For Action

Procurement Authorization for TTC All Risks Property Insurance Renewal

Date: July 7, 2021
To: TTC Board
From: Interim Chief Financial Officer

Summary

The purpose of this report is to seek the Board's authorization to renew the TTC's All Risks Property Program insurance coverage for a one-year term from June 1, 2021 to May 31, 2022 at a cost of $5.83 million, inclusive of 8% Provincial sales tax.

The TTC manages a corporate insurance program that provides coverage for both property and liability matters, with all insurance coverage procured through its broker of record that renew at various times within a calendar year. This insurance renewal represents one component of the TTC's corporate insurance program and is before the Board for approval as the renewal cost exceeds the $5 million delegated authority provided to the TTC's Chief Executive Officer by the TTC Board.

Insurance premiums and their associated increases are determined primarily by the value of the assets being underwritten, the risk and any mitigating actions associated with asset construction, occupancy, protection and exposure as well as general insurance market conditions. Prior to 2020, the TTC sustained low rate increases. Current market conditions exasperated by the COVID-19 pandemic has resulted in significant rate increases in the last two years, a result that has been experienced globally.

Notwithstanding these increases, benchmark analysis completed by Marsh Canada Limited (Marsh) still shows the TTC's insurance rates compare favourably to our Canadian peers. However, staff continue to actively manage the program in preparation for the 2022 renewal period, including scheduled site inspections required by insurers that were halted or conducted virtually due to COVID-19 stay-at-home restrictions, in order to minimize rate increases that are anticipated in the next few years until the insurance market begins to stabilize.

Recommendations

It is recommended that the TTC Board:

1. Authorize the purchase order in the amount of $5.83 million (inclusive of 8% Provincial sales tax) to Marsh Canada Limited (Marsh), as the TTC's broker of record, for the renewal of the All Risks Property insurance program for a one-year term from June 1, 2021 to May 31, 2022.

Financial Summary

All insurance in the TTC insurance program is procured through the TTC's broker of record, Marsh Canada Limited (Marsh). The TTC subsequently reimburses Marsh for insurance procured.

The 2021 Operating Budget, as approved by the Board on December 21, 2020 and approved by City Council on February 18, 2021, includes $8.43 million for insurance premiums. Of this amount, $5.82 million is allocated for the All Risks Property Program and the 2021 budget expenditure will be $5.303 million.

The 2021 expenditures, as summarized in Table 1 below, is comprised of $1.90 million related to costs of coverage from January to May 2021 (based on the 2020 renewal rate) and $3.40 million for the June to December 2021 portion of this renewal. The renewal cost over the term of the coverage (June 2021 to May 2022) will be $5.83 million.

Table 1 – Budget Impact vs. Renewal Costs ($ millions)

	2021 Budget	2021 ACTUAL (A+B)	2021 Jan - June (A)	2021 Jun - Dec (B)	2022 Jan - Jun (C)	June 2021 Renewal Cost (B+C)
All Risks Property	$5.820	$5.303	$1.902	$3.402	$2.430	$5.832
	2021 Budget Var	($0.517)				

The remaining $2.61 million insurance premium budget funds the other lines of coverage, including Property Terrorism, Contractors Equipment, Boiler and Machinery, Excess Liability, Cyber, Directors and Officers Liability and Crime.

Equity/Accessibility Matters

There are no accessibility or equity issues associated with this report. Property insurance coverage provides the TTC with financial compensation in case of unforeseen incidents to ensure continuity of service.

Decision History

The TTC manages a corporate insurance program that provides the following coverage:

1. Property:
    a. All Risks Property
    b. Boiler and Machinery Breakdown
    c. Crime
    d. Property Terrorism
    e. Contractors Equipment

2. Liability
    a. Excess Liability
    b. Cyber Liability
    c. Directors and Officers
    d. Motor Vehicle Liability*

For all but Motor Vehicle Liability, the TTC's licenced broker of record, Marsh, acts as agent for the TTC in the procurement of the above insurance policies, that renew at various points throughout the year. As each line of insurance is procured, a Purchase Order is issued, in the name of Marsh for reimbursement of the insurance costs.

*Since 1994, the TTC has maintained its own licensed insurance for Motor Vehicle liability through its wholly owned subsidiary (via Toronto Coach Terminals Inc), the TTC Insurance Company Limited (TTCICL). The TTCICL is subject to the terms of the license issued by the Financial Services Regulatory Authority of Ontario. All claims are paid by TTCICL and are subject to an indemnity from TTC and backstopped by a guarantee from the City. Charges and expenses for TTCICL are not included in this budget.

The TTC's operating budget allocates funds to cover premium costs required for the property and liability coverage that form part of the corporate insurance program.

Issue Background

Due to insurance market conditions, and exacerbated by the COVID-19 pandemic, the TTC's corporate insurance program has witnessed double-digit pricing increases over the past two years. Table 2 below summarizes the All Risks Property insurance premiums for the past five years. The premium increase is broken down into two components: the percent increase due to the value of the assets insured, and the percent rate increase from the insurer.

Table 2

TTC All Risks Property Insurance premium increases - 5 year summary (pre-tax)

	2017	2018*	2019	2020	2021	Average
Premium	$2,444,604	$2,969,688	$ 3,216,036	$ 4,225,743	$ 5,399,671	
Percent Increase - Assets **		17.7%	- -	3.6%	4.2%	8.5%
Percent Increase - Rate		3.8%	8.3%	27.8%	23.6%	15.9%
Percent Increase Total		21.5%	8.3%	31.4%	27.8%	22.2%

* Note: Increase in 2018 was primarily due to the addition of the TYSSE assets to the Property program.

** Note: The annual increase is, in part, attributable to the increase in insured value of asset.

For 2021, and for the foreseeable future, the TTC's All Risks Property program is expected to have premiums in excess of $5 million, as current insurance market conditions are expected to continue for the next few years before they start to stabilize. It should be noted, however, that any adverse claims development or experience would further impact renewal premiums and expected increases. The TTC's loss experience with property carriers is moderately favourable with the exception of a loss for damage of approximately $4.2 million to streetcars, which resulted from the 2018 storm that was recently settled with primary property carriers.

Comments

Insurance Market Conditions

After a sustained period of relatively flat insurance premiums, property insurance costs have been consistently increasing since Q4 2017. At first, market cost increases were slightly above inflation (3%-4%). However, by Q4 2019 and through to 2021, premiums have rapidly increased that have ranged from 13%-20%, with larger customers (i.e. premium in excess of $1 million) experiencing increases in the 35% range or higher for accounts that have had adverse loss experience, as in the case of the 2018 flooded streetcar, or have had insufficient risk control procedures in place. It is important to note, that these percentage increases are largely based on U.S. statistical data and represent the average increase experienced during this period of time. The average increase experienced in Canada has been higher than the U.S. average, as Canada has a smaller premium base.

Below is a summary of the current property market conditions, as provided by TTC's broker:

- Insurers continue to push for significant rate increases and there is a continued movement towards "Technical" rate levels (i.e. rates driven by actuarial loss modelling).
- Underwriters continue to be challenged with rising reinsurance costs and reinsurance capacity which, in turn, result in insurers often reducing the amount of capacity being offered to any one customer (risk) and even preventing some carriers from providing renewal commitments at all.

- Markets remain consistent in pushing for increased deductibles for many types of coverage, including All Other Perils, Convective Storm, all other Wind/Hail, and Catastrophe (CAT) deductibles, in addition to reducing their CAT footprint for both Named Storm and all other perils.
- Average Canadian property rates are increasing between 20%-25% for accounts with good loss ratios, minimal outstanding risk improvement recommendations, and limited CAT exposure.
- In general, rate increases have been driven by:
    - Losses in excess of forecast amounts.
    - Increased oversight and reduced underwriter flexibility to deviate from underwriter guidelines.
    - Careful management of insurance policies issued, with reductions in amounts being underwritten to minimize exposure to risk.
- Carriers remain focused on valuations, engineering and risk quality. However, engineering resources are still limited for live visits due to travel restrictions surrounding COVID-19.
- Greater focus on engaging clients to pursue more robust loss control measures, and active monitoring of implementation of clients' loss control activities.

As a result of these increased losses, insurers are also becoming more selective in the clients and or lines of insurance they wish to maintain, as experienced by the TTC during the 2021 renewal with one of its property insurers who no longer is insuring rail risks. This required the TTC to seek out new insurance markets, at significantly increased pricing.

TTC Experience

The TTC has continually taken action to effectively manage insurance premiums wherever possible. For example, TTCICL was created to insure automobile risks in 1994, which resulted in decreased auto insurance costs. In 2014-15, the TTC was able to increase limits with little budget impact by approaching overseas Lloyds markets for casualty and property insurance.

By procuring its insurance program through its licenced broker of record, Marsh, due diligence is performed annually by Marsh by approaching all available insurers to construct a program that uses insurers with the most favourable terms and premiums.

Particularly in the last few years, TTC staff have also committed to full engagement with current and potential insurers during renewal time to ensure they are fully informed about all key TTC strategy, safety, capital and audit initiatives and actions that support risk mitigation. For example, the Capital Investment Plan introduced by staff in 2019, and the subsequent investments made by all three orders of government in critical subway state of good repair and fleet, as well as the implementation of Automatic Train Control, have all been favourable to the TTC's renewal success.

In 2020, a total of 24 property markets were approached by Marsh in an effort to curb anticipated increases and potential restrictions in coverage. The property program was bound with incumbent insurers (eight separate insurers with various participation and rates throughout the property program), as this was the most competitive option for the

TTC. Alternative markets had quoted rates that were almost double the expiring rates and 40% higher than rates proposed by the incumbent markets. Alternative deductible options were also explored in 2020. However, it was decided that the optimal deductible should remain at its current or expiring threshold of $1 million given the nature and value of the TTC's assets, such as rolling stock. Property coverage remained largely unchanged despite requests from several insurers to implement reductions in coverage.

In 2021, Marsh undertook another property marketing exercise where 23 domestic markets and several London markets where approached. One of the TTC's insurers advised that they were exiting the class of business and could no longer support their participation on the TTC's account. The search for replacement markets was further dampened by COVID-19 restrictions, as many new markets required up-to-date engineering/risk control information, which could not be made available due to stay-at-home orders and the need for physical distancing requirements.

While planned for 2021, the visitation of sites for inspection was severely limited by lockdown orders. Despite the lockdown orders and visitation restrictions, the TTC was able to conduct two site inspections virtually. Going forward, when restrictions are lifted, the TTC will be providing external engineering inspection reports for its facilities to its incumbent insurers in an effort to reduce or maintain current levels of premium expense, as well as to attract new insurers to the TTC with a view towards providing more competitive options for future renewals.

Despite these challenges, Marsh was able to attract four new insurers to the program to replace the lost insurer. However, due to current insurance market conditions, and the inability to complete updated engineering reports with site Inspections that insurers are increasingly relying upon for underwriting purposes, the TTC has experienced higher-than-expected rates from these markets. In addition to rate increases, some wording/coverage changes were also required, the majority of which were clarifications in coverage, including the addition of standard property exclusions, which will have minimal effect on the TTC.

While the rate increases for 2020 and 2021 have averaged in the 25% range (excluding asset value increases), the TTC, according to analysis provided by Marsh, maintains a low premium rate when compared to its Canadian peer group.

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