



Procurement Authorization for TTC All Risks Property Insurance Renewal

Date: September 24, 2024
To: TTC Board
From: Chief Financial Officer

Summary

The TTC manages a comprehensive Corporate Insurance Program that covers property assets valued at \$23.6 billion and liability losses. The Corporate Insurance Program, comprising of the following lines of insurance coverage, requires an annual renewal of each type of coverage, which occurs 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.

This report seeks the TTC 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 Corporate Insurance Program to exceed the Chief Executive Officer's delegated authority threshold of \$5 million in total cost.

The TTC's All Risks Property insurance premium for the one-year term from October 1, 2024 to September 30, 2025, is \$9.137 million (inclusive of 8% Provincial Sales Tax), which reflects an overall 9.5% increase over the 2023 insurance premium cost.

The 2024 renewal cost for the All Risks Property insurance policy results in a \$0.679 million or 8.1% increase over the expiring 2023 premium. This increase is primarily due to a 4.5% increase in the value of the TTC's assets, and 3.6% is due to the insurers' rate increase applied to the value of assets insured.

Currently, the All Risks Property insurance provides up to \$800 million of coverage for the protection of the TTC's property assets, valued at \$23.6 billion. In addition to the renewal, and because of increasing property values, an increase in limits of liability of an additional \$100 million in excess of the current \$800 million coverage is also being proposed. Approval of this increase in limits of liability represents the second increase since 2022, reflecting a phased approach to increasing coverage at the current optimal level of \$1 billion. As a result, the proposed limit increase to \$900 million from \$800

million represents an additional \$0.112 million or 1.4% increase, bringing the overall year-over-year premium increase to 9.5% or \$0.791 million.

Recommendations

It is recommended that the TTC Board:

1. Authorize the purchase order in the amount of \$9.137 million (inclusive of 8% Provincial Sales Tax) to Marsh Canada Limited (Marsh), as the TTC's broker of record for the renewal of the 2024 annual All Risks Property insurance policy premium, inclusive of an increase in limits of liability of an additional \$100 million for a total of \$900 million, for a one-year term from October 1, 2024 to September 30, 2025.

Financial Summary

The 2024 Operating Budget, as approved by the TTC Board on December 20, 2023 and by City Council on February 14, 2024, includes \$9.370 million for the All Risks Property insurance policy expense specifically and \$12.836 million in total to fund the TTC's Corporate Insurance Program.

Approval of the renewal of the All Risk Property insurance policy will result in a total projected expense of \$8.583 million by year-end for limits of liability of \$800 million. As a result, sufficient funds are available in the 2024 All Risks Property insurance policy budget to cover the costs with an estimated favourable variance of \$0.787 million, as summarized in Table 1 below.

Table 1 highlights the various lines of property and liability insurance and provides a comparison of the 2024 Budget and projected 2024 insurance costs to year-end for each line of coverage:

Table 1: TTC Insurance Program – 2023/2024 Budget versus Actual Costs (\$000s)

Property Insurance

	2023 Budget	2023 EXP ACTUAL	2024 Budget	2024 PROJ ACTUAL	2024 VAR over/(under)	2025 Budget forecast	2024/2025 VAR
PROPERTY	7,580	7,712	9,370	8,583	(787)	9,650	280
BOILER & MACHINERY	15	13	14	13	(1)	15	1
PROPERTY (LEASED/RENTED)	17	13	20	16	(4)	20	-
PROPERTY TERRORISM	370	372	440	419	(21)	460	20
CRIME (estimated)*	173	166	183	170	(13)	176	(7)
BROKER FEES	162	162	162	162	-	180	18
SUB TOTAL	8,317	8,437	10,189	9,362	(827)	10,501	312

Liability Insurance

	2023 Budget	2023 EXP ACTUAL	2024 Budget	2024 PROJ ACTUAL	2024 VAR over/(under)	2025 Budget forecast	2024 VAR over/(under)
EXCESS LIABILITY	1,570	1,501	1,640	1,495	(145)	1,530	(110)
CYBER LIABILITY	980	689	740	394	(346)	320	(420)
DIRECTORS & OFFICERS	220	212	267	187	(80)	185	(82)
SUB TOTAL	2,770	2,402	2,647	2,076	(571)	2,035	(612)

TOTAL	11,087	10,839	12,836	11,438	(1,398)	12,536	(300)
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* Renewals in November

Based on the overall Corporate Insurance Program’s performance to date, it is anticipated that the TTC will be underspent compared to the 2024 approved budget as a result of favourable renewals. Most of the individual policies have been renewed in 2024, with the exception of one small policy, which will be renewed in November 2024 and is estimated in the table above. The TTC’s 2025 estimated budget is expected to be lower than the 2024 approved budget mainly due to lower-than-expected renewals for the Excess Liability and Cyber Liability policies.

While the TTC maintains \$23.6 billion worth of assets, the current limit of \$800 million of All Risks Property Insurance purchased is derived from the determination of a maximum foreseeable loss (MFL). MFL reflects the maximum concentration of assets at risk. As inflation has impacted the TTC’s asset base valuation over recent years (resulting in higher premiums), it has also impacted the MFL. As such, the TTC is embarking on a phased program to increase the limits of insurance to meet the current MFL calculations of \$1 billion, with proposed increases of \$100 million in 2024 and 2025. The last time this occurred was in 2022, when the limits of liability increased by \$100 million to \$800 million from \$700 million. The TTC continues to monitor these values going forward to mitigate the risk of potentially underinsured assets.

In 2024, the cost to increase the limits of liability is \$0.112 million and can be offset by the \$1.398 million favourable variance shown in Table 1 above.

In 2025, it is estimated that \$9.650 million will be required to fund the All Risks Property insurance policy expense based on the renewal of \$900 million limits of liability. It is estimated that the overall 2025 TTC Corporate Insurance Program will require approximately \$12.536 million. This will provide a \$0.3 million favourable variance

compared to the 2024 approved budget. The variance would provide sufficient funding for renewal and an additional limit increase to \$1 billion. It is expected that the total estimated expense for 2025 will be \$9.688 million for the additional limits of liability up to \$1 billion.

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 12, 2023 TTC Board meeting, the 2023 All Risks Property renewal of \$8.344 million, inclusive of 8% Provincial Sales Tax, was recommended to 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. All Risks Property insurance provides protection against loss due to fire, flood, and quake. Premiums for the All Risks Property insurance 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.

The 2024 premium represents an overall 9.5% increase over 2023, of which approximately 4.5% is attributable to the increase in asset valuation over 2023, 3.6% reflects the year-over-year rate increase, and 1.4% is driven by an increase in the limits of liability to \$900 million from \$800 million.

Due to general market conditions, the value of assets insured (including inflation), and the COVID-19 pandemic, the TTC's Corporate Insurance Program had witnessed double-digit pricing increases over the past four years. With inflationary pressures subsiding and more favourable conditions in the insurance market, the TTC is now experiencing single-digit premium increases. Table 2 below highlights the All Risks Property insurance premiums since 2020:

Table 2: All Risks Property Insurance Premium Increases (Pre-tax)

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

\$ Millions	2020		2021		2022		2023		2024		Estimated 2025	
	\$'s	%Inc	\$'s	%Inc	\$'s	%Inc	\$'s	%Inc	\$'s	%Inc	\$'s	%Inc
Premium	\$4.226	31.4%	\$5.400	27.8%	\$6.328	17.2%	\$7.727	22.1%	\$8.460	9.5%	\$9.577	~ 13.2%

Summary of YoY Inc.	2020	2021	2022	2023	2024	Estimated 2025
Percent Increase - Assets	3.6%	4.2%	11.5%	15.5%	4.5%	-6.2%
Percent Increase - Rate	27.8%	23.6%	3.1%	6.6%	3.6%	-7.0%
Increase in Limit	-	-	2.6%	-	1.4%	-
Percent Increase Total	31.4%	27.8%	17.2%	22.1%	9.5%	~ 13.2%

The TTC's All Risks Property insurance policy first exceeded a \$5 million premium in 2021, and as a result has since required Board approval. Beginning in 2022, the TTC was required to advance the timing of its underwriting valuations to its insurers to reflect the fast pace of inflationary impacts. Preparation of this information left little time for the TTC's broker, Marsh, to adequately market the policy to prospective insurers.

Based on Marsh's advice, the TTC purchased a two-month policy at prevailing 2023 rates to extend the annual renewal from June 1 to August 1 of each year (first extension). By doing so, the TTC is afforded a better opportunity for its broker to market the TTC's insurance policy to the widest range of possible insurer groups, therefore ensuring the best possible rates in the future.

As the August 1 renewal date approached, the TTC was informed that there was a delay in obtaining firm quotes for the renewal. As a result, it was decided that the TTC would purchase another two-month policy to extend the annual renewal from August 1 to October 1 of each year (second extension).

The first extension from June 1 to August 1, 2024, coupled with this second extension from August 1 to October 1, 2024, resulted in a permanent "resetting" of the All Risks Property insurance renewal to October 1 of each year. As an unintended consequence of these actions, a one-time benefit was recognized because of the extensions. If the renewal date was on June 1, the TTC would have paid a higher premium for increases in total insured values and rates.

As shown in Table 3, the amount of actual premiums incurred with the extensions compared to the estimated premiums without the extensions yielded a one-time savings of approximately \$0.159 million.

Table 3: Comparison of Monthly All Risk Property Insurance Premiums (with and without extensions)

	May	First extension		Second extension		Renewal
		June	July	August	September	October
		\$ 1,393,727		\$1,455,446		
Actual premiums (with extensions)	\$ 695,473	\$ 696,864	\$ 696,864	\$ 727,723	\$ 727,723	\$ 752,074
Expected Premium (without extensions)	\$ 695,473	\$ 752,074	\$ 752,074	\$ 752,074	\$ 752,074	\$ 752,074
Monthly Savings	\$ -	\$ (55,211)	\$ (55,211)	\$ (24,351)	\$ (24,351)	\$ -
Total Savings per first extension ----->		\$ (110,421)				
Total Savings per second extension ----->				\$ (48,702)		
Total Savings resulting from extensions						\$ (159,123)

The first extension from June 1 to August 1 was requested and completed before any changes in property values were submitted to Marsh and the insurers. This resulted in a minimal increase in this premium extension.

The second extension from August 1 to October 1 was initiated after the TTC submitted revised property values to Marsh and the insurers. Given that renewal premiums are partly derived from increases in the total insured property values, the premium for the second extension resulted in a proportionate increase.

Taken together, the first extension, being based on the 2023 rate and 2023 property values and the second extension, being based on the 2023 rate and 2024 property values, have saved the TTC approximately \$0.159 million, which the TTC would have otherwise incurred.

Going forward, All Risks Property insurance premiums will continue to exceed the \$5 million delegated authority threshold and will require TTC Board approval annually.

Comments

General Market Conditions

From late 2019 to 2021, premium increases in the All Risks Property insurance marketplace ranged from 13-20%, sometimes higher for accounts that had adverse loss experience, or have had insufficient risk control procedures in place. Past market increases were also 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 stabilized, with renewals resulting in single-digit rate increases. The rate increase applied to the TTC for the 2024 renewal is approximately 3.6%, which is lower than the 6.6% increase in 2023. Moreover, with inflation pressures largely removed from the asset base, the TTC is seeing increases in property values at about 4.5%.

The combined effect of the 2024 rate increase applied to the higher (2024) property valuation has resulted in an approximately 8.1% increase in the property insurance premium between the 2023 and 2024 renewals. When the increase in limits to \$900 million from \$800 million is taken into account, the total increases by 9.5% or \$0.791 million.

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 2014-2015, 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.

Beginning in 2021, TTC staff committed to full engagement with current and potential insurers during renewals. In particular, site inspections have played a pivotal role in ensuring that prospective insurers are fully apprised of the assets and risk controls that the TTC employs. 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. In 2024, the TTC completed another four inspections. Providing these recent and objective engineering studies have been beneficial to insurers’ underwriting of risk.

For 2024, the All Risks Property insurance policy is bound with primarily incumbent insurers (18 quota shares covered by 13 separate insurers), as this is the most competitive option for the TTC (see Table 4 for insurance structure).

Table 4: TTC All Risks Property Insurance Composition (Pre-Tax)

2023			2024		
Layers	Quota Shares Participants	Premium (pre-tax)	Layers	Quota Shares Participants	Premium (pre-tax)
			4th Excess Layer (\$100M)	3 insurers	\$104K
5th Excess Layer (\$100M)	3	\$133K	3rd Excess Layer (\$300M)	5 insurers	\$397K
4th Excess Layer (\$100M)	1	\$75K			
3rd Excess Layer (\$100M)	1	\$120K			
2nd Excess Layer (\$200M)	2	\$311K	2nd Excess Layer (\$200M)	2 insurers	\$325K
1st Excess Layer (\$100M)	5	\$573K	1st Excess Layer (\$100M)	5 insurers	\$601K
Primary Layer (\$200M)	3	\$6.515M	Primary Layer (\$200M)	3 insurers	\$7.033M
Total (\$800 M)	15 (12 different insurers)	\$7.727M	Total (\$900 M)	18 (13 different insurers)	\$8.460M
Deductible	\$2.5M		Deductible	\$2.5M	

The premium rate applied by the insurers for 2024 represents an average increase of approximately 3.6% over 2023. This rate is then used by the insurers to calculate the premium based on the TTC’s 2024 asset value of \$23.6 billion, which increased by 4.5% over 2023. When taken together, the resultant combined rate/asset value premium is 8.1% higher than 2023. For 2024, the TTC’s rate is \$0.035/\$100 of asset value.

According to analysis provided by Marsh, the TTC still maintains a relatively low premium rate when compared to its Canadian peer group of municipalities and transit agencies (see Table 5 – due to privacy concerns entity names cannot be disclosed). It should be noted that the Large Regional Municipalities in Table 5 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 limit is \$900 million (including the proposed increase of \$100 million) and is the largest of its peer group, with an insured value of \$23.6 billion, which demonstrates that the TTC has secured a relatively low rate at \$0.035/\$100.

Table 5: Insurance Rates of Comparable Entities

Description	Rate \$/\$100
Large regional municipality A - Population > 750k – Insured value > \$1B	0.023
Large regional municipality B - Population > 750k – Insured value > \$1B	0.028
TTC – Insured Value \$23.6B	0.035
Large City - population > 1M – Insured value > \$10B	0.057
Transit Authority - Insured value \$5B	0.098
Transit Authority - Insured value < \$1B	0.099

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