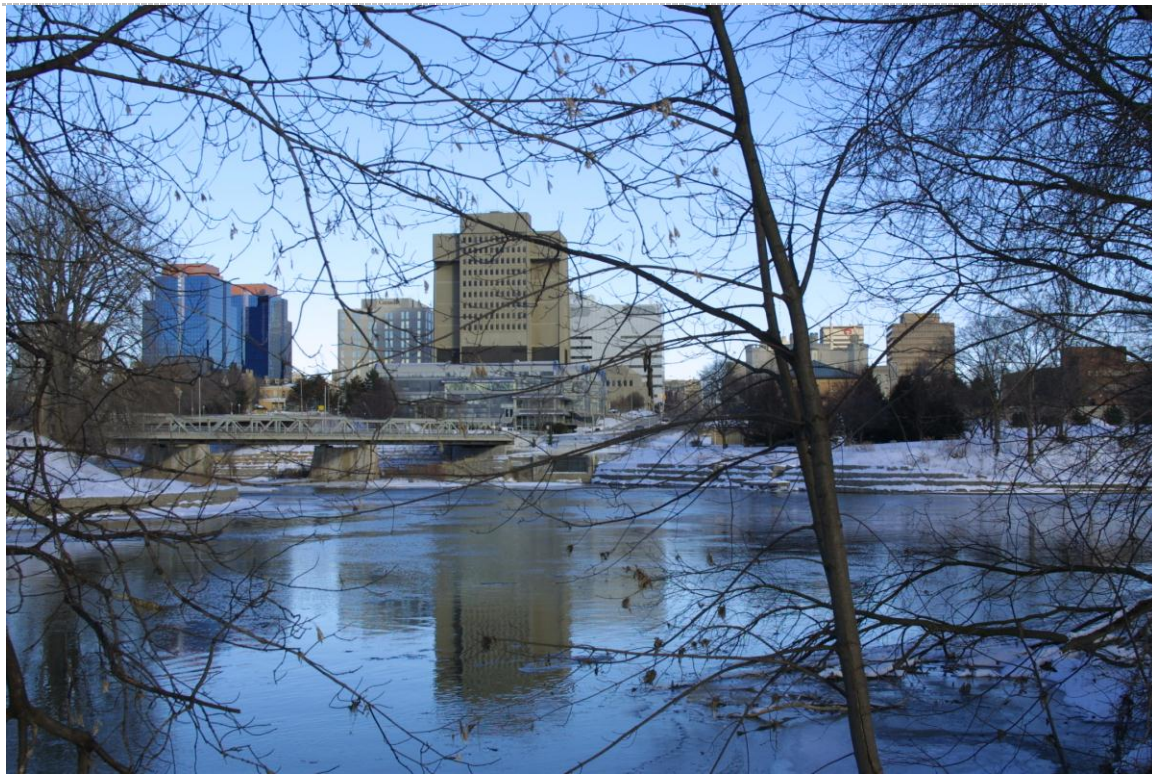


# 2012 ANNUAL RISK MANAGEMENT REPORT



**CITY OF LONDON**

**Risk Management Division**

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*RISK MANAGEMENT ENHANCES DECISION MAKING*

## EXECUTIVE SUMMARY

The Risk Management Division (the Division) mandate is “to protect the health, safety and welfare of the public, City Council, employees and its property, assets, reputation and other resources”.

The Division also provides services to the Corporation and Boards insured under the City’s corporate insurance program:

- London Convention Centre Corporation
- Covent Garden Market Corporation
- Eldon House Services Board
- London-Middlesex Housing Corporation
- London Public Library Board
- London Police Services Board
- Middlesex-London Health Unit
- Museum London
- Public Utilities Commission of the City of London
- Tourism London

And:

- Elgin Area Primary Water Supply System
- Lake Huron Primary Water Supply System

## RISK MANAGEMENT FOCUS

Historically, "Risk Management" was directed toward insurable risks - primarily the cost of insurance. Today attention is on the *overall cost of risk*. Risk exposures that create unexpected costs come from such things as environmental impairment, contract management, employment practices liability, and reputational harm.

Focusing risk management efforts on 'insurance buying' would seriously restrict the Division's benefit to the Corporation. The Division uses sound risk management practices

- Provides ongoing **risk management advice** on such topics as review of construction and special event contracts, leases, etc. to effectively address risk exposures and risk transfer to the City and insured City Boards
- **Administers claims** fairly and reasonably by determining liability and, where applicable, settling for a reasonable sum
- **Cost-effectively finances claims costs.** This includes
  - Transferring costs to other parties whenever possible,
  - Managing self-insurance reserve funds, and
  - Recovering costs for damage to City property

To identify the total cost of risk requires combining all of the costs related to risks of accidental or unexpected loss during the year.

### 2012 COST OF RISK

- |     |                     |   |
|-----|---------------------|---|
| (1) | \$3,358,091         | Claim payments, including direct expenses |
| (2) | \$17,435,091        | Reserves                                  |
| (3) | 2,203,839           | Insurance premiums                        |
| (4) | 268,165             | Administration                            |
| (5) | <b>\$23,265,186</b> | <b>Total Cost of Risk</b>                 |

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169,145      *Number of households*

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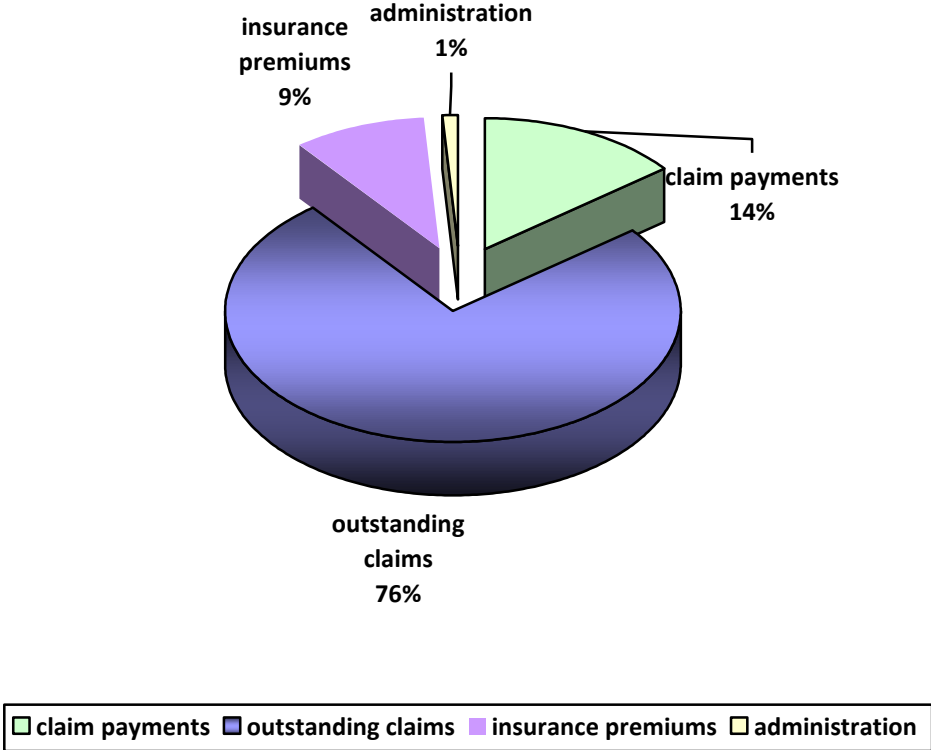
\$137.55      *Cost of Risk per household*

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PROPERTY-CASUALTY COST OF RISK CHART

Note – these costs exclude all WSIB claims.

2012 Cost of Risk



## **RISK FINANCING**

The most common method for transferring the cost of risk is through purchase of commercial insurance. A more detailed explanation of this category follows immediately below.

### ***COMMERCIAL INSURANCE***

The majority of the City's general insurance coverage is arranged through the Ontario Municipal Insurance Exchange, (OMEX). Additional insurance coverage is purchased for unique exposures (e.g. fine arts, farmers' market vendors, and the Regional Water Boards) through insurers who specialize in those risks.

Municipal insurance premiums continue to increase faster than private sector premiums. This results from higher claims frequency plus increasing awards at trial settlement. The Association of Municipalities of Ontario (AMO) has determined that the civil litigation principle of 'joint and several liability' in Ontario unfairly leads plaintiffs' to sue municipalities in cases where the potential for municipal liability is negligible on the basis that the municipality is a 'deep pocket'.

The total premium for the blanket insurance policies covering the City and insured local boards in 2012 was \$2,203,839.00 including provincial sales tax. The City's portion of this premium was \$1,378,833.00. The balance of the premiums was allocated amongst the Boards and Commission.

A summary of the 2012 commercial insurance policies purchased is attached in Appendix A.

### **ALTERNATIVE RISK FINANCING METHODS**

The Property-Casualty Self-Insurance Reserve Fund (SIRF) is a 'rainy day' fund that funds unanticipated risk costs within the deductible level and above the limit of insurance coverage. This 'self-insurance fund' allows payment of claims without affecting planned expenses under the operating and capital budgets. Every claim prevention strategy benefits the City as every claim dollar saved is a dollar the City keeps in the SIRF. In addition, internal claims handling of claims below the insurance deductible saves significant costs; plus citizens benefit from skilled investigations and by receiving prompt responses to their complaints/claims.

Risk Management staff also provide a valuable service to City Departments and Insured Boards by reviewing contracts with third parties for opportunities to transfer risk costs, to the greatest extent possible, thereby reducing financial exposure to the City from negligent errors or omissions during delivery of the contracted service. Examples include snow ploughing services, infrastructure maintenance and day care contracts.

**SELF-INSURANCE RESERVE FUND ADEQUACY**

Contributions to the SIRF in 2012 totalled \$2,702,722.00 from all sources while claims expenses totalled \$3,358,091.00 leaving a shortfall of \$655,369.00. The overall fund is still in a positive position at \$9,329,708.00. However, once outstanding and *incurred but not reported claims* are accounted for the fund was in a deficit position at year-end that amounted to \$4,381,402.

From time to time in past years, it was necessary to contribute surplus moneys to the SIRF to account for substantially higher claims costs than usual. This allowed the City to plan for costs that are outstanding plus anticipated incurred but not reported expenses. When that occurred the additional contributions have been from the City to the SIRF rather than additional contributions from participating Boards whose loss costs may have contributed to the short-fall.

The City engages an actuarial firm once every three years to evaluate loss costs and exposure trends and provide an indication to the amounts anticipated covering self-insured losses over the up-coming five years. An actuarial Request for Proposal is scheduled for 2013 and the results are expected by September 2013. Although there is a shortfall given the timing of the claims payments the fund can meet the current obligations'. Once the actuarial report is received, the results will be reviewed and funding levels re-examined to ensure there are at appropriate levels.

## CLAIMS ADMINISTRATION

### *CLAIM HANDLING AND ADMINISTRATION*

Internal administration allows for prompt, courteous contact with claimants. Every claim is reviewed to identify the extent of investigation required. Of key importance with third party liability claims is the likelihood of City/Board liability and the prospect for transferring part, or all, of the cost to a third party. City and Board colleagues' assistance enables investigations to be completed quickly, allowing a prompt response to claimants.

### *CLAIM FREQUENCY*

The number of claims are counted both by the *number of occurrences* over a specified period of time and by the *number of individual claimants* involved in those occurrences. For example, one heavy rain event is counted as one 'occurrence' but it may cause dozens, or even hundreds, of properties to suffer sewer backup.

The number of occurrences is an important indicator. Similar to 'shots on net' in a hockey game, the greater the number of shots - the more likely that one will score. Similarly, as the number of occurrences increase it is more likely that a severe, expensive claim will occur.

### *CLAIM COSTS*

Total annual claim costs are calculated by including all of the direct expenses attributable to each claim. These expenses include internal and external legal services, expert reviews and reports, property appraisals, and so on. From time to time a single claim significantly increases the overall cost for one financial period. When this occurs, it is often related to a bodily injury claim, primarily attributable to the injured person's need for expensive, possibly long term medical services, plus expected loss of future income.

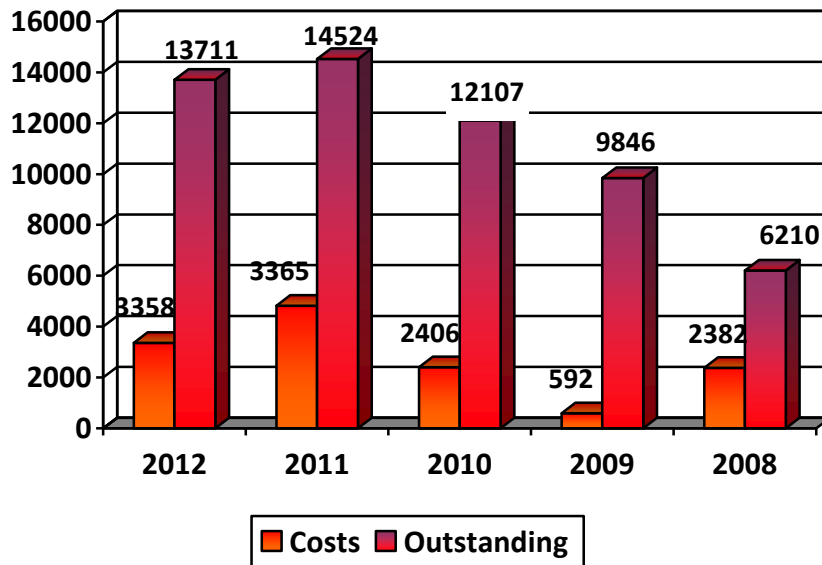
In line with insurance industry practices, the costs shown below reflect the year *in which the loss occurred*, regardless of the fiscal year when payments were actually made.



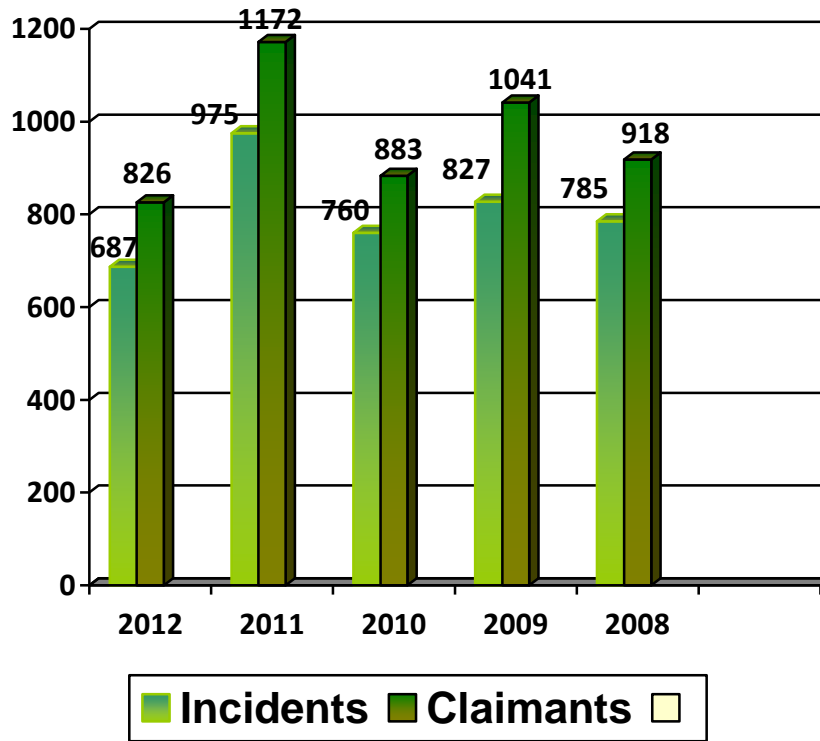
**PROPERTY-CASUALTY SELF-INSURANCE FUND**

The Property-Casualty Self-Insurance Reserve Fund (SIRF) is contributed to by all revenue-generating City services and the Boards who use the City’s risk management services. This SIRF cushions the City’s operations budget from the cost of losses below the deductible and above the amount of insurance purchased.

**Annual Claims Cost (000’s)  
(Property-Casualty)**



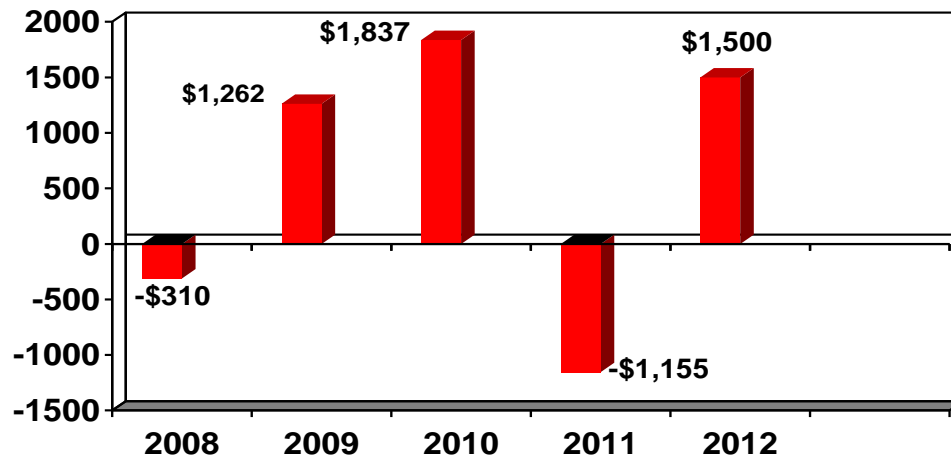
### Annual No. of Claims (Property-Casualty)



**WSIB CLAIM MANAGEMENT:**

WSIB claims are screened first by Human Resources to determine if the costs are substantial enough to be payable from the WSIB reserve fund. Those that are above the corporate deductible are referred to Risk Management to assess whether or not purchased insurance will cover part, or all, of the risk.

**WSIB Reserve Fund Balance  
at year-end 2012 (in 000's)**

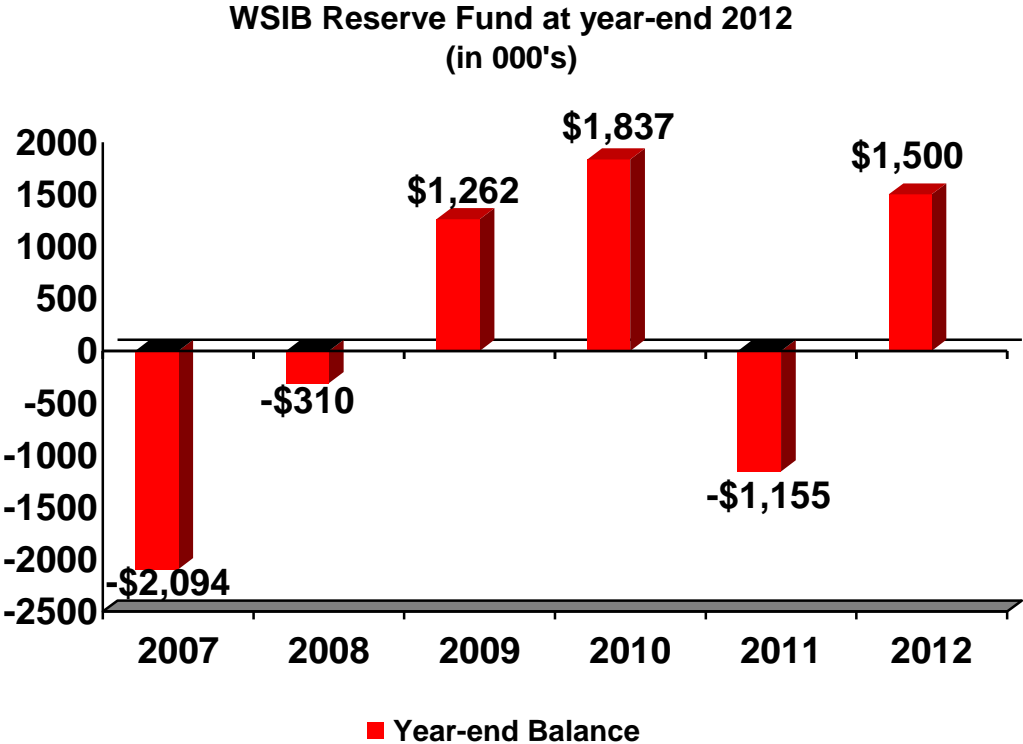
**WORKPLACE SAFETY SELF-INSURANCE RESERVE FUND**

Only the City and Police Services Board participate in this fund. The fund reimburses the respective organization for claims cost that exceed \$250,000.00 in any one injury or occurrence.

The surge in disease-related claims that resulted from Fire Services employees' exposure drastically increased expenses in the years 2004 to 2008. Increased cost monitoring, plus additional contributions have addressed the shortfall that was experienced over those years and the fund is now in a positive position.

Risk Management and Human Resources continue to monitor trends in WSIB law and claims practices for changes that may affect WSIB costs.

The chart below illustrates the cost volatility for individual WSIB claims in the level above the \$250,000.00 threshold.



## LOOKING FORWARD:

### *CLAIMS PROSPECTS IN DAYS OF ECONOMIC CONSTRAINT*

The greatest risk of unnecessary cost to municipalities' continues to be liability claims arising out of City of London services provided to its citizens. Injuries have the potential to be the least predictable and most costly. Ownership and maintenance of property inherently leads to claims alleging insufficient or improper maintenance.

At the service-delivery level, municipalities are held to a level of responsibility similar to that of all other citizens. There is protection in the courts for "policy decisions"; once those decisions are interpreted and implemented by administration the act of implementing and carrying out the decisions are subject to scrutiny and potential liability.

While most claims can be successfully defended, municipalities have great difficulty avoiding liability claims due to the variety of services delivered, statutory requirements and the public nature of decision-making processes.

Publicly acknowledging lack of sufficient resources to safely maintain roads, sidewalks, property or facilities may be an invitation for lawsuits from third parties who identify that weakness. As a result, Risk Management anticipates that the number of claims against the City will continue to rise, particularly as infrastructure repair, reconstruction and maintenance resources continue to be squeezed. While this will not immediately be reflected in increased expense, as those claims process through to settlement over the next several years, the cost of settling liability claims is expected to increase significantly.

## Appendix A

CITY OF LONDON  
2012 GENERAL INSURANCE PROGRAM

POLICY TYPE	BROKER / INSURER	LIMIT OF COVERAGE	DEDUCTIBLE
<b>ALL RISK PROPERTY, COMPUTER &amp; BOILER/MACHINERY</b>	OMEX / Royal Sun Alliance	All Property: \$1,327,240,703.	\$200,000.
<b>AUTO FLEET</b>	OMEX	\$50,000,000. Liability limit	\$250,000. Liability; \$100,000. Physical Damage
<b>CRIME (3-D BOND)</b>	OMEX / RSA	Employee Dishonesty & Depositors Forgery \$1,000,000. Loss Inside & Outside Premises - \$1,000,000. Counterfeit currency - \$1,000,000. Credit card forgery - \$1,000,000. Computer & Funds Transfer Fraud - \$1,000,000.	\$10,000. Except Credit Card Forgery - \$1,000.
<b>ENVIRONMENTAL LIABILITY</b>	OMEX	\$5,000,000. Limit per claim/ Annual Aggregate, claims made basis	\$500,000.
<b>ERRORS &amp; OMISSIONS</b>	OMEX	\$50,000,000. Limit, including Conflict of Interest & Defence Costs	\$500,000.
<b>EVENTS LIABILITY (Covers Event Organizers')</b>	LLOYDS OF LONDON	\$5,000,000. (Premium paid by event organizer)	\$500. (Deductible paid by event organizer)
<b>GARAGE AUTO LIABILITY</b>	OMEX	\$50,000,000.	\$250,000.
<b>GENERAL LIABILITY</b>	OMEX	\$50,000,000.	\$500,000.

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**2012 RISK MANAGEMENT REPORT****CITY OF LONDON**

<b>POLICY TYPE</b>	<b>BROKER / INSURER</b>	<b>LIMIT OF COVERAGE</b>	<b>DEDUCTIBLE</b>
		Including Councillors	
<b>GROUP ACCIDENT</b>	AON/Industrial Alliance	\$100,000. & \$200,000. Principal Sum	varies
<b>HEALTH CARE: PROFESSIONAL LIABILITY</b>	OMEX	\$25,000,000. sub limit of GL	\$500,000.
<b>NON-OWNED AUTO</b>	OMEX	\$50,000,000.	varies