

TTC INSURANCE COMPANY LIMITED REPORT NO.

MEETING DATE: June 24, 2013

SUBJECT: 2013 BUDGET

ACTION ITEM

RECOMMENDATION

It is recommended that the Board of Directors approve the attached 2013 Budget for TTC Insurance Company Limited.

BACKGROUND

Prior to the formation of TTC Insurance Company Limited (TTCICL) in 1994, the TTC purchased what is known as 'fronting insurance' from a licensed automobile insurer. The costs of purchasing fronting insurance rose dramatically in the years prior to the inception of TTCICL. During the audit of fronting insurers, the federal regulators made it mandatory for these insurers to post and fund the reserves of the companies they fronted. As insurers did not have the funds or did not want to tie up their capital to post the reserves, they shied away from the fronting business, thereby reducing the market availability. Other insurers wanted the company they fronted to post their own reserves. In TTC's case this would have been around \$25 million (currently \$154.7 million). As a result other alternatives were pursued.

On July 12, 1994 the Financial Services Commission of Ontario (formerly Ontario Insurance Commission) issued to TTCICL a license to undertake contracts of automobile insurance (limited to the automobile risks of the Toronto Transit Commission and subject to the terms of the order-in-council). The sole purpose of the formation of TTC Insurance Company Limited was to enable the TTC to comply with Ontario's legislated Compulsory Automobile Insurance Act and to produce liability cards at a cost effective price. Out of all the alternatives that were examined TTCICL was considered to be the most cost-effective alternative.

DISCUSSION

Attached is a comparison of the budget and probable figures for 2013. The budget was approved by City Council on January 15 & 16, 2013, as part of the TTC's overall operating budget. Operation of TTCICL continues to be the most cost-effective alternative to meet the Commission's automobile insurance needs.

TORONTO TRANSIT COMMISSION INSURANCE EXPENSES
FOR TTC INSURANCE COMPANY LIMITED
2013 BUDGET

<u>DESCRIPTION</u>	<u>2013 Budget</u>	<u>2013 Probable</u>	<u>Variance</u>	
Actuarial Service	\$34,500	\$31,342	(\$3,158)	Note 1
Audit	14,000	13,707	(293)	Note 2
Outside Legal Counsel	20,000	5,000	(15,000)	Note 3
TTC Management Fee	38,000	38,000	0	Note 4
-Interest Earned	(39,000)	(39,000)	0	Note 5
Miscellaneous Costs	<u>6,000</u>	<u>6,000</u>	<u>0</u>	Note 6
TOTAL	<u>\$73,500</u>	<u>\$55,049</u>	<u>(\$18,451)</u>	

- Note 1 The contract for actuarial services was awarded for a five year term starting in 2008. Staff extended the contract for an additional year. The projected cost for 2013 is \$30,800 plus HST (J.S. Cheng & Partners).
- Note 2 The audit services contract with PricewaterhouseCoopers LLP was approved by the City of Toronto at its February 12, 2010 Audit Committee meeting. The contract is for a five year term commencing with the 2010 financial year-end audits.
- Note 3 An estimated amount has been budgeted for outside legal counsel on an as needed basis.
- Note 4 & 5 The TTC Management Fee is budgeted to equal the interest earned on funds held to comply with the City Guarantee. The 2013 budget is based on funds held of \$3 million and at an interest rate of 1.3%.
- Note 6 Expenses include the cost of purchasing the automobile liability certificates, Financial Services Commission's assessment fee, software for reporting to the regulators (P&C1 report), etc.