OMEX
ONTARIO MUNICIPAL
INSURANCE EXCHANGE

RISK MANAGEMENT

DATE APR 3 0 2014

REF: ______________

April 28, 2014

Mr. Jason Wills
Manager, Risk Management
City of London
520 Wellington St., Unit #1, P.O. Box 5035
London, ON N6A 4L9

Dear Jason,

I am writing to advise you that the Board of Directors of the Ontario Municipal Insurance Exchange (OMEX) has approved a supplemental assessment for seven underwriting groups, between 2002 and 2012. This assessment is required because damage awards in Ontario continue to grow, and OMEX has had to pay larger settlements as a result. Specifically, OMEX has seen a number of claims grow far beyond the reserves previously funded. The assessment is payable according to an installment schedule beginning in 2015.

Under the *Insurance Act,* OMEX must maintain sufficient reserves to fund the full cost of all known and potential claims. In addition, the Financial Services Commission of Ontario (FSCO) requires reciprocals to maintain prescribed levels of capital reserves. The regulatory "Minimum Capital Test" was first imposed on Ontario reciprocals in 2005 and capital requirements continue to grow. This need for additional capital reserves, as well as the number and severity of large damage awards, could not have been foreseen or accounted for in the original funding models.

While we appreciate that this assessment is unwelcome news, it does reflect current realities for municipal insurance, as insurance costs across Ontario are increasing at an alarming rate.

- **Municipalities are being sued more frequently and settlements are larger.**
- **Joint and Several Liability exposes municipalities to greater risks.** The 1% liability rule often leaves municipal governments financially liable for the full amount of settlements, even when another party is as much as 99% responsible.
- **Individual claims and class action lawsuits have become more complex, taking longer to defend or settle.** This drives up legal fees, even when a municipality is innocent.
- **Claims related to changing weather patterns and extreme weather events have increased dramatically**. This has increased costs for risk-management tools, such as stop-loss protection and reinsurance.

Insurance costs are rising globally and this is affecting all Ontario municipalities. Traditional insurers can respond to unanticipated growth in insurance costs by increasing their annual premiums, by requiring higher deductibles, or by restricting policy coverage. Once increased, the premiums they charge rarely decline. Insurance reciprocals respond to unanticipated growth in insurance costs by issuing stand-alone assessments, if and only when they are required.

20 Valleywood Dr, Unit 105, MARKHAM ON L3R 6G1 *Tel:* 905.480.0060 *Toll Free: 1.888.880.6639 Fax: 905.480.0081 www.omex.org*

Reciprocals hold premium and assessment income in reserve and draw down from them to pay claims as needed. If funds remain once an underwriting period is closed, the reserves are returned to subscribers. For example, OMEX returned $17 million in unused reserves to former subscribers for underwriting periods between 1989 and 1995. From 1996 onwards, several underwriting years do not have any open claims. OMEX is currently reviewing those years with the aim of closing those underwriting groups and returning unused reserves to the contributing municipalities.

Under the terms of the Reciprocal Agreement, your municipality's total share of this assessment is $950,124.00, plus PST. As a current member of OMEX, your municipality may choose to make a payment for the full amount of the assessment in January 2015, or through a 5-year, interest-free payment plan. Should your municipality wish to make a payment for the full amount in January 2015, we ask that you please notify Bill Bishop, Director of Finance and Administration at bill@omex.org prior to December 2014.

Should your municipality opt to make payment through a 5-year, interest-free payment plan, the first instalment will be invoiced in **January 2015** and the final instalment would be invoiced in **January 2019**. This payment schedule is intended to allow you to include the annual instalment in your future budgets. If you should terminate your membership in OMEX at any time during this 5-year period, your payment plan reverts to a 3-year, interest bearing plan. Please note that no payment plan for former subscribers is allowed to extend past January 2017. In the event that your municipality should leave OMEX after December 31, 2016, the remaining outstanding balance will be invoiced in full.

OMEX was created to serve Ontario municipalities and provides unmatched understanding of municipal insurance needs. Its insurance rates reflect the true costs of claims, managed on a not-for-profit basis. As a part owner, you know that your insurance provider is a transparent and accountable partner in managing your risks and related costs. Reciprocal members have also enjoyed greater control over their insurance coverage, and opportunities to create more sophisticated risk management programs.

We appreciate the loyalty and support of our municipal members. They ensure that all municipalities have choices and alternatives to traditional insurance products. They also support OMEX's advocacy for changes, such as liability reform, that will help all Ontario municipalities to lower their insurance costs.

Please don't hesitate to contact Linda Boyle or Bill Bishop if you have any questions or require further information about your municipality's unfunded liability, this assessment or its payment schedule.

Sincerely,

Peter Honeyborne
Board Chair

Linda Boyle
Executive Director

2014 Assessment - City of London

Year	General Liability and Errors & Omissions	Automobile and Automobile Transit	Property, Boiler & Machinery, Crime	Total
2002	$0	$0	$0	$0
2003	$0	$0	$0	$0
2004	$0	$0	$0	$0
2005	$172,167	$44,512	$0	$216,679
2006	$0	$0	$0	$0
2007	$0	$0	$0	$0
2008	$59,836	$0	$0	$59,836
2009	$0	$0	$0	$0
2010	$365,981	$0	$0	$365,981
2011	$138,413	$95,413	$0	$233,826
2012	$73,802	$0	$0	$73,802
TOTAL	**$810,199**	**$139,925**	**$0**	**$950,124**

ANNUAL PAYMENT BASED ON 5 YEAR PLAN
(Non-interest bearing)

2015	$190,025	
2016	$190,025	
2017	$190,025	
2018	$190,025	
2019	$190,024	
	$950,124	**Total assessed**

FAQ for the Supplemental Assessment

What is OMEX?

The Ontario Municipal Insurance Exchange (OMEX) is the licensed reciprocal insurer for Ontario municipalities. Insurance reciprocals are not-for-profit organizations owned by their members. OMEX members pool their coverage, sharing in the risks and rewards of working together to manage insurance costs.

Since 1989, OMEX has been devoted exclusively to providing municipalities in Ontario with insurance programs at costs that reflect the true cost of claims.

How do Reciprocals operate?

Insurance reciprocals are licenced by Ontario's Superintendent of Insurance and, as with traditional insurers, are subject to the scrutiny of a regulatory body known as the Financial Services Commission of Ontario (FSCO). Reciprocals operate much like traditional insurers: policies are issued; premiums are charged; reinsurance is purchased; adequate reserves are held to cover claims; and claims are managed, defended and paid. Reciprocals, however, are not-for-profit organizations, so the premiums they collect reflect only the cost of estimated claims and administration.

What is FSCO and what role does it play?

The Financial Services Commission of Ontario is a regulatory agency of the Ministry of Finance that regulates insurance, pension plans, loan and trust companies, credit unions, caisses populaires, mortgage brokering, and co-operative corporations in Ontario. FSCO's primary role is to ensure that financial institutions have sufficient capital to fulfill their obligations.

How does a Municipality become a member of OMEX?

Membership in OMEX is voluntary. Municipalities sign a Reciprocal Agreement when they join. The Agreement outlines how the reciprocal will operate and the contractual relationship, including the formula by which OMEX members agree to participate in sharing the risks and the rewards of reciprocal membership.

What is Continuing Liability – why am I obligated to pay for past years?

Members agree to be responsible for costs associated with all of the underwriting periods that they participate in. This continuing obligation means that the member will pay their proportionate share of costs according to the formula set out in the Reciprocal Agreement. This obligation remains until that underwriting period is closed by the Board of Directors. An underwriting period can typically span many years because liability claims are often complex. The underwriting period must remain open until all outstanding liabilities have expired.

How do I keep track of my Municipality's financial position within OMEX?

OMEX appreciates that municipalities need to have transparent access to good financial information. All members receive a formal summary of their financial position in July of each year. It is based on the most recent year end.

What is a supplemental assessment?
A supplemental assessment is additional premium for a specific underwriting group, over and above the amount originally charged for the underwriting period. OMEX provides its municipal members insurance at cost, on a not for profit basis If the premiums that have been paid in the past are insufficient to cover the actual liability for an underwriting period, the reciprocal has a responsibility to issue members a supplemental assessment to ensure that the underwriting period is adequately reserved.

How does the Reciprocal minimize the need for assessments?

- The Reciprocal purchases reinsurance and stop loss protections, which reduces financial exposure to members by transferring a portion of their liability to reinsurance markets.
- OMEX provides information and analysis that improves risk management for its members and for the reciprocal as a whole.
- OMEX combines municipal insurance experience with expert actuarial analysis to make realistic, long-term projections of an underwriting group's potential liabilities.
- Strong underwriting when insurance policies are first issued helps ensure realistic premiums are in place.
- OMEX advocates for legislative and regulatory changes that would benefit all Ontario municipalities by reducing liability and related costs.

Why is the 2014 assessment needed?

- Damage awards in Ontario continue to grow and OMEX has seen a number of claims grow far beyond the reserves previously funded.
- Under the Insurance Act, OMEX must maintain sufficient reserves to fund the full cost of all known and potential claims.
- The Financial Services Commission of Ontario requires reciprocals to maintain prescribed levels of capital reserves. These capital requirements have been increasing.
- This need for additional capital reserves, as well as the number and severity of large damage awards, could not have been foreseen or accounted for in the original funding models.

Why charge an assessment when there is already a surplus?
OMEX must maintain sufficient reserves to fund the full cost of all known and potential claims. A number of claims have grown far beyond the reserves previously funded. As a result, increased reserves are needed to meet regulatory requirements.

Why have municipal claim costs been growing?
Damage awards have been growing for a number of reasons:

- Municipalities are being sued more frequently and settlements are larger.
- A legal convention known as 'joint and several liability' is exposing municipalities to greater risks.
- Individual claims and class action lawsuits have become more complex, taking longer to defend or settle.

- Claims related to changing weather patterns and extreme weather events have increased dramatically.

How do traditional insurers deal with growing claims?
Traditional insurers respond to unanticipated growth in insurance costs by increasing their annual premiums, requiring higher deductibles and/or restricting policy coverage. Once increased, the premiums they charge rarely decline until market pressures dictate a reduction.

How does a reciprocal deal with growing claims?
When unanticipated growth in insurance costs for certain underwriting periods requires OMEX to increase reserves, it issues a supplemental assessment to municipalities that were members during those underwriting periods. Supplemental assessments are only issued if and when, they are required. Furthermore, they are a temporary charge, targeted to a specific time period.

What is the reciprocal advantage relative to traditional insurers?

- As a not for profit reciprocal, OMEX returns unused premium reserves to the participating members once an underwriting period has been closed.
- OMEX's driving priorities are coverage of members' claims and member satisfaction. For traditional insurers, the driving priority is profit.
- Your insurance rates reflect the true costs of your claims, without a profit factor.
- As a part owner, you know that your insurance provider is transparent and accountable.
- OMEX offers specialized support services to help members manage risks and our products are tailored specifically to municipal needs.
- The Board of Directors and Audit Committee are both composed of representatives from member municipalities.
- OMEX provides additional value to members through advocacy and leadership on municipal insurance issues, such as setting Minimum Maintenance Standards in Ontario and placing reasonable limits on joint and several liability.

Do I have to pay a supplemental assessment immediately?
If a Supplemental Assessment is required, OMEX's Board of Directors normally provides affected municipalities with a multi-year payment plan. OMEX's Board is made up of municipal managers who appreciate the need to plan and budget for expenditures.