



Report to: General Committee

Date Report Authored: August 30, 2017

SUBJECT: Contract Extension for General Insurance and Risk Management Program

PREPARED BY: Fred Rich, Manager, Strategy & Insurance Risk Management ext. 3733

RECOMMENDATION:

- 1) THAT the report "Contract Extension for General Insurance and Risk Management Program" be received;
- 2) AND THAT contract for General Insurance and Risk Management Program be extended for a further one-year term from January 1, 2018 to January 1, 2019 to Jardine Lloyd Thompson for the amount of \$1,105,402 (inclusive of PST, exclusive of annual asset changes related to the property and automotive portfolios and coverage changes);
- 3) AND THAT the Treasurer be authorized to extend the contract for General Insurance and Risk Management Program for five further one-year terms (2019 to 2023) provided that it is in the best interest of the City and the premium increase per year does not exceed 5% of the cost of the previous years' insurance program, exclusive of annual asset changes related to the property and automotive portfolios and coverage changes;
- 4) AND THAT the Treasurer be further authorized to approve all annual asset changes related to the property and automotive portfolios and coverage changes 2018 to 2023;
- 5) AND THAT in accordance with Purchasing By-Law 2004-341, Part II, Section 7 (1)(c), Non-Competitive Procurement, whereby "When the extension of an existing contract would prove more cost-effective and beneficial", the tendering process be waived;
- 6) AND THAT this award be funded from the annual 2018 Operating Account 840-846-5555 Insurance Premium as shown in the financial consideration section, subject to Council approval of the 2018 operating budget;
- 7) AND THAT any net annual budget surplus from the City's Insurance premium and deductible operating accounts be transferred to the Insurance Reserve.
- 8) AND 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 extend the contract with Jardine Lloyd Thompson (JLT) for the General Insurance and Risk Management Program, for a one-year term from January 1, 2018 to January 1, 2019 and for five further one-year terms (2019 to 2023).

BACKGROUND:

In 2009, Council approved the award of contract 303-R-09 for the City's General Insurance and Risk Management Program to Jardine Lloyd Thompson (JLT), the highest ranked and lowest priced supplier (2010-2013).

When the City awarded the contract in 2009 to JLT, the City received submissions from four insurance providers: Frank Cowan Company (Cowan), Jardine Lloyd Thompson (JLT), BFL Canada (BFL) and Aon Reed Stenhouse (AON). At the time and currently, the majority of the traditional municipal insurance market in Ontario was/is provided through Cowan, JLT, BFL and AON. The four proposals received ranged in price from \$1,040,613 to \$2,072,776 (inclusive of PST) with JLT being awarded the contract as the lowest overall bid (\$1,040,613) with the second lowest priced bidder being 46% higher than the JLT award.

Subsequently in 2013, Council approved an extension of the contract for an additional four years (2014-2017), based on the stability of the City insurance premiums over the past four years and that the 2009 RFP was still a good representation of the municipal insurance market players and the premium pricing.

OPTIONS/ DISCUSSION:

Annual changes in insurance premiums can be split into three categories: experience, asset and coverage changes -

1. Experience changes which are directly based on City's claims experience and municipal insurance market changes
2. Asset changes which are due to adding or removing assets to/from the policy, such as buildings, automobiles and equipment as well as changes in asset value due to inflation.

Coverage changes which occur when the City adds or removes coverages, changes coverage limits, and/or changes deductible limits.

The total insurance premium increase during the past eight years (2010-2017), including experience, asset, coverage changes was \$130,621 or 12.6%. Only \$39,541 or 3.4% of the increase attributed directly to experience changes (claims experience). The chart (Exhibit 1) on the next page is a summary of all changes during the eight year period.

Exhibit 1

Year	Prior Year Premium \$	Experience Changes Incr/(Decr) \$	Asset Changes Incr/(Decr) \$	Coverage Changes Incr/(Decr) \$	Total \$	Total Change Incr/(Decr) \$ %		Experience Incr/(Decr) %	Growth Increase Incr/(Decr) %	Coverage Changes Incr/(Decr) %
2010					1,037,961					
2011	1,037,961	0	25,589	0	1,063,550	25,589	2.5	0.0	2.5	0.0
2012	1,063,550	0	643	0	1,064,193	643	0.1	0.0	0.1	0.0
2013	1,064,193	2,456	83,196	3,035	1,152,880	88,687	8.3	0.2	7.8	0.3
2014	1,152,880	43,328	9,107	0	1,205,315	52,435	4.5	3.8	0.8	0.0
2015	1,205,315	15,845	42,576	0	1,263,735	58,420	4.8	1.3	3.5	0.0
2016	1,263,735	(3,292)	2,234	(88,403)	1,174,274	(89,461)	(7.1)	(0.3)	0.2	(7.0)
2017	1,174,274	(18,795)	13,103	0	1,168,582	(5,692)	(0.5)	(1.6)	1.1	0.0
Total Increase/(decrease)		39,541	176,448	(85,369)	130,621	130,621	12.7	3.4	16.0	(6.7)

This insurance premium experience (12.7% increase over the eight-year period or 1.6% increase per year) is significantly less than the current municipal market experience, even with premium, asset and coverage changes included.

1. Experience Changes

The total experience change over the eight-year period was \$39,541, as noted in Exhibit 1 above.

The frequency (number of claims) of insurable (in excess of the deductible) liability claims has been fairly consistent over the last eight years. However, the severity of claims (average cost per claim) has increased over the past few years.

The frequency and severity of automobile claims has also been fairly consistent over the past eight years and has not been a contributor to the experience increase over the past eight years.

The frequency and severity of property claims had been low until June 2016. Since then the Milliken soccer dome was destroyed in a fire and the cost of the claim was approximately \$1 million. In 2017, the City experienced two significant flood claims at Thornhill C.C. as a result of two separate rain storms on June 17, 2017 & July 7, 2017. These rain storms were both considered extreme with isolated 100-year rainfall intensities that caused approximately \$300,000 in damage. Staff are currently investigating mitigating strategies to reduce, if not eliminate, future flooding damage at Thornhill C.C.

These property claims were a topic of discussion during the City's 2018 renewal discussions with the City insurance broker (JLT) and the property insurance underwriter (Aviva). However, due to the actions of the City to investigate mitigating strategies to reduce the future impact of rain storms on the Thornhill C.C., the property policy premium was not increased due to these claims.

2. Asset Changes

The total asset change over the eight-year period was \$176,448, as noted in Exhibit 1 above.

On an annual basis changes are made to the City's insured property (buildings, art and museum collections, unlicensed equipment) and automobile (licensed vehicle) inventories, adding or replacing assets. In addition, there are inflationary increases to the replacement values of property and automobile inventories. These changes will increase the premium the City pays for property and auto insurance. The new Aaniin Community Centre and Library is an example of a new asset that will be added to the City's insured property inventory.

3. Coverage Changes

The total coverage change over the eight-year period was a reduction of \$85,369, as noted in Exhibit 1 above.

Changes to the City's insurance coverage will impact the premium the City pays. For example, increasing limits (the maximum amount a policy will pay) will typically result in a higher premium. Conversely, decreasing the limit will typically result in lower premiums. Deductible (the amount the City pays before insurance coverage begins) changes can also affect the City's premium. An increase in deductible typically reduces the insurance premium and a decrease in deductible typically increases the insurance premium. In 2016, the City increased its property deductible to \$50,000 from \$10,000, which reduced the City's property premium by \$88,403, as shown in the chart on page 3 of this report.

2018 Renewal

In August 2017 the City received a proposal from JLT outlining premium and renewal terms for the 2018 policy period. The proposed renewal included a 5.4% (\$63,180) decrease in the City insurance premium over the expiring 2017 premium. This decrease does not account for any asset changes (property or auto) over the 2017 expiring premium. These asset changes are typically determined in late fall each year and will impact the final property and auto premiums. One significant property change will be the addition of the Aaniin Community Centre and Library in the fall of 2017.

The JLT proposal assumes no significant increase in the City's current claims experience during the remainder of 2017. If the City's claims experience does significantly increase then staff will negotiate with JLT to minimize the effect on the 2018 premium. Due to the fact that the proposed 2018 premium is \$63,180 less than the 2017 premium, Staff are confident that the final 2018 insurance premium (with asset changes) will not require a budget increase for 2018.

The chart below (Exhibit 2) is a summary of all premium changes during the nine-year period including the proposal submitted by JLT. The proposed 2018 premium (\$1,105,402) is less than the 2010 premium (\$1,037,961) when the asset changes are excluded (\$1,105,402-\$176,448=\$828,954) and less than the 2013 premium (\$1,152,880) including all changes.

Exhibit 2

Year	Prior Year Premium \$	Experience Changes Incr/(Decr) \$	Asset Changes Incr/(Decr) \$	Coverage Changes Incr/(Decr) \$	Total \$	Total Change Incr/(Decr)	
						\$	%
2010					1,037,961		
2011	1,037,961	0	25,589	0	1,063,550	25,589	2.5
2012	1,063,550	0	643	0	1,064,193	643	0.1
2013	1,064,193	2,456	83,196	3,035	1,152,880	88,687	8.3
2014	1,152,880	43,328	9,107	0	1,205,315	52,435	4.5
2015	1,205,315	15,845	42,576	0	1,263,735	58,420	4.8
2016	1,263,735	(3,292)	2,234	(88,403)	1,174,274	(89,461)	(7.1)
2017	1,174,274	(18,795)	13,103	0	1,168,582	(5,692)	(0.5)
2018	1,168,582	(63,180)	0	0	1,105,402	(63,180)	(5.4)
Total Increase/(decrease)		(23,639)	176,448	(85,369)		67,441	6.5

Municipal Comparison

Comparing municipal insurance premiums is very difficult as each municipality will have differences in insurance coverages, policy deductibles and claims experiences. All of these factors will affect the municipality's annual insurance premium. That said, one method of comparison would be the cost of insurance premium per capita. When comparing the most recent insurance award reports available online from comparable lower tier GTA municipalities (Brampton, Burlington, Mississauga, Oakville, Oshawa, Richmond Hill, and Vaughan), the insurance cost per capita ranges from \$2.19 - \$13.25 (using 2016 census populations). The proposed 2018 premium (excluding asset changes) would be \$3.36 per capita, second lowest of the comparable GTA municipalities.

Premium Renewals for 2019-2023

JLT also offered the City a further reduction for 2019 of \$15,435 and to hold the 2020 premium at the 2019 amount (excluding annual asset changes related to the property and automotive portfolios and coverage changes). All quoted premiums are based on the assumption that there are no significant increases in the City's current claims experience during the remainder of 2017 and throughout 2018 and 2019. For 2021 to 2023 policy years staff will negotiate premium renewals within the authority level provided to the City Treasurer or if the premium exceeds the City Treasurer's authority staff will seek Council approval.

Service Level

From a service perspective, JLT provides the City Risk Management services in the form of claims management software, workshops, industry webinars, contract review services, industry bulletins, fleet driver training support, and property inspection and appraisal services. In addition, JLT is currently working on a new Client portal which will include loss history, individual claims details, risk management loss control, and insurance policy details. This client portal will improve the City's claims tracking and Risk Management practices.

Based on the following factors, Staff recommend the City's General Insurance and Risk Management Program be extended with JLT for the following reasons:

- The 2009 RFP was responded to by all four major municipal insurance providers in Ontario at that time as well as today.
- The 2009 RFP second lowest bidder was 46% higher than the JLT award.
- The premium experience changes including the proposed 2018 premium would result in a \$23,639 (2.3%) decrease in premium since 2010. Therefore, if the City's property and auto inventory had not grown during the past eight year period the City's insurance premium in 2018 would be less than the 2010 premium.
- Markham's insurance premium cost per capita is second lowest of the comparable GTA municipalities
- JLT's service level continues to meet if not exceed the City's requirements.

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

The estimated cost of extending the contract for General Insurance and Risk Management Program for a further one-year term from January 1, 2018 to January 1, 2019 to Jardine Lloyd Thompson is \$1,105,402 (inclusive of PST) a 5.4% decrease over the expiring 2017 premium (excluding asset changes).

The recommended award to JLT will be funded from the 2018 insurance premium account 840-846-5555. The favourable variance in all insurance accounts will be transferred to the Insurance Reserve at the end of each calendar year.

Since 2010 the City's Council approved process has been to transfer any year-end favourable variance in the insurance accounts to the Insurance Reserve. During the last seven years \$2.5 million has been transferred into the Insurance Reserve which has a current balance of \$3.3 million. The insurance reserve serves two purposes; a funding source for annual insurance claim costs in excess of the annual operating insurance budget and any annual operating surplus, and to allow the City to increase future insurance deductibles in order to reduce annual insurance premiums.

HUMAN RESOURCES CONSIDERATIONS:

None

ALIGNMENT WITH STRATEGIC PRIORITIES:

None

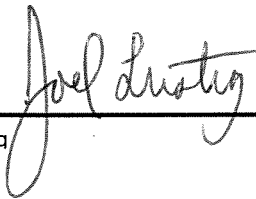
BUSINESS UNITS CONSULTED AND AFFECTED:

None

**RECOMMENDED
BY:**

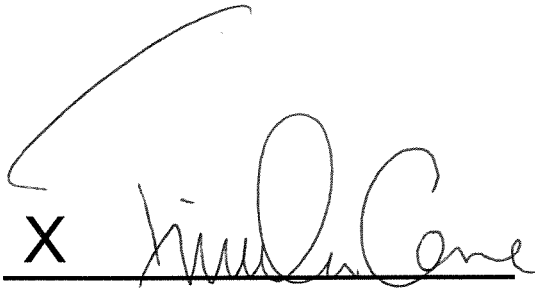
X

Joel Lustig
Treasurer



X

Trinela Cane
Commissioner, Corporate Services



ATTACHMENT: None