

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON MONDAY, JULY 22, 2014
FROM:	JASON WILLS MANAGER III RISK MANAGEMENT
SUBJECT	SUPPLEMENTAL ASSESSMENT LEVIED BY ONTARIO MUNICIPAL INSURANCE EXCHANGE

RECOMMENDATION

That, on the recommendation of the Risk Manager, with the concurrence of the Managing Director, Corporate Services & City Solicitor and the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the Civic Administration BE DIRECTED to include appropriate funding within future draft budget submissions to address insurance costs, which are increasing globally and affecting all Ontario municipalities.

BACKGROUND

The City of London has been a member of the Ontario Municipal Insurance Exchange (OMEX) since January 1, 2003. OMEX is not a traditional insurer, but a reciprocal. A reciprocal brings all of its insured's together as members to enhance premium savings and communication with the insurer compared to traditional insurers.

In accordance with the Insurance Act and regulations, insurers are required to apply what is known as the Minimum Capital Test (MCT) to establish adequate reserves required to satisfy existing and future claims. All insurers are required to maintain appropriate reserves. Differences in how reciprocals and traditional insurers deal with situations are significant. Traditional insurers increase renewal premiums for all insured's if reserves prove to be inadequate. Reciprocals charge premiums that reflect the estimated cost of claims and administration. Reciprocals are a not for profit organization and insurance rates reflect the true costs of claims without a profit factor. Short fall in reserves from realized claims costs are recovered through supplemental assessment.

A supplement assessment is additional premium for specific underwriting group over the and above the original premium charged for the underwriting period.

2014 Supplemental Assessment:

On April 28, 2014 OMEX informed all of its members that the OMEX Board of Directors had approved a supplementary assessment, with London's share being **\$950,124.00** plus PST. This assessment was in response due to rising damage awards in Ontario, which in turn required OMEX to pay larger settlements. OMEX has seen a number of claims grow far beyond the reserves previously funded.

Attached as Appendix "A" is a copy of the correspondence provided by OMEX related to this assessment.

This assessment covers the eight year period 2005 through 2012. This amount is payable in five annual interest-free instalments of \$190,025.00 beginning in 2015. Former members of OMEX are subject to a three-year, interest-bearing payment schedule beginning immediately. Payments for members who leave OMEX during the five-year payment period will convert to an interest-bearing account in line with other former members.

Finance and Corporate Services have advised that the full amount of this assessment was booked as an expense and accrued as a liability in the fiscal year 2013 and therefore will be reflected in the 2013 financial statements. The liability will be reduced each year from 2015 through 2019 until the entire amount of the assessment is paid.

--	--

Insurance Market review and actuarial reports:

The Risk Management division obtained a review of insurance market conditions with its broker Marsh Canada through an analysis of premiums paid by the City to OMEX for the five year period January 1, 2010 through December 31, 2014, comparative to expected premiums in the traditional market.

The Insurance Premium review estimates that participating in the OMEX Reciprocal has saved The City of London in the past 10 years approximately 176% over the premium that would have been paid in the Traditional Insurance Market. This includes OMEX Premium Assessment charges for Unfunded Liabilities.

Attached as Appendix “B” is a copy of the estimate chart provided by Marsh.

Rising insurance costs are being incurred by municipalities through premiums and claims settlements. Analysis of the City’s property/casualty and WSIB liabilities was completed by Oliver Wyman Actuarial Consulting. The report summary forecasts losses in excess of existing reserving practices for both Self Insured Reserve Funds. A report on this issue will be forthcoming later this year.

2015 Insurance Renewal:

Members of OMEX enjoy continued insurance coverage unless and until OMEX is advised of the municipality’s intent to terminate the relationship in accordance with the terms of the OMEX subscribers’ agreement.

The total 2014 renewal premium for all policies by OMEX for the City and insured Boards combined is \$3,094,696.00, which represents an increase of approximately 25% over the 2013 premium.

Based on experience and discussions with other municipalities it has become evident that insurance premiums for the municipal sector are increasing at a faster pace generally than the commercial insurance market. London’s premiums including retroactive premiums were compared with premiums paid by municipalities of similar size, operations and claims history as London, and were found to be very reasonable compared to our peers. At this time, it is anticipated the city could expect to see a 14% increase to its 2015 insurance premium.

Our findings suggest London’s premium including assessments is reasonably priced. The City of London is required to notify OMEX of termination of the insuring agreement by October 1 2014 if we switch insurers. Based on the premium savings incurred, we recommend renewing with OMEX for 2015, however, Risk Management will continue to monitor the insurance market to ensure adequate premium and reasonable insurance coverage is continued.

Conclusion:

This assessment is unwelcome news, but should not detract from the excellent service and savings London receives through its membership with OMEX. The rationale for retroactive premium is in line with what could have been expected from the traditional market during the same time frame.

Insurance costs are rising globally and this affects all Ontario municipalities. This trend is expected to continue. Our current analysis for the 2015 budget indicates a 14% premium increase. A review of the current funding method for insurance costs will transpire to ensure proper funding is being applied to counter local and global insurance trends. Supplemental contributions to the self-insurance reserve fund, WSIB reserve fund, and reserving for future assessments also need to be considered.

Agenda Item #

Page #

PREPARED BY:	CONCURRED BY:
JASON WILLS MANAGER III RISK MANAGEMENT	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
RECOMMENDED BY:	
JAMES P. BARBER MANAGING DIRECTOR, CORPORATE SERVICES & CITY SOLICITOR	