Agenda - Executive Policy Committee - July 7, 2004

REPORTS

Item No. 2 Delegation of Insurance Matters to the Chief Administrative Officer
File GC-11

ADMINISTRATIVE RECOMMENDATION:

1. That Council delegate to the Chief Administrative Officer authority to make decisions in respect of the method of purchase of insurance and related services, whether through the General Insurance Consortium as previously approved by Council, or through an alternative insurance broker process as determined by the Chief Administrative Officer to be beneficial to the City.

2. That the Proper Officers of the City be authorized to do all things necessary to implement the above recommendation.

RE: DELEGATION OF INSURANCE MATTERS TO THE CHIEF ADMINISTRATIVE OFFICER

FOR SUBMISSION TO: **Executive Policy Committee**

ORIGINAL REPORT SIGNED BY: **Chief Financial Officer**

REPORT DATE: **June 21, 2004**

RECOMMENDATION(s):

1. **That Council delegate to the Chief Administrative Officer authority to make decisions in respect of the method of purchase of insurance and related services, whether through the General Insurance Consortium as previously approved by Council, or through an alternative insurance broker process as determined by the Chief Administrative Officer to be beneficial to the City.**

2. **That the Proper Officers of the City be authorized to do all things necessary to implement the above recommendation.**

REPORT SUMMARY

Key Issues:

The recommendations in this report are based on the Chief Administrative Officer governance model for the City.

The recommendations of this report allow the Chief Administrative Officer to determine the most efficient way to purchase insurance whether through the General Insurance Consortium or through an alternative method such as an individual insurance broker.

Implications of the Recommendation(s):

General Implications:

ð None

X For the organization overall and/or for other departments

ð For the community and/or organizations external to the City

ð Involves a multi-year contract
Comment(s): Delegation of authority to the Chief Administrative Officer to deal with the method of purchase of insurance including the General Insurance Consortium on behalf of the City in a responsive and flexible manner.

Policy Implications:

ð No

X Yes
Comment(s): The General Insurance Consortium was appointed by Council Order, and has been in place for many years. Council approval must be obtained to delegate authority to the Chief Administrative Officer to deal with the General Insurance Consortium.

Environmental Implications:

X No

ð Yes
Comment(s):

Human Resources Implications:

X No

ð Yes
Comment(s):

Financial Implications:

X Within approved current and/or capital budget

ð Current and/or capital budget adjustment required
Comment(s):

REASON FOR THE REPORT:

Council approval is required to authorize the delegation of authority to the Chief Administrative Officer to deal with the method of purchase of insurance and related services on behalf of the City.

HISTORY:

On October 18, 1972 an Order of Council created a "Consortium to handle the City's General Insurance" and approved twelve articles. These articles

1) established the General Insurance Consortium (the consortium) as the City's official insurance broker/consultant;
2) appointed a principal insurance broker from among the consortium members;
3) designated the principal broker to deal with the appropriate officers of the City on insurance and losses;
4) reserved the City's right to place insurance with any specific insurer;
5) outlined a tendering process for insurance;
6) empowered the consortium to bind insurance on behalf of the City subject to Council approval;
7) instituted regular meetings between the consortium and City officials;
8) directed the consortium to make an initial and then ongoing survey, inspection and recommendations respecting the City's insurance coverage;
9) required the City to provide appraisals for insurance purposes;
10) required the City to provide a claims department through which all departments of the City will report all accidents and occurrences for investigation;
11) set maximum commissions to be received by the consortium at 20% on property insurance premiums, plus 15% on other types of insurance premiums;
12) established an initial three-year term and from year to year thereafter for the consortium.

On February 21, 1973 Council approved the recommendations of the consortium, setting out the criteria for the City's insurance program.

On August 20, 1975 Council approved the continued appointment of the consortium from year to year after its initial three-year term.

On May 2, 1979 Council adopted recommendations passed by the Committee on Finance on March 20, 1979. This revised the approved twelve articles. These articles:

1) updated the consortium membership
2) designated the consortium as the official insurance broker/consultant for the City;
3) gave the power to the consortium to appoint its own principal broker subject to City approval;
4) reserved the City's right to place insurance with any specific insurer;

5) outlined a tendering process for insurance;
6) empowered the consortium to bind insurance on behalf of the City subject to Council approval;
7) empowered the consortium to meet as required with appropriate officers of the City;
8) directed the consortium to conduct ongoing analysis, and to make insurance recommendations, plus provide engineering facilities for inspecting City properties and operations;
9) required the City to provide appraisals for insurance purposes;
10) required the City to provide a claims department through which all departments of the City will report all accidents and occurrences for investigation;
11) set maximum commissions to be received by the consortium at not more than 20% on property insurance premiums, plus 12.5% on all automobile premiums, and not more than 15% on all other types of insurance premiums;
12) confirmed the appointment of the consortium from year to year provided that each party may give three months written notice prior to December 31 in any year to terminate the appointment.

Administratively, these directions from Council have been referred to as City Policy C107 - General Insurance Consortium.

Since its inception, membership in the consortium has remained relatively static, with little change other than updating of corporate names from time to time. Consortium practices have remained consistent, with primary focus given to placing and renewing insurance, delivering Autopac insurance services, and providing consultation to the City on insurance matters.

DISCUSSION:

Pursuant to The City of Winnipeg Charter sub-section 100(e), it is within the powers, duties and functions of the Chief Financial Officer to ensure that insurance, as required or approved by Council, is in effect at all times to protect the City from losses or claims.

Pursuant to sub-section 4(12) of the City Organization By-law 7100, Executive Policy Committee has the power and duty to consider and report to Council on matters relating to insurance.

Control

For many years, the City has benefited by consolidated management of its insurance needs exclusively through a single source of control (Corporate Finance Department, Corporate Controllers Division, Risk Management Branch), and a single source of service (General Insurance Consortium).

This approach promotes adequate controls and a coordinated program designed to protect the interests of the City, and to meet the insurance needs of all City operations. Corporate Finance Department recommends that the City continue to purchase and manage its insurance needs through a single point of control in Risk Management Branch.

It is the intention of Risk Management Branch to present a report to the Chief Administrative Officer on an annual basis providing an analysis of insurance and related risk management services.

Services

In practice, the Principal Broker of the General Insurance Consortium provides all insurance and risk related services to the City. AON Reed Stenhouse has served as the Principal Broker since the inception of the consortium.

Services currently being provided to the City by the Principal Broker include:

- marketing and placing all commercial insurance;
- providing all insurance consultation services;
- providing certificates of insurance; and
- delivering all Autopac license, registration and insurance needs.

Risk Management Branch is satisfied with the high level of professionalism, expertise, continuity and support provided on a daily and on-going basis by the Principal Broker.

Besides the Principal Broker, there are three additional consortium members. These three consortium members are paid a portion of the commissions earned annually by the consortium.

In practice, the structure of the consortium constrains its three additional consortium members from providing a more significant amount of insurance services to the City. They do contribute to the process by attending consortium meetings (called at times agreed upon by the Principal Broker and the Corporate Risk Manager of the City). They provide their opinions and advice during insurance related discussions.

The Corporate Risk Manager has included the three additional consortium members in providing expanded risk management services (such as facilities inspections and financial analysis of the insurance reserve fund). Under the current arrangement, this has proven difficult to establish, manage and maintain.

An attempt to involve all the consortium members in the insurance renewal process demonstrated that this was impractical. Industry practices require a single broker empowered by the insured to approach the markets on behalf of the insured. The competitive nature and practices of the insurance industry discourages (and in some cases prohibits) co-operation between consortium members in these areas.

Risk Management Branch believes that additional insurance and risk management services should be expected from the City's insurance broker resource. These additional services include:

- analyzing the City insurance program on an on-going basis, providing gap analysis recommendations to facilitate informed decision-making by the City.
- developing and delivering an on-going program of loss control for civic buildings and facilities (helping to update property value figures and creating loss control standards for each of the classes of buildings for security, fire and personal safety protection including a recommended program of inspections);
- expediting claims with City insurers;
- researching insurance policies of the day and assisting in contacting carriers;
- evaluating and making recommendations on retention levels and coverage needs;
- conducting on-going actuarial assessments of the insurance reserve fund;
- designing a process and assisting in the annual allocation of internal insurance premium costs within the City operating departments;
- providing loss prevention services designed to reduce risk and losses.

Summary

Many organizations opt for the contracting of their insurance and related risk management services on a fee-for-service basis, directing their insurance brokers to charge all premiums on a net basis without commissions of any kind. Insurance brokers are chosen through a competitive bidding process for a multi-year term.

Risk Management Branch anticipates that a single insurance broker chosen on the above mentioned basis would provide both existing plus additional insurance and risk management services needed by the City for less net cost than the City currently pays to its insurance consortium by way of commissions. Future dealings in this area will be more flexible, comprehensive and responsive. The sole exception to the fee-for-service concept will be commissions and charges earned by the successful insurance broker for processing City purchases of Autopac insurance services (as controlled by provincial regulations).

Council delegation of authority to the Chief Administrative Officer to make decisions in respect of the method of purchase of insurance, including possible alternatives to the General Insurance Consortium will provide flexibility for the City to consider alternatives to current structure and insurance programs. In the event that the General Insurance Consortium is terminated, the City Clerk will be so advised so that the appropriate notations can be made to the C107 document.

Project Name: Delegation of Insurance Matters

Date: June 17, 2004 First Year of Program

	0	1	2	3	4
Capital					
Capital Expenditures Required					
Less: Existing Budgeted Costs					
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal					
Debt - External					
Grants (Enter Description Here)					
Reserves, Equity, Surplus					
Other - Enter Description Here					
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs					
Less: Incremental Revenue/Recovery					
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts					
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: No cost increases will result from the recommendations of this report

Corporate Controller

IN PREPARING THIS REPORT THERE WAS CONSULTATION WITH, AND CONCURRENCE BY:
Corporate Services Department - Legal Services Division,
Corporate Finance Department - Controllers Division.

THIS REPORT SUBMITTED BY: Michael Ruta, Corporate Controller
(Department) Corporate Finance Department
(Division) Corporate Controllers Division
Prepared by: Allan Smeall, Corporate Risk Manager
File No. “Insurance Consortium 2004”