



Procurement Authorization for TTC All Risks Property Insurance Renewal

Date: July 12, 2023
To: TTC Board
From: Chief Financial Officer

Summary

The TTC manages a comprehensive Corporate Insurance Program that provides coverage for both property assets valued at \$22.5 billion and liability losses. The Corporate Insurance Program, comprising of the following lines of insurance, renew at various times within the calendar year:

- **Property coverage:** All Risks Property, Terrorism, Boiler and Machinery, Crime and Contractors Equipment; and
- **Liability coverage:** Commercial General Liability, Directors and Officers and Cyber liability.

The purpose of this report is to seek the Board's authorization to renew the All Risks Property insurance policy, to be procured through Marsh Canada Limited, which has been the TTC's broker of record since 2020. This insurance renewal is before the Board for approval as it is the only insurance policy in the program to exceed \$5 million in total cost. The TTC's All Risks Property Program insurance premium for the one-year term from June 1, 2023, to May 31, 2024, is \$8.344 million (inclusive of Provincial Sales Tax). The All Risks Property insurance provides up to \$800 million of coverage for the protection of the TTC's property assets, valued at \$22.5 billion.

The 2023 renewal cost for the All Risks Property Program reflects an overall 22.5% increase over the expiring 2022 premium. This increase is primarily due to a 16.4% premium increase resulting from a 15.5% increase in the value of the TTC's assets. The remainder of the 22.5% increase, approximately 6%, is a result of the insurers' rate increase applied to the value of assets insured.

Recommendations

It is recommended that the TTC Board:

1. Authorize the purchase order in the amount of \$8.344 million (inclusive of 8% Provincial Sales Tax) to Marsh Canada Limited (Marsh), as the TTC's broker of record, for the renewal of the 2023 annual All Risks Property insurance program.

Financial Summary

The 2023 Operating Budget, as approved by the TTC Board on January 9, 2023, and approved by City Council on February 15, 2023, includes \$7.58 million for the All Risks Property Program specifically and \$11.087 million in total to fund all of the TTC's insurance premiums. The \$7.72 million 2023 expense for the All Risks Property Program, comprised of the 2022 renewal premium from January to May, and the 2023 renewal premium for the balance of the year, exceeds the \$7.58 million budget. This unfavourable variance has been offset by savings achieved on other lines of insurance to bring the total 2023 projected costs to \$10.88 million for the 2023 insurance program and within budget for the program as a whole.

Table 1 highlights the various lines of property and liability insurance, and the corresponding over and under variances between the two lines:

Table 1 – TTC Insurance Program – 2023 Budget vs. Actual Costs

Property Insurance	2022 Budget	2022 EXP ACTUAL	2023 Budget	2023 PROJ ACTUAL	2023 VAR over/(under)
PROPERTY	\$ 7,020,000	\$ 6,339,442	\$ 7,580,000	\$ 7,724,805	\$ 144,805
BOILER & MACHINERY	14,000	13,060	15,000	12,776	(2,224)
CRIME Projected	187,000	162,055	173,000	169,853	(3,147)
PROPERTY TERRORISM	290,000	312,280	370,000	371,727	1,727
PROPERTY (LEASED/RENTED)	16,800	13,917	16,800	12,667	(4,133)
BROKER FEES	168,000	168,000	162,000	162,000	-
SUB TOTAL	\$ 7,695,800	\$ 7,008,754	\$ 8,316,800	\$ 8,453,828	\$ 137,028
					Over Variance
Liability Insurance					
EXCESS LIABILITY	\$ 1,650,000	\$ 1,415,778	\$ 1,570,000	\$ 1,501,460	\$ (68,540)
CYBER LIABILITY	409,000	618,425	980,000	688,637	(291,363)
DIRECTORS & OFFICERS Projected	240,000	207,908	220,000	240,922	20,922
SUB TOTAL	\$ 2,299,000	\$ 2,242,111	\$ 2,770,000	\$ 2,431,019	\$ (338,981)
					Under variance
TOTAL ESTIMATED 2023 BUDGET	\$ 9,994,800	\$ 9,250,865	\$ 11,086,800	\$ 10,884,847	\$ (201,953)
					Under variance

For the policy year June 1, 2023, to May 31, 2024, costs of All Risks Property insurance have increased by 22% year-over-year from \$6.84 million to \$8.34 million (inclusive of Provincial Sales Tax) and is predominantly driven by a 16.4% increase in asset valuations. Looking ahead to the 2024 Budget, due to the combination of rate increases and higher asset valuations, and based on current market trends, the TTC anticipates a comparable increase in property insurance premiums for the 2024 renewal of the All Risk Property Program. Should this occur, the increased funding requirement for 2024 would be in the order of \$2 million and the required increase will be incorporated into the 2024 Operating Budget submission for the Board's consideration.

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 14, 2022 TTC Board meeting, the 2022 All Risks Property renewal of \$6.84 million, inclusive of an increase in limits of liability by \$100 million to \$800 million, was recommended and approved by the Board.

[Procurement Authorization for TTC All Risks Property Insurance Renewal](#)

[TTC Board Decision – Procurement Authorization for TTC All Risks Property Insurance Renewal](#)

Issue Background

The TTC maintains a comprehensive insurance program to protect against third-party liability and for first-party property protection. All insurance policies renew on an annual basis at various times of the year. The All Risks Property insurance provides protection against loss due to fire, flood, and quake. Premiums for the All Risks Property policy are directly related to and derived from the following two factors:

1. The value of assets insured, which the TTC provides annually to its insurers; and
2. The general rate of insurance applied by the insurer, which is reflective of risks and mitigating actions, client loss history, and general insurance market conditions.

For 2023, the premium rate increase is 6.0 %, while the increase in asset valuation is approximately 16.4%.

Due to general market conditions, the value 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 four years. Table 2 below highlights the All Risks Property insurance premiums since 2017:

Table 2 – All Risks Property Insurance Premium Increases (Pre-tax \$000s)

TTC All Risks Property Insurance Premium Increases - 2017-2023 (pre-tax)

	2017	2018	2019	2020	2021	2022	2023	Projected 2024
Premium	\$ 2,444,604	\$ 2,969,688	\$3,216,036	\$4,225,743	\$5,399,671	\$6,328,249	\$7,725,327	\$9,455,800
Percent Increase - Assets		17.70%	--	3.6%	4.2%	11.5%	16.4%	16.4%
Percent Increase - Rate		3.80%	8.3%	27.8%	23.6%	3.1%	6.0%	6.0%
Increase in Limit		-	-	-	-	2.6%	-	-
Percent Increase Total		21.5%	8.3%	31.4%	27.8%	17.2%	22.4%	~ 22.4%

* Current estimate is 2024 will be similar to 2023

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 annually.

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. premiums 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. Past market increases were also being driven by the pandemic, with a reduction of insurers providing coverage and those still providing coverage, tightening their requirements and/or increasing their rates.

Beginning in 2022 and again in 2023, rate increases in the marketplace have begun to stabilize, with renewals resulting in single-digit rate increases. 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. Rate increases have relatively stabilized since Q2 2022, and the rate increase applied to the TTC for the 2023 renewal is approximately 6.0% as compared to the 3.1% increase in 2022, which was the result of additional savings due to the mandatory increase in deductible. However, inflationary pressure and general increases in the asset base of 15.5% have resulted in a 16.4% increase in the insurance premium related to asset valuation.

Taken together, the general rate increase applied to the higher property valuation has resulted in an approximately 22.5% increase in the property insurance premium between the 2022 and 2023 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 renewals to ensure they are fully informed about all key TTC strategy, safety, capital and audit initiatives as well as 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;
2. Real Estate Investment Plan;
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 risk engineering studies of five of its facilities for its incumbent insurers as well as to attract new insurers. This continued into 2022 and 2023 where an additional five sites were assessed. Providing these recent and objective engineering studies was beneficial to insurers' underwriting of risk.

In 2023, the Property insurance program was bound with primarily incumbent insurers (12 separate insurers, one new, with various participation and rates throughout the property program), as this was the most competitive option for the TTC (see Table 3 for insurance structure).

Table 3 - TTC All Risks Property Insurance Composition

	2022	Premium	2023	Premium
5th Excess Layer (\$100M)	4 insurers	\$111K	3 insurers	\$126K
4th Excess Layer (\$100M)	1 insurer	\$75K	1 insurer	\$80K
3rd Excess Layer (\$100M)	1 insurer	\$100K	1 insurer	\$120K
2nd Excess Layer (\$200M)	2 insurers	\$259K	2 insurers	\$311K
1st Excess Layer (\$100M)	5 insurers	\$542K	5 insurers	\$573K
Primary Layer (\$200M)	3 insurers	\$5.227M	3 insurers	\$6.515M
Total (\$800 M)	16 insurers	\$6.313M	15 insurers	\$7.725M
Deductible	\$2.5M		\$2.5M	

The rate increase applied by the insurers for 2023 is approximately 6%, excluding the asset value increases of 16.4%. When combined with the asset value increase, the resultant new rate increase applied is 22.5%. The rate is used by insurers to calculate the premium based on the TTC's asset value of \$22.5 billion. For 2023, the TTC's rate is \$0.033 for every \$100 of asset value. The TTC, according to analysis provided by Marsh, still maintains a relatively low premium rate when compared to its Canadian peer group of municipalities and transit agencies as highlighted in Table 4 below (due to privacy concerns entity names cannot be disclosed).

It should be noted that the Large Regional Municipalities identified in Table 4 have limits of insurance of approximately \$200 million and insured values in excess of \$1 billion, while the Large City and Transit Authorities have limits of approximately \$500 million and insured values ranging from less than \$1 billion to greater than \$10 billion. In comparison, the TTC's insurance limit is \$800 million and is the largest of its peer group, with an insured value of \$22.5 billion, and as noted below, the TTC has maintained a relatively low rate at \$0.033 for every \$100.

Table 4 – Insurance Rates of Comparable Entities

Description	Rate \$/\$100
Large regional municipality A - Population > 750k – Insured value > \$1B	0.022
Large regional municipality B - Population > 750k – Insured value > \$1B	0.027
TTC – Insured Value \$22.5B	0.033
Large City - population > 1M – Insured value > \$10B	0.054
Transit Authority - Insured value \$5B	0.093
Transit Authority - Insured value < \$1B	0.094

Contact

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

Signature

Josie La Vita
Chief Financial Officer