

TO: CHAIR AND MEMBERS
FINANCIAL MANAGEMENT COMMITTEE

DATE: 2015 March 18

FROM: DIRECTOR FINANCE

FILE: 5820-01
Reference: Willis Canada

SUBJECT: INSURANCE CONTRACT RENEWALS - NINE PROGRAMS

PURPOSE: To request approval to award insurance contracts for the annual Property and Liability insurance programs maintained by the City.

RECOMMENDATION:

1. **THAT** the Financial Management Committee recommend Council approve the award of nine (9) contracts of insurance as specified in this report. The total amount, payable to Willis Canada to fund the insurance premiums is \$911,000. Actual payment will be based on the final insurance agreements.

REPORT

Working with the City's brokers at Willis Canada in Vancouver, the Risk Management Department manages the marketing, selecting, and arranging insurance coverage for the City. For an annual fee Willis Canada provides a wide range of professional services that include: advice and negotiation of coverage and policy wording; marketing of the City's risk in the global insurance market; binding coverage and paying premium on behalf of the City; and, as necessary, acting as claims advocate with insurers.

The City's insurance programs renew annually on May 01 with the exception of the ICBC fleet program which renews on January 01. Insurance premium is determined by multiplying the total insured value by the insuring rate. Any increase in the total insured value results in a corresponding premium increase even if the rate remains unchanged from one year to the next. In 2015 February, Willis Canada was instructed to research and approach markets for the City's insurance programs. The following is based upon the most up to date information available from Willis Canada.

1.0 PROPERTY INSURANCE

The City's property assets are appraised annually by Universal Appraisal Services. The total insured value has risen \$80 million from \$575 million in 2014 to \$655 million in 2015. Increases in total insured value are attributable to new facilities constructed during 2014 and the inclusion, this year, of 20 previously uninsured pedestrian overpasses valued at \$29.4 million. Other significant factors are the rising cost of replacement construction due to inflation and a growing accumulation of building code and bylaw update requirements for replacement construction. A

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major marketing campaign was completed two years ago from which Royal & Sun Alliance (RSA) was selected. RSA remains a very strong insurer with an "A" credit rating. RSA has sufficient capacity and has confirmed it will offer competitive renewal terms prior to the 2015 May 01 renewal date. The expected total cost of the major Property program based on the current appraised values will be between \$524,000 and \$550,000 (to accommodate up to a 5% rate increase).

Boiler & Machinery coverage for all insured assets is purchased separately from RSA. As the cost of this program is also tied directly to the total insured value the cost this year is expected to rise proportionately. We expect the price of this insurance will not exceed \$25,000 in 2015.

2.0 COMMERCIAL GENERAL AND EXCESS LIABILITY

This past year was the last of a three year program offered by the incumbent liability insurer, QBE London. This insurer has confirmed they will quote on the program and will be asked to commit to the premium for another three years. The municipal liability insurance market remains quite small and there are no other insurers able to compete with this program or pricing at this time. The insurer provides \$30 million of Primary and Excess/Umbrella liability coverage to the City. Population is a key rate driver of municipal liability programs. The total annual premium for the next three years is expected to be not more than \$230,000 per year.

3.0 OTHER PROGRAMS

Willis Canada actively markets several other smaller insurance programs, including the Crime and Fidelity policy with Travelers; two lesser Property programs, currently placed with RSA, that apply to commercial properties at Deer Lake I & II, the Hart House Restaurant, and Brentwood Community Resource Centre; a primary Commercial General Liability policy specific to the Deer Lake I and II operations placed with Aviva Canada; and, a corporate Non-Owned Auto policy provided by ICBC. In each case, based on other recent renewals of similar classes of business, Willis Canada advises that the incumbent insurers are expected to offer favorable renewals that are near the same rate as the expiring contracts. In late 2014 a baseline replacement cost appraisal was completed on Deer Lake I & II when the City elected to insure certain leasehold improvements. This resulted in a 35% increase in the replacement valuation of these holdings (note: insurance costs are recovered from commercial tenants). Total premium for these programs is expected to be not more than \$106,000.

4.0 RECOMMENDATION

The cost of maintaining insurance programs is a necessary operating expense included in the 2015 - 2019 Provisional Financial Plan. Insurance charges are exempted from PST and GST. It is recommended that the Financial Management Committee request Council to approve and authorize staff to award these nine insurance contracts. The total premium, payable to Willis Canada to fund the nine insurance programs, is \$911,000.

For 
Denise Jorgenson
DIRECTOR FINANCE

BK:MF/ab

cc: City Manager
Risk Manager