



Council Report

Report Number PUR2020-031

Meeting Date: November 17, 2020

Title: 2020-70-OP General Insurance and Risk Management Program

Author and Title: Ashley Wykes, Buyer
Jolene Ramsay, Insurance Risk Management Officer

Recommendations:

That Report PUR2020-031, **2020-70-OP General Insurance and Risk Management Program**, be received;

That Aon Reed Stenhouse Inc. being the highest scoring proponent be awarded 2020-70-OP General Insurance and Risk Management Program for the term January 1, 2021 to January 1, 2022 and the annual premium be funded through the 2021 Operating Budget;

That Council authorize the option of the renewal term of four (4) additional, one (1) year terms with Aon Reed Stenhouse Inc. contingent on satisfactory negotiations with regards to pricing and service performance;

That all surplus 2021 Insurance Premium operating budget be placed in the Insurance Reserve to fund future premium increases and any claim expense overages within the City's increased self-insured retention; and

That subject to the receipt of the required documents, the Mayor and Clerk be authorized to execute an agreement.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

The 2020 insurance term marked the final contract extension with Frank Cowan Company. The City's current insurance program is set to expire on January 1, 2021. In May 2020 the City retained the services of Cameron & Associates Insurance Consultants to review the City's existing insurance coverage and assist with the preparation of the RFP and provide guidance during the evaluation.

The City released the RFP for the General Insurance and Risk Management Program on September 1, 2020 in accordance with the Purchasing Policy. The RFP closed on October 15, 2020. With two companies submitting a proposal as per the table below.

Company Name	Submitted
Frank Cowan Company Ltd.	Yes
Aon Reed Stenhouse Inc.	Yes
BFL Canada Inc.	No Response
Marsh Canada Ltd.	No Response

Although the RFP document was picked up by BFL Canada Inc. and Marsh Canada Limited, neither company submitted a proposal.

The Evaluation Committee included the Insurance Risk Management Officer, the City Solicitor and the Supervisor of Cost Accounting. The Committee, with the assistance of the consultant, carefully reviewed, evaluated and scored the proposals by consensus to the criteria described in the RFP.

Aon was found to be the highest scoring proponent. Reference checks were conducted and no concerns were identified.

Rationale:

Aon is one of the largest insurance brokers worldwide and in Canada. It has a strong public sector presence across Canada representing over 700 municipalities. Aon has provided public sector services in Western Canada for over 50 years and built a dedicated Ontario public sector team within the past 5 years. Aon's team is committed to working with the City to determine and reach its risk management and strategic goals. In addition to its standard broker services that include insurance placement, loss control and equipment inspections, Aon is offering at no additional cost, a selection of consulting services the City can choose from based on the City's priorities including actuarial support for premium stabilization, risk management and asset evaluation.

The City has received steady annual premium increases despite its efforts towards risk management, loss control and an improved claims history. In order to reduce insurance costs, the City must assume more risk. One way to accomplish this is to increase the self-insured retention (SIR)/deductible on the General Liability and Errors & Omissions lines of coverage.

Aon's premium submission achieves an overall premium decrease of 35.4% over the expiring 2020 premium. Aon's savings would require the City to assume more financial risk for its liabilities. Currently, the City's deductible is \$100,000 for all insurance coverages. The proposal submitted by Aon is based on a SIR/deductible of \$250,000 with respect to General Liability and Errors & Omissions coverage and a \$100,000 SIR/deductible on Environmental Liability, Automobile and Transit Liability and Property insurance. A higher SIR/deductible on Environmental Liability, Automobile and Transit Liability and Property insurance did not yield sufficient premium savings to merit further consideration at this time.

Whereas a deductible and an SIR have the same effect of the City being responsible for up to \$250,000 paid for any claim, under an SIR program the City would manage these claims with minimal insurer intervention unless the City specifically requests assistance from them. By the Insurer not opening a claim and setting a reserve, the City's loss ratio, which is one of the factors Insurers use to determine premium increases, would remain lower.

In preparation of this report we reviewed our historical liability claims experience. During the period of 2010 to present, 77 General Liability and Errors & Omission claims are on record as closed, with only 14 or 18% of the closed claims exceeding the City's \$100,000 deductible. This averaged 1.4 claims per year where the City would have incurred additional costs if it had a \$250,000 SIR/deductible. From January 2016 to June 2020, 28 liability claims have been reported to our incumbent Insurer with one claim breaching the City's \$100,000 deductible with the Insurer paying \$61,385 in excess of the deductible. Of the remaining 17 open liability claims, one claim is reserved at \$130,000, or \$30,000 over our deductible.

Given the decrease in our claims volume and total incurred in settlement and expense, it is the Evaluation Committee's recommendation that the City take advantage of the premium reduction and increase the SIR/deductible to \$250,000 on the General Liability and Errors & Omissions policies. The City has an established external support structure in place to manage any increased claims volume. It has contracted with an experienced independent adjuster to handle claims on its behalf and has a panel of defense counsel available to assist with negotiation and defense. The City will require a review of its Insurance and Risk Management Department staffing levels as this department assumes additional claims oversight, but also increases risk management initiatives to prevent and/or mitigate claims. Due to the potential

increased claims cost resulting from a higher SIR/deductible, it is recommended that the premiums saved in the 2021 policy term be set aside in the Insurance Reserve to offset any such overages.

Aon is currently using Great American as its liability insurer. Great American Insurance Group's member companies are subsidiaries of American Financial Group, Inc. (AFG). AFG is a Fortune 500 holding company. Its Canadian Head office is in Toronto. Although Great American has a long history of insuring municipalities in the USA, they entered the Ontario municipal risk market only in the past two years when other long time municipality insurers withdrew from the Canadian market. Aon states they have found stability with Great American. In the event of market instability or should Aon lose Great American as its liability insurer and needs to locate an alternate market, it is recommended that the premiums saved in the 2021 term be set aside in the Insurance Reserve to offset any premium increases that may be incurred in subsequent terms.

The coverage provided by Aon is not as broad as the City's current program but it does offer the key coverages required by the City. The municipal liability program includes a primary policy limit of \$5,000,000 with an annual aggregate of \$10,000,000. The annual aggregate is applicable to the Products and Completed Operations, Administrative Errors & Omissions Liability, Conflict of Interest and Legal Expense coverage. The two Excess Liability Policies increase the overall liability limits to \$50,000,000 except for the Errors & Omissions liability which is capped at \$25,000,000. Aon believes \$25,000,000 is sufficient Errors & Omissions coverage for the City. There is no history of claims in Ontario that would warrant a higher limit. All limits referenced are over and above the \$250,000 SIR/deductible.

Sexual Misconduct coverage is also capped with a \$500,000 limit for each claim and in the aggregate. Although coverage is capped for sexual misconduct and abuse claims, depending on the allegations made coverage may be available to the City through the general liability policy. Additional stand-alone abuse policies can be purchased; however, the City has not had a claim that would cause concern with the sublimit or that purchasing additional coverage would need to be considered at this time.

The property insurance offered by Aon differs from the City's current coverage. The City's current property insurance provides a blanket policy limit which based on current values is \$347,587,648. If all insured buildings, structures and contents across the City were completely destroyed in one catastrophic loss, the policy limit would be \$347,587,648. With the Aon program the maximum loss paid for any one occurrence is limited to \$200,000,000. The limit of loss was determined by the insurer following a "Probable Maximum Loss" analysis following a catastrophic event. Based on our own analysis, all buildings in the Lindsay and surrounding area would need to be completely destroyed in one loss to exceed the limit of loss, which is an extremely remote possibility.

The Evaluation Committee recommends that the City retain the services of an independent actuarial consultant to conduct an analysis and feasibility study of the City's General Insurance Program and premium. This study will assist the City to determine its long term strategy with respect to the cost of its insurance program and optimum management of it.

The City has been served well by Frank Cowan Company in the past 5 years however the quality of the Aon program and financial savings cannot be ignored.

Other Alternatives Considered:

No other alternative is being considered as the highest scoring proponent is being recommended.

Alignment to Strategic Priorities

This report aligns with the City's strategic priority of Good Government. Competitive bids and a comprehensive review of the City's insurance program ensures adequate coverage and protection is in place in the most affordable manner.

Financial/Operation Impacts:

Funds for insurance premiums are allocated in the 2021 Operating Budget as per the table below. The Other Contracted Services budget line will be increased by \$50,000 to cover the cost of Actuarial Services. PST is not calculated on Automobile or Transit Liability.

2021 Proposed Budget for Insurance Premium (Acct# 11420.75520)	\$2,800,000
Less: Cyber Insurance	\$55,000
Less: Airport Insurance	\$10,000
Less: Amount moved to Other Contracted Services Budget (Acct# 11420.74150)	\$50,000
Remaining Budget in Insurance Premium	\$2,685,000
Proposal Amount	\$1,884,698
PST	\$123,697
Total Proposal Amount	\$2,008,395
Estimated Surplus to go to Reserve	\$676,605

Consultations:

City Solicitor
Treasurer
Supervisor, Cost Accounting
Cameron & Associates – Risk Management & Insurance Consultant

Department Head E-Mail: rtaylor@kawarthalakes.ca

Department Head: Ron Taylor

Department File: 2020-70-OP