

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 19, 2016

Item 2, Report No. 10, of the Finance, Administration and Audit Committee, which was adopted, as amended, by the Council of the City of Vaughan on October 19, 2016, as follows:

By receiving Communication C20 from the City Clerk, dated October 19, 2016.

2 RFP – 16-265 GENERAL INSURANCE AND RISK MANAGEMENT SERVICES PROGRAM

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the City Clerk, dated October 11, 2016, be approved; and
- 2) That Communication C1 from Ms. Carrie Liddy, dated October 9, 2016, be received and that appropriate staff respond to issues raised by the correspondent.

Recommendation

The City Clerk, in consultation with the Chief Financial Officer and City Treasurer, and the Director of Procurement Services recommend:

1. That the RFP 16-265 for General Insurance and Risk Management Services be awarded to AON Risk Solutions for an annual premium of \$2,543,012.00 plus applicable taxes commencing January 1st 2017;
2. That the City Clerk in consultation with the Chief Financial Officer and City Treasurer be authorized to renew the said contract on a year to year basis for a maximum period of four (4) years based on quality of service, mutual agreement and annual premium negotiation;
3. That the purpose of the insurance reserve as referenced in the Consolidated Reserve Policy be expanded to include the use of the reserve to offset premium cost increases;
4. That the premium cost differential resulting from this RFP be placed in the insurance reserve; and;
5. That the Mayor and City Clerk be authorized to sign the necessary documents.

Contribution to Sustainability

Insurance coverage and risk management services are integral to the financial sustainability of the City. By acquiring appropriate insurance coverage and implementing proactive risk management practices the financial impact of the City's liability exposure can be minimized.

Economic Impact

The economic impact from the award of this RFP would be favourable, however, staff are proposing that the difference in premium savings be transferred to the Insurance Reserve to help mitigate future premium related increases. In effect, the economic impact would be rendered neutral, but will increase the City's ability to address unanticipated fluctuations in the future.

An insurance premium cost of \$ 4.5 million is currently planned for in the 2017 operating budget. The successful bid has a premium cost of approximately \$ 2.5 million. The proposed transfer of the \$ 2 million to the Insurance Reserve would result in a reserve balance of \$ 5.8 million. Approving this reserve transfer and the proposed policy changes represents responsible fiscal planning from a sustainability perspective and would serve to mitigate the pressures on the tax base as a result of premium fluctuations.

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EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 19, 2016

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Communications Plan

City departments will be advised of the changes to the City's insurance program.

Purpose

This report is to advise Council of the results of RFP 16-265 and to seek Council approval to enter into an agreement with AON Risk Solutions for insurance and risk management services for the period of January 1 2017 to January 1 2018, with the option to renew for an additional four (4), one (1) year periods at the City's sole discretion.

In addition, this report seeks Council's approval to amend the Consolidated Reserve Policy to allow funding from the insurance reserve for future insurance premium variances and to allocate any favourable variances at year end in the insurance budget to the insurance reserve.

Background - Analysis and Options

General Insurance and Risk Management services have been provided by the Ontario Municipal Insurance Exchange (OMEX) since April 30th 2012. The current policy will expire on January 1 2017.

A Request for Proposal – (RFP) 16-265 for General Insurance and Risk Management Services was structured to have Proponents quote on the limits of insurance presently in effect with OMEX. The RFP was issued on July 4th 2016, with a closing date of August 8th 2016. Two Addendums were issued in response to clarifying questions received from the various Proponents. A total of six (6) companies picked up the RFP package. Four (4) proposals were received from, Frank Cowan Company Limited, BFL Canada Risk and Insurance Services, Jardine Lloyd Thompson (JLT) and AON Risk Solutions.

The four proposals were evaluated by the City's evaluation committee on August 22nd and 23rd 2016 in accordance with the evaluation criteria set out below. The committee consisted of, representatives of the Office of the City Clerk, Corporate Financial Planning and Development Finance and Infrastructure Planning, Infrastructure Delivery. The evaluation process was facilitated by the Procurement Services Department.

Evaluation Criteria

Insurance Coverage - 30
Services – Risk Management -12
Services – Claims Management -12
Value Added Service -5
Quality of Proposal- 5
Experience of Team -10
Financial- 30

AON Risk Solutions was the lowest bidder and achieved the highest overall score based on the evaluation criteria. The proposal submitted by AON Risk Solutions sets an annual premium at \$2,543,012.00 plus applicable taxes. Accordingly, it was the recommendation of the committee that AON be retained to provide the City's insurance and risk management services commencing January 1st, 2017, with the option to renew the contract for an additional four (4), one (1) year periods at the City's sole discretion with pricing to be negotiated annually.

AON is one of the largest insurance brokers in the world with over 78 Billion dollars in premium placed globally. As brokers they review the insurance needs of the client and secure coverage in the global insurance market to meet the client requirements. Their size and amount of premium

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EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 19, 2016

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allows them to negotiate the best pricing possible when procuring insurance for groups as large as the City of Vaughan.

Their proposal responded to the City's interest in valued added services some of which include advocacy on claims and claims management technology. They will provide support in business continuity during catastrophic events by placing resources in the field as the City requires. During emergencies they will deploy experts directly to the catastrophe sites offering loss mitigation guidance and providing coordination and management of emergency resources, remediation and restoration vendors and environmental specialists. They are able to further enhance operational performance by offering support in the areas of driver training resources.

Consolidated Reserve Policy - Insurance Reserve

The Consolidated Reserve Policy establishes consistent guidelines and standards which assist in the administration of reserve funds in a responsible and consistent manner. The current policy states that the purpose of the Insurance Reserve is to fund the *payment of qualified claims and to set aside funds for future retroactive rate adjustments to minimize future tax rate impacts*. Staff is recommending that the intended use of this policy be amended to include the ability to use the reserve to *offset* future premium costs and to allocate any favourable variances in the insurance budget to the insurance reserve. While the City's Financial Sustainability Service Excellence initiative is still in the early stages, this policy change represents responsible fiscal planning and drives towards financial sustainability in the long term. It is consistent with the early direction of the Financial Sustainability initiative from within the Finance Office.

Relationship to Term of Council Service Excellence Strategy Map (2014-2018)

This report relates to the Term of Service Excellence Strategy Map (2014-2018) by supporting the following initiatives;

Operational Performance – Financial Sustainability
Staff Engagement - Corporate Governance and Accountability Framework (Enterprise Risk Management framework)

Regional Implications

There are no regional implications resulting from this report.

Conclusion

It is recommended that the contract for the City's Insurance and Risk Management Services be awarded to AON Risk Solutions commencing January 1st 2017 to January 1st 2018, for an annual cost of \$2,543,012.00 plus applicable taxes with the option to renew the contract for an additional four (4), one (1) year periods.

To ensure sustainability of the insurance reserve staff recommends that the Consolidated Reserve Policy be amended to allow the reserve fund to be used to offset future unbudgeted premium increases and that any positive balances in the insurance budget at year end be allocated to the insurance reserve, including the premium cost differential resulting from this RFP.

Attachments

None

Report prepared by:

Joseph A.V. Chiarelli, Insurance-Risk Manager Ext. 8737
Tricia Campbell, Risk Management Analyst Ext. 8134



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Communication
COUNCIL: Oct 19/16
FAA Rpt. No. 10 Item 2

DATE: October 19, 2016

TO: Mayor and Members of Council

FROM: Jeffrey A. Abrams, City Clerk

RE: **COMMUNICATION – COUNCIL MEETING – OCTOBER 19, 2016**
RFP – 16-265 GENERAL INSURANCE AND RISK MANAGEMENT SERVICES
PROGRAM
(ITEM 2, REPORT 10 – FINANCE, ADMINISTRATION AND AUDIT COMMITTEE)

On October 9, 2016 Ms. Carrie Liddy submitted Communication C1 (copy attached) to the Finance, Administration and Audit Committee commenting on the City Clerk's recommendation that the City's Insurance and Risk Management Services be awarded to AON Risk Solutions for the period commencing January 1, 2017.

The following responses to comments and questions raised by Ms. Liddy will assist Council in assessing the recommendation of the Finance, Administration and Audit Committee on this matter.

1. "Please explain how the reserves are calculated for insurance. "

The currently approved Consolidated Reserve Policy provides for a target of 35% of the last five year's premiums. The City is undertaking a financial sustainability initiative over the next 18 months which will include a review of this policy.

The 2017 recognized budget for insurance premiums was \$4.5 million out of a total budget of approximately \$6.5 million which covers insurance premiums, deductible payments, internal and external claims, professional fees and associated expenditures. The most recent RFP process has resulted in a new premium of \$2.5 million. This results in a premium savings of \$2 million which is proposed to be transferred to the insurance reserve.

2. "Millions paid to Frank Cowan Company from 2012 to present. Where is the money coming from?"

The monies that are being referred to represent deductible payments made to Frank Cowan Company Limited (FCC) for claims incurred while the City was insured by them. In municipal insurance policies, "deductible" is a defined amount of an insurance claim that is the responsibility of the insured. The City's deductible under the FCC policies is \$50,000 per claim. Accordingly, the City continues to be responsible for the deductible payments for all claims incurred during the policy periods. The policies stipulate that any expenses that exceed \$50,000 are the responsibility of the insurer up to the policy limit. The insurer bills the City for deductible payments on a periodic basis. Deductible billings from FCC are structured on a bulk billing format. Bulk billings contain multiple claims and their associated expenses.

As a point of clarification regarding Ms. Liddy's concern about payments exceeding the \$50,000 threshold, it should be noted that these payments do not in fact exceed the threshold; rather they represent billings for multiple files grouped together on one invoice. These payments have continued since 2012 for files on which FCC remains the insurer of record. These deductible expenses have been included in the City Clerk's insurance budget on a yearly basis since 2012.

3. " Why is the premium so low for AON? What is the deductible on each claim? FCC was \$50,000 as was OMEX. Is it the same?"

The AON quote for premium was the lowest of four proponents responding to the City's RFP. The deductible on the policy quoted is \$50,000 per claim, the same as the present and previous insurer, OMEX and FCC.

4. "I note that OMEX has placed all claims on hold."

OMEX has not placed all claims on hold. OMEX has chosen not to write any further policies for the time being but is and will be responsive for claims for which they are responsible. They will continue to serve Vaughan as a client and provide insurance coverage for all claims incurred from April 30, 2012 to January 1, 2017.

5. "Under what circumstances would the City would pay more than the \$50,000 deductible per claim?"

Claims falling within the policy coverages limit the City's exposure to \$50,000 per claim. OMEX's policy of insurance has a liability limit of \$50 million. Any awards over this amount would be the responsibility of the City. To date the City has not received or settled any claims over the limit.

Respectfully submitted,



Jeffrey A. Abrams
City Clerk

From: Clerks@vaughan.ca
Subject: FW: Extract from oct council
Attachments: Finance1011_16_2.pdf; ATT00001.htm

C	1
COMMUNICATION	
FAA -	<i>October 11/16</i>
ITEM -	<i>2</i>

From: Carrie Liddy <carrie.liddy@gmail.com>

Sent: Sunday, October 9, 2016 9:44 AM

To: Abrams, Jeffrey

Cc: Bevilacqua, Maurizio; Rosati, Gino; Ferri, Mario; Iafrate, Marilyn; Racco, Sandra; Shefman, Alan; DeFrancesca, Rosanna; Carella, Tony; Di Biase, Michael; Craig, Suzanne; Richard Lorello

Subject: Extract from oct council

Mr Abrams

Please consider this a written deputation on the insurance item from the finance committee meeting which was forwarded to the council meeting noted below.

You signed the report attached to this email. Please see the paragraph cut and pasted below. i cannot reconcile with the budget and cannot find anywhere in the fiscal plan.

An insurance premium cost of \$ 4.5 million is currently planned for in the 2017 operating budget. The successful bid has a premium cost of approximately \$ 2.5 million. The proposed transfer of the \$ 2 million to the Insurance Reserve would result in a reserve balance of \$ 5.8 million. Approving this reserve transfer and the proposed policy changes represents responsible fiscal planning from a sustainability perspective and would serve to mitigate the pressures on the tax base as a result of premium fluctuations.

Please explain how the reserves are calculated for insurance. Please explain how the surplus is created when OMEX was 8% above the budgeted item, and millions have paid to Frank Cowan Company from 2012 to present.

I note that there are literally millions of dollars still being paid to FCC, and the last contract they had was April 2011, which seemed to end in june 2012? These millions are not reconciled anywhere in the budget.

Where is this money coming from? why is FCC still being paid?

Why is the premium so low for AON? What is the deductible on each claim? FCC was \$50,000 as was OMEX. Is it the same?

I note that OMEX has placed all claims on hold. Have you notified the public how much money is at risk now that OMEX is effectively dropping Vaughan as a client?

What are the circumstances when the city would pay more than \$50,000 deductible per claim? There does not appear to be any explanation, and no budget items to explain the use of millions in taxpayer money, outside the approved budget.

You previously claimed all the millions paid to FCC after june 2012, were for "deductibles" and the contract states the maximum deductible per claim is \$50,000. I now have the summary of the claims paid to FCC and there are many many claims that the City is reimbursing FCC substantially more per claim than the \$50,000 maximum in the contract. These payments are marked "deductibles".

I remind you that both the previous City manager and you refused to meet and discuss this and items the Integrity Commissioner was deeply concerned about when the Integrity Commissioner issued her report on this item. The previous City Manager and yourself said what staff did was none of her business. However, what you failed to do was address the situation in anyway.

The final step in the report process is to send to council, prior to having the Ombudsman look into the matter. I will be completing this step next week. However if you choose to respond, i will take your responses into consideration.

Thank you in advance for your response. Please also respond to my previous email for questions regarding insurance.

https://www.vaughan.ca/council/minutes_agendas/AgendaItems/Finance1011_16_2.pdf

RFP – 16-265 GENERAL INSURANCE AND RISK MANAGEMENT SERVICES PROGRAM

Recommendation

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Attachments

None

Report prepared by:

Joseph A.V. Chiarelli, Insurance-Risk Manager Ext. 8737
Tricia Campbell, Risk Management Analyst Ext. 8134

Respectfully submitted,

Jeffrey A. Abrams, City Clerk