

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON TUESDAY, OCTOBER 6, 2015
FROM:	JASON WILLS MANAGER III, RISK MANAGEMENT DIVISION
SUBJECT	REQUEST FOR PROPOSAL 15-21 GENERAL INSURANCE PROGRAM

RECOMMENDATION

That, on the recommendation of the Manager III, Risk Management Division and Managing Director, Corporate Services & City Solicitor and the Managing Director, Corporate Services, and with concurrence by the City Treasurer, Chief Financial Officer, the following actions **BE TAKEN**,

1. The proposal submitted by Frank Cowan Company Limited, 75 Main Street North Princeton, ON N0J 1V0, at a total annual premium of \$2,340,943 plus Tax, **BE ACCEPTED**,
2. That Civic Administration **BE AUTHORIZED** to undertake all the administrative acts which are necessary in connection with this contract.
3. The approval hereby given **BE CONDITIONAL** upon the Corporation entering into a formal contract or issuing a purchase order relating to RFP15-21.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Supplemental Assessment Levied By Ontario Municipal Insurance Exchange – July 22, 2014
2015 General Insurance Renewal - January 20, 2015

BACKGROUND

Purpose:

The Request for Proposal (RFP) 15-21 was prepared seeking competitive bids to purchase insurance services set out with particulars in Appendix 'A' (attached). These policies are being purchased on behalf of a seven (7) member group consisting of The Corporation of the City of London, London Convention Centre Corporation, Covent Garden Market Limited, London Public Library Board, London Police Services Board, Public Utilities Commission of the City of London, London Regional Art and Historical Museums o/a Museum London and each insured Board reimburses the City for its share of premium costs.

Purchasing Process:

An RFP was issued in July 2015 and five (5) submissions were received from major insurance providers for Ontario municipalities, including:

1. Ontario Municipal Insurance Exchange (OMEX)
2. Jardine Lloyd Thompson Canada
3. Frank Cowan Company Limited
4. AON Risk Solutions
5. Warren Hill Risk Management & Insurance Broker Services Inc.

The submissions were reviewed by a team consisting of Ian Collins - Senior Financial Business Administrator, Jack Manganaro - Manager of Operations - Transportation, Linzi Lavery - Specialist I Risk Management, with the assistance of Terri Sue Wyatt - Procurement Officer Purchasing and Supply.

As identified in the RFP, proponents were scored on the following scale:

Description	Points
Proponent's services including: claims procedures, municipal insurance experience and additional services	25
Lead representative experience, qualifications, additional services offered and familiarity of municipal risks and the marketplace	10
Municipal insurance experience and qualifications of other proponent's staff members	10
Evaluation for the ability to meet or surpass provisions outlined in the Summary of Current Coverages , including the terms; conditions; limits; deductibles; exclusions of the insurance submission; financial strength of the insurer or insurance market (for reciprocal organizations financial strength and results of retrocession report)	20
Value Added Services, refer to 10.0	5
Annual costs from Premium Summary Bid Form	30
Total	100

A comprehensive review of coverage, limits and deductibles were part of the RFP evaluation and verified coverage will remain in-line with our previous policies or be enhanced.

Frank Cowan Company Ltd. submitted the most comprehensive and competitive submission in accordance with our terms and conditions. The Frank Cowan Company demonstrates best value. They received the highest score in our evaluation criteria.

Frank Cowan Company is a leader in providing specialized insurance programs, including risk management and claims services to municipalities (304 Canadian municipalities are currently clients), healthcare, education, community, children's and social service organizations across Canada. Proven industry knowledge, gained through eight decades of partnering with insurance companies and independent brokers, gives Frank Cowan Company the ability to effectively manage the necessary risk, advisory and claims services for both standard and complex issues.

Frank Cowan Company is a Managing General Agent (MGA) with the authority to write and service business on behalf of strategic partners who share our commitment and dedication to protecting specialized organizations. The MGA model is different than a traditional broker/insurer arrangement in that an MGA provides specialized expertise in a specific, niche area of business. An MGA provides clients with additional and helpful services in the area of risk management, claims and underwriting. A policy issued by an MGA is a full risk transfer vehicle subject to a fixed term and premium.

The Frank Cowan Company believes in participating in and advocating for the causes that affect municipalities and support key provincial and national associations. They believe in fully understanding our needs, concerns and direction. Our support is delivered through thought leadership, financial resources, advocacy, services and education.

Financial Impact:

RFP 15- 21 was well received by the market and resulted in competitive pricing by five (5) companies. A 33% (\$1,139,718) reduction in premiums will be realized by insuring with Frank Cowan Company Ltd.

The 2016 insurance renewal will be appropriately budgeted for within the 2016 Multi Year Budget. The savings in premiums is recommended to remain in the four (4) year budget to offset potential future premium increases as premium stability has historically been unpredictable. In addition, these savings in premiums will be utilized to fund any future retro assessment from the City's current insurer.

Retro Assessments

The City has been an OMEX member since 2003. OMEX is a reciprocal insurer for Municipalities and is a non-profit company. A reciprocal charges premiums for the true cost of claims which allow members to receive a credit or refund for surpluses in good underwriting periods. This allows the reciprocal to charge additional retro-assessment premiums when claims costs exceed premiums written on a membership group basis.

During the twelve (12) years London has been with OMEX, London has received three (3) retro-assessments totalling \$2,652,502, covering policy periods from 2004-2012. Averaging the annual outlay of the assessments equals \$221,000 per year.

Financial Impact...cont'd

Currently London is one of thirteen (13) members with OMEX and represents 26% of the group population. In 2006, London was one of forty-two (42) municipalities enrolled in OMEX. Recognizing a declining membership is likely to lead to a future retro-assessment. The probability of a future retro assessment was factored into the RFP evaluation process, realizing that changing insurers may lead to an assessment of approximately \$663,000.00 for the underwriting years of 2013-2015.

The City last received a retro-assessment in April 2014 in the amount of \$950,090. This is scheduled to be paid in five (5) installments (interest free) at the start of each subsequent year. Four (4) installments remain. By leaving OMEX, the repayment of the retro-assessment is due within the next three (3) years and bears interest (Bank prime + 2.7% annually). This will increase the City's cost by \$27,000 and advance the outlay by a year.

Moving forward with the insurance program proposed by Frank Cowan Company Ltd., the City will not be responsible for future retro assessments for claims in 2016 as the program proposed is a full risk transfer.

Executive Summary:

Previously reported in July 2014, an insurance premium review prepared by Marsh Canada indicated significant savings to the City with OMEX over the past ten (10) years relative to what would have been experienced in the traditional market. In review of the City's insurance costs over the past eleven (11) years, (Appendix B–Insurance Cost graph) it is reasonable to infer the savings with OMEX as noted by Marsh, were attributed to years of greater stability which are from 2004-2012, where the annual increase average was under 12%. The valuable service and long term savings provided by OMEX and their knowledge of the Municipal market should be recognized and appreciated in future insurance considerations.

While the RFP did attract insurance rates that offer significant savings, there is likelihood that those savings can be short term. In other words, premium savings achieved in the first year could result in higher premiums for subsequent years. This is often the case with the inconsistent and unpredictable commercial insurance marketplace. However, it is not recommended that another RFP be issued hastily thereafter for purposes of obtaining competitive pricing. This not only has a moderate reputational impact on the City amongst insurers and other municipalities, but can have a minor to moderate operational impact because of the associated actual and unquantifiable costs associated with a disruption or change in service.

The Frank Cowan Company Ltd insurance program was chosen based on best value criteria within the municipal market and consistent with the Corporations claims and insurance management. It is the recommendation of staff to have the Frank Cowan Company provide the municipal insurance coverage for The Corporation of The City of London on January 1, 2016, at a premium cost of \$2,340,943.00 plus Tax.

A follow up report will be forthcoming at year end for execution of the insuring Agreement between the Corporation and the Frank Cowan Company.

This report was prepared by Jason Wills, Manager, Risk Management with the assistance of Terri Sue Wyatt.

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