

# RISK MANAGEMENT ANNUAL REPORT



**CITY OF LONDON**

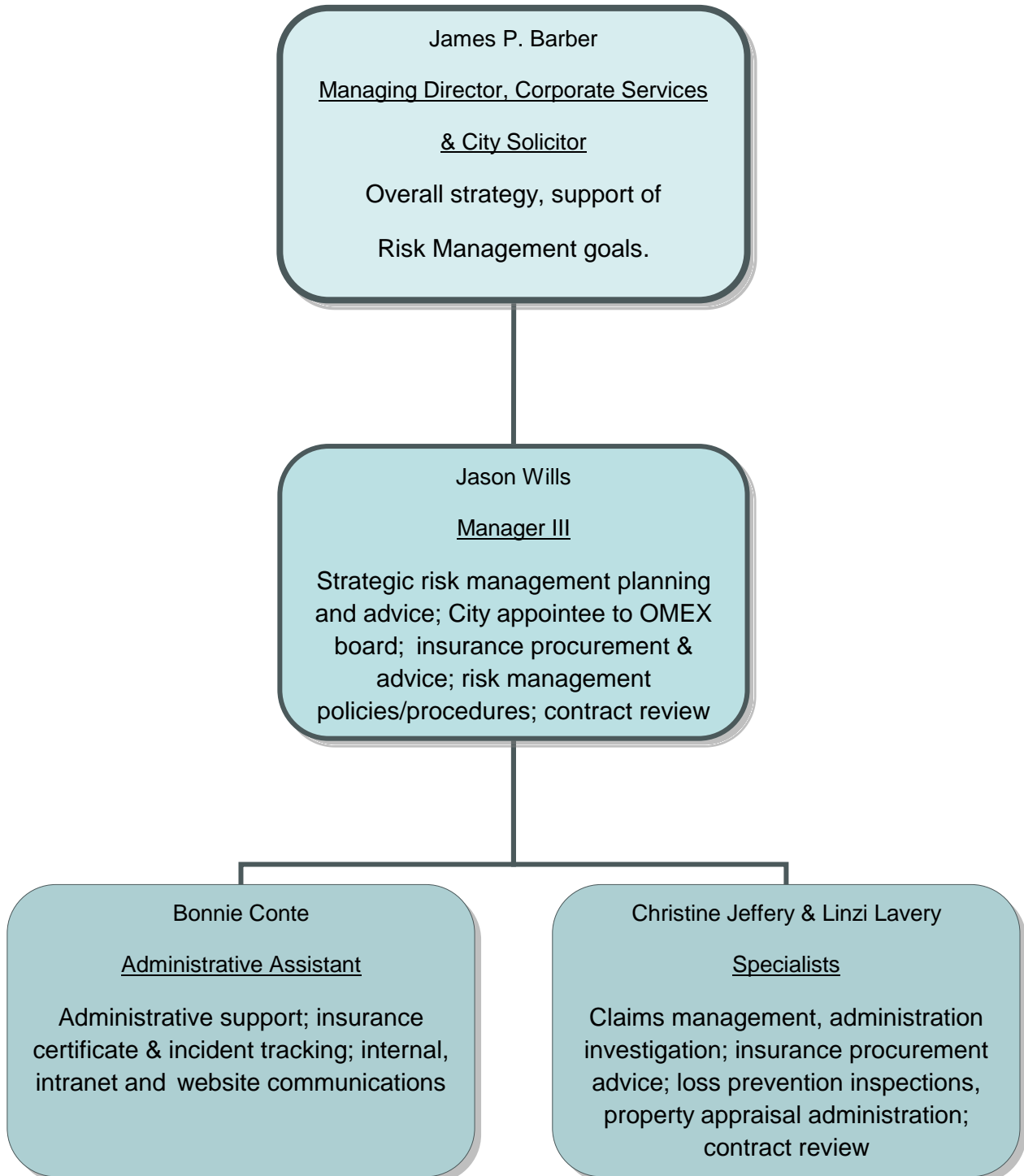
THIS REPORT REPRESENTS A CURRENT DATA ANALYSIS OF STATISTICS FOR 2013 AND INCLUDES FOR COMPARISON PURPOSES, INFORMATION FROM THE PREVIOUS FOUR YEARS.

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## THE RISK MANAGEMENT DIVISION

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## **OVERVIEW & OBJECTIVES**

The objective of the insurance and risk administration function within the City of London is to prevent personal or financial loss, and to maintain a prudent minimum cost of managing risk, defined as losses assumed under self-insurance and retention programs, insurance premium costs, and the cost of risk management administration.

The City provides a wide range of services to the community, all of which are recognized to present some level of risk. The Risk Management Division is committed to the administrative process of regularly identifying and assessing these risks and supporting appropriate action to prevent or minimize the affect risk has on service delivery. Through this process, Council will better achieve its corporate objectives and enhance the value of services provided to the community.

Each employee and manager of the City of London is required to show the highest possible concern for the safety of fellow employees, members of the public, and to do his/her utmost to prevent losses of the City of London's assets.

The objectives of the Risk Management Division are to:

- Embed risk management into the culture and operations of Council and the administration.
- Adopt a systematic approach to risk management as an integral element of service planning and performance management.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Ensure departments have clear accountability for both ownership and cost of risk and the tools to effectively manage risk.

## **CURRENT LOSS PREVENTION ACTIVITIES**

In order to prevent, limit or manage asset losses and liability exposures, risk management practices are utilized to identify the potential risks, understand the sources of the risks, apply loss prevention measures, and then educate/train staff on managing risk. Current activities include:

- Conducting physical site inspections to identify potential areas of risk and to recommend preventative measures;
- Conducting comprehensive risk analysis of corporate functions to identify and select feasible risk control techniques;
- Risk assessments of proposed operations or activities during their planning stage;
- Education and training.

An education and training program will be maintained for all staff through the following venues:

- Delivery of risk management seminars using outside experts and/or knowledgeable staff on relevant risk strategies;
- Internal advice on risk management best practices and experiences.

## **RISK MANAGEMENT FOCUS**

The Division's use of risk management practices are to minimize uncertain financial risk and promote an embedded risk management culture.

In keeping with past reports, the Division records the annual Cost of Risk by identifying and combining all of the costs related to risks of accidental or unexpected loss throughout the year. The capturing of this cost is focused on the management of insurance and claims financing and is illustrated in the following table.

**RISK MANAGEMENT REPORT**

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**COST OF RISK**

(1)	\$3,931,922	Claim payments, including direct expenses
(2)	\$14,982,585	Reserves (All open claims)
(3)	\$2,474,181	Insurance premiums
4)	\$296,944	Administration
(5)	<b>\$21,685,632</b>	<b>Total Cost</b>

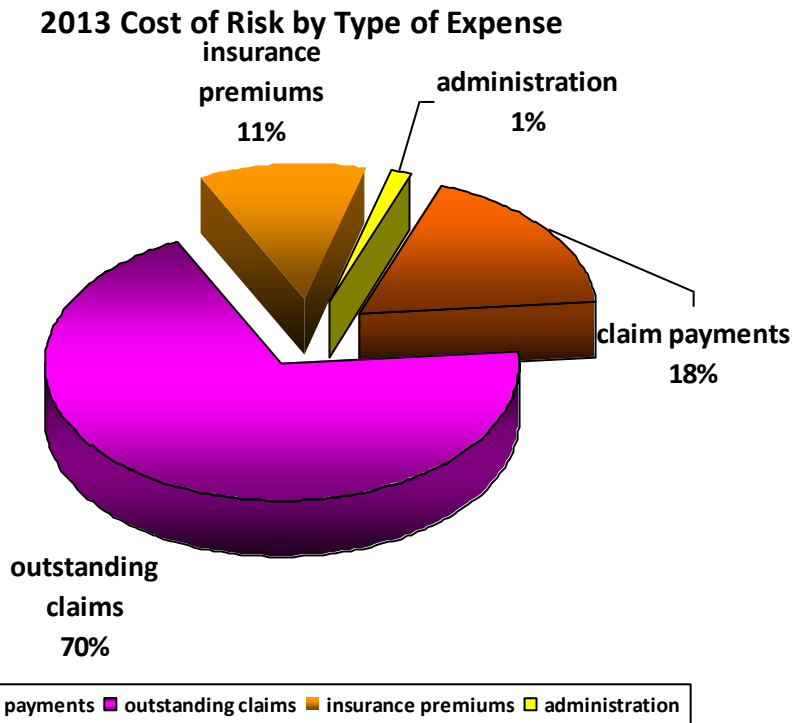
***COST OF RISK  
PER HOUSEHOLD***

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***Number of households:  
2013= 170,543***

***Cost of risk per  
household  
\$127.16***

**PROPERTY-CASUALTY COST OF RISK BY TYPE OF EXPENSE**



*NOTE*

– THIS CHART DOES NOT INCLUDE WSIB CLAIMS OR OTHER LOSSES NOT HANDLED BY RISK MANAGEMENT.

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## RISK FINANCING

### RISK TRANSFER BY CONTRACT

The Corporation, with advice from the Division as required, will transfer some or all risk of loss or liability to others when appropriate through;

- vendor contracts and;
- limiting contractual risk obligations of the Corporation.

#### *Vendor Contracts*

All vendor contracts prior to their execution are reviewed to ensure that the following practices are adhered to:

- An Indemnity Clause included in the contract, whereby the vendor is held responsible for losses or liability for which it is the direct cause;
- Adequate insurance coverage and limits as determined by the Division, is maintained by vendors as confirmed through a 'Certificate of Insurance' where the Corporation is named as an Additional Insured on their policy. Such certificates are tracked by the Division through the use of an internal insurance certificate registry;
- Warranties included in the contract to extend the liability of a vendor for certain damages under certain circumstances for a specified period of time, as required;
- WSIB coverage or Employer's Liability are confirmed where others (the vendor and its employees) are conducting work on behalf of the Corporation. In the event that personal injury should occur while conducting the work, the cost of this exposure rests with the contractor through WSIB or Employers Liability coverage and not with the Corporation;
- Performance Bonds and/or Material & Labour Bonds are obtained and maintained for construction projects where the completion of such projects are essential to the operations and commitments of the Corporation and Limiting Contractual Risk Obligations of the Corporation.

Obligations of the Corporation are reviewed prior to the execution of all contracts to ensure the risk exposure to the Corporation is limited through:

- Appropriate Indemnity Clause wordings which limit the liability of the Corporation;
- Restricting the availability of insurance guarantees and/or information.

**COMMERCIAL INSURANCE**

The most common method for transferring the cost of risk is through the purchase of 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, group travel accident and the Regional Water Boards) through insurers who specialize in those risks.

The total premium for the blanket insurance policies covering the City and insured local boards in 2013 totalled \$2,474,181.52, including provincial sales tax. The City's portion of this premium was \$1,439,429. The balance of the premiums was allocated amongst the Boards and Commission.

A summary of the 2013 commercial insurance policies purchased is attached in Appendix A.

**SELF-INSURANCE RESERVE FUND**

Risk Management utilizes alternative risk financing methods by maintaining the Property-Casualty Self-Insurance Reserve Fund (SIRF). The SIRF is a fund for unanticipated risk costs within the deductible level and above the limit of insurance coverage. This 'self-insurance fund' allows payment of claims without adversely 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 retains in the SIRF.

The SIRF is contributed to by all revenue-generating City services and the Boards who use the City's risk management services. Contributions to the SIRF in 2013 totalled \$3,289,871. Claims expenses paid were \$3,931,922. This left a shortfall of \$642,051. The overall fund is still in a positive position at \$9,870,394. However, in comparison to the outstanding reserves there would be a deficit position if all claims were to be paid today.

In prior years it was necessary to contribute surplus moneys to the SIRF to account for substantially higher claims costs than usual. The challenge with this approach is that there are times when budgets are very tight and the amount available to contribute may not be sufficient to off-set current expenses.



In 2013 an actuarial consultant, Oliver Wynman Actuarial Consulting Inc. was engaged to conduct an analysis of the Property-Casualty claims history to evaluate projected claim costs against the SIRF for losses over the up-coming five years. In response to their findings and recommendations, the Division is working with the City Treasurer in preparing a business case for appropriate supplemental funding based on claim trends and the actuarial assessment.

## **CLAIMS ADMINISTRATION**

Claims are managed in accordance with procedures established by the Risk Management Division in such a manner as to meet or surpass the Corporation's customer service standards and/or its obligations to our insurer.

Internal administration enables investigations to be completed efficiently while avoiding the expense associated with independent adjusting firms. This also allows the Division to have intimate knowledge of City services and strong rapport with staff.

It is the Division's practice to resolve claims in the best interest of the Corporation in a fair and consistent manner, and in compliance with all appropriate legislation.

Arbitration, mediation and/or litigation of claims are used in order to meet the objectives of the Risk Management Policy.

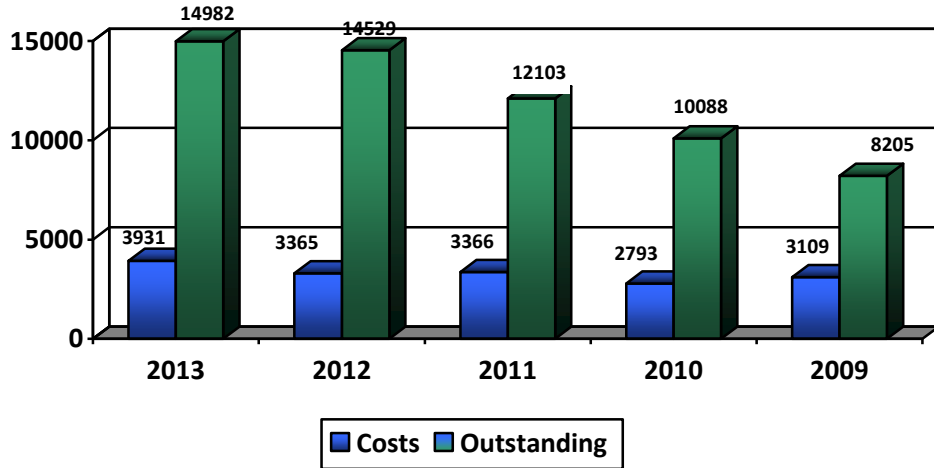
### **CLAIM FREQUENCY**

The number of claims are counted both by the number of occurrences over a specified period of time and the by the number of individual claimants involved in the occurrences. The overall annual average number of occurrences and claims has increased over the past five years and is particularly evident in years where extreme weather events have occurred. The average number of claims made per year is 973. The lowest year was 2012 with 766 and the highest was 2011 with 1213.

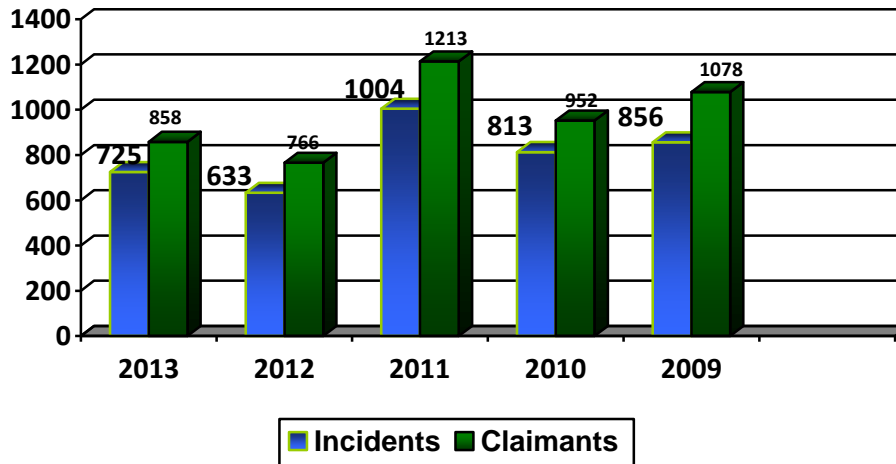
### **CLAIM COSTS**

Annual claim costs are calculated by including all of the direct expenses attributable to each claim. Some of these expenses include internal and external legal services, expert reviews and reports, property appraisals, surveillance, etc.

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



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



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The cost of claims is increasing as are the number of claims in excess of our deductible. Given these trends, the future insurance premiums will likely increase as well.

## **SUMMARY**

Moving forward the Division will focus on efficiency in claims management and proactive communication with Divisions and Departments associated with high claim frequency within their service area. We will also conduct a review of our insurance placement for best coverage and price in 2015

The Division has implemented a new Claims system called Clear Risk. The system is a Claims & Insurance Certificate Management system allowing users to track, manage and report on all claims and incidents within the organization. With asset management built into the platform, we can link claims and incidents directly to properties, policies, vehicles and departments allowing for robust reporting to service areas. The added Certificate Management module allows the Division to manage all certificates of insurance and automate the entire process through workflows and digital form submissions. We believe the new system will enhance our ability to be efficient and effective in carrying out our mandate.

Municipal sector claims are challenging due to Joint & Several Liability law. It was recently announced by the Ministry of the Attorney General that effort to reform Joint and Several Liability has been abandoned. Ontario is one of the few remaining provinces that have not changed the limits around the 1% rule. This need for change will not be dropped by AMO, but road to change is long. OMEX among many municipal insurers will continue working with AMO to revive this important issue.

The Risk Management Division provides valuable service to City Departments and Boards. Due to complexity and size of the Corporation, insurance and claims administration is best served by in-house Risk Management. Risk awareness is critical to controlling the cost of risk and the Division looks forward to working cooperatively with all service areas and Boards.

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**Appendix A**

**CITY OF LONDON  
2013 GENERAL INSURANCE PROGRAM**

<b>POLICY TYPE</b>	<b>BROKER / INSURER</b>	<b>LIMIT OF COVERAGE</b>	<b>DEDUCTIBLE</b>
<b>ALL RISK PROPERTY, COMPUTER &amp; BOILER/MACHINERY</b>	OMEX / Royal Sun Alliance	All Property: \$1,452,791,972.	\$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 - \$10,000. 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)

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<b>POLICY TYPE</b>	<b>BROKER / INSURER</b>	<b>LIMIT OF COVERAGE</b>	<b>DEDUCTIBLE</b>
<b>GARAGE AUTO LIABILITY</b>	OMEX	\$50,000,000.	\$250,000.
<b>GENERAL LIABILITY</b>	OMEX	\$50,000,000. Including Councillors	\$500,000.
<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

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