



STAFF REPORT ACTION REQUIRED

2015 - 2018 Annual Insurance Program renewal

Date:	March 23, 2015
To:	Government Management Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2015\Internal Services\Cf\GM15008Cf (AFS #20798)

SUMMARY

The purpose of this report is to obtain Council authority to renew the City's property and casualty insurance policies effective June 1, 2015 for a one-year term and to delegate authority to the Deputy City Manager & Chief Financial Officer to renew subsequent annual insurance programs during the 2015 to 2018 term of Council on each of June 1, 2016, 2017, and 2018 provided that the terms, conditions, limits, and deductibles are, in the opinion of the Deputy City Manager & Chief Financial Officer, substantially the same as are recommended in this report.

A complete re-evaluation of the City's property and casualty insurance program was undertaken, including approaching competing insurance companies and seeking various deductible options. The goal was to develop the program and minimize overall insurance premiums. As a result, a savings of \$227,507 or 4.3% from 2014 has been negotiated with insurers. This savings was achieved despite the insurance market challenges resulting from increased losses from extreme weather events.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council renew the following insurance policies effective June 1, 2015 for a period of twelve months:

Insurance Policy	2015-2016 Renewal Premium (\$'s) (excluding applicable taxes)
Primary Liability:	
Comprehensive General Liability	90,000
Public Officials Errors & Omissions	90,000
Automobile	203,393
Garage Automobile	14,500
Home Day Care Liability	28,000
Medical Malpractice Liability	124,450
Umbrella & Excess Liability:	
Primary Umbrella Liability	916,000
First Excess Liability	275,000
Second Excess Liability	70,000
Third Excess Liability	194,700
Fourth Excess Liability	186,500
Other Policies	
Property	2,412,321
Boiler & Machinery	255,582
Crime	37,995
Fiduciary Liability	34,200
Marine	179,547
Aviation	10,850
ANNUAL COST	5,123,038
Less: Marine Continuity Credit	(10,378)
TOTAL	5,112,660

2. City Council delegate authority to the Deputy City Manager & Chief Financial Officer to renew the City's property and casualty insurance program on an annual basis, during the current City Council term (June 1, 2016-2017, June 1, 2017-2018, and June 1, 2018-2019) provided that the terms, conditions, limits, and deductibles are, in the opinion of the Deputy City Manager & Chief Financial Officer, substantially the same as are outlined in this report.

Financial Impact

This report recommends renewal of the City's Primary & Umbrella/Excess Liability (i.e., Comprehensive General Liability, Public Officials Errors & Omissions, Automobile, Garage Automobile, Home Day Care Liability and Medical Malpractice Liability), Property, Boiler & Machinery, Crime, Fiduciary Liability, Aviation and Marine insurance policies at an annual cost of no more than \$5,112,660 excluding applicable Provincial taxes. This represents a decrease of \$227,507 or 4.3% from the \$5,340,167 excluding applicable Provincial taxes paid for the expiring policies.

The recommended insurance policies provide significant levels of financial protection for the City. For example:

- Unlimited accident benefits coverage under the auto policy (following the application of the applicable retention amount)
- A \$1,844,000,000 property insurance limit (\$500,000,000 for Earthquake and Flood) covering City buildings, facilities, contents, equipment, etc.
- An overall limit of \$100,000,000 in liability insurance coverage (except \$30,000,000 for Medical Malpractice Liability)

Funding is provided from the City's Insurance Reserve Fund (XR1010) based on charges included in the 2015 approved Operating Budgets of City programs and participating agencies, plus contributions from the Non-Program Account.

DECISION HISTORY

On May 17, 18 and 19, 2011, Council adopted GM3.16 thereby authorizing the June 1, 2011-2012 insurance program and delegating authority to the Deputy City Manager & Chief Financial Officer to renew the City's program of property and casualty insurance on an annual basis during the 2011 to 2014 term of Council.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.GM3.16>

This report recommends that City Council authorize renewal of the City's property and casualty insurance program for the annual term of June 1, 2015 to June 1, 2016 and delegate authority to the Deputy City Manager & Chief Financial Officer to renew the City's property and casualty insurance program on an annual basis during the current Council term (June 1, 2016-2017, June 1, 2017-2018 and June 1, 2018-2019).

Issue Background

The City's 2014-2015 property and casualty insurance program expires on June 1, 2015. City Council authority is required to renew the program as outlined herein and to delegate authority to the Deputy City Manager & Chief Financial Officer and renew the program for the June 1, 2016-2017, June 1, 2017-2018 and June 1, 2018-2019) policy terms.

COMMENTS

2015-2016 Insurance Program Renewal

The City is represented in the global insurance marketplace by Marsh Canada Limited ("Marsh"), insurance brokers (approved by Bid Committee, November 26, 2014 meeting) to obtain the most competitive and cost effective insurance arrangement each year from the global insurance marketplace.

Marsh advises that insurance market conditions show that in the fourth quarter of 2014, public entities on average experienced insurance rate increases of 0% to 10% but that

new entrants to the Canadian insurance market are increasing competitive pressure for certain lines of insurance coverage.

For the June 1, 2015-2016 insurance program renewal, Marsh undertook an extensive marketing process that included approaching over 25 Canadian and international insurers including several Lloyds of London Syndicates. The specifics are detailed by line of insurance coverage in the Insurance Policy Marketing Results table below.

This report recommends the purchase of insurance policies for the June 1, 2015 -2016 term at an annual cost of no more than \$5,112,660 excluding applicable Provincial taxes. This represents a savings of \$227,507 or 4.3% from the \$5,340,167 excluding applicable Provincial taxes paid for the expiring policies. This savings was achieved despite the insurance market challenges resulting from increased losses from extreme weather events.

A further breakdown of the individual insurance policies and their respective premiums are outlined in Attachment 1.

Insurance Policy Marketing Results

Coverage	Primary Liability
Coverage Description	In order for the City to meet its contractual and statutory requirements for liability insurance, the City's primary liability insurer agrees to provide insurance policies for the City in exchange for an indemnity agreement to the value of those insurance policies at the annual premium. These are known as 'fronting' insurance policies, as they allow the City to self-insure and meet its administrative needs in such cases where evidence of insurance from a licensed insurer is required (e.g., pink slips for automobiles). These policies provide coverage for Comprehensive General Liability, Public Officials Errors & Omissions, Automobile Liability and Garage Automobile. Insurer(s): ACE INA Main Limit: \$5M Self Insured Retention / Deductible: \$5 million
Marketing Efforts	29 Insurers approached Deductible quotes of \$2M, \$5M (current), and \$10M requested
Recommendation	Only ACE INA provided formal terms and very few insurers have the capacity to provide fronting for a Municipality as large as the City of Toronto. The City is able to renew with the incumbent insurers with no major coverage changes and a small 3.5% (\$6,854) increase in automobile premium resulting from an 8.6% (495 vehicle) increase in the City's auto fleet count. The total premiums increase is 1.7% (\$6,854) to \$397,893.

Coverage	Home Day Care Liability
Coverage Description	This policy provides liability insurance coverage for the 189 active Home Child Care Providers (723 children enrolled in the program) under contract to provide services for the City. Insurer(s): Lloyd's of London through Elliot Special Risks Main Limit: \$2M

	Self Insured Retention / Deductible: \$1,000
Marketing Efforts	19 Insurers approached Deductible quotes of \$500 and \$1,000 (current)
Recommendation	Although very few insurers are interested in quoting this class of insurance (due to a sole supervisor in the home), the City is able to renew with the incumbent insurer with no major coverage changes and a 25% (\$9,500) decrease in premiums to \$28,000.

Coverage	Medical Malpractice Liability
Coverage Description	This coverage applies to programs such as Public Health, Toronto Paramedic Services and Long-Term Care Homes and Services with declared Medical Malpractice exposures. Insurer(s): Lloyds of London led by Marketform Syndicate Main Limit: \$30M Self Insured Retention / Deductible: \$5M
Marketing Efforts	10 Specialized insurers approached in the London Market Deductible quotes of \$2M, \$5M (current) and \$10M requested
Recommendation	The Medical Malpractice insurance marketplace remains limited and coverage costly. By changing the structure of the program in London (but not the retention/deductible), the City is able to renew with no major coverage changes and a 17.6% (\$26,525) decrease in premiums to \$124,450.

Coverage	Umbrella and Excess Liability
Coverage Description	The Umbrella and Excess liability program provides catastrophic coverage arising from bodily injury/property damage to third parties covered. Insurer(s): ACE INA (\$5M), Markel Syndicate @ Lloyd's of London via Elliott Special Risks (\$13M), Royal & SunAlliance (\$5M), AIG (\$20M) and Lloyd's of London – QBE/ACE (\$52M) Main Limit: \$95M
Marketing Efforts	29 Insurers approached Deductible quotes – Based on primary liability
Recommendation	A number of new umbrella/excess liability insurers have entered Canada in the last year. In addition, certain incumbent insurers are seeking an increased role on the City's program. This has resulted in substantial reductions in costs at renewal. The City is able to renew with the incumbent insurers with no major coverage or structure changes and an 11.2% (\$207,260) decrease in premiums to \$1,642,200.

Coverage	Property
Coverage Description	"All Risks" of direct physical loss or damage including flood and earthquake Insurer(s): Factory Mutual Insurance Company Main Limit: \$1,844M (various sub-limits apply) Self Insured Retention / Deductible: \$5 million
Marketing Efforts	27 Insurers approached Deductible quotes of \$1M, \$5M (current), and \$10M requested
Recommendation	Since very few insurers have the capacity to provide the high limits required, the City is able to renew with the incumbent insurers with no major coverage changes and a 0.3% (\$8,375) decrease in premiums to \$2,412,321.

Coverage	Boiler & Machinery
Coverage Description	Boiler & Machinery insurance covers the sudden and accidental breakdown of all boilers, pressure vessels, mechanical and electrical machinery and apparatus. The coverage is provided for the machinery and any resulting damage. Insurer(s): Royal & Sun Alliance Insurance Company of Canada (RSA) Main Limit: \$100M per occurrence Self Insured Retention / Deductible: \$200,000
Marketing Efforts	4 Specialized insurers approached Investigate various deductible levels
Recommendation	While the incumbent insurer has increased premium by 5.6% (\$13,612) to account for the 1.8% increase in insured values and due to the 2014 electrical failure incident at City Hall, terms from competing insurers verify that the premium remains extremely competitive. The City is able to renew with the incumbent insurer with no major coverage changes for \$255,582.

Coverage	Crime
Coverage Description	The City's Crime insurance policy protects against loss of money and securities arising from forgery, burglary, employee dishonesty and robbery inside and outside City buildings. Insurer(s): AIG Main Limit: \$10M Self Insured Retention / Deductible: \$5 million
Marketing Efforts	9 Specialized insurers approached in combination with Fiduciary Liability Deductible quotes of \$1M, \$5M (current)
Recommendation	The incumbent continues to provide the most competitive terms. The City is able to renew "as is" with no coverage changes and a premiums of \$37,995.

Coverage	Fiduciary Liability
Coverage Description	The City has 5 non-OMERS employee Pension Plans. Members of the Committee or Board constituting the Plan Administrator of any of these City sponsored employee pension plans may be held personally liable for breach of their responsibilities in the administration and/or handling of these plans. Subject to some limitations, the City is obligated to indemnify and save harmless the Plan Administrators. Fiduciary Liability insurance is purchased to fund the City's obligation to indemnify and save harmless the Plan Administrators. Insurer(s): Chubb Insurance Company of Canada Main Limit: \$15M Self Insured Retention / Deductible: \$100,000
Marketing Efforts	9 Specialized insurers approached in combination with Fiduciary Liability Deductible quotes of \$50,000, \$100,000 (current) and \$250,000
Recommendation	The incumbent continues to provide the most competitive terms. The City is able to renew "as is" with no coverage changes and a premiums of \$34,200.

Coverage	Marine
Coverage Description	The City purchases two Marine policies for Police, Parks and Fire boats.

	<ul style="list-style-type: none"> (i) Hull and Machinery – Physical damage coverage (ii) Protection and Indemnity Insurance – Liability arising from use and operation of vessels <p>Insurer(s):</p> <ul style="list-style-type: none"> (i) Subscription lead by Zurich Insurance (ii) Shipowners' P&I Mutual Club (Luxembourg) <p>Main Limit:</p> <ul style="list-style-type: none"> (i) \$45,117,525 (ii) US \$3B <p>Self Insured Retention / Deductible:</p> <ul style="list-style-type: none"> (i) \$5,000-35,000 (ii) \$1,00-5,000
Marketing Efforts	<ul style="list-style-type: none"> (i) Given the fact that there is an open claim, very competitive rating and the waiving of surveys, only the incumbent insurers were approached (ii) Soft marketing was undertaken to selected clubs
Recommendation	<ul style="list-style-type: none"> (i) Due to a recent claim, the City is able to renew at a 5% increase in premium (\$5,459) at \$114,643. (ii) The City is able to renew at an increased limit from US \$500M to US \$3B at the same premium of \$64,904.

Coverage	Aviation
Coverage Description	<p>This policy provides hull physical damage and liability insurance for the single aircraft (Cessna 206) used by Toronto Police Service.</p> <p>Insurer(s): Global Aerospace Underwriting Managers</p> <p>Main Limit: Liability - \$10M each occurrence/Damage to Cessna - \$1,475,000</p> <p>Self Insured Retention / Deductible: NIL</p>
Marketing Efforts	<p>4 Specialized insurers approached</p> <p>No savings to increase deductible due to low premium</p>
Recommendation	<p>The incumbent remains the most competitive allowing the City to renew with no major coverage changes and a 9.3% (\$1,117) decrease in premiums to \$10,850.</p>

CONCLUSION

This report is recommending insurance policies for the June 1, 2015 -2016 term at an annual cost of no more than \$5,112,660 excluding applicable Provincial taxes. This represents a savings of \$227,507 or 4.3% from the \$5,340,167 excluding applicable Provincial taxes paid for the expiring policies. This savings was achieved despite the insurance market challenges resulting from increased losses from extreme weather events.

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SIGNATURE

Roberto Rossini

Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Attachment 1 - 2015-2016 Recommended Insurance Program Details

ATTACHMENT 1
2015– 2016 Recommended Insurance Program Details

Insurance Policies	Insurer(s)	Main Limit (\$'s)	Self Insured Retention (SIR) / Deductible (\$'S)	June 1st , 2015 Renewal Premium (\$'s)
Primary Liability:				
Comprehensive General Liability	Fronting Policies through ACE INA	5 million	5 million (4M deductible excess / 1M SIR)	90,000
Public Officials E & O		5 million	5 million (4M deductible excess / 1M SIR)	90,000
Automobile		5 million	5 million	203,393
Garage Automobile		5 million	5 million	14,500
Medical Malpractice Liability	Lloyds of London led by Marketform Syndicate	30 million	5 million	124,450
Umbrella & Excess Liability:				
Primary Umbrella	ACE INA	5 million	Nil	916,000
1 st Excess Liability	Lloyds of London through Elliot Special Risks	13 million	Nil	275,000
2 nd Excess Liability	Royal & Sun Alliance	5 million	Nil	70,000
3 rd Excess Liability	AIG	20 million	Nil	194,700
4 th Excess Liability	Lloyds of London – QBE / ACE	52 million	Nil	186,500
Other Policies:				
Property	Factory Mutual Insurance Company	1.84 billion	5 million	2,412,321
Boiler & Machinery	Royal & Sun Alliance	100 million	200,000	255,582
Crime	AIG	10 million	5 million	37,995
Aircraft Hull & Liability	Global Aerospace	10 million 1.475 million Cessna-206H	NIL	10,850
Non-Owned Aircraft Liability	Global Aerospace	10 million	NIL	Included
Marine –Hull & Machinery and Increased Value	Subscription lead by Zurich + others	\$45,117,525 insured values	5,000-35,000 Deductible	114,643
Marine – Protection & Indemnity	Shipowners' P&I Mutual Club (Luxembourg)	US 3 billion	1,000-5,000 Deductible	64,904
Fiduciary Liability	Chubb Insurance	15 million	100,000	34,200
Home Day Care Liability	Lloyds of London (Elliot Special Risks)	2 million	1,000 Deductible	28,000
SUBTOTAL before extraordinary items:				5,123,038
Less credit to renew marine coverage with Zurich				(10,378)
GRAND TOTAL				5,112,660 plus applicable provincial tax