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INSURANCE AND RISK MANAGEMENT SERVICES

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report dated October 27, 2009, from the Commissioner of Finance.

1. RECOMMENDATIONS

It is recommended that:

1. Council authorize three year agreement with BFL Canada for insurance brokerage and risk management services, commencing January 1, 2010, for an annual fee of $100,000 plus GST.

2. Council authorize the binding of insurance coverages at existing deductibles and limits with Travelers-St. Paul Fire and Marine Insurance Company (as outlined in Table 2), for an annual term of January 1, 2010 to January 1, 2011 at a premium of approximately $4,655,000 plus applicable taxes.

3. The Commissioner of Finance be authorized to bind the following coverages which will be negotiated on behalf of the Region by the newly appointed Broker:

    - Crime, Director's and Officer's Liability, and Accident, Death and Dismemberment (AD&D) insurance coverages.

2. PURPOSE

This report discusses the results of the Insurance and Risk Management Services RFP which closed October 2, 2009 and recommends the appointment of BFL Canada for brokerage and risk management services and placing insurance coverages with Travelers-St. Paul Fire & Marine Insurance Company, effective January 1, 2010.

3. BACKGROUND

OMEX Current Insurance Provider for the Region

Since 1996 the Region has obtained its insurance coverage through the Ontario Municipal Insurance Exchange (OMEX), a reciprocal established very specifically to address the needs and interests of municipalities. Reciprocals are not-for profit entities which should allow them to provide greater stability in terms of premium costs and better control of claim costs for its members over the long term. Over the years, OMEX has provided the Region with good service and broad comprehensive insurance wordings, specifically tailored to municipal exposure. In addition, when transit exposures were uploaded to the Region OMEX provided very competitive insurance rates.

OMEX Member Costs – Consist of both premiums and possible future supplemental assessments

Reciprocals operate differently than traditional insurers. Members are apportioned annual premiums similar to traditional insurers, however with respect to claims; members pool their risks and share in the claim costs for all members. Should there be a shortfall in the reciprocal's funds to pay for incurred losses, each member will be subject to a supplemental assessment based on their relative size in the reciprocal to meet the shortfall. OMEX is not an insurance broker so there are no broker fees assessed.

To date OMEX has issued two supplemental assessments in order to meet claim funding shortfalls and to meet the Financial Services Commission of Ontario (FSCO) new requirements. FSCO is the regulatory body for reciprocals. In the past reciprocals were required to maintain a surplus of 50k minimum. In light of the recent economic downturn, FSCO has tightened its reciprocal oversight strategy imposing MCT (market capital test) standards used for insurance companies on reciprocals and therefore requiring much more stringent funding minimums. Further supplemental assessments may be forthcoming for 2008 and 2009.

Insurance Market Review Undertaken Through an RFP Process

During the years that the Region has been with OMEX, the insurance portfolio has been subject to regular market reviews. Although insurance premiums are exempt from requiring the use of the competitive bid process under the Purchasing Bylaw, in 2008 it was decided that an RFP process for insurance coverage would be utilized to ensure due diligence and to formally secure insurance quotations. The results of which presented the Region with only a renewal quotation from OMEX. No other proponents presented insurance quotes.

A Number of Lessons were Learned from Last Year's Process and Addressed in RFP

Post mortem investigation of 2008 RFP showed the following to be issues with the lack of responses received:

- brokers/ insurers required more time to analyze risk and respond
- some markets expressed the need to inspect Region sites
- lack of comfort with some of the Region's exposures; i.e. transit, police
- our long term relationship as a member of OMEX

Further market review which included another RFP was conducted this year to seek out insurance quotations and risk management services. Previous proponent concerns were addressed during the process this year enabling proponents other than OMEX to provide quotations to the Region. The RFP issued this year was configured to allow proponents to respond to deliverables on a bundled or unbundled basis. Proponents could present a proposal for all of the deliverables or for selected deliverables. The primary deliverables included: quotations for various insurance coverages, insurance broker services, risk management services, and Owner Controlled Insurance Program (OCIP) services. For the insurance coverages, quotations were requested at various deductibles levels ranging from $100,000 up to $1,000,000.

Review of the Region's Deductible Levels Was Also Conducted

To assist with assessing which retention level (deductible) would best address the financial needs of the Region, the actuary firm of Dion Durrell was secured to conduct an analysis of the Region's deductible levels by reviewing and trending incurred claims. In addition, Dion Durrell analysed the proposed premium quotations provided by the RFP respondents for cost benefit. The review looked at the premium cost by line of coverage when combined with anticipated claims that would be retained by the Region at the various deductible levels.

4. ANALYSIS AND OPTIONS

RFP Received Four Responses

The RFP documents were picked up by fourteen companies. The Region received responses from four proponents each responding to various deliverables in the RFP.

Table 1 – Comparison of Responses Received

Responding Broker/Company	Insurance Company	Insurance placement And/or Risk services
OMEX	OMEX	Insurance placement
BFL Canada	Travelers	Insurance placement and Risk services
AON	Zurich	Insurance placement and Risk services
Marsh	none	Risk services

Evaluation of Proponent Deliverables Resulted in Two Proposals Moving to Full Evaluation

The evaluation team consisted of three representatives from Policy, Risk and Treasury and utilized a consensus approach. Each deliverable was reviewed and evaluated individually as presented by each proponent. Consideration was given to premium, additional loss funding, policy wordings and services provided. The idea behind the bundled or unbundled process was to provide the most flexibility in ascertaining where the most benefit for the Region rested in terms of each deliverable. In the end, the two primary proponents who quoted on all of the insurance coverages presented their responses with ‘no option’ to unbundle the coverages. Therefore, insurance coverages must be placed with one proponent only.

Final scoring of the RFP was based on 70 points for qualifications and experience, submission, deliverables and value added services. An additional 30 points was assigned for financial issues including fees and any commissions. This process was done in two parts; 1) for brokerage and policy placement and 2) for risk management services.

Premium and Deductible Analysis Shows Savings for 2010 Insurance Term
Table 2 below compares the Actual Premiums paid in 2009 with the proposed premiums as presented by BFL Canada and OMEX, the two proponents that have quoted all of the coverage as requested in the RFP.

Table 2: Premium Comparison at the 100,000 Deductible Level

Coverage	Actual 2009 Premiums (100,000)	OMEX 2010 Quoted Premiums (100,000)	BFL 2010 Quoted Premiums (100,000)
Property	374,000	311,000	325,000
Boiler & Machinery	20,000	13,000	18,000
Liability	1,487,000	1,790,000	1,295,000
Errors & Omissions	180,000	217,000	157,000
Automobile (including all transit)	2,679,000	3,250,000	2,859,000
Garage Liability	no coverage	included	1,000
TOTALS	**$4,740,000**	**$5,581,000**	**$4,655,000**

As evidenced in Table 2, for the 2010 insurance term, savings between the proposed premiums from OMEX and BFL Canada for the displayed coverages are approximately $925,000 dollars.

In addition to the above listed coverages, the Region needs to place Crime, Director’s and Officer’s Liability and AD&D. These will be negotiated with the newly appointed broker. It is anticipated that these coverages will cost approximately $100,000 dollars.

Policy Wording Analysis Identified Some Minor Coverage Changes

In addition to premium and loss cost analysis, the policy wordings offered by the various companies were also evaluated. The insurance policy wordings were reviewed for broadness and comprehensiveness of coverage. For the most part, the coverages are very comparable with the exception of a few extensions uniquely offered by OMEX. These are:

i) Legal Expense is covered for Wrongful Dismissal
ii) Coverage inclusive of fines, penalties, punitive and exemplary damages
iii) Wrongful Acts arising out of the negotiating, tendering selection/award or failure to proceed with contracts are covered

To date, the Region has not incurred any claims which would fall under these coverages.

Other Related Services Necessary to Meet the Region's Needs identified

In addition to securing the Region's insurance coverage in the insurance marketplace, the Region would utilize broker services for specialty programs. The Region's needs include assistance with risk and loss control services, and placement of construction insurance coverages through an Owner Controlled Insurance Program (OCIP). Service fees are generally charged for broker and risk management services. Compensation for the placement of OCIP coverages is generally included in the premiums quoted for the coverages by way of commissions to the broker (part of the premium, paid directly from the insurer to the broker). The Region could accept this normal practice or negotiate a flat fee for all OCIP placements on an annual basis.

BFL Canada $100,000 Fee for Broker & Risk Management Services Combined

BFL Canada has quoted an annual fee of $100,000 to provide brokerage and risk management services for the primary program. Any compensation for the OCIP program would be in addition to this $100,000. OMEX does not offer Risk Management Services and as a result, the Region currently secures such services from Marsh Canada at a fee of $60,000 for 2009. In addition, Marsh Canada currently places the Region's OCIP coverages with compensation on a commission basis. Marsh has quoted Risk Management Services at an annual retainer of $40,000 ($30,000 minimum).

Long Range Saving Potential identified by increasing self insurance levels

The actuarial report by Dion Durell indicates that funding for losses that the Region would have to pay at the $100,000 deductible level is $7.3 million dollars. In 2009, the Region's funding through our budget process was $7 million dollars based on our own internal risk analysis. Deductible levels of $250,000 and $500,000 were analyzed as well. Premiums quoted compared to loss funding required did not yield substantive savings to support a move to either higher deductible level.

However, if we considered moving to a $1 million dollars deductible level, OMEX premiums provide a potential savings of $1 million dollars for the Region. This would require an increased level of loss funding as well as the addition of two staff to handle the claims work flow. While this level of deductible requires a higher funding requirement, the Region would directly control its own loss costs and therefore be the beneficiary of any improved claims experience. This may be a long term consideration for the Region but is not recommended at this time.

Actuarial Consultant Recommendations in Keeping With RFP Evaluation

Dion Durell's analysis was based on the Region's loss data. The approach of the analysis was conservative utilizing cost trending, developmental factors and Incurred but not yet reported (IBNR) factors in addition to assuming expected losses to be at the 85th percentile.

Dion Durrell's final report made a few recommendations:

1. Should the unbundling of coverages and services be available, this option would present the most cost saving benefit to the Region for the upcoming renewal; NOT AN OPTION PRESENTED BY ANY PROPONENT.

2. If the long term goal of the Region is to reduce the cost of risk over time by increasing its retention, then based on the proponents pricing, OMEX has presented more cost effective quotations at a deductible level of $1 million dollars. This is contingent on OMEX staying the course they have set regarding premium increases and claims handling improvements.

3. For short term savings, BFL Canada presents the best options at the existing $100,000 deductible level. BFL Canada has committed to negotiating an 18 month term with an additional 18 month option so this "short term" could be defined as three years);

4. Moving to a higher deductible ($1 million dollars) level makes good 'risk' sense, allowing the Region to start taking greater control of its cost of risk and realizing savings directly to the bottom line;

5. Recognizing that as a member of OMEX, the Region can be subject to Supplemental Assessments, it appears that OMEX has presented premiums this year that match up with the expected losses. Based on review of past OMEX premiums and losses this was not the case. However additional supplemental assessments should be expected for years not yet assessed i.e. 2008 and 2009 based on the state of OMEX's current financial statements, and on the premium - claims analysis just conducted.

Overall Findings

Based on the evaluation conducted on each proposal, coupled with the findings of Dion Durrell, it is recommended that the Region move to BFL Canada for all its insurance brokerage and risk management needs, effective January 1, 2010 for a three year term. Further, it is recommended that the appropriate insurance coverages for 2010 be placed with Travelers – St. Paul Fire & Marine Insurance Company at the $100,000 deductible level.

5. FINANCIAL IMPLICATIONS

It is estimated that the Region will save approximately $925,000 in premium dollars for the 2010 policy term by changing insurance providers while maintaining its current deductible level of $100,000. By moving back into the traditional insurance marketplace, the Region will incur an insurance broker/risk management fee of $100,000 for 2010 and no supplemental assessments will ever be imposed. We would continue to be responsible for any supplemental assessments to OMEX for past loss years to the end of 2009. Should the market pricing or coverage needs change, we can approach OMEX again in the future.

6. LOCAL MUNICIPAL IMPACT

OMEX's strength is found in its members. Reciprocals serve as a good alternative to the traditional insurance market especially for difficult or complicated risks and/or in a hard insurance market. Six Regional municipalities are currently members of OMEX. The departure of the City of Toronto from OMEX in 1996 did not impact the future growth of OMEX. Secondly, while the Region's departure from OMEX reduces overall size of the reciprocal, it also reduces the risk exposure related to the Region's specific and unique risks.

7. CONCLUSION

While the Region has been well served for the past 13 years by its relationships with both OMEX and Marsh, the recommendation to move to a new insurance broker/carrier will provide significant savings over the next year as well as premium certainty. This stability will be significantly increased if BFL Canada are successful in negotiating the 18 month policy term with an additional 18 month term they feel they can obtain from Travelers-St. Paul's. Consideration and planning for a higher deductible in the future would provide further potential savings in the long term.

For more information on this report, please contact Tina Gardiner, Manager Insurance and Risk at Ext. 1656.

The Senior Management Group has reviewed this report.