



For Action

Procurement Authorization for TTC All Risks Property Insurance Renewal

Date: July 14, 2022
To: TTC Board
From: 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, 2022 to May 31, 2023 at a cost of \$6.84 million. This renewal is part of the TTC's ongoing insurance program.

Recommendations

It is recommended that the Board

1. Authorize the purchase order in the amount of \$6.84 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, inclusive of an increase in limits of liability of an additional \$100 million to \$800 million, for a one-year term from June 1, 2022 to May 31, 2023.

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 2022 Operating Budget, as approved by the Board on December 20, 2021 and by City Council on February 17, 2022, includes \$9.99 million to fund the TTC's insurance premiums. Of this amount, \$7.02 million is allocated in 2022 for the All Risks Property Program, and the current year costs are projected to be \$6.42 million. As a result, sufficient funds are available in the 2022 insurance program budget to cover the cost of the insurance renewal, inclusive of the additional \$100 million increase in the limit of liability.

The remaining \$3.57 million insurance premium budget is required to fund the other lines of insurance coverage, including Property – Terrorism, Contractors Equipment, Boiler and Machinery, Excess Liability, Cyber, Directors and Officers Liability and Crime insurance. The underspending expected from the All Risks Property renewal will be partially offset by increases in the Property – Terrorism and Cyber lines of coverage.

Based on current market trends, the TTC is expecting insurance premiums to continue to increase in 2023-24 due to the combination of rate increases and higher asset valuations as described in the Issue Background section below. Sufficient funds will be incorporated into the 2023 Operating Budget submission based on best known available information.

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

At the July 7, 2021 TTC Board meeting, the 2021 All Risks Property renewal was presented and approved by the Board.

July 7, 2021 – [Procurement Authorization for TTC All Risks Property Insurance Renewal](#)

The TTC's 2022 Operating Budget, including provisions for the insurance program, was approved by the Board on December 20, 2021 and by City Council on February 17, 2022.

Issue Background

Due to general market conditions, values of assets insured (including inflation) and the COVID-19 pandemic, the TTC's corporate insurance program has witnessed double-digit pricing increases over the past three years. Table 1 highlights the All Risks Property insurance premiums for the past five years.

The premium increase is primarily driven by two key factors: the increase in the value of assets being insured and the rate increase from the insurer. For 2022, the premium rate increase is a modest 3.1%, while the increase in asset valuation is approximately 11.8% – a reversal over prior years (where the rate increase was in excess of the asset valuation increase).

For 2022, the premium will be increasing a further 2.4% to adjust the overall limit of coverage to \$800 million to keep pace with the increased value of TTC assets to be

insured. This will better protect the TTC's larger facilities with high concentrations of assets in the event of a loss. This will be reviewed in future years to determine whether additional coverage increases are warranted.

In addition to the premium increase, the deductible provided by the insurers was increased to \$2.5 million from the existing \$1 million deductible threshold.

Table 1

TTC All Risks Property Insurance premium increases – Five-year summary (pre-tax)							Projected
	2018*	2019	2020	2021	2022		2023
Premium	\$2,969,688	\$3,216,036	\$4,225,743	\$5,399,671	\$6,334,848		\$7,501,058
Per cent Increase - Assets	17.7%	- -	3.6%	4.2%	11.8%		~ 8% est
Per cent Increase - Rate	3.8%	8.3%	27.8%	23.6%	3.1%		~ 10% est
Increase in Limit	-	-	-	-	2.4%		
Per cent Increase Total	21.5%	8.3%	31.4%	27.8%	17.3%		~ 18% est

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

The TTC's All Risks Property program first exceeded \$5 million in premiums in 2021, and as such, required Board approval. Going forward, All Risks Property Insurance premiums will continue to exceed the \$5-million delegated authority threshold and will require continued Board approval.

Comments

General 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 had rapidly increased and 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 streetcar flood, or have had insufficient risk control procedures in place. Market increases were also impacted by the pandemic, with a reduction of insurers providing coverage, and those still providing coverage, tightening their requirements and/or increasing their rates.

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. Rate increases abated as of Q2 2022 and the rate increase applied to the TTC for the 2022 renewal is approximately 3.1%. However, inflationary pressure and general increases in the asset base have resulted in an 11.8% increase in asset valuation.

Taken together, the general rate increase as applied to the higher property valuation has resulted in an approximately 14.9% increase in the property insurance premium between the 2021 and 2022 renewals.

TTC Experience

The TTC has continually taken action to effectively manage insurance premiums wherever possible. For example, the TTC Insurance Company Limited 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 by Marsh approaching all available insurers to construct a program that utilizes insurers with the most favourable terms and premiums.

Particularly in the last few years, TTC staff has 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 following TTC initiatives have been instrumental in securing the best possible rates for insurance:

1. Capital Investment Plan introduced by staff in 2019;
2. Real Estate Investment Plan developed in 2021;
3. Five-Year Service Plan;
4. Investments made by all three orders of government in critical subway state of good repair and fleet;
5. Implementation of Automatic Train Control; and
6. Site inspections.

While planned for 2021, the visitation of sites for inspection was limited by lockdown orders. This severely limited the insurers' assessment of risk and likely contributed to the higher premium increases in 2021. By late 2021, the TTC was able to conduct its own external engineering studies of its facilities for its incumbent insurers as well as to attract new insurers. Providing these recent, objective engineering studies was beneficial to insurers' underwriting of risk.

In 2022, the Property insurance program was bound with incumbent insurers (11 separate insurers with various participation and rates throughout the property program), as this was the most competitive option for the TTC (see Table 2 for insurance structure). New in 2022 is the increase in the deductible to \$2.5 million from \$1 million, as no \$1million deductible was offered. To mitigate the increased deductible, the TTC will earmark \$2.5 million in the TTC Stabilization Reserve in the event of a claim and would seek authority to draw the required amount from the TTC Stabilization Reserve, if required.

The 2022 renewal also includes an increase in the Property coverage’s liability limit. The TTC currently maintains \$700 million in property coverage and has so since 2015. Due to new assets being purchased and general inflation, the values of assets insured by the TTC have increased by 60%, with no increase in insurance limits. Going forward, the TTC will monitor its asset values and exposures and make recommendations to increase insurance limits accordingly. To that end, the TTC proposes that for this 2022 renewal, the limit of coverage be increased to \$800 million from \$700 million. Sufficient funds are available in the 2022 insurance program budget to cover the \$132,000 (pre-tax) cost of this coverage increase. This increase in limits, together with the rate and asset value increases outlined above, result in a total increase of 17.3% in the Property insurance premium.

**Table 2
TTC All Risks Property Insurance
composition**

	2021	Premium	2022	Premium
5th Excess Layer	N/A		4 insurers	\$132K
4th Excess Layer	1 insurer	\$75K	1 insurer	\$75K
3rd Excess Layer	1 insurer	\$100K	1 insurer	\$100K
2nd Excess Layer	3 insurers	\$225K	2 insurers	\$259K
1st Excess Layer	5 insurers	\$541K	5 insurers	\$542K
Primary Layer	3 insurers	\$4.459M	3 insurers	\$5.227M
Total		\$5.400M		\$6.335M
Deductible	\$1M		\$2.5M	

The rate increases for 2022 was approximately 3% (excluding asset value increases), considerably lower than the 25% average rate increase experienced in 2020 and 2021. The low value of the increase can be partly attributed to the increase in the deductible. The TTC, according to analysis provided by Marsh, still maintains a low premium rate when compared to its Canadian peer group.

Contact

Josie La Vita, Chief Financial Officer
416-393-3914
josie.lavita@ttc.ca

Signature

Josie La Vita
Chief Financial Officer