

# TTC INSURANCE COMPANY LIMITED REPORT NO.

**MEETING DATE:** June 24, 2014

**SUBJECT:** 2014 Budget

**ACTION ITEM**

---

**RECOMMENDATION**

It is recommended that the Board of Directors approve the attached 2014 Budget for the 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 \$141.462 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 2014. The budget was approved by City Council on January 29/30, 2014, as part of the TTC's overall operating budget. Operation of TTCICL continues to be the most cost-effective alternative to meet the TTC's automobile insurance needs.

-----

TORONTO TRANSIT COMMISSION INSURANCE EXPENSES  
FOR TTC INSURANCE COMPANY LIMITED  
2014 BUDGET

<u>DESCRIPTION</u>	<u>2014 Budget</u>	<u>2014 Probable</u>	<u>Variance</u>	
Actuarial Service	\$23,000	\$22,692	-308	Note 1
Audit	15,000	14,664	-336	Note 2
Outside Legal Counsel	20,000	0	-20,000	Note 3
TTC Management Fee	43,200	43,200	0	Note 4
-Interest Earned	-44,200	-44,200	0	Note 5
FSCO Assessment Fee	1,000	1,000	0	Note 6
Miscellaneous Costs	<u>5,000</u>	<u>5,000</u>	<u>0</u>	Note 7
TOTAL	<u>\$63,000</u>	<u>\$42,356</u>	<u>-\$20,644</u>	

Note 1 TTC recently completed a competitive request for bid (RFB) for actuarial services for a five year term commencing with the 2014 financial year. The contract was awarded to the qualified lowest bidder, Collins Barrow Toronto Actuarial Services Inc. The projected cost for financial year 2014 is \$22,300 plus unrecoverable HST of \$392, for a total of \$22,692.

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 2014 budget is based on funds held of \$3.4 million and at an interest rate of 1.3%.

Note 6 The Financial Services Commission of Ontario charges TTCICL an annual assessment fee.

Note 7 Expenses include the cost of purchasing the automobile liability certificates, software for quarterly and annual filings (P&C1 report), and membership in Property and Casualty Insurance Compensation Corporation (PACCIC). PACCIC maintains a liquidity fund on behalf of Canada's property and casualty insurers to protect policyholders and claimants in the event a member insurer becomes insolvent.