



Report to: General Committee

Meeting Date: June 14, 2021

SUBJECT: General Insurance Program
PREPARED BY: Jeff Madeley, Insurance Risk Manager

RECOMMENDATION:

- 1) THAT the report entitled “General Insurance Program” be received;
- 2) AND THAT the contract for the General Insurance Program commencing on July 1, 2021 be awarded to Marsh Canada Limited (highest ranked/lowest priced bidder) in the amount of \$1,453,536 inclusive of PST where applicable (\$1,356,104 exclusive of PST);
- 3) AND THAT the award in the amount of \$1,453,536 inclusive of PST be funded from the Operating Budget account 840-846-5555 “Insurance Premium” account; and
- 4) AND THAT the Treasurer be authorized to extend the contract for the General Insurance Program for five (5) additional one year periods (July 1, 2022 to June 30, 2027), provided that it is in the best interest of the City and the premium increase per year does not exceed 15% of the cost of the previous years' General Insurance Program, exclusive of annual coverage changes and asset growth related changes to the property and automotive portfolios; and,
- 5) AND THAT Treasurer be further authorized to approve all annual asset changes related to the property and automotive portfolios and coverage changes 2021 to 2027;
- 6) That Staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

The purpose of this report is to obtain approval to award the contract with Marsh Canada Limited for the General Insurance Program for a one-year term from July 1, 2021 to June 30, 2022 and for five further one-year terms (2022 to 2027).

BACKGROUND:

Years 2006 to 2009

Historically, up to and including the year 2009, the insurance provider for the then Town of Markham was Frank Cowan Company Limited (Cowan). In October 2006 Council approved a one year contract with Frank Cowan Company Limited (Cowan) for the 2007 General Insurance and Risk Management Program, with an option to extend the contract for a further two (2) years, 2008 and 2009. With no extensions remaining after extending coverage with Cowan for 2008 and 2009, Staff issued an RFP in 2009 with the assistance of a consultant. The RFP resulted in a net savings of \$704,910 related to the difference between the 2010 insurance budget and the RFP award.

Years 2010 to 2013

In 2009, Council awarded the lowest priced and highest ranked RFP proponent Jardine Lloyd Thompson (JLT) a contract for January 1, 2010 to December 31, 2010 and authorized the Treasurer to extend the contract for three (3) additional one year periods (2011, 2012 & 2013) subject to a premium increase per year not to exceed 5% of the cost of the previous years' General Insurance and Risk Management Program, exclusive of annual coverage changes.

Jardine Lloyd Thompson (JLT), have subsequently been assumed by Marsh Canada Limited (Marsh) in 2019.

Years 2014 to 2017

In 2013, staff reported to Council that City insurance premiums remained stable over the past four years and that the 2009 RFP was still a good representation of the municipal insurance market place and premium pricing and therefore staff recommended a contract extension from January 1, 2014 to December 31, 2014 which Council adopted. At that time, Council also authorized the Treasurer to extend the contract for three further one-year periods (2015, 2016 & 2017) subject to a premium increase not to exceed 5% of the cost of the previous year's General Insurance and Risk Management Program, exclusive of annual coverage changes and asset growth related to changes in the property and automotive portfolios.

Years 2018 to present

In preparation for the 2018 General Insurance and Risk Management Program and the conclusion of the authority given by Council in 2013, staff reported to Council in 2017 recommending that the Treasurer extend the contract with Marsh for five further one-year terms (2019 to 2023) provided that the premium increase per year does not exceed 5% of the cost of the previous years' General Insurance and Risk Management Program, exclusive of annual asset changes related to the property and automotive portfolios and coverage changes. Council authorized the contract extension on the basis that:

- The 2009 RFP was responded to by all four major municipal insurance providers in Ontario and there were no new or different insurance markets available at that time.
- The 2009 RFP second lowest bidder was 46% higher than Marsh (JLT).
- Premium history, including the proposed 2018 premium would result in a \$23,639 (2.3%) decrease in premium since 2010.
- Markham's insurance premium cost per capita was second lowest of comparable GTA municipalities.
- Marsh's service level continues to meet if not exceed the City's requirements.

Insurance Premium Summary 2010 to 2020

The Table below summarizes all premium charges during the past ten-year period. Since the expiry of the General Insurance and Risk Management Program in 2009 which resulted in a savings of \$704,910 related to the difference between the 2010 insurance budget and the RFP award, premiums have increased by \$69,425 or 6.7%, averaging less than 1% per year, exclusive of asset and coverage changes. The City's insurance premium history demonstrates that the City has done well to maintain its premium levels

and is consistent with the past authorities granted by Council to the Treasurer to extend the General Insurance and Risk Management Program contract.

**Insurance Premium History
2010-2020**

Year	Prior Year Premium \$	Experience Changes Incr/(Decr) \$	Asset Changes Incr/(Decr) \$	Coverage Changes Incr/(Decr) \$	Total \$	Total Change Incr/(Decr) \$ %	Premium W/O Asset Growth and Coverage Changes \$
2010	1,742,871				1,037,961		1,037,961
2011	1,037,961	0	25,589	0	1,063,550	25,589 2.5	1,037,961
2012	1,063,550	0	643	0	1,064,193	643 0.1	1,037,961
2013	1,064,193	2,456	83,196	3,035	1,152,880	88,687 8.3	1,040,417
2014	1,152,880	43,328	9,107	0	1,205,315	52,435 4.5	1,083,745
2015	1,205,315	15,845	42,576	0	1,263,735	58,420 4.8	1,099,589
2016	1,263,735	(3,292)	2,234	(88,403)	1,174,274	(89,461) (7.1)	1,096,298
2017	1,174,274	(18,795)	13,103	0	1,168,582	(5,692) (0.5)	1,077,502
2018	1,168,582	(63,180)	0	0	1,149,043	(19,539) (1.7)	1,014,322
2019	1,149,043	51,446	2,791	97,200	1,300,480	151,437 13.2	1,065,768
2020	1,300,480	41,618	13,535		1,355,633	55,153 4.2	1,107,386
Total Increase/(decrease)		69,425	192,775	11,831		317,672 30.6	69,425
							6.7% Premium Difference 2010 to 2020 Total Premium Increase 10 years

January 1, 2020 to July 31, 2021 – 18 Month Policy Term

As authorized by Council in 2017, the Treasurer extended the contract for the General Insurance and Risk Management Program for the one-year term of January 1, 2020 to December 31, 2020 in the amount of \$1,355,633 which included a 4.2% increase (3.2% due to claims experience and 1.0% due to asset growth). The premium increase was within the Council authority of 5.0% (exclusive of annual asset changes related to the property and automotive portfolios and coverage changes). However, during the negotiations for the 2020 General Insurance and Risk Management Program, staff became aware of the impending hardening of the municipal insurance market where other municipalities were experiencing increases of 40% and higher. In the interest of continuing the favourable contract and premium amounts negotiated for 2020 and in order to take steps to mitigate the effects of a changing municipal insurance market, staff negotiated an 18 month insurance policy term, the maximum term available.

Market Conditions

Municipal insurance in Ontario is represented by four main markets, namely Intact Public Entities Inc. (formerly Frank Cowan Company), AON Reed Stenhouse Inc, Marsh Canada Limited (Marsh acquired Jardine Lloyd Thompson) and BFL Canada. The municipal insurance provided through each of these markets have generally been affected by an overall decline in underwriting profitability attributed to a dramatic rise in insured losses, years of reduced pricing and low interest rates leading to reduced investment income for insurers. As a result, municipal insurance markets are reacting by charging double and triple-digit premium increases, reducing limits, restricting coverages, increasing deductibles and even completely withdrawing from municipal risk. This trend is occurring in most lines of insurance worldwide and is recognized as a hardening of the marketplace.

Joint and Several Liability

In addition to the actual financial impact on insurers that has contributed to the hard market, municipal insurers are concerned about the impact of joint and several liability. Joint and several liability is a legal term for a responsibility that is shared by two or more parties to a lawsuit. A wronged party may sue any or all of them, and collect the total

damages awarded by a court from any or all of them. Municipalities are often targeted in accident lawsuits because they are viewed as “deep pocket” defendants due to apparent immense public resources available through taxation. For example, a severe motor vehicle accident on a municipal road seeking multiple millions in damages may have only automobile insurance policy limits of \$1 Million available. In that case, municipalities are often named in the suit alleging deficiencies in road design or signage. A finding of only 1% liability against the municipality may cause them to contribute disproportionately to the total settlement amount. Municipal insurance rates have been rising as a result.

July 1, 2021 General Insurance Program Renewal

Through discussion with the City’s insurance provider Marsh, late in 2020 and early this year, renewal premium was estimated to increase by 60% at July 1, 2021. The market conditions and reaction to Joint and Several Liability noted above were cited as the reasons. Other municipalities were experiencing similar premium increases at renewal.

Due to these significant estimated increases, staff elected to go to the market and retained an independent third party (Somerset Insurance Consulting) to assist with the RFP.

As a result, the City issued a RFP to the marketplace on March 26, 2021.

BID INFORMATION:

Bid closed on	May 17, 2021
Number picking up bid document	4
Number responding to bid	3

Six separate Addendums were issued in response to questions raised by potential bidders.

The RFP document was downloaded by four potential bidders who are the main providers of municipal insurance in Ontario:

1. Marsh Canada (incumbent)
2. AON
3. Intact Public Entities Inc. (formerly Frank Cowan Company)
4. BFL Canada

Bids were received from all except BFL Canada who indicated that Markham is too large and the insurance companies they are aligned with cannot be competitive at this time.

PROPOSAL EVALUATION:

The Evaluation Team was comprised of staff from Finance and a third party consultant with the Procurement Department, acting as the evaluation facilitator.

The evaluation was based on pre-established evaluation criteria as outlined in the Request for Proposal: Product 20%, Services 10%, Qualifications 20% and Price 50%, for a total of 100% with the resulting score as noted below.

Bidder	Total Score (100 points)
Marsh Canada Limited	97

The bid prices ranged from \$1,999,836 to \$2,419,314, exclusive of tax representing an increase over expiring premium in the range of 59% to 91%.

OPTIONS/ DISCUSSION:**1. Bid Results Experience Changes**

The RFP identified the City's expiring insurance coverages, limits and deductibles as the base line specifications for requested quotations, however proponents were given the opportunity to deviate in these areas. The bid from the incumbent, Marsh Canada Limited (Marsh) was fully compliant with the RFP specifications and was lower priced than the other two proponent bids. Compared to the expiring premium, including tax, the compliant bid from Marsh was 59% higher. The second highest priced bid failed to include a critical insurance policy needed by the City and quoted 66% higher than expiring while the third bid did not quote at the base line deductible requirement and was priced 91% higher than expiring.

Marsh Proposal – Coverage Changes & Deductible Options

The City's General Insurance Program consists of the following insurance policies, Municipal Liability plus Excess Liability which together provide a \$50M per occurrence limit and includes coverage for Conflict of Interest, Legal Expense, Wrongful Dismissal Expense, Errors & Omissions Liability, Non-Owned Automobile Liability and Environmental Liability. The Program also includes Crime plus Excess Crime (to achieve \$10M limit), Councillor's Accident, Volunteer's Accident, Property, Boiler & Machinery, Automobile Fleet, and Cyber Risk.

Coverage Changes

The Marsh bid was consistent with the expiring coverages, wordings, deductibles and limits except for the following changes.

Municipal Liability

Municipal Liability, insuring third party bodily & personal injury and property damage, now excludes liability arising from communicable disease (COVID-19). This exclusion is an industry standard and will be written into all liability policies as they renew.

Property Insurance

This policy covers City owned buildings, contents and equipment against physical loss or damage. The renewal policy will contain a loss limit of coverage of \$100,000,000.00 which is the maximum payable under the policy for any one loss occurrence. Staff have determined that the highest value of assets in one geographically concentrated area (e.g., Markham Pan Am Aquatic Centre, 101 Town Civic Blvd. (Civic Centre), 8100 Warden Ave) totals \$140M and that the additional premium required to increase the loss limit is not justified based on the likelihood of a loss exposure exceeding \$100M.

Cyber Insurance

The policy deductible increases from \$100,000 to \$250,000 and the specific peril, cyber-crime, an attack by cyber criminals using phishing, baiting and other types of manipulation of people to extract data and give up confidential information, is now excluded.

Municipal Liability Deductible Options

The RFP included options for alternative deductibles. In order to reduce the impact of the significant increase in the City's municipal liability insurance premium, staff considered the deductible options offered by Marsh. Increasing the deductible reduces premium however, it means that a greater portion of claim payments must be retained and paid directly by the City. Staff analyzed the funding implications and evaluated the uncertainties related to increasing the current \$100,000 deductible in favour of the \$250,000 deductible option. Staff recommend increasing the deductible from \$100,000 to \$250,000 that will result in a \$695,231 premium savings.

Liability Deductible Budget Impacts

Increasing the deductible from \$100,000 to \$250,000 will reduce the premium however, the budget will require additional funding to cover:

1. The retention of more claims expenses.
 2. A 'right sizing' of the budget to address historical unfavorable variances.
 3. A forecasted premium increase from July 1, 2022 to December 31, 2022.
- Therefore, it is recommended that the Insurance Liability Deductible budget be increased by \$400,000.

Service Level

Marsh Canada Limited (formerly Jardine Lloyd Thompson) have provided exemplary and reliable insurance and risk management services to the City since 2010. The recommended contract award will ensure continuity of Marsh's account team and their familiarity with the City. Marsh is a leader in providing municipal specific insurance programs and they provide a comprehensive range of services including claims management, industry webinars & bulletins, contract reviews, fleet & property loss prevention.

FINANCIAL CONSIDERATIONS

Based on the insurance proposal evaluation, staff recommend the 2021 General Insurance Program commencing July 1, 2021 to June 30, 2022 be awarded to Marsh Canada Limited in the amount of \$1,453,536 inclusive of PST where applicable (\$1,356,104 exclusive of PST) to be funded from the Operating Budget account 840-846-5555 "Insurance Premium" account.

This amount includes liability coverage at \$50 million for the General Liability, Errors & Omissions, Non-Owned Automobile, Automobile Liability coverages. A new \$250,000 deductible applies to General Liability and Cyber coverage, and the Property policy now has a \$100 million loss limit of coverage.

The premium increase for the July 1, 2021 to June 30, 2022 General Insurance Program relating to the lowest bid on the expiring specifications has been mitigated by increasing the liability deductible from \$100,000 to \$250,000 creating a savings of \$695,231. However, \$400,000 of additional funding is needed in the Liability Deductible Budget for higher retained claim payments, right sizing the budget balance to offset unfavourable variances and anticipation of further premium increases in 2022.

Staff also recommend that the Treasurer be authorized to extend the contract for General Insurance and Risk Management Program for five (5) additional one-year periods, provided that it is the best interests of the City and the premium increase per year does not exceed 15% of the cost of the previous years' insurance program, exclusive of annual coverage changes.

HUMAN RESOURCES CONSIDERATIONS

None

ALIGNMENT WITH STRATEGIC PRIORITIES:

None

BUSINESS UNITS CONSULTED AND AFFECTED:

None

RECOMMENDED BY:

Joel Lustig, Treasurer

Trinela Cane
Commissioner, Corporate Services