

The Regional Municipality of York

Committee of the Whole
Finance and Administration
June 13, 2019

Report of the Commissioner of Finance

2019 - 2021 Insurance Program Renewal

1. Recommendations

Council authorize the renewal of the Region's insurance policies with the insurers effective July 1, 2019 for a premium of \$6,814,783 plus applicable taxes, for terms of 12 and 24 months as applicable, subject to minor final underwriting adjustments.

2. Summary

The Region's insurance policies expire on June 30, 2019. Renewal of these policies is required to provide continued financial protection for the assets and operations of the Region, York Regional Police, YTN Telecom Network Inc. and York Region Rapid Transit Corporation. Housing York Inc. is insured separately through the Housing Services Corporation as required by the Housing Services Act (2011).

Key Points:

- Global insurance marketplace is raising premiums and reducing its capacity for increased risk, especially for large municipalities, constricting the Region's insurance placement options.
- Difficult market conditions, combined with the Region's adverse claims experience in 2018, have resulted in increased premiums in 2019.
- Higher premium costs were anticipated and sufficient premium funds were budgeted for in the 2019-2022 budget.
- The Region has maintained its strong relationships with its insurers and benefits financially from continuing its robust risk management practices.

Direct negotiation with insurance companies by an insurance broker acting on the Region's behalf is not specifically contemplated in the Purchasing Bylaw. As in previous years, Council authority for these renewals is required pursuant to section 3.3 of the Purchasing Bylaw, which allows Council to authorize any purchase or method of procurement where to do so would be in the Region's best interests.

3. Background

The Region's insurance program consists of a combination of insurance policies and self-insurance

The Region's insurance program is structured as follows:

- Purchase of primary policies, including Property, Automobile and Municipal Liability, and specialty insurance policies.
- Insurance policies are not purchased for certain infrastructure risks (e.g. watermains, sewers, roads, bridges), forests, and environmental contamination events. These risks are self-insured by the Region with specific funds set aside in the insurance reserve each year from operating budgets.

The Region remains a municipal sector leader in risk management

The Region has an active Risk Management Community of Practice with representation from each department meeting bi-monthly to focus on risk mitigation on an enterprise-wide basis. The recommendations of this committee directly affect departmental operations, risk awareness, staff training and loss prevention programming throughout the Region.

Claims are handled by Regional staff supported by third-party adjusters and specialty lawyers as required. All files are reviewed quarterly by a Regional Claims Committee.

Local area municipalities participate as members of the York Region Risk Management Working Group to share risk management processes, procedures and techniques. The Region also hosts semi-annual meetings of the Large Urban Municipalities Risk Management Group to promote best practices across the province.

4. Analysis

Municipal risks are complex, restricting the number of companies offering liability insurance

Insurance companies exercise caution in evaluating risks and determining rates, particularly for activities where large losses have occurred. Due to the complexity of large municipal insurance needs and risks, there are only a few companies willing to provide primary municipal liability coverage, and then only in combination with other traditional coverages such as property and automobile insurance.

Insurance companies are experiencing lower profits and premiums are increasing

The current outlook for the corporate insurance industry includes higher claims, lower profits and increases in premiums across multiple types of insurance coverages. While overall insurer capital and capacity remain strong, record natural catastrophe losses of 2017 and 2018 are adversely affecting property insurance rates across the public sector in Canada.

Several years of competitive pricing in commercial automobile insurance in Ontario means rates now are moving cyclically upwards as well.

The Region engages an insurance broker to negotiate and secure coverages from insurance companies

Insurance companies work through brokers to provide insurance to organizations. The Region's broker, Jardine Lloyd Thompson Canada Inc. ("JLT"), was procured through a competitive RFP process in Q3 2018. Working with the Controllershship Office, JLT negotiated renewal quotations with the incumbent primary policy insurer, Travelers Canada ("Travelers"), and also approached other insurers, Aviva Canada, and QBE Underwriting, for competing quotes.

The Region also purchases a number of specialty policies placed by JLT to improve insurance protection for its assets and risks. These policies supplement the primary policies by providing coverage for risks the primary policies do not cover. Competitive alternatives are limited in specialty lines due to a small number of insurers in niche markets, e.g. aviation.

Prudent risk management practices have limited the increases to the Region's insurance renewal rates

Due to the Region's proactive risk management and claims handling practices, rate increases for property and vehicle renewals are below what other municipalities are experiencing in the marketplace. The largest increase is the municipal liability insurance rates for the coming term, which reflects population growth and recent insurance company claim payouts in 2018.

Increasing deductibles to lower premiums was considered but not recommended

The Region's deductible for municipal liability and automobile liability claims is \$500,000, while its deductible for property losses is \$100,000. Staff engaged an actuarial consultant in March 2019 to complete an analysis of the Region's claims history and predicted future losses at different deductible levels. Alternate quotes for all primary policies premiums were received at various deductibles and compared to the actuarial results. The future claims costs of higher deductibles exceeded the savings offered by the insurance company so the Region's deductibles were not changed at this time.

Travelers continues to provide broad insurance coverages at competitive premiums and supports proactive claims handling by Region staff

Travelers continues to provide comprehensive coverages and competitive premiums. The Region has customized policy wordings for property and liability policies, both offering broad coverages above industry standards. Regional staff are given the flexibility to manage claims internally and Travelers supports the use of the Region's selected adjusters and lawyers.

Twenty-four month policy term remains beneficial to the Region

In July 2017, the Region moved to a 24-month policy term for its primary policies from the previous 18-month policy terms. An extended policy term saves the Region administrative costs of renewing policies more frequently and provides stable rates for a longer period. Some specialty insurers will not offer 24-month policy terms so 12-month policies were required.

5. Financial

The combined cost of all renewal terms for the primary and specialty policies is \$6,814,783. The purchase of 24-month term policies, where available, provides the Region with rate stability due to the application of 2019 rates through to June 30, 2021 in addition to the administrative savings of fewer renewal processes. Payment of these premiums for the 24-month policies will be in two equal installments: within 30 days of July 1, 2019 and July 1, 2020.

The cost of the proposed insurance renewal is included in the approved 2019 multi-year budget. The final premium may differ slightly from the estimated cost in this report, based on final underwriting adjustments for property values, number of vehicles and other items that may change prior to July 1, 2019.

6. Local Impact

There is no direct local municipal impact resulting from this report.

7. Conclusion

Renewing the insurance policies at an overall premium cost of approximately \$6,814,783 plus taxes will provide sound financial protection for the assets and operations of the Region, York Regional Police, YTN Telecom Network Inc. and York Region Rapid Transit Corporation.

For more information on this report, please contact Jason Li, Director, Controllershship Office at 1-877-464-9675 ext. 71683. Accessible formats or communication supports are available upon request.

Recommended by:

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