

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON TUESDAY, OCTOBER 22, 2019</b>
<b>FROM:</b>	<b>BARRY CARD MANAGING DIRECTOR CORPORATE SERVICES AND CITY SOLICITOR AND JASON WILLS MANAGER III, RISK MANAGEMENT DIVISION</b>
<b>SUBJECT</b>	<b>ANNUAL REPORT RISK MANAGEMENT SERVICES</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the Managing Director Corporate Services and City Solicitor and the Manager III, Risk Management Division, this report **BE RECEIVED** for information.

<b>BACKGROUND</b>
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The purpose of this report is to provide an overview of the Risk Management Division's commitment to continuous improvement through activities that eliminate, mitigate and control risk. The Civic Administration adopted the principals of risk management for the Corporation on June 7, 1982 in order to protect the health, safety and welfare of the public, City Council, employees and its' property, assets, reputation and other resources from the risks arising from all City operations.

The Civic Administration is committed to risk management strategies as a part of every service area, with a focus on improving communication, mitigating risk and being prepared for unwelcomed events. This includes service areas such as:

- ❖ Health and Safety
- ❖ Construction Administration
- ❖ Emergency Management
- ❖ Road Design & Maintenance
- ❖ Building
- ❖ Finance
- ❖ Information and Technology Services

Each service area has a role to assist the Corporation in meeting objectives, while guarding against loss of property, finances or harm to persons and reputation.

The Risk Management Division's role is to provide insurance and risk management services to the Corporation and City Boards.

The list of Boards include:

- London Convention Centre Corporation o/a RBC Place
- Covent Garden Market Corporation
- London Public Library Board
- London Police Services Board
- London and Eldon House Corporation
- Museum London
- Housing Development Corporation, London

The Division focuses on three main deliverables:

- Risk Management Services
- Claims Management
- Risk Financing

<b>ACTIVITIES AND CURRENT TRENDS</b>
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## Risk Management Services

- The Division provides advice to all service areas involved in capital projects and operational activities.
- Oversees effective risk transfer through review of contracts, leases, tenders and RFP's.
- Provides risk analysis and claim trends to enable accurate loss forecasting and budgeting.

Current activities include:

- Conducting physical site inspections to identify potential areas of risk and to recommend preventative measures;
- Risk assessments of proposed operations or activities during their planning stage;
- Delivery of risk management education using outside experts and/or knowledgeable staff on relevant risk strategies;
- Internal advice on risk management best practices and experiences;
- Management of Certificates of Insurance; (COI)

<b>Risk Services</b>	<b>2018</b>	<b>2019</b> <small>as of Sept 20th</small>
Issued COI on behalf of the City	716	266
COI Review & renewals	5918	4536
Contract reviews	241	243
Loss prevention advice	36	31

Insurance Policy renewals	40	40
Education Sessions	10	7

## Claims Management

Claims are managed internally. This enables investigations to be completed efficiently while avoiding the expense associated with independent adjusting firms. Additionally, Division Specialists have a thorough knowledge of City services, strong rapport with staff, resulting in the delivery of timely claims management.

Specialists work in conjunction with Internal Legal Counsel and Third Party Adjusters/Insurers to administer and resolve claims.

Claim frequency varies year to year. Over the past 10 years the City has averaged 918 claims annually.

POLICY YEAR	NUMBER OF CLAIM	NET PAID	OPEN CLAIMS
2009	1035	\$2,610,971	0
2010	930	\$3,525,213	3
2011	1185	\$2,995,152	2
2012	747	\$1,585,103	10
2013	846	\$2,826,200	12
2014	927	\$3,465,870	15
2015	932	\$2,342,697	13
2016	803	\$1,229,972	18
2017	746	\$1,327,127	17
2018	1035	\$1,271,414	51
<b>GRAND TOTAL</b>	<b>9186</b>	<b>\$23,179,719</b>	<b>141</b>

\*The table shows expenses by the City for costs incurred within our insurance deductible

Municipal liability claims typically resolve in 3-6 years. Inferring data from the period **2009-2015** (mature claims) the annual average cost totals **\$2,764,458**.

Claim costs by Policy type:

POLICY TYPE	NET PAID	% OF GRAND TOTAL	NUMBER OF CLAIMS
AUTOMOBILE	\$5,889,170	25%	3061
LIABILITY	\$14,312,908	62%	5582
PROPERTY	\$2,977,641	13%	543
<b>GRAND TOTAL</b>	<b>\$23,179,719</b>		<b>9186</b>

Leading causes of Liability claims.

CAUSES OF LOSS 2009-2018	NET PAID	NUMBER OF CLAIMS
ROAD MAINTENANCE	\$ 2,274,608	1010
SLIP & FALL - OUTSIDE	\$ 2,029,652	295
TRIP & FALL - OUTSIDE	\$ 1,722,223	333
BUILDING PERMIT	\$ 979,876	53
TREE LIMB	\$ 840,030	311

Claim categories, such as slip and fall and road maintenance claims, are largely weather related. The severity of winter and/or freeze-thaw cycles greatly influences the likelihood of weather related claims.

One of the most significant factors in municipal liability claims is their “long tail” nature. This meaning an incident may occur in a given policy year, however, the claim may not be presented until many years later and take several years to settle.

Over the past few years, there has been a rise in the number of factors impacting municipal claims – factors that have potential to drive up claims include:

**Property losses are more frequent and severe.** Climate change has resulted in a substantial increase in property losses and catastrophic losses. Regardless of whether this has impacted a municipality directly, the substantial escalation in the cost of claims has increased both property insurance and reinsurance rates worldwide.

**The changing legal landscape.** There is a continuing trend that indicates we as a society, have become more litigious and demonstrate less personal accountability. This results in higher frequency and severity of claims. In response, Judges have awarded more contributory negligence to municipalities versus plaintiffs.

**Joint and several liability (the 1% rule)** This is a significant concern for municipalities in Ontario. The Association of Municipalities of Ontario (AMO) has created a number of working groups over the years with the goal of reforming this law. As the severity of awards increases, so too does the exposure to those who have deep pockets. The Province of Ontario has recently initiated a consultation process regarding the joint and several principle. Our hope is that the current lobbying will eventually lead to relief for the municipal sector. This could lead to lower insurance premiums, deductibles and fewer litigation matters.

**Damage awards are substantial.** Today, larger awards are more frequent. Court awards for severe bodily injury claims have increased dramatically in the last ten years. Claims that may have settled for \$5million, ten years ago are now settling for \$12M - \$18M. These awards are primarily driven by the costs of providing future care for catastrophically injured plaintiffs. Municipalities have a significant exposure to this type and size of damage award and are currently feeling the impact through the cost of insurance.

As the current challenges in municipal claims are doubtful to ever be eliminated entirely, continuous improvement and best practices are the primary approach to dealing with them.

**RECOVERY CLAIMS:** Claims involving damage to City property where recovery of City expenses is collected from the at-fault third party or their insurer. The majority of these claims involve damage to traffic signals, signs and trees. Revenue is returned to the division who originally incurred the expense.

Year	Number of claims	Recovery	
2017	166	\$356,964	
2018	147	\$309,600	
2019	93	\$226,385	As of September 1 <sup>st</sup>

## Risk Financing

The insurance portfolio managed by the Division currently includes 40 policies.

Insurance Group	Policy count
The Corporation and Boards	17
London & Middlesex Community Housing	9
Regional Waterboards	14

In May 2019 the Division issued an RFP for Insurance and Risk Management Services for the Corporation and Boards within our insurance group. Please refer to the RFP companion report.

**Cyber Insurance:** Insurance requirements and coverage's evolve as trends and technology change.

Cyber liability claims have risen dramatically in the last few years. More important, it is anticipated that these claims will continue to increase at an exponential rate. In 2018, a number of smaller Ontario municipalities reported cyber-attacks. In September the OPP issued a warning to Ontario municipalities stemming from a rash of attacks. One very high profile attack in the US resulted in potentially costing Atlanta \$17 million in damages.

In response to this growing concern, the Division with the assistance of Information & Technology Services is working with the Frank Cowan Company to increase limits and the scope of coverage to enhance our 2020 Cyber policy.

## Cost of Risk

The rising cost of claims and associated impact on insurance premiums is an important area of focus as part of an organization's overall risk management strategy.

The **Cost of Risk (CoR)** as shown in Appendix A: is a combination of insurance premiums and cost of claims. The CoR table shows a mainly stable annual cost over the past 10 years. Our cost of risk for policy years 2014 & 2015 is above the median. This is due to slightly higher claims costs and high premiums.

In 2016, OMEX (Ontario Municipal Insurance Exchange) discontinued underwriting operations. As reported in Canadian Underwriter in 2016, OMEX - **"has struggled in recent years to grow in an extremely soft insurance market and a highly competitive business environment. This low pricing environment combined with the impact of joint and several liability on municipal claim settlements has made it difficult to offer sustainable pricing while still addressing the municipalities' concern about retro assessments."**

While the City enjoyed favourable premiums with OMEX for many years, the final years [2014 & 2015] were higher than average, which was mainly due to retro assessments that addressed early policy year(s) shortfalls. Those higher premium years are evident in our CoR.

## CONCLUSION

Civic Administration fosters and maintains a strong risk culture to promote risk awareness and discipline across all its activities. The Administration's risk strategies that serve to influence appropriate risk-taking behavior include the following:

- Leadership in providing clear vision and direction
- Consideration of risk-relevant information in decision-making
- Embedding of risk management skills and competencies

These strategies are the foundation for efficient and effective risk management. The Division reinforces these strategies by promoting risk transparency and fostering open discussion in the Administration at all levels on the risk-taking process and their decision making.

The Division is committed to working with all service areas in an effort to guard against risk and control the Cost of Risk. Together we have taken steps to reduce the Cost of Risk, protect the public, staff, property and reputation.

<b>PREPARED BY:</b>	<b>RECOMMENDED BY:</b>
<b>JASON WILLS – MANAGER III RISK MANAGEMENT</b>	<b>BARRY CARD MANAGING DIRECTOR, CORPORATE SERVICES &amp; CITY SOLICITOR</b>

# Cost of Risk 2009-2018

Category	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Insurance</b>	\$1,394,094.00	\$1,799,663.00	\$2,177,890.00	\$2,276,062.00	\$2,531,135.00	\$3,114,442.00	\$3,926,262.00	\$2,720,993.00	\$2,736,815.00	\$2,544,803.00
<b>Claims</b>	\$2,610,971.00	\$3,525,213.00	\$2,995,152.00	\$1,585,103.00	\$2,826,200.00	\$3,465,870.00	\$2,342,697.00	\$1,229,972.00	\$1,327,127.00	\$1,271,414.00
<b>Admin</b>	\$378,775.00	\$390,399.00	\$393,854.00	\$407,600.00	\$394,505.00	\$387,339.00	\$403,867.00	\$411,914.00	\$425,305.00	\$423,115.00
<b>Open Claims</b>	0	3	2	10	12	15	13	18	17	51

Data captured Sept 27 2019

**Annual Average over 10 years**

Insurance	\$2,522,215.90
Claims	\$2,317,971.90
Admin	\$401,667.30
<b>Cost of Risk</b>	<b>\$5,241,855.10</b>

2019	
Insurance	\$2,381,610.40
Claims	\$197,362.00
Admin	\$445,000.00
Open claims	188

Households	180,000
<u>Annual cost per household</u>	<u>\$29.12</u>

\*2019 IS NOT INCLUDED IN ANNUAL AVERAGE TOTALS