



September 25, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Excess Liability Insurance Renewal

Overview

The Orange County Transportation Authority currently has excess liability insurance policies with Lexington Insurance Company, Great American Insurance Company, Allied World Assurance Company, and Endurance American Insurance Company. These policies will expire on November 1, 2019.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A44072, in the amount of \$800,000, to Marsh Risk and Insurance Services, Inc., to purchase excess liability insurance on behalf of the Orange County Transportation Authority for the policy period of November 1, 2019 to November 1, 2020.

Discussion

The Orange County Transportation Authority (OCTA) has been self-insured for liability claims since 1977 and currently maintains a self-insured retention (SIR) of \$4 million per claim. In addition, OCTA purchases \$60 million in excess liability insurance above the current SIR to provide financial protection against potentially high-exposure liability losses.

Excess liability insurance is a type of insurance policy purchased by OCTA to protect against liability claims for bodily injury and property damage arising out of premises, all operations (including the 91 Express Lanes), products and completed operations, advertising and personal injury liability, errors and omissions liability (including public official's coverage), employment practices, and employee benefit liability.

The \$60 million in excess liability insurance is provided by four insurance carriers, Lexington Insurance Company (Lexington), Great American Insurance Company (Great American), Allied World Assurance Company (Allied), and Endurance American Insurance Company (Endurance).

Lexington provides coverage of \$10 million in excess of OCTA's \$4 million SIR, for a premium of \$403,042. In addition, Great American provides an additional \$15 million in coverage to OCTA beyond the Lexington policy, for a premium of \$135,000. Allied provides an additional \$25 million beyond the Great American policy, for a premium of \$161,136, and Endurance adds an additional \$10 million in coverage at the highest level of the \$60 million in coverage. The total premium for the four policies including taxes and fees is \$762,575.34. These policies are scheduled to expire on November 1, 2019.

OCTA's approved budget for this renewal exceeds the current premium, but allows for potential increases which might occur as a result of any policy enhancements necessary to protect OCTA assets and expected premium rate increases due to recent overall insurance market losses. Therefore, staff requests Board of Directors' (Board) approval for the budget-approved amount of \$800,000 to renew this policy.

OCTA's Broker of Record, Marsh Risk and Insurance Services, Inc. (Marsh), will provide marketing and will purchase the excess liability insurance coverage on behalf of OCTA for this renewal. Marsh is paid a flat fee of \$100,000 for marketing and placing all property and casualty insurance per Agreement No. C-7-1585 approved by the Board on May 22, 2017. This flat fee paid to Marsh is not part of the premium OCTA anticipates paying to the selected insurers for the renewal of this policy. By agreement, Marsh does not earn any additional compensation or commission for its services. The contract further requires that any commissions offered by insurers will offset OCTA's premiums.

Marsh has identified a market trend of increased premium rates of 20 to 40 percent for insurance policies renewing this year. Although OCTA has a very favorable loss history, a premium rate increase is expected. Marsh has been directed to approach carriers that currently write public transportation excess liability insurance policies and that also have the financial capacity to hold an AM Best financial rating of A-7 or better. The qualified companies include:

- ACE American Insurance Company
- Allied World Assurance Company, LTD.
- Arch Specialty Insurance Company
- AXIS Surplus Insurance Company
- Argonaut Insurance Company
- Berkley National Insurance Company
- Endurance American Insurance Company
- Evanston Insurance Company
- General Star Insurance Company
- Great American Insurance Company
- Insurance Company of the State of Pennsylvania
- Ironshore Indemnity Company
- Munich Reinsurance Company
- Old Republic Insurance Company
- RSUI Indemnity Company
- Scottsdale Insurance Company
- Travelers Insurance Company

OCTA will pursue five possible goals for renewing the excess liability policies. The goals are:

- Obtain a flat premium rate renewal at the current SIR level.
- Obtain quotes for \$3 million, \$4 million, and \$5 million SIR to evaluate the best blend of risk assumption and risk transfer.
- Revise coverage limit levels for cost-effectiveness.
- Consider a multiple-year program.
- Conduct a review of the current level of coverage.

Fiscal Impact

The project was approved in OCTA's Fiscal Year 2019-20 Budget, Human Resources and Organizational Development Division, Risk Management Department, Account 0040-7562-A0017-DTN, and is funded through the Internal Service Fund.


Summary

Based on the information provided, staff recommends the Board authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A44072, for the renewal of the excess liability insurance, for an annual premium not to exceed \$800,000, for the policy period of November 1, 2019 to November 1, 2019.

Attachment

None.

Prepared by:

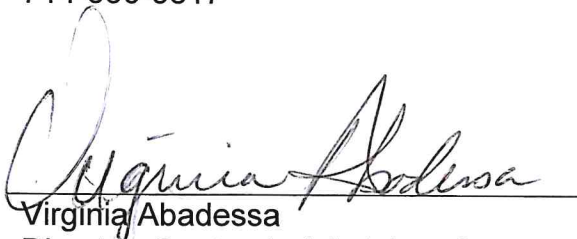


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