



Report to: General Committee

Date Report Authored: September 9, 2013

SUBJECT: Contract Extension (303-R-09) for General Insurance and Risk Management Program

PREPARED BY: Fred Rich, Senior Business & Risk Analyst ext. 3733

RECOMMENDATION:

- 1) THAT the report "Contract Extension (303-R-09) for General Insurance and Risk Management Program" be received;
- 2) AND THAT contract 303-R-09 for General Insurance and Risk Management Program be extended for a further one-year term from January 1, 2014 to January 1, 2015 to Jardine Lloyd Thompson for a maximum amount of \$1,225,000 (inclusive of PST, premium changes, asset growth, and inflation in property values);
- 3) AND THAT the Treasurer be authorized to extend the contract for General Insurance and Risk Management Program for three further one year periods (2015 to 2017) 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 coverage changes and asset growth related changes to the property and automotive portfolios;
- 4) AND THAT the Treasurer be further authorized to approve all annual coverage changes, asset growth related changes to the property and automotive portfolios (2015 to 2017);
- 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 2014 Operating Account 840-8465555 Insurance Premium as shown in the financial consideration section, subject to Council approval of the 2014 operating budget;
- 7) 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, 2014 to January 1, 2015 and three optional one year terms for the years 2015 to 2017.

BACKGROUND:

In 2009 the City issued an RFP for the City's General Insurance and Risk Management Program. The City received submissions from four companies; Frank Cowan Company (Cowan), Jardine Lloyd Thompson (JLT), BFL Canada (BFL) and Aon Reed Stenhouse (AON). The majority of the traditional municipal insurance market in Ontario is provided through Cowan, JLT and BFL. Therefore, staff believe this RFP was a clear representation of the Municipal insurance market.

In 2009 the City's General Insurance and Risk Management Program was provided by Cowan and had been provided by Cowan for the previous 40 plus years.

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. Council approved the award of the 2010 General Insurance and Risk Management Program to JLT, the highest ranked and lowest priced proponent in the amount of \$1,040,613 inclusive of applicable taxes. In addition, Council authorized the Treasurer to extend the contract for three (3) additional one year periods, provided that it is in the best interest of the City and that the premium increase per year did not exceed 5% of the cost of the previous years' insurance program, exclusive of annual coverage changes. Although the award to JLT in 2009 was for \$1,040,613, the final 2010 invoice from JLT was slightly less, \$1,037,961.

Changes to total cost of insurance can be split into three categories;

- 1) Premium changes are typically based on City's claims experience and municipal insurance market changes.
- 2) Asset changes are due to adding or removing assets to/from the policy, such as buildings, automobiles & equipment, and changes in asset value due to inflation.
- 3) Coverage changes occur when the City adds or removes coverages, changes coverage limits, and/or changes deductible limits.

During the first two renewal years (2011-2012) of the approved four year policy period, the City did not incur a premium increase from JLT, exclusive of annual coverage changes and growth. In 2013, the City did incur a 0.3% (\$3,266 inclusive of PST) premium increase relating specifically to the City's environmental coverage. Therefore, the average annual premium increase was 0.1%.

The increase to the total cost of insurance during the four year policy period, including premium changes, asset changes, and coverage changes was 10.9%. (see chart below)

Year	Prior Year Premium \$	Premium Changes \$	Asset Changes \$	Coverage Changes \$	Total \$	Total Insurance Increase \$	Premium Increase %
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	3,266	83,196	2,225	1,152,880	88,687	8.3
Total						10.9	0.3

This total cost of insurance experience (10.9% increase or 3.6% increase per year) is significantly less than the current municipal market, even with premium, asset and coverage changes. According to a 2011 AMO survey of 135 Ontario municipalities, insurance costs of the surveyed municipalities have gone up by 20.8% over the 5 year period 2007-2011 (5.2% increase per year on average - 20.8% / 4 years).

OPTIONS/ DISCUSSION:

On May 30, 2013, the City received a proposal letter from JLT outlining renewal terms for the 2014 policy period. The proposed renewal included a 2.3% (\$26,906) premium increase in the City General Insurance and Risk Management Program.

As stated previously, asset growth and overage changes effect the total cost of insurance, for 2014 the annual asset changes will add an additional \$42,713 (3.7%) to the total cost of insurance, for a total insurance increase of \$69,620 (6%) over the 2013 expiring insurance policy. The JLT proposal assumes no significant increase in the City's current claims experience during the remainder of 2013.

Year	Prior Year Premium	Premium Changes	Asset Changes	Coverage Changes	Total	Total Insurance Increase		Premium Increase
	\$	\$	\$	\$	\$	\$	%	%
2010					1,037,961			
2011	1,037,961	0	25,589	0	1,063,550	25,589	2.5	0.0
2012	1,063,550	0	643	0	1,064,193	643	0.1	0.0
2013	1,064,193	3,266	83,196	2,225	1,152,880	88,687	8.3	0.3
2014	1,152,880	26,906	42,713	0	1,222,500	69,620	6.0	2.3

The JLT proposal letter identified the following 4 factors that contributed to the proposed 2.3% premium increase:

1. No increase in premium for the past four years (with the exception of the minor increase (\$3,266) experienced January 1st, 2013 relating to our entire municipal book of business affecting the Environmental Liability portion).
2. The City of Markham has experienced some growth in terms of population, and the addition of properties and/or facilities (increasing liability potential).
3. The 2013 claims experience have exceeded the liability ratio of 40%, the liability ratio is one of the terms and conditions of the City's rate guarantee with JLT.
4. An overall negative outlook for municipal liability claims and the tightening of the liability insurance markets concerning municipalities in Ontario due to the ongoing issues surrounding joint and several liability along with the negative impact of recent court decisions concerning the Minimum Maintenance Standards and road liability case law.

The risk management and claims experience with JLT since 2010 is progressing well and is comparable to the service received from the City's prior insurance provider.

Based on the following factors, Staff believe the proposed 2.3% premium increase for 2014 is reasonable, and therefore deemed the JLT proposal would be more cost-effective and beneficial than issuing a new RFP:

- the 2009 RFP was responded to by all the major traditional municipal insurance providers in Ontario
- the second lowest bidder during the 2009 RFP was 46% higher than the JLT award
- the AMO report identifies the average annual municipal insurance premium increase for the period 2007-2011 is 5.2%
- the only insurance premium increase the City received during the period 2010-2013 was 0.3%, well below the average increase identified in the AMO report
- the City's 2013 claims experience has exceeded the liability ratio of 40%

Therefore, Staff recommend the City's General Insurance and Risk Management Program be extended with JLT.

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

The estimated cost of extending contract 303-R-09 for General Insurance and Risk Management Program for a further one-year term from January 1, 2014 to January 1, 2015 to Jardine Lloyd Thompson is \$1,225,000 (inclusive of PST) a 6% increase (2.3% premium increase and a 3.7% increase due to asset growth) over the expiring 2013 insurance policy.

The recommended award to JLT will be funded from the 2014 insurance premium account 840-846-5555. The surplus funds in all insurance accounts will be transferred to the Insurance Reserve at the end of each calendar year.

Since 2010 the City has been transferring the year end favourable variance in the insurance accounts to the Insurance Reserve. During the last three years \$1.9 million has been transferred into the insurance reserve with a current balance of \$2.7 million. The 2013 projected favourable variance is approximately \$0.5 million and will be transferred into the insurance reserve. The excess dollars in the insurance accounts will fund future premium increases, asset growth, and deductible payments.

HUMAN RESOURCES CONSIDERATIONS:

None

ALIGNMENT WITH STRATEGIC PRIORITIES:

None

BUSINESS UNITS CONSULTED AND AFFECTED:

None

RECOMMENDED BY:

19/09/2013

19/09/2013

X 

Joel Lustig
Treasurer

X 

Trinela Cane
Commissioner, Corporate Services

ATTACHMENT: None