

Clause 9 in Report No. 21 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on December 17, 2015.

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2016/2017 Insurance Coverage Placements for York Region, York Regional Police and York Region Rapid Transit Corporation

Committee of the Whole recommends adoption of the recommendation contained in the report dated November 24, 2015 from the Commissioner of Corporate Services:

1. Recommendations

It is recommended that:

1. The insurance policies listed in Table 3 be placed for an eighteen-month term effective January 1, 2016 to June 30, 2017, at an amount of \$4,342,497 plus applicable taxes, based on underwriting information as of May 2015, and subject to adjustment at renewal.

2. Purpose

The Region's insurance policies will expire on December 31, 2015. Renewal of these policies is required to provide continued financial protection for the assets and operations of the Region, York Regional Police and the York Region Rapid Transit Corporation.

3. Background

The Region's insurance needs were marketed and quotations received through its insurance broker of record

As a result of an RFP, an insurance broker was engaged by the Region effective January 1, 2013. Since then Integro Insurance Brokers Canada (Integro) has solicited and negotiated quotations on behalf of the Region for the past three insurance renewal cycles.

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Integro has helped identify potential policy gaps and has been able to negotiate additional coverages that were not previously included in the Region's policies, while obtaining reduced rates for various coverages.

In addition, Integro was able to obtain substantial premium savings when the Region increased its deductible from \$100,000 to \$500,000 during the last renewal cycle. For the current renewal, Integro has negotiated an overall premium savings of approximately \$1 million compared to the expiring premium.

It is general municipal practice to use the services of an insurance broker to negotiate insurance policies that best align with their needs. Brokers are aware of the insurance companies' appetite for particular risk classifications, the emerging risks, and the latest products available and, in Integro's case, are not aligned with any single company.

Municipalities may use an RFP process to select a broker to act on their behalf. The selected broker then canvases the market place for insurers who write municipal business and obtains quotations. Alternatively, municipalities may use an RFP process to obtain quotations from insurers who are aligned with a specific broker, or quotations may be submitted from direct writers (insurers who do not use a broker) such as a Managing General Agent or a reciprocal.

The RFP process to obtain quotations from insurers who are aligned with a specific broker or quotations from direct writers may or may not provide premiums and/or coverages that are similar to what is obtained through a broker-led process. Because of the size and complexity of its insurance program and the need for extra speciality coverages, the Region uses an independent broker to canvas the whole market to obtain the best price for the coverages it requires.

The Region's insurance program consists of a combination of insurance policies and self-insurance

The Region's insurance program is structured as follows:

- Primary policies, consisting of Property/Equipment Breakdown & Crime, Municipal Liability & Public Entity Errors & Omissions, Medical Malpractice, Automobile Liability, and Excess Liability;
- Specialty policies, consisting of Accidental Death & Dismemberment, Marine, Aviation, Cyber Liability, and Director's & Officer's Liability;
- Self-insured risks (risks for which insurance is not purchased but where money is set aside in the insurance reserve or operating budgets to fund losses), consisting of infrastructure exposures (e.g., water mains, sewers, roads, bridges), forests, and environmental contamination.

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Due to the complexity of municipal insurance needs and risks, there are only a few companies that are willing to provide municipal liability coverage, and then only in combination with other traditional coverages such as property insurance. Of these potential insurers, some did not provide quotes to Integro because they were not able to handle the scale and complexity of the Region's program.

Due to its risk management practices, the Region's premium for many of its coverages has been reduced

Many municipalities are seeing rate increases, primarily in their liability policies. Insurers generally are looking for a 5 to 10% increase. However, due to the Region's proactive risk management program and claims handling practices, it has been offered a lower premium rate for many of its coverages.

The Region has also been offered the opportunity to renew its insurance coverages for a policy term of eighteen months. The opportunity to extend the policy term beyond 12 months is not available to many municipalities; however, it is very desirable since it saves administrative costs and provides stable rates for a longer period.

4. Analysis and Options

Comprehensive insurance quotations for the primary policies were received from Travelers and Cowan

Integro approached seven insurers to provide quotations. Travelers Canada, the incumbent insurer, and the Cowan Insurance Group both provided comprehensive quotations on the Region's primary policies, as detailed in Table 1.

The Region's property values have increased from \$1.5 billion to almost \$1.8 billion and the number of insured vehicles has increased from 1,653 to 1,875. These changes are included in the premiums quoted.

The quotes obtained are based on the underwriting information provided to the insurers as of May 2015. The underwriting information will be updated at the time of renewal and may result in adjustments to the premiums quoted.

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Table 1
Premium Quotations for Primary Policies
(Based on 18-month policy term)

Policy	Deductible	Current Insurer	Expiring Premium	Incumbent Renewal quote (recommended)	Cowan Quote
Property, Equipment Breakdown (boiler & machinery) & Crime	\$50,000	Travelers Canada	\$888,602	\$975,767	\$968,133
Municipal Liability, Errors & Omissions (including Medical Malpractice for employees)	\$500,000	Travelers Canada	\$1,300,745	\$992,487	\$828,381
Medical Malpractice Part II (covering the Region for actions of Doctors under contract)	\$100,000	Creechurch, Elliotts Special Risks & Berkley Canada	\$131,971	\$37,500	Included above with \$500K deductible
Automobile	\$500,000	Travelers Canada	\$2,433,158	\$1,755,260	\$1,603,557
Excess Liability		Lloyds of London	\$372,750	\$298,000	\$626,756
TOTAL for Primary Policies			\$5,127,226	\$4,059,014	\$4,026,827

Note: Premiums quoted do not include 8% RST, which is applicable to all policies except automobile. HST does not apply to insurance premiums in Ontario.

The overall liability limit for Municipal, Automobile, and Errors & Omissions from both insurers is \$50 million. This limit is achieved through the combination of the primary policies and the Excess Liability coverage.

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Both the Travelers and Cowan quotations for Municipal Liability and Errors and Omissions include Medical Malpractice coverage covering Regional employees, with an overall limit of \$50 million and a deductible of \$500,000. The Cowan quotation includes coverage for the Region with respect to contracted doctors; however, the Travelers policy excludes this risk.

Travelers addresses this risk through a separate Medical Malpractice policy (Part II). This separate standalone policy has a limit of \$5 million and a deductible of \$100,000. Their Excess Liability policy will provide \$45 million in coverage beyond the \$5 million Medical Malpractice Policy (Part II), bringing the overall limit to \$50 million.

To obtain total medical malpractice coverage, Cowan does not require the separate policy. The limits are structured as \$15M primary with \$35M excess liability, and a deductible of \$500,000.

Both Travelers and Cowan provide a property policy limit of \$300 million. Travelers' limit for Equipment Breakdown is \$300 million and Cowan's limit is \$250 million.

There is a difference between the two proposals with respect to transit fleet physical damage. Cowan has quoted coverage for the physical damage to buses under the Property Policy through a Rolling Stock Endorsement that provides coverage on a 'Named Perils' basis with a deductible of \$500,000. The buses are covered while being driven and while parked. The property policy pricing includes the value of the buses.

Travelers provides coverage for physical damage to buses under the Automobile Policy on an 'All Perils' basis with a \$500,000 deductible. In addition, the Travelers Property Policy provides physical damage to the buses while parked with a deductible of \$50,000. While property policy includes coverage for the parked buses, the value of the buses was not included in the pricing formula.

While both are viable options to insure physical damage to buses, the Cowan proposal would be difficult to implement at this time due to the financial performance-based obligations negotiated with the contracted transit service providers.

Rate Stability Agreement offered by both insurers

Both insurers have offered the Region a pricing stability agreement for this renewal. The pricing stability agreement restricts rate increases for the next renewal period, based on specific criteria in the agreement.

Travelers' pricing stability agreement is very specific. The rates will remain unchanged for automobile if the Region's loss ratio does not exceed 30%. For Liability and Errors & Omissions, the rate increase is restricted to a maximum of

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8% if the Region's loss ratio does not exceed 25%. The Region's current loss ratios are well within these ranges.

Cowan's price stability agreement states that the average rate per vehicle will remain unchanged and their intention for Liability and Errors & Omissions policies is to hold to a maximum increase of 8%. The agreement contains a clause saying that Cowan may encounter market conditions that may affect their ability to meet these parameters. If this happens, they will advise the Region ninety days prior to renewal.

The evaluation of the insurance proposals considered a range of factors to ensure best overall value for the Region

The proposals presented were evaluated based on the following factors:

- Policy limits, and deductibles;
- Policy wordings, including endorsements and exclusions;
- Claims management process and the Region's role in handling claims;
- Any restrictions imposed with respect to auditing information and claims provided by the Region, property valuations and inspections;
- Industry experience of each insurance firm and knowledge of York Region;
- Premium costs;
- Value added services offered

The Travelers proposal provides the best balance of quality and cost

For this renewal, Travelers has agreed to manuscript property wording drafted by Integro for their municipal clients. The manuscript wording provides additional and more comprehensive coverages when compared to the current wording and the proposed Cowan wording.

Flexibility for Regional staff to manage claims is needed to ensure settlement of claims in accordance with the Region's values and principles. The Region's deductible for liability is \$500,000 per occurrence. Travelers would continue to support the Region's claims process and direct staff involvement in the management of claims. In addition, Travelers supports the use of Region-contracted adjusters and lawyers.

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Cowan has indicated that the claims handling process may be negotiable within their program. The Claims Handling Agreement provided by Cowan specifies the basis on which the Region is permitted to handle claims that would normally be handled by Cowan. Integro has reviewed the Claims Handling Agreement and has indicated several areas of concern:

- It is unclear if the Region could continue to have direct involvement in claims handling of automobile claims, including Accident Benefits;
- When a claim is reported, any commitments are subject to ratification by Cowan;
- The Region would be allowed involvement in claims handling within the deductible; however, all claims that are over the deductible must be reported to Cowan for handling;
- Termination provisions allow Cowan to terminate the agreement immediately at any time if terms are not met; and
- Cowan may engage alternative service providers to those selected by the Region for services such as adjusting or legal.

The claims handling privileges the Region currently has with Travelers are the result of two years of negotiation and experience.

It should be noted that the Region recently completed an RFP process for legal and adjusting insurance services and has entered into three-year contracts with the selected service providers as of July 1, 2015, with an option to review for 2 more years. Cowan will agree to the use of our adjusters, provided they meet Cowan's service requirements. Cowan has a pre-approved counsel list for legal services; however, they will agree to work with firms that are not on their pre-approved list provided the firms can meet Cowan's due diligence requirements.

It is therefore not clear that the Cowan proposal would provide sufficient scope for Regional staff to manage claims and meet our contractual obligations with adjusters and legal firms.

The overall premium difference between Travelers and Cowan is \$32,187, which represents a difference of 1%.

In conclusion, it is recommended that coverage for the primary policies remain with Travelers/Lloyds for a further eighteen month term.

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There are several specialty policies that are being recommended for renewal

The Region purchases a number of specialty policies to improve insurance protection for its assets and risks. These policies supplement the primary policies by providing coverage for additional risks. Integro obtained renewal quotations for these risks on behalf of the Region.

Table 2 outlines the renewal quotations for the specialty policies. While Integro approached other insurers for these coverages, the current insurers have provided the most favourable quotations.

**Table 2
Premium Quotations for Specialty Policies
(Based on 18-month policy term)**

Policy	Policy Limit	Current Insurer	Deductible	Expiring Premium Cost	Incumbent Quote (recommended)
Accidental Death & Dismemberment (AD&D)	\$250,000 with various sublimits	AIG	Not applicable	\$5,040	\$5,040
Marine	\$1.8M	Travelers Canada	\$100,000	\$9,139	\$9,139
Aviation	Premises \$5M Hull \$2M	Global Aerospace	\$100,000	\$43,308	\$40,092
Cyber Liability	\$10M	Lloyd's of London	\$100,000	\$136,125*	\$178,883*
Director's & Officer's Liability	\$5M	AIG	\$100,000	\$50,498	\$50,329
TOTAL				\$244,110	\$283,483

Notes: Premiums quoted do not include 8% RST, which is applicable to all policies except automobile. HST does not apply to insurance premiums in Ontario.

*Increased limit from \$5M to 10M for Cyber Liability on the renewal date of January 1, 2016.

It is recommended that the Region increase its coverage limit for cyber risks from \$5 million to \$10 million

The Region purchased a cyber liability policy during the last insurance renewal period. The current limit is \$5 million with a deductible of \$100,000 per claim. This amount is shown in Table 2.

Cyber liability covers losses stemming from the use of technology to process, store and transfer data. The Region continues to increase the amount of data stored in the cloud and the York Telecom Network continues to expand, increasing the risk of data loss or breach. Based on Integro's experience with the risks covered by a cyber policy, knowledge of the Region's current risks, and the potential cost of a data breach, they have recommended increasing liability limit from \$5 million to \$10 million. The cost for an additional \$5 million of coverage would be \$42,758, for a total cost of \$178,883.

The Region continues to self-insure certain exposures such as environmental liability, infrastructure and reforestation

The Region self-insures specific risks either because of the high premium cost associated with the risk or the lack of available insurance coverage.

Environmental liability, reforestation of forest tracts, and the replacement of damaged infrastructure (e.g., water mains, sewers, roads, and bridges) are risks not covered under the Region's insurance policies. Analysis of these risks, including a review of the availability and cost of insurance, continues to support self-insurance.

The Region maintains an insurance reserve for environmental liability and reforestation risks, with specific funds set aside in the insurance reserve to cover losses. Infrastructure losses are covered by departmental budgets.

Link to key Council-approved plans

The purchase of insurance coverage and the use of risk management principles and practices contribute to the Strategic Plan objective of good government. Potential third party liabilities and loss of Regional assets pose a threat to Regional operations. Insurance and risk management provide financial and operational coverage for this threat.

5. Financial Implications

Table 3 summarizes the recommendations made throughout this report for the Region's insurance policy needs effective January 1, 2016.

Table 3
Summary of Recommended Insurance Policies
(Based on 18-month policy term from January 1, 2016 to July 1, 2017)

Policy	Insurer	Premium
Property/Equipment Breakdown & Crime	Travelers Canada	\$975,767
Municipal Liability & Public Entity Errors & Omissions	Travelers Canada	\$992,487
Automobile Liability	Travelers Canada	\$1,755,260
Excess Liability	Lloyd's of London	\$298,000
Accidental Death & Dismemberment (AD&D)	AIG	\$5,040
Marine	Travelers Canada	\$9,139
Aviation (hull & premises)	Global Aerospace	\$40,092
Medical Malpractice	Creechurch + Excess Insurers	\$37,500
Cyber Liability	Lloyd's of London	\$178,883
Director's & Officer's Liability	AIG	\$50,329
Total		\$4,342,497

Note: Premiums quoted do not include 8% RST, which is applicable to all policies except automobile. HST does not apply to insurance premiums in Ontario.

The expiring premium for the primary and specialty insurance coverages identified above is \$5,448,653. The renewal offers a savings of over \$1 million over the next eighteen months.

The cost of the proposed insurance renewal has been provided for within the proposed 2016 budget and the 2017 outlook. The final premium may differ slightly from the estimated cost in this report, based on final underwriting adjustments for property values, number of vehicles and other items that may have changed since May 2015.

6. Local Municipal Impact

There is no direct local municipal impact resulting from this report.

7. Conclusion

Renewing the insurance policies with a premium cost of approximately \$4,342,497 plus taxes for a further eighteen-month term will provide protection for the assets and operations of the Region, York Regional Police and the York Region Rapid Transit Corporation.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at Ext.71644.

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