ITEM	6
MANAGER'S REPORT NO.	65
COUNCIL MEETING	86/10/27

RE: LETTER FROM THE U.B.C.M., LIABILITY TASK FORCE, WHICH APPEARED ON THE AGENDA FOR THE 1986 OCTOBER 06 MEETING OF COUNCIL (Item 3d) GROUP SELF-INSURANCE STUDY AND MARKET UPDATE

MUNICIPAL MANAGER'S RECOMMENDATION:

1. THAT the recommendations of the Director Finance be adopted.

* * * * * * *

TO: MUNICIPAL MANAGER

1986 October 22
File: I55-6

FROM: DIRECTOR FINANCE

RE: LIABILITY INSURANCE
U.B.C.M. GROUP SELF-INSURANCE AND MARKET UPDATE
(ITEM 3(d), CORRESPONDENCE & PETITIONS, 1986 OCTOBER 06)

RECOMMENDATIONS

1. THAT the existing municipal liability insurance coverage be maintained and reviewed again when Phase 2 of the U.B.C.M. Task Force Study is completed or other significant market developments occur; and

2. THAT Council support positively the following U.B.C.M. Liability Task Force questions on Group Self-Insurance:

   1) Would you prefer an "insurance" system where the rates were based solely on B.C. municipal claims costs plus administration costs; and those rates could be fully justified?
   2) Would you be prepared to make a long term commitment to a pooled insurance system in order to achieve stable and explicitly determined costs?
   3) Would you be prepared to accept mandatory participation if a sizable majority of municipalities and regional districts also favoured a group self-insurance system?
   4) Would you agree to sharing control over the program with the other participants?

   subject to the findings of the Phase 2 study indicating that participation by Burnaby is still financially advantageous to Burnaby in the current and foreseeable insurance market; and

3. THAT Council approve expenditure of up to $7,200 to support Phase 2 of the U.B.C.M. Liability Task Force Study; and

4. THAT a copy of this report be sent to the U.B.C.M. Liability Task Force.

REPORT

INTRODUCTION

In view of the rising premiums of liability insurance for municipalities, the more restricted market, the shortages of underwriting capacity, and withdrawal by underwriters from the market, in 1985 September the U.B.C.M. delegates endorsed the investigation of a pooling program for liability insurance to be chaired by Mayor Lyall Hanson of Vernon. Council reviewed the findings of this investigation under Correspondence at its meeting of 1986 October 06 (Attachment 01), and is now being asked for its formal support on the next phase, Phase 2, of a municipal group self-insurance system. The U.B.C.M. Liability Task Force has asked Council to reply by 1986 October 31 to the following questions:

1. Would you prefer an "insurance" system where the rates were based solely on B.C. municipal claims costs plus administration costs; and those rates could be fully justified?
2. Would you be prepared to make a long term commitment to a pooled insurance system in order to achieve stable and explicitly determined costs?
3. Would you be prepared to accept mandatory participation if a sizable majority of municipalities and regional districts also favoured a group self-insurance system?
4. Would you agree to sharing control over the program with the other participants?
5. Are you prepared to accept your per capita share of the costs of the Phase 2 study?

The U.B.C.M. Convention at Vernon on 1986 September 17-19 supported positively questions 1, 2 and 4. The cost to Burnaby for the Phase 2 study (question 5) at 5 cents per capita would be about $7,200. Phase 2 would develop details for a self-insurance program. At this time, a positive response to all the above questions would not formally commit municipalities to the self-insurance program but the U.B.C.M. is requesting a positive written response and authorization for funds. Completion of the Phase 2 study is scheduled for early 1987.

Staff, in evaluating information for the recommendations in this report, consulted closely with Burnaby's insurance broker, Reed Stenhouse, with respect to both, the above questions, and to the outlook for the insurance market.

Council on 1986 April 14 had asked staff to review the market outlook for insurance and Burnaby's coverage every six months. This report includes this review. Staff also took into consideration proposed Provincial Government amendments to the Municipal Act for liability insurance and indemnification as set out in Bill 38. A separate report is being prepared for Council on this particular subject. Details of the subject at hand follow.

EARLIER COUNCIL SUPPORT FOR POOLING

When it became apparent to staff in 1985 that the liability insurance market for municipal coverage was rapidly shrinking and the premiums were rapidly escalating, staff recommended that Burnaby support a pooling program study for liability insurance to be undertaken by the U.B.C.M. Council adopted this recommendation at its In Camera meeting of 1985 November 04.

Since that time our premiums on liability coverage increased about eight-fold, the amount of coverage available declined significantly, and the deductibles also increased significantly. We have mitigated the high premiums, somewhat, by further increasing the deductible to $1 million. However, premiums remain at very high levels and we have a large exposure with the increased deductible level. The proposed U.B.C.M. pooling program may reduce one or both of these aspects and be more advantageous to us.

INSURANCE BROKER'S VIEWS

Our insurance broker, Reed Stenhouse, was asked to comment on whether Burnaby should support Phase 2 of the pooling study, and on the current insurance market, particularly liability.

The broker recommends that Burnaby support a continuation of the pooling study. However, the broker questions the reliability of forecast liability claims awards into the future.

The broker's comments on the current insurance market are also attached (Attachment 02). In summary, his assessment is that the market is very restricted and suggests no softening until the latter part of 1988. Such a forecast suggests that pooling should be closely examined.

UPDATE FROM U.B.C.M.

The attached comments (Attachment 03) recently received from the U.B.C.M. on monitoring the insurance market confirm the continuing difficulties and high premiums for municipal coverage.

EFFECT OF BILL 38

On 1986 June 10 the Minister of Municipal Affairs announced "proposed legislative provisions to ease the pressure of high liability insurance premiums on B.C. municipalities" under Bill 38. According to the announcement (Attachment 04), the legislation is designed to reduce frivolous claims, indemnify Council members for legal expenses, avoid Court action for refraining from going to Court to enforce building regulations, allow filing of warning notices of deficiencies at Land Title Offices, and not being liable for damages caused by malfunctions in infrastructure where the municipality was not negligent. This legislation has not been enacted, and if and when it is, it is not known how much effect, if any, it will have on reducing the cost of liability insurance to municipalities in B.C. Therefore the concept of insurance pooling should be pursued. A separate report on the proposed legislation in Bill 38 is being prepared for Council.

REVIEW OF EXISTING COVERAGE

Our current primary liability coverage is $5 million with a $1 million deductible for $157,000 premium, plus $5 million of excess liability for $90,000 premium. In view of the current restrictive liability market as outlined in our insurance broker's comments, and the pending completion of Phase 2 of the U.B.C.M. Group Self-Insurance Program scheduled for early in 1987, there appears to be no good reason to change the current coverage.

> It is recommended that the existing municipal liability insurance coverage be maintained and reviewed again when Phase 2 of the U.B.C.M. Task Force Study is completed or other significant market developments occur.

PROPOSED SCOPE, TIMING AND COST OF PHASE 2

The proposed cost of Phase 2 is estimated at 3 cents to 5 cents per capita, depending on the participation. It is estimated that the cost to Burnaby will be about $7,200. Funding is available from the insurance account in the 1986 recast budget fiscal items. The study will cover both primary and umbrella liability coverage and amount of deductibles, and is targeted for completion early in 1987.

DISCUSSION

The five questions posed by the U.B.C.M. Liability Task Force are interrelated and, as such, can be answered as a group. The primary concern to Burnaby and all municipalities is to obtain adequate insurance to minimize municipal risk at reasonable cost. If the pooling program can provide these features, more competitively and more advantageously than the general insurance market, then the pooling program would be preferable. However, more details of the proposed pooling program as proposed by Phase 2 should be developed and all of the pros and cons associated with pooling should be closely examined before a decision to participate in the pooling program is made.

In view of the overall low costs of the Phase 2 study, the potential of reducing or holding the line on insurance premiums for Burnaby, and the option to participate in the pooling program, should one be activated,

It is recommended that Council support positively the following U.B.C.M. Liability Task Force questions on Group Self-Insurance:

1) Would you prefer an "insurance" system where the rates were based solely on B.C. municipal claims costs plus administration costs; and those rates could be fully justified?
2) Would you be prepared to make a long term commitment to a pooled insurance system in order to achieve stable and explicitly determined costs?
3) Would you be prepared to accept mandatory participation if a sizable majority of municipalities and regional districts also favoured a group self-insurance system?
4) Would you agree to sharing control over the program with the other participants?

subject to the findings of the Phase 2 study indicating that participation by Burnaby is still financially advantageous to Burnaby in the current and foreseeable insurance market; and

That Council approve expenditure of up to $7,200 to support Phase 2 of the U.B.C.M. Liability Task Force Study; and

That a copy of this report be sent to the U.B.C.M. Liability Task Force.

for

Howard Karras
DIRECTOR FINANCE

PWT:gw
Attach.

cc: Directors
Municipal Solicitor
Municipal Clerk
Reed Stenhouse Ltd.,
Attn: D. Phillimore

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COUNCIL MEETING	86/10/27

Jnion of
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Columbia
Municipalities

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ATTACHMENT 01

TO: MAYOR AND COUNCIL
CHAIRMAN AND REGIONAL BOARD

FROM: Liability Task Force

DATE: September 25, 1986

RE: GROUP SELF-INSURANCE STUDY: PHASE 2

The decision taken by the Convention on group self-insurance has set the stage for a second phase in the consideration of a group self-insurance program.

The first phase culminated in a positive response by the Convention to the concept of a group self-insurance pool for B.C. local governments. The attached report posed three basic questions and the response on all three questions was positive.

However, the Chairman of the Liability Task Force stated that Convention support would be the basis for pursuing the matter formally with each Council and Regional Board. Convention support alone would not be a sufficient indication of the commitment of individual Councils and Boards to allow local government to proceed to develop the details of a group self-insurance program. That degree of commitment and show of support must come from member municipalities and regional districts directly.

The next phase of the work would be to bring forward detailed proposals that would cover all aspects of funding and organization of a group self-insurance system.

In order to move to the next phase we need to determine the numbers and types of municipalities that accept the basic principles of group self-insurance and who would be willing to participate, subject of course, to consideration of the final detailed proposal.

We are asking you to review the report attached and then, as a Council or Board, consider the three following and basic principles of group self-insurance that underly them.

A positive response by Council or Boards to the these questions does not commit you to participate in a group self-insurance system. It will indicate that you support the principles on which a group system will be developed. The details of the program will be the subject of consideration at the conclusion of the second phase of the work program.

Development of a detailed program will require funding beyond that presently available. UBCM will be seeking outside assistance but we also need an undertaking by Councils and Boards to funding the study. Each participant should be prepared to accept a per capita share of the funding. If all municipalities and regional districts participated in phase 2, the estimated costs would be approximately 3 to 5¢ per capita (or in the order of 1 to 2% of the "average" liability premium). Firm costs will be given once the number of members interested in participating is known.

In summary, we are asking you to consider the following questions:

(1) WOULD YOU PREFER AN "INSURANCE" SYSTEM WHERE THE RATES WERE BASED SOLELY ON B.C. MUNICIPAL CLAIMS COSTS PLUS ADMINISTRATION COSTS; AND THOSE RATES COULD BE FULLY JUSTIFIED?

(2) WOULD YOU BE PREPARED TO MAKE A LONG-TERM COMMITMENT TO A POOLED INSURANCE SYSTEM IN ORDER TO ACHIEVE STABLE AND EXPLICITLY DETERMINED COSTS?

(3) WOULD YOU BE PREPARED TO ACCEPT MANDATORY PARTICIPATION IF A SIZABLE MAJORITY OF MUNICIPALITIES AND REGIONAL DISTRICTS ALSO FAVOURED A GROUP SELF-INSURANCE SYSTEM?

(4) WOULD YOU AGREE TO SHARING CONTROL OVER THE PROGRAM WITH THE OTHER PARTICIPANTS?

(5) ARE YOU PREPARED TO ACCEPT YOUR PER CAPITA SHARE OF THE COSTS OF THE PHASE 2 STUDY?

We would like to have your reply by October 31st. Based on the level of support received, we will then advise the membership of the schedule for finalizing and presenting the detailed proposal and the costs involved.

If you have any questions about the first phase of the work please do not hesitate to contact the UBCM office. Many questions about the structure and funding of a self-insurance pool probably also come to mind - it is the purpose of the next phase in the study to answer those questions.

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MANAGER'S REPORT NO.	65
COUNCIL MEETING	86/10/27

TO: UBCM MEMBERS

FROM: LIABILITY TASK FORCE
Mayor Lyall Hanson, Chairman
Mayor Jackie Drysdale
Ald. Betty Toporowski

DATE: September 9th, 1986

RE: GROUP SELF-INSURANCE - A REPORT FOR CONSIDERATION AT THE 1986 CONVENTION

BACKGROUND AND CONTEXT: INSURANCE, RISK MANAGEMENT AND LEGISLATION LINKED

Following the 1985 UBCM Convention the Liability Task Force was given responsibility for UBCM's three-part Liability Action Program. The program involves:

- legislation
- risk management
- insurance

and is based on a belief that the solution to the liability insurance situation does not lie solely with any one set of actions but requires action on several fronts. So far that approach has proven prudent and we are seeing progress and success in many facets of the program.

Investigations into alternatives to the purchase of conventional insurance - self-insurance - was not the Task Force's first priority. Our first priority was legislation, and when it appeared in December 1985 that the Government was committed to introducing legislation, a risk management program was introduced in the new year and was followed soon after by renewal of investigations into insurance. All three parts of the program are linked - both legislation and risk management can have an effect on claims costs and, therefore, the observations on self-insurance which are the subjects of this report must be seen in the context of the overall Liability Action Program.

ATTITUDES TOWARDS RISK MANAGEMENT ARE CHANGING

A year ago the term "risk managment" would have received little general recognition. Now, there is a better appreciation that part of the solution lies with local government itself in ensuring its exposure to liability is minimized - part of managing the risk!

UBCM is pleased to have been a part of the process of heightening awareness of risk management and UBCM has done this primarily through a program of seminars, presentations and published materials. Presentations have been made to most Area Associations and seminars have been held for staff and other groups. We distilled the essence of these seminars into a publication entitled, "Risk Management: Overview and Practical Suggestions," and are considering following up with a risk management video so that the message gets to as many people as possible.

LEGISLATION INTRODUCED

Whether we are insured or self-insured - legislation is the only way to get a handle on unreasonable liability claims - and so legislation was pursued and the Government responded positively with the introduction of Bill 38.

We will be putting forward a resolution for consideration at the Convention on the liability legislation (C19). This resolution has two thrusts:

- support of Bill 38 and urges its passage at the earliest opportunity; and
- asks for consideration of amendments to ensure the intent of our 1985 resolution is reflected in this legislation.

The legislative initiative is a major step forward. It is the first legislation of its kind to be introduced in Canada in response to the present liability situation, and it reflects to the credit of this organization that it saw the emerging situation, identified what needed to be done in terms of a workable legislative package and pursued that legislation vigorously at the UBCM and individual local government levels.

While UBCM has had a longstanding interest in liability reform, it was the crisis in the insurance rates that made the issue a major concern; and while we turned our immediate attention to legislation, we have spent considerable resources on the "insurance" aspects of the present municipal liability situation.

THREE BASIC QUESTIONS ON SELF-INSURANCE

In the last year the costs of insurance have risen dramatically - 3 to 5 times in the case of many local governments. Naturally, if anyone puts the price of something you regularly purchase up by 3 to 5 times you would be concerned and want to know what the alternatives are. With virtually no alternative insurers available to B.C. municipalities, the only alternative available was self-insurance and a handful of B.C. municipalities have chosen that option. Self-insurance is not practical for most municipalities but another option is group self-insurance - a banding together and sharing of the claims and administration costs among local governments. Group or pooled self-insurance is an approach that has been chosen by local government elsewhere. Many UBCM members have asked whether or not it is an approach that they should consider.

After spending considerable time as part of the UBCM Liability Action Program studying:

- the current insurance situation;
- projecting future claims costs;
- thinking about the structure of a group self-insurance program; and
- looking at pooling arrangements elsewhere

we have concluded that there is only one relevant set of questions that must be answered by those with an interest in pooled insurance.

Before posing that set of questions we want to challenge one basic assumption and that is the assumption held by some that a pooled self-insurance approach is going to automatically and always save money. This is not the assumption to make about group self-insurance. Pooled insurance should over the long term, save money, but pooling is really predicated on predictable and openly determined rates and on providing the types of coverage and deductibles to meet the members needs.

Pooling may save money in today's insurance market - and we have evidence that it would; but whether the costs of pooled self-insurance will be more or less in five years from now from conventional insurance is anybody's guess because we have no way to forecast what conventional insurance rates will be in the future.

On the other hand, if you want to know exactly how your insurance costs will be determined now and in the future, then pooled insurance can provide those answers. What pooled insurance will guarantee is that the costs of "insurance" will always equal claims plus administration costs - no more - no less. Rates will reflect the experience of local government and rates will be fully justifiable. Rates will not be "influenced" by many factors that now can enter into the setting of conventional insurance rates.

The rating approach of a "pool" differs from the present situation in three ways:

- rates reflect only the costs to B.C. municipalities of claims and administration. Under a pooled system, if a premium is charged that turns out to be more than is required to meet claims in a given year then those funds can be retained in the fund and help to reduce the costs in the future.
- rates will be openly determined by the pool with rating formulas, experience, administration cost, etc. all public information.
- no other considerations would enter into the equation that determines rates - the group would not be in the business of selling insurance and as a consequence rates should not be judged as "competitive" but only as justifiable given the groups claims and administration costs.

After studying the matter of pooled self-insurance since the last Convention we have concluded that all the detailed considerations (such as who would manage the pool, how claims would be administered, etc.) are not particularly relevant at this time. These sorts of considerations should be set aside and those interested should zero in on three basic questions:

(1) WOULD YOU PREFER AN "INSURANCE" SYSTEM WHERE THE RATES WERE BASED SOLELY ON B.C. MUNICIPAL CLAIMS COSTS PLUS ADMINISTRATION COSTS; AND THOSE RATES COULD BE FULLY JUSTIFIED?

In answering that question one must recognize that there have been cycles in the costs of conventional insurance and there is a possibility of the low-rate part of a cycle returning; and hence, the possibility that you may pay more in a given year for "pooled" insurance than for conventional insurance. It is essentially a choice between a system where your rates can always be justified in terms of claims costs as opposed to a system where your rates are determined by an insurance company based on a number of factors that are not revealed to you. One might put the choice as between an "open book" or an "open market."

(2) WOULD YOU BE PREPARED TO MAKE A LONG-TERM COMMITMENT TO A POOLED INSURANCE SYSTEM IN ORDER TO ACHIEVE STABLE AND EXPLICITLY DETERMINED COSTS?

Group self-insurance can not be viewed as a short-term solution. A "pool" can only succeed if the members are committed over the long term - at least 5 years with a 2-year notice to opt-out has been suggested as needed.

Since a very high level of participation is required to make a self-insurance pool viable, would you be prepared to go a step further and recommend: (2(b)) THAT PARTICIPATION BY ALL LOCAL GOVERNMENTS BE MANDATORY IF A SIZABLE MAJORITY OF MUNICIPALITIES AND REGIONAL DISTRICTS ALSO FAVOURED SUCH A SYSTEM?

(3) WOULD YOU AGREE TO SHARING CONTROL OVER THE PROGRAM WITH THE OTHER PARTICIPANTS?

In answering this question one must recognize that an individual council or board now has control of a number of insurance decisions - albeit that the number of decisions you can take is limited. Under a pooled system the number and range of choice is much wider - but many of the decisions, or the options provided for local choice, would be determined by representatives of all the "pool" members.

If you, together with a large majority of others, answer positively to these questions, then we can move forward to:

- more completely determine the basis of council and board support (since we are convinced that a very high percentage of participation is essential to the success of a self-insurance system) and seek the funding necessary to carry out further work.
- provide a description in detail how a self-insurance system would function.

If on the other hand, the response shows that we should try to improve on the existing system rather than reforming it, then options such as a cooperative risk management program might be considered for joint action.

This report will be put forward for discussion during the Special Policy Session on Liability to be held during the Convention on:

Thursday, September 18th
9:45 am
Vernon Recreation Complex Auditorium

We invite your comments and questions at that time. We have prepared some extracts of work we have undertaken on self-insurance and these are appended to this report. We have not made a specific recommendation on group self-insurance because the three questions involve basic principles and we want to encourage your full and open consideration of them.

THE SITUATION TODAY

UBCM has been monitoring the insurance situation throughout the last year but our main documentation of the current situation comes from a June 1986 survey of comprehensive general liability insurance to which 118 members responded to all or parts of the survey. The results showed:

1. INCREASES IN PREMIUMS OF 3 TO 5 TIMES OR MORE

Based on a sample of 92 municipalities the increases ranged from:

up to two times previous costs	7%
3 times the previous costs	13%
4 times the previous costs	28%
5 times the previous costs	14%
6 times the previous costs	11%
7 times the previous costs	10%
8 times the previous costs	5%
9 times or more than previous costs	12%

- 55% of local governments surveyed had increases in the 3 to 5 times range.
- a further 38% had increases in excess of 6 times their previous costs.

2. INCREASES IN DEDUCTIBLES OF 5 OR MORE TIMES ARE COMMONPLACE

Deductibles for comprehensive general liability for the surveyed group showed the following 1985-86 pattern:

Deductible	No. of municipalities 1985	1986
Less than $500	8	3
up to $1,000	41	5
$2,500	26	1
$5,000	15	56
$10,000	7	33
$25,000	2	8
$50,000	1	3

In summary, deductibles increased:

Less than 5 times increase	38%
5 times increase	37%
up to 10 and over increase	25%

3. REDUCED COVERAGE AVAILABLE

The survey data supported the observation that coverage was reduced in terms of both overall limits available. Other aspects the survey did not delve into but are generally supported are the restricted availability of carriers willing to underwrite municipal business and the restricted availability of some types of coverage.

The limits of all liability coverage between 1985 and 1986 varied as follows:

Limits of Coverage	No. of municipalities 1985	1986
$1 million coverage	29	60
$2 million coverage	18	35
$5 million coverage	51	11

In terms of limits of coverage available, only a very few local governments increased their coverage. Most had to settle for lower limits of coverage:

Lower limits - total	54%
Lower limits - by one-half	48%
No change in limits	41%
Increased limits	5%

4. PER CAPITA INSURANCE COSTS INCREASE FIVE TIMES

Regardless of their previous limit of insurance (which was generally higher), 50 municipalities who purchased just $1 million comprehensive general liability coverage in 1986 had a 5 times increase in per capita costs of basic coverage to an average cost of $2.43 per capita.

On the basis of this average cost, the total cost of basic $1 million comprehensive general liability coverage is $5.6 million for municipalities and $6.6 million for all local governments.

THE SITUATION IN FIVE YEARS

While we cannot forecast what the costs of "conventional" insurance will be in five years, we can forecast claims and, within the reliability of those forecasts, determine what the costs of insurance would be under a pooled insurance system. Such projections were done for UBCM by Annistics, a San Francisco-based consulting firm.

Over the next five years the Annistics projections indicate that in the order of $29 million is "expected" to be paid out in municipal liability claims. "Adverse" claims losses of an additional $1 million per year and an "extremely adverse" loss forecast of an additional $2 million a year in claims were also undertaken. The forecasts were based on claims information for a sample group of municipalities (regional districts were not included in the final analysis). Claims frequency and severity were projected for three population size groups: under 5,000 population, 5,000-50,000 and over 50,000.

Given deductibles of $5,000, $10,000 and $25,000 for these three groups of municipalities, of the $29 million in expected losses, approximately $16 million of the total claims costs falls within the deductibles and would be paid by the municipalities, and the remaining $13 million would be paid by the self-insurance pool.

The amount paid by municipalities could increase or decrease depending on the selection of different deductibles or different loss projections and these various options have been explored.

If the portion of total claims not met by the municipalities' deductible was financed through the self-insurance pool, annual average premiums for the three loss projection scenarios (taking into consideration administration costs and interest earned) would be:

		% of Current
Premium: Expected Loss Projection*	$2,810,000	50%
Adverse Loss Projection*	$3,885,000	69%
Extreme Adverse Loss*	$4,967,000	89%
Current Estimated Premium*	$5,598,720	100%

*municipalities only

This analysis shows that based on current estimated premiums for the first $1 million coverage, a pooled program offers potential overall savings of 50% to 10% depending on the loss projection used (and deductibles assumed). On an overall basis, a pooled program appears financially viable. This does not necessarily mean that a pooled program will be attractive to all members in respect of their individual financial viability.

The temptation is to overload this report with the dozens of pages of statistical analysis and projections that have been undertaken by UBCM and Annistics. Such numbers are available, but to include them in this report would only serve to cloud the central points raised in the three questions in the body of this report.

These three questions are:

(1) WOULD YOU PREFER AN "INSURANCE" SYSTEM WHERE THE RATES WERE BASED SOLELY ON B.C. MUNICIPAL CLAIMS COSTS PLUS ADMINISTRATION COSTS; AND THOSE RATES COULD BE FULLY JUSTIFIED?

(2) WOULD YOU BE PREPARED TO MAKE A LONG-TERM COMMITMENT TO A POOLED INSURANCE SYSTEM IN ORDER TO ACHIEVE STABLE AND EXPLICITLY DETERMINED COSTS?

(3) WOULD YOU AGREE TO SHARING CONTROL OVER THE PROGRAM WITH THE OTHER PARTICIPANTS?

1231R

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ATTACHMENT 02

REED STENHOUSE

Reed Stenhouse Limited
P.O. Box 10028, Pacific Centre
700 West Georgia Street
Vancouver, Canada V7Y 1B4
(604) 688-4442 Telex 04-51381

October 8th, 1986

The Corporation of the District of Burnaby
4949 Canada Way
Burnaby, B. C.
V5G 1M2

Attention: P. W. Tamilin
Assistant Director Finance

Gentlemen:

You have requested that I provide you with a short written report concerning the current insurance market conditions and, in particular, the liability market.

I have enclosed herewith a copy of an article written by one of our senior personnel dealing with the general subject.

The casualty market is much worse today than it was six months ago and we are finding more and more often that our clients are unable to buy the limits they need and the Insurance Companies are still responding with higher premiums.

As far as municipality liability is concerned, the market is still restricted in British Columbia to the Zurich and Commonwealth Insurance Companies.

As you are aware, UBCM is working on a group self-insurance programme and I have written to you separately on this subject. Reed Stenhouse is also currently investigating a group insurance programme for B.C. Municipalities and further details of this programme should be available within the next 30 days.

Would you please let me know if any further explanation of the current market status is required from me.

Yours very truly,

REED STENHOUSE LIMITED

D. W. Phillimore
Vice President

DWP/mjd
Encl.

RECEIVED IN FINANCE
Diary ☐ ANS ☐
OCT - 9 1986

International Insurance Brokers

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INSURANCE MARKET CONDITIONS

The insurance industry is in difficulty and will not recover fully from the deep and prolonged soft market it has experienced over the last five years without some far reaching changes in the industry.

Historically, soft market cycles lasted two to three years, however, the latest cycle lasted five years until the fall of 1984. This soft period was also known for its intensity and the abrupt turnaround to the hard market characterized by shortages of underwriting capacity, weak competition among underwriters and sharp rises in premiums. Forecasts of the duration of this hard market suggest no softening until the latter part of 1988.

Underwriting losses that occurred during the soft period have so eroded underwriters' surplus that severe limits on capcity have resulted. Underwriters in Canada recorded a combined underwriting loss of $916 million. This is the sixth consecutive year in which underwriting losses have been recorded. Indications are that the 1985 financial results will be significantly worse.

The U.S. insurance industry is in much the same unsettled state and for most of the same reasons: highly competitive market over the last five years, unusually high claims and excessive judicial awards. The 1984 underwriting losses reached an unprecedented $20.4 billion.

It is not possible to provide reliable comparable figures for the industry world wide, nevertheless, it is clear that the property/casualty insurance industry, globally, is in turmoil.

The reasons for this turmoil are many. They include heavy losses sustained as a result of ship sinkings in the protracted Iraqui/Iranian conflict, commercial aircraft losses due to terrorist attacks, environmental disasters such as the Bhophal chemical spill, Love Canal and other waste dump cleanup activities in the U.S., industrial diseases such as asbestosis, pharmaceutical and hygiene product liability losses and the enormous sums being awarded in the U.S. for both pecuniary losses and punitive damages. Further, heavy losses have been experienced world wide over the past five years through a succession of severe natural disasters.

The insurance market has a unique international character, due to the dependency of primary insurance on re-insurance. A catastrophe in India, because of its effect on re-insurers, may seriously have an impact on insurance availability in North America.

In recent years, the economy had produced high levels of investment income. This has enabled many underwriters to make a profit. However, earnings from investments have barely offset the spiralling losses on the underwriting side. Some insurers have not been able to break even and their capital has been eroded, threatening insolvency. In the last four years some half dozen midsized Canadian insurers have failed.

The judicial environment is also aggravating the insurance availability and costs. Canadian courts are moving rapidly towards the U.S. model, replacing traditional concepts of indemnity with ever escalating awards. The Family Law Reform Act of Ontario, the absolute liability imposed by the recently enacted Ontario Environmental Protection Act, the tendency of courts to rewrite insurance contracts in applying the doctrine of "reasonable expectation" in situations where policies negate coverage and increased awards due to pre- judgment interest are examples.

The signs to an end of the prolonged soft period appeared late in 1984 and by year-end many insurers face serious problems in completing their re- insurance treaties. This indicated the first shock waves of reducing capacity and increasing prices.

Many insurance buyers, under deadlines for their year-end renewals, faced the real prospects of being partially insured and of premium increases far beyond any expectations. Corporate insurance budgets, set up in the previous fall, were being wrecked. Insureds, having learned to expect cost reductions yearly, suddenly faced the difficult task of sharp increases.

In the first half of 1985 corporations were met with rejection of their risks or enormous price increases. Premiums have risen broadly and for some coverages have risen 300%, 500% and 1000%. Many corporations do not have as much coverage as they would like and, for some kinds of potential losses, have no coverage at all.

In the latter half of 1985, capacity reduction accelerated and premiums rose to even higher levels. High level deductibles and major restrictions in coverage were also imposed.

A cross-section of coverages, recently arranged, for Canadian risks is given below:

Oil and Gas Company		
Limit was	-	$165,000,000
Limit wanted	-	$250,000,000
Limit available	-	$ 75,000,000
	-	(took from April to August to complete the new limit)
Gas Utility and Pipeline		
Limit last year	-	$ 50,000,000
Limit this year	-	$ 30,000,000
Premium	-	4 times last year's

Gas and Electric Utility

Limit last year	-	\$200,000,000
Limit this year	-	\$100,000,000
Deductible last year	-	\$ 5,000,000
Deductible this year	-	\$ 50,000,000
Premium	-	3 times last year's

Public Utility

Limit last year	-	\$105,000,000
Limit this year	-	\$ 50,000,000
Premium	-	3½ times last year's

Financial Institution

Limit last year	-	\$100,000,000
Limit this year	-	\$ 15,000,000

University

Limit last year	-	\$ 50,000,000
Limit this year	-	\$ 10,000,000

Urban Transit System

Deductible last year	-	\$ 50,000
Deductible this year	-	\$ 5,000,000

Manufacturer of Pulp

Limit last year	-	\$ 20,000,000
Limit this year	-	\$ 6,000,000
Premium	-	3½ times

The list becomes endless and more extreme examples can be shown.

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ATTACHMENT 03

Jnion of
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lunicipalities

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551 Shellbridge Way
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X 2W9
04) 270-8226

TO: UBCM MEMBERS

FROM: Executive Director

DATE: October 6, 1986

RE: MONITORING THE INSURANCE MARKET

UBCM has continued to monitor liability insurance renewal terms since the insurance crisis emerged last year. With the majority of renewals for municipalities and regional districts occurring in the next few months, here is an early indication drawn from some renewals in the July-September period. While we are not suggesting your insurance will be renewed on this basis, the limited information we have shows:

INCREASES CONTINUE IN THE "PRIMARY" LAYER OF LIABILITY INSURANCE

Increases in the primary $1,000,000 Comprehensive General Liability coverage are much less than last year, if your increase last year was sufficiently great. Still, the trend appears to be for 20 - 40% increases.

MINIMUM PREMIUMS OF $10,000 SPREAD TO OTHER SMALLER MUNICIPALITIES

The imposition of the $10,000 minimum premium has caused increases up to 400% for basic $1,000,000 coverage among small municipalities like Gold River, Montrose and Port Clements.

LARGE INCREASES IN EXCESS INSURANCE - FOR THOSE WHO CAN GET IT

Excess insurance is showing dramatic increases this year. This appears to be the major area where problems will arise with renewals this year.

ERRORS AND OMISSIONS INSURANCE NOT AVAILABLE TO MANY

Errors and Omissions insurance is going up in price. As of their renewal, 3 municipalities have not found coverage and 2 increases of 400% over last year have occurred.

MORE MUNICIPALITIES CHOOSE NOT TO RENEW INSURANCE

Pouce Coupe and Port McNeill are the latest municipalities that have decided not to renew their insurance.

This brings to 11 the number of municipalities and regional districts that have chosen not to renew their insurance. (The others are, to our knowledge: Vancouver, Delta, Victoria, Saanich, Alert Bay, Tahsis, Sechelt, Sunshine Coast Regional District and Port Alice.)

Additional information on specific renewals is attached.

UBCM is prepared to move to the second phase of its self-insurance study if it has your support (see circular of September 25th). Please respond to that circular as soon as possible.

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BASIC CGL 1 MILLION COVERAGE

	85/86	86/87
White Rock	$ 44,037	$ 50,000
Langley District	72,000	100,000
Alberni Clayoquot	11,500	14,000
Valemount	5,560	12,000
Montrose	4,278	10,000
Gold River	2,500	10,000

EXCESS INSURANCE

		85/86	86/87
Gold River	Amount	9 million	2 million
	Premium	6,500	7,500
Langley District	Amount	2 million	2 million
	Premium	36,000	50,000
Maple Ridge	Amount	4 million	2 million
	Premium	35,000	52,000
White Rock	Amount	6 million	4 million
	Premium	31,400	50,000

ERRORS AND OMISSIONS

Rossland	Amount	1 million	.5 million
	Premium	1,000	4,400
Maple Ridge, Warfield White Rock, Montrose		Not available By renewal	

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ATTACHMENT 04

Province of
British Columbia

NEWS RELEASE

MINISTRY OF MUNICIPAL AFFAIRS

RELEASED: JUNE 10 1986
CONTACT: PHILIP NEWTON
387-4088
FILE: 86-012

VICTORIA --- Bill Ritchie, Minister of Municipal Affairs, announced today legislative provisions to ease the pressure of high liability insurance premiums on B.C. municipalities.

The Municipal Amendment Act 1986 responds to an urgent situation in which municipalities and their officials were vulnerable in law, a vulnerability aggravated by an inability to afford the high cost of liability insurance. The legislation reduces municipal susceptibility to frivolous claims while maintaining the level of public protection from municipal negligence and misconduct.

Local Councils may now indemnify members for legal expenses and damage claims but have the option to recover ordinary damage claims where gross negligence or wilful misconduct have occurred. This is complemented by another provision which prevents actions from being brought against local government officials or employees unless they have wilfully misconducted themselves. At the same time the local government continues to be liable for negligence on the part of its employees.

Building inspectors may now file warning notices at land title offices against buildings which pose safety problems in violation of bylaws or permits. Provisions are made for swift discharge of these notices by council.

Local governments will no longer be liable for refraining from going to court to enforce building regulations.

Municipalities will no longer be liable for damages caused by malfunctions of infrastructure unless it can be established that the municipality was negligent.

"These provisions have been designed to balance increased protection for local government with adequate protection for individual citizens," said Ritchie. "They were formulated in full consultation with the Union of B.C. Municipalities which is conducting a comprehensive risk management program with our full support.

"This will send a message to the insurance community that we are taking steps to look after our municipalities. Studies are presently underway into insurance pooling options.

"We hope private insurers respond to these measures in a manner that will forestall further action on the part of government."