



STAFF REPORT ACTION REQUIRED

Shared Services Agreement and Licence Amendment for TTCICL

Date:	September 28, 2016
To:	TTC Insurance Company Limited Board of Directors
From:	Chief Executive Officer

Summary

As per the recommendations of the Results of the Shared Services Study- City Agencies report, City staff and TTC have been reviewing the steps required to insure the automobile risks of the City through TTCICL. Prior to implementation, TTC staff has determined that the following steps need to be taken:

1. Amend Order in Council 1690/94 to allow TTCICL to extend its underwriting to the automobile insurance risks of the City;
2. Apply to FSCO for a licence amendment to permit additional insurance for City vehicles
3. Develop an operating agreement and an indemnity and hold harmless agreement between the City, TTC and TTCICL

It is intended that all of the City Auto Risks would be insured by TTCICL upon the proposed amendment being approved.

Recommendations

It is recommended that the Board of Directors approve:

1. Proceeding to seek amendment to the Order in Council 1690/94 to allow TTCICL to expand its underwriting to include the automobile insurance risks of the City, and any further necessary and/or related amendments;
2. To proceed with a TTCICL Licence Application to FSCO to allow TTCICL to insure automobile risks of the City;
3. TTCICL entering into appropriate operating and indemnity / hold harmless agreements with the TTC and the City.

Financial Summary

It is not expected that there will be any financial impact to the TTCICL. City of Toronto will compensate TTCICL and the TTC for all incremental costs related to the licence amendment and operations of the TTCICL. There will be no change in appointed Actuary or Auditor of TTCIC as a result of the proposed amendment.

In terms of overall savings, the objectives of the City's Shared Services Agreement are threefold:

1. Reduce expenses: The proposed amendment will permit the City to save fronting fees estimated at approximately \$300,000 per year.
2. Recapture collateral: The Proposed Amendment will permit the City to terminate its fronting arrangement as it relates to the City Auto Risks and possibly recapture some of the posted collateral (a one-time gain, net of amounts posted for TTCICL).
3. Remove uncertainty: In the event that the City's current fronting arrangement is terminated, there is limited capacity in the market for the City to make similar arrangements. This is similar to the objectives sought by TTC in setting up TTCICL in 1994. The purchase of traditional third party insurance with a full risk transfer would be expensive and would not be a viable option for the City. TTCICL will provide the City with a permanent self-insured arrangement and solution with respect to the City Auto Risks, as it has done so in a similar fashion for the TTC.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

Accessibility/Equity Matters

There are no accessibility or equity issues associated with this report.

Decision History

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 TTC Insurance Company Limited was considered to be the most cost-effective alternative.

Issue Background

On June 11, 2013, Toronto City Council adopted Executive Committee Report EX32.3 entitled, Results of the Shared Services Study- City Agencies. Recommendation 6 authorized the City to examine the cost benefits of insuring the Toronto Transit Commission ("TTC") under City of Toronto ("City") insurance. This provided further direction to pursue a review of all aspects of TTC insurance operations (including

Shared Services Agreement and
Licence Amendment for TTCICL

TTCICL), exclusive of claims, with the view to find synergies and opportunities for consolidation to effect cost savings for both entities.

Accessibility/Equity Matters

There are no accessibility or equity issues associated with this report.

Comments

The TTC Insurance Company Limited (TTCICL) was formed in 1994. It was, and continues to be, the most cost effective option for the Toronto Transit Commission to comply with the Compulsory Automobile Insurance Act. Currently, TTCICL insures solely the automobile risks of the TTC for both revenue and non-revenue vehicles. TTCICL has no direct employees, and acts as a “fronting insurer” for all TTC auto insurance claims up to \$5,000,000. These claims are funded and paid from TTC’s operating budget, and the claims are administered by TTC staff.

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Since then, City staff met with TTC to review insuring the automobile risks of the City under TTCICL. Moreover, City staff and TTC have jointly been conducting exploratory meetings with both the Ministry of Finance (“MOF”) and the Financial Services Commission of Ontario (“FSCO”) with the intent of applying for a TTCICL licence amendment that would permit insuring City vehicles through TTCICL.

Through continued analysis, and, as a result of these meetings, TTC and City staff have determined that the following steps need to be taken:

1. Amend Order in Council 1690/94 to allow TTCICL to extend its underwriting to the automobile insurance risks of the City;
2. Apply to FSCO for a licence amendment to permit additional insurance for City vehicles
3. Develop an operating agreement and an indemnity and hold harmless agreement between the City, TTC and TTCICL (including the incremental costs increases arising as a result of the inclusion of insurance coverage for City auto risks).

From an operating perspective, the City will continue to be responsible for all claims that occur with respect to any City Auto Risks. Claims and complaints arising under the City Auto Risks are handled by a third party adjusting firm, with administrative support provided by City staff. Lawyers in the City's Legal Division handle some of the litigation arising from claims incurred with respect to the City Auto Risks. Other litigation is referred

to third party law firms. These arrangements will all continue once the Proposed Amendment is effective and the TTCICL insures the automobile risks of the City.

It is intended that all of the City Auto Risks would be insured by TTCICL upon the proposed amendment being approved. The City will continue to purchase umbrella coverage and excess liability coverage for claims over \$5 million per occurrence from various Canadian licensed insurers. The City will provide an Indemnity to TTCICL relating to all claims and liabilities involving TTCICL related to City auto risks.

Contact

Vincent Rodo
President, TTC Insurance Company Limited
Phone: 416-393-3914
Email: vincent.rodo@ttc.ca

Attachment

Letter to FSCO

TORONTO TRANSIT COMMISSION



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September 1, 2016

Via E-mail: ceo@fsco.gov.on.ca

Financial Services Commission of Ontario (FSCO)
5160 Yonge Street
P.O. Box 85
Toronto, Ontario, M2N 6L9

Attention: Mr. Brian Mills, CEO & Interim Superintendent of Financial Services

Dear Mr. Mills:

Re: TTC Insurance Company Limited – Intention to Apply to Amendment Licence

We are writing to inform you of our intention to make a formal application, jointly with the City of Toronto ("City"), to FSCO to amend the TTC Insurance Company Limited's ("TTCICL") insurance licence. This communication is a result of a request from the Ministry of Finance ("MOF") for us to inform FSCO of our intentions to formally apply for a licence amendment.

As you are aware, TTCICL currently insures solely the automobile risks of the Toronto Transit Commission ("TTC"). The City and the TTC have had a number of discussions with representatives from FSCO and the MOF with respect to amending the TTCICL's licence to allow it to insure certain automobile risks of the City which are currently insured by commercial carriers in Ontario. As a condition precedent, the expansion of TTCICL's insurance licence will also require an amendment to Order-In-Council 1690/94 which exempts TTCICL from certain minimum capital requirements.

This initiative is consistent with and part of a number of expense reduction initiatives that are currently being pursued by TTC and the City which will result in an annual savings of approximately \$300,000 per year.

The use of TTCICL in insuring the City's automobile risks will have minimal impact to TTCICL from both a capital perspective and an operational perspective as the City intends to continue to operate independently – essentially using TTCICL only as a fronting carrier. The City will fully indemnify TTCICL in the same manner that TTC currently indemnifies TTCICL. The City will also continue to fully guarantee the TTC's indemnity in favour of TTCICL. The City will also handle all administrative functions with respect to the City's automobile risks, including claims administration, in the same manner that TTC currently does for the risks insured by TTCICL. Accordingly, there will be no disruption to TTCICL's current operations.

Lastly, the proposed licence amendment will not set any precedent as the TTCICL structure is unique to the TTC and the City. The City is ultimately responsible for TTCICL because of the guarantee provided by the City with respect to the TTC indemnity. Further, the City's automobile risks are compatible with the TTC risks currently insured by TTCICL.



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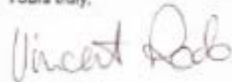
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We look forward to our next meeting with FSCO and the MOF to discuss the proposed licence amendment. In the meantime, TTC and the City will proceed with amending the Order-In-Council to be completed in advance of the application for licence amendment. Please direct any questions or comments to Brian Leck, Head of Legal & General Counsel, Direct Phone: 416-393-3860, Email: brian.leck@ttc.ca

Yours truly,



Vincent Rodo
President, TTC/CL

CC: Toronto Transit Commission (Brian Leck)
City of Toronto (Rick Welton, Walker Young)
Ministry of Finance (Paul Brathwaite)



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