage is not recommended because the high cost of the earthquake premium does not justify the benefit of the coverage.

NEXT STEPS

Upon Board approval of this action, we will advise USI to proceed with placement of the property insurance program outlined herein effective May 10, 2020.

ATTACHMENTS

Attachment A - Recommended Pricing and Carriers
Attachment B - Alternatives Considered

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Phillip A. Washington
Chief Executive Officer

ATTACHMENT A

RECOMMENDED PROGRAM PRICING AND CARRIERS

USI Insurance Services
Proposed Property/B&M Insurance Summary 2020 - 2021 (as of March 20, 2020)
Los Angeles County Metropolitan Transportation Authority

Limit	Excess of	Coverage	Carrier - Best Rating	Participation ($)	Participation (%)	Premium (layer)	Total Layer Premium
$250M	$150M	All Risk Excluding Flood & Earthquake	Chubb Bermuda - AA	$250,000,000	100.00%	$441,000	$441,000
				$250,000,000	**100.00%**		**$441,000**
$150M	Underlying Deductibles	All Risk Excluding Earthquake	Lexington Insurance Co - A XV	$60,000,000	40.00%	$2,693,755	$1,077,502
			Liberty Mutual Fire Insurance Co- A XV	$15,000,000	10.00%	$3,937,250	$393,725
			Ironshore Specialty Ins Co - A XIV	$10,000,000	6.67%	$4,063,238	$271,018
			Starr Specialty Insurance Agency - A XV	$30,000,000	20.00%	$3,286,920	$657,384
			Houston Casualty Company - A++ XV	$10,000,000	6.67%	$6,952,939	$463,761
			HDI/Mitsui/Travelers	$25,000,000	16.66%	$4,231,879	$705,031
				$150,000,000	**100.00%**		**$3,568,421**

Estimated Program Premiums *	**$4,009,421**
Contingency for carrier premium, tax and fee adjustments	$190,579
Estimated Program Not-To-Exceed Total	**$4,200,000**

*** Subject to finalization of on-going negotiations with carriers. Amounts show are estimates only.**

Terrorism pricing is not included above.
Earthquake pricing is not included above.

ATTACHMENT B

ALTERNATIVES CONSIDERED

	Current Program	Recommended Program (Quota Share Primary)*	Recommended Program With Earthquake*
Deductibles	$250,00 All Risk / 5% of location value for Flood	$250,00 All Risk / 5% of location value for Flood	$250,000 All Risk/5% of structure value for Earthquake and Flood
All Risk Limits	$400 Million	$400 Million	$400 Million
Flood Limits	$150 Million	$150 Million	$150 Million
Earthquake Limits	None	None	$50 Million after first 5% per location deductible
Terrorism	None	None	None
Total not to Exceed or Actual Premium	$2,965,338	$4,200,000	$7,100,000

* recommended programs are not to exceed amounts.