York Region

Clause No. 8 in Report No. 12 of the Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on June 26, 2014.

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2014/2015 INSURANCE COVERAGE RENEWAL

Committee of the Whole recommends adoption of the recommendation contained in the following report dated June 5, 2014 from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. Insurance policy coverages be placed for an eighteen-month term effective July 1, 2014 with the insurers noted in Table 11 for an approximate amount of $5,376,788, plus applicable taxes.

2. The self-insured retention for the municipal and automobile liability policies be increased from $100,000 to $500,000 per loss.

2. PURPOSE

Insurance policies for the Region expire midnight June 30, 2014. These policies need to be renewed to provide continued financial protection for the assets and operations of the Region.

3. BACKGROUND

The Region's insurance program is structured as follows:

- Primary policies, consisting of Property and Municipal Liability;
- Speciality policies, consisting of Marine, Aviation and Medical Malpractice;
- Self-insured risks, including infrastructure exposures (e.g., water mains, sewers, roadways, bridges) and forests; and
- An Owner Controlled Insurance Program (OCIP) for mid-sized and larger construction projects.

Commercial insurance policies are marketed and placed through the Region's broker of record which is currently Integro Canada Ltd.

The Owner Controlled Insurance Program (OCIP) is arranged through two insurance brokerage firms; Marsh Canada Limited and JLT Canada Inc.

Municipal insurance is a somewhat specialized market

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

Insurance renewal provides an opportunity to review policy coverages and limits

An integral part of the renewal process includes the review of policy wordings and an examination of the adequacy of policy limits. The renewal process provides an opportunity to broaden existing coverages or add new policies or endorsements. Increases to policy limits may be considered based on claim trend data and/or an examination of the actual exposure to loss.

A policy term of eighteen months provides greater cost certainty

The Region has had an eighteen month term for its primary and specialty policies for the past two insurance renewal cycles. The longer policy term became available on January 1, 2010; prior to this, the Region's policies were renewed on a twelve month term. The extended term saves administrative costs and provides stable rates for a longer period.

Most insurers have been seeking premium increases ranging from 10-25%

Other municipalities have advised of premium increases upon renewal ranging from 10 to 25%. In many instances, deductibles have also been arbitrarily increased.

4. ANALYSIS AND OPTIONS

Two comprehensive insurance quotations for primary policies were received from Travelers and Zurich

Travelers and Zurich were the only insurers who provided comprehensive quotations on the Region's primary policies. Their quotations for the primary policies were a package deal, as they will not write municipal liability policies on an unbundled basis. These quotes are for liability policies with a limit of $5 million (municipal and automobile). The property & equipment breakdown policy has a blanket limit of $300 million. The crime policy limit is being increased from $1 million to $5 million.

Table 1 summarizes the quotations received from Travelers and Zurich by policy. These premiums are for an eighteen month policy term and are based on assets and exposures provided by the Region to its broker in January 2014. Final premiums may increase slightly when the most current asset figures are provided to the insurer just prior to July 1, 2014. Based on the quotations obtained, Travelers' premiums are the most competitive for the primary policies.

Table 1
Premium Quotations from Travelers and Zurich
(Based on 18-months)

Policy	Self-Insured Retention Level	Expiring Premium Cost	New Quote Travelers	New Quote Zurich
Property (incl. equipment breakdown and crime)	$ 50,000	$ 812,349	$ 875,002	$876,529
Liability (municipal & automobile) Option 1	$100,000	$7,009,210	$7,329,606	$7,694,691
Option 2	$250,000	n/a	$5,343,523	$6,580,433
Option 3	$500,000	n/a	$3,733,903	$4,360,948

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

Savings can be achieved with an increase in self-insured retention

The Region currently has a self-insured retention of $100,000 for each liability loss (municipal and automobile liability). This means that the Region is responsible for paying up to a maximum of $100,000 of the cost of each and every liability insurance claim. To help identify the optimal balance between premium costs and loss costs, insurers were asked to provide quotations at various self-insured retention levels, as shown in Table 1.

An actuarial analysis of the self-insured retention levels was conducted by Integro, the Region's broker, to determine the most economical combination of premium and anticipated claim costs. Using the Region's five year claims history, the projected claim costs for $100,000, $250,000 and $500,000 retention levels for liability coverages are shown in Table 2.

Table 2
Premium and Self-Insured Costs by Retention Level for the Liability Policies Using Travelers Canada Renewal Quotations (Based on 18-months)

Policy	Self-Insured Retention Level	Premium	Projected Claim Costs	Total Expected Cost
Liability	$100,000	$7,329,606	$ 7,492,500	$14,822,106
(municipal &	$250,000	$5,343,523	$ 9,141,000	$14,484,523
automobile)	$500,000	$3,733,903	$10,159,500	$13,893,403

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

Based on the figures presented in Table 2, a savings of approximately $1 million can be achieved by increasing the Region's retention from $100,000 per loss to $500,000 per loss. Determination of the expected cost was completed using actuarial loss modelling based on the Region's five year historical loss experience and industry benchmarks.

It is anticipated that the additional workload resulting from the higher retention will be able to be absorbed within the current staffing complement. However, should there be a substantial increase in workload, an additional staff resource will be needed at a cost of approximately $100,000 to $125,000 that would partially offset this saving.

Due to an overall savings in loss costs at the higher retention level, it is recommended that the liability retention level be moved from $100,000 to $500,000 per loss.

Analysis of the Property (including Equipment and Crime) quotations in a similar manner did not indicate sizeable savings from increasing the retention; therefore, it is recommended that the property self-insured retention remain at its current $50,000 level.

There are also several specialty and excess liability policies to complement primary policies

The Region purchases a number of specialty and excess liability policies to improve insurance protection for its assets and exposures.

These policies are supplementary to the primary policies previously reviewed and complement these primary policies by increasing limits of coverage or by providing coverage for exposures not covered by the primary policies.

1. Excess Liability Policy

The excess liability policy provides an increase in the liability limit available to the Region from the $5 million provided by the primary liability policies to an overall limit of $50 million. Lloyds Underwriters is the primary supplier of this coverage. They have increased the policy premium from $355,555 to $372,750, an increase of approximately 5%.

Table 3
Premium Quotation for Excess Liability Policy
(Based on 18-months)

Insurer	Premium
Lloyds Underwriters	$372,750

2. Medical Malpractice Policies

The Region currently carries a liability limit of $50 million for Medical Malpractice Liability. There are five insurers providing the $50 million limit, as noted in Table 4. The insurers have maintained their existing premium, keeping the total premium at $131,874. Medical malpractice is a complex and potentially high risk coverage to provide and the insurers therefore tend to protect themselves by taking on a smaller part of the risk. Clients layer the coverage using several insurance companies until the desired risk level is covered.

Table 4
Premium Quotations for Medical Malpractice Coverage
(Based on 18-months)

Insurer	Layer/Limits Provided	Premium
Creechurch International Underwriters	1st - $ 5,000,000	$37,500
Elliot Special Risks	2nd -$10,000,000	$39,817
Berkley Insurance Company	3rd - $10,000,000	$19,112
Arch Insurance Company Ltd.	4th - $ 5,000,000	$9,946
Medical Professional Liability Company	5th - $20,000,000	$25,499
TOTAL	$50,000,000	$131,874

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

3. Accidental Death & Dismemberment Policy

The Accidental Death & Dismemberment Policy (AD&D) coverage provides benefits for the Region’s Council members and their spouses in the event of an accident that results in death or bodily injury. The current policy is placed with AIG, with an expiring premium of $5,040. The Chubb Insurance Company of Canada and ACE INA Insurance Company were approached to provide quotations; however, they could not provide the same or better coverages than the existing policy. We recommend renewing with AIG at the same premium of $5,040.

Table 5
Premium Quotation for Accidental Death & Dismemberment Policy
(Based on 18-months)

Insurer	Premium
AIG	$5,040

4. Investment Advisors Errors & Omission Policy

The Investment Advisors Errors & Omissions policy provides coverage for liabilities associated with the investments made by the Region on behalf of "Move Ontario Trust" or other third parties such as local municipalities. Currently, the limit of liability for this policy is $5 million, with $100,000 self-insured retention for each loss. Travelers, Liberty International Insurance Company, and Zurich provided quotations, as shown in Table 6. We recommend renewing the coverage with the incumbent, Travelers, at a premium of $26,500.

Table 6
Premium Quotations for Investment Advisors Errors & Omissions Policy
(Based on 18-months)

Insurer	Premium
Travelers	$26,500
Liberty	$75,000
Zurich	$26,500

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

5. Aviation Policy

The Aviation policy provides physical damage and third party liability coverage for the York Regional Police (YRP) helicopter. Quotations were received from the current insurer, Allianz, and from Global Aerospace, as shown in Table 7. Although it is more expensive, the Global Aerospace quotation provides enhanced coverage elements. Both insurers have offered a retro adjustment for good claims experience, which may result in a return of premium of up to 15%. The Region had this option in place for the last policy term and received $3,990 in return premium in 2013. Global Aerospace also provides coverage for National Helicopter, the vendor who provides pilot services to YRP. Placing the Region's policy with Global Aerospace will reduce the likelihood of coverage gaps between the Region (police) as the helicopter owner and the service provider, National Helicopter, in the event of a loss.

Table 7
Premium Quotations for Aviation
(Based on 18-months)

Insurer	Premium	Coverage Elements
Allianz	$30,900	• Policy term of 15 months • Hull deductible $50,000 • $250,000 Sudden & Accidental Pollution
Global Aerospace	$35,957	• Policy term of 18 months • Hull deductible $30,000 • $500,000 Sudden & Accidental Pollution

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

6. Marine Policy

The Marine policy provides hull and machinery coverage for the vessels currently used in YRP operations. The insurance limit is $1,800,000, which is the approximate value of the vessels, with a deductible of $100,000. Third Party liability exposure is covered by the municipal liability policy. Zurich provided a quotation of $15,000. Travelers quoted $9,139, the same as the expiring premium, so it is recommended to renew with Travelers.

Table 8
Premium Quotations for Marine Policy
(Based on 18-months)

Insurer	Premium
Travelers	$ 9,139
Zurich	$15,000

The Region self-insures certain exposures such as environmental liability and reforestation

The Region self-insures specific exposures 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 replacement of damaged infrastructure (e.g., water mains, sewers, roadways, bridges) are exposures not covered under the Region’s insurance policies. Regular analysis of these exposures, including a review of the availability and cost of insurance, continues to support self-insurance. To be self-insured, specific funds must be set aside to cover losses. The Region maintains an insurance reserve for this purpose.

New policies are being recommended for emerging risks

There are two new areas of potential exposure where risk transfer through insurance should be considered: cyber risk and liability for employees sitting on committees or boards within and outside of the organization. As a result, policy quotations were secured for consideration for Cyber Liability and Directors'& Officers' Liability.

1. Cyber Liability

A Cyber liability policy would provide protection for electronic data (business and personal) exposure due to cloud storage and other electronic management of information. The Region stores and manages large amounts of data, some of which is private in nature.

The most comprehensive quotation was provided by ProRisk Underwriters (ProRisk). ProRisk quoted higher limits with the broadest coverage and fewest restrictions when compared to the quotations received from Axis Insurance Company (Axis) and Chubb Insurance Company of Canada. Table 9 outlines the coverages available to the Region. Only ProRisk can provide coverage for all of these exposures. ProRisk quoted $136,125 for a $5 million limit, with a self-insured retention of $100,000.

Table 9
Cyber Liability Policy Coverages

Policy Coverage	Coverage Definition
Network & Information Security	Third Party liability protection for damages arising from the failure of network security.
Multimedia Liability	Third Party coverage for wrongful acts committed in connection with communications and/or multimedia activities electronically or in print.
Privacy Liability	Third Party liability protection for losses arising from the organization's failure to protect sensitive personal or corporate information.
Data Breach Notification	Expenses to notify customers whose sensitive personal information has been compromised and to retain a computer forensics expert to determine the scope of a breach.
Crisis Management Expense	Coverage for costs associated with obtaining legal, public relations or crisis management services to restore the company's reputation in the event of a "network security" situation.
Business Interruption/Extra Expense	Expenses to continue operations resulting from a network system disruption. Coverage for loss of revenue that would have been earned and losses that would have been avoided.

Data Recovery	Costs to restore, re-collect or replace data that has been lost or compromised as a result of a network system attack/disruption/error.

2. Directors' & Officers' Liability

In the past, directors and officers exposure has been covered through a combination of negotiated wordings of the Municipal Liability Policy and through specific endorsements to the Errors and Omissions Policy. However, given the increasingly litigious environment, increased threat of joint and several liability as well as the growing involvement of staff on boards within the community, it is recommended that the Region consider adding a stand-alone Directors' and Officers' Liability Policy to avoid potential gaps or exclusions in coverages.

Integro approached eleven insurers on behalf of the Region seeking quotations for Directors' and Officers' liability; three provided quotations. A review of the policy wording was also conducted. AIG's policy provides the broadest and most comprehensive coverage. In addition to the Directors' & Officers' liability, AIG's quote includes Employment Practices Liability (EPL). EPL provides coverage for alleged wrongful employment practices, including wrongful dismissal, breach of contract, misrepresentation or violation of employment discrimination laws or wrongful discipline. These quotations are presented in Table 10. We therefore recommend the AIG coverage with a premium of $50,498.

Table 10
Premium Quotations for Directors' & Officers' Liability
(Based on 18-months)

Coverage Details	AIG Insurance Company of Canada	Arch Insurance Canada Ltd.	Ironshore Canada
Limit	$5,000,000	$5,000,000	$5,000,000
Deductible	$ 100,000	$ 100,000	$ 100,000
Employment Practices Liability	$1,000,000 sublimit	No coverage	No coverage
Premium	$ 50,498	$ 30,000	$ 72,750

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

The Owner Controlled Insurance Program provides specific coverage for large capital construction projects

An Owner (York Region) Controlled Insurance Program (OCIP) comprehensively insures capital construction projects through the direct placement of insurance policies by the Region. The cost of this insurance is included in the cost of the project when it is approved by Council. This program began as a pilot in 2007, and is now being used to provide insurance coverage for most major construction projects undertaken by the Region.

Treasury Office arranges and purchases project-specific coverages for construction projects through one of two delivery models, depending on the scope and complexity of the project:

Blanket Program

- Only for a contract with a value between $6 million and $100 million
- Project types to-date: Water and Wastewater, Roads, EMS & York Region Police Facilities
- Broker: Jardine Lloyd Thompson (JLT)
- Insurer: Zurich Canada

Individual (Non-blanket)

- Contracts with a value greater than $100 million or with unusual risks
- Large projects: Duffin Creek, Southeast Collector, OMSF
- Unusual risk projects: tunnelling, outfall pipes
- Broker: Marsh Canada and JLT
- Insurers: Northbridge, Totten Group, Lloyd’s, various others

The Region realizes a number of benefits from its direct purchase of specific construction project property and liability policies, rather than relying on the contractor’s own policies for coverage:

- More comprehensive and better defined coverage terms;
- Dedicated coverages and limits not shared with other projects or owners;
- Increased buying power and avoidance of additional costs (e.g., contractor profit/overhead); and
- Region retains control of claims process, allowing improved service to the public.

The OCIP Blanket program began in April 2011 and renews annually through JLT. Premium rates have not increased since inception, while the coverages provided have improved with each renewal.

Non-blanket projects are placed through Marsh or JLT on an individual basis depending on individual risk exposures and pricing considerations. The Region’s OCIP broker contracts will be reassessed through the RFP process in 2015.

Audit Services conducted a thorough review of the OCIP program and reported their findings to the Audit Committee in January 2014. The audit concluded the OCIP program "has had an estimated premium dollar savings to the Region of $4.692 million since inception in 2007" in addition to the program benefits noted above. However, the OCIP program also creates other costs to the Region that are difficult to quantify, including the additional staff time associated with managing claims and contractor deductible issues. The benefits and costs of the OCIP program will continue to be assessed as the program matures.

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 priority of managing the Region's finances prudently. Potential third party liabilities and losses 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 11 summarizes the recommendations made throughout this report for the Region's insurance policy needs effective July 1, 2014. (The recommendations are highlighted in the previous tables.)

Table 11
Summary of Policies for Renewal by Insurer (July 1, 2014 to December 31, 2015)

Policy	Insurer	Premium by Policy	Premium
Property	Travelers	$875,002	
Liability		$3,733,903	
Marine		$9,139	
Investments E&O		$26,500	$4,644,544
Excess Liability	Lloyds		$372,750
Medical Malpractice	Creechurch et al		$131,874
AD&D, D&O	AIG	$5,040	
		$50,498	$55,538
Aviation	Global Aerospace		$35,957
Cyber Liability	ProRisk		$136,125
	TOTAL		$5,376,788

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

The 2014 cost of the proposed insurance renewal has been provided for within the approved 2014 Budget.

6. LOCAL MUNICIPAL IMPACT

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

7. CONCLUSION

Renewing the Region’s insurance policies with a premium cost of $5,376,788 for another eighteen-month term will provide protection to assets and operations.

The potential savings from the increased self-insured retention level of $500,000 per claim due to premium and loss costs will remain in the insurance reserves.

The Region will continue to utilize its Owner Controlled Insurance Program for construction projects as appropriate.

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

The Senior Management Group has reviewed this report.