ITEM SUPPLEMENTARY 17
MANAGER'S REPORT NO. 42
COUNCIL MEETING 87/06/22

RE: UBCM SELF INSURANCE PROPOSAL
MUNICIPAL INSURANCE ASSOCIATION OF B.C. (MIA)
(ITEM 4D, CORRESPONDENCE & PETITIONS, 1987 MAY 19)

MUNICIPAL MANAGER'S RECOMMENDATION:

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

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TO: MUNICIPAL MANAGER — 87 06 17

FROM: DIRECTOR FINANCE — FILE: I55-6

RE: UBCM SELF INSURANCE PROPOSAL
MUNICIPAL INSURANCE ASSOCIATION OF B.C. (MIA)
Item 4(d) Correspondence & Petitions, 1987 May 19

RECOMMENDATIONS:

1. THAT Burnaby not participate in the Municipal Insurance Association of B.C. self insurance program; and

2. THAT annually we examine the desirability and possibility of joining the Municipal Insurance Association of B.C.; and

3. THAT a copy of this report be sent to the UBCM for receipt prior to 1987 July 15.

REPORT

Summary

On 1987 May 19, Council received a report from the executive director of the UBCM on a self insurance proposal which requested a decision from each member municipality by 1987 July 15, whether or not they will join the reciprocal insurance exchange program.

This report discusses the proposed exchange coverage, our existing coverage, the long term implications of joining the exchange, the advantages/disadvantages of participation vs. our existing coverage, our insurance experience and philosophy and recommends that Burnaby not participate in the self insurance program proposed by the UBCM.

ITEM SUPPL 17
MANAGER'S REPORT NO. 42
COUNCIL MEETING 87/06/22

Background

In 1985 July, UBCM established a three part liability action program in response to the deteriorating situation in the market for municipal liability. The three parts were:

1. Legislation
2. Self insurance
3. Risk Management

1. Legislation

Priority was initially given to developing a legislative package. Bill 30 was enacted by the Provincial Government on 1987 May 26. The five basic points under this legislation can be summarized as follows:

a) Provision that elected officials may be indemnified when joined in actions against local government.

b) Provision to allow local government to file notice on title in conjunction with by-law enforcement.

c) Provides protection from personal liability for elected officials, staff and others involved in local government.

d) Provides protection for failure to enforce building by-laws.

e) Provides for protection from liability except in cases of negligence arising out of a sewer, water, drainage, dyke or road system malfunction.

2. Self Insurance

Attention by the UBCM was also given to a study of alternatives to the conventional market purchase of liability insurance, ie. group self insurance. The UBCM, with the help of municipal staff and others completed a self insurance proposal in which 96% of the UBCM members participated. Council received this proposal and report on 1987 May 19 and was asked to respond formally by 1987 July 15 as to whether it would participate in this reciprocal insurance exchange program to be called the Municipal Insurance Association of B.C. (MIA).

3. Risk Management

MIA will provide general risk management advice to all participating members but there will also be ability to "purchase" additional specialized risk management services on a cost basis. Risk management advice is available now from the UBCM in published pamphlets and from our insurance broker.

Proposed MIA Coverage and Cost

The insurance exchange program proposes the following coverage:

. Minimum participation period	3 years
. Comprehensive general liability (including errors and omissions)	$1,000,000
- deductible, each occurrence	25,000
. Excess liability coverage	4,000,000

ITEM SUPPL 17
MANAGER'S REPORT NO. 42
COUNCIL MEETING 87/06/22

The costs for the first three years will be on a population basis as follows:

	$ Per Capita	Annual Cost
· Basic $1 million liability coverage	0.79	$113,760
Claims administration	plus 15%	17,064
		$130,822
· General administration	0.08	11,520
· Total basic and administration		$142,342
$4 million excess coverage	0.70	100,799
· Total cost year 1, before provision for reserve		$243,141
· Reserve - initial cost year 1, subject to adjustment in years 2 and 3 (to be determined by actuary)	0.50	71,999
· Total cost year 1, including reserve		$315,140

The costs would be adjusted from population basis to a claims experience basis in years 3 to 5. Additional details are contained in the report, Self Insurance Study, Phase II, which Council received on 1987 May 19.

Burnaby's Existing Coverage and Cost

Burnaby's existing coverage until 1988 April 15 and cost is as follows:

	Limit	Annual Cost
· Basic liability coverage	$ 5,000,000	$150,000
· Self retention or deductible	1,000,000	
· Umbrella (excess) coverage	10,000,000	109,000
· Total coverage	$15,000,000	$259,000
· Errors and omissions coverage	nil	

Burnaby currently has a general reserve of $1.3 million designated for self retention insurance payments, if required. Reduction of the self retention down to $500,000 was available at renewal time in 1987 April 15 at an additional premium of $45,000 but we elected to stay with the $1,000,000 deductible.

The annual costs depend on the commercial market conditions each year and the amount of self retention included. There was a slight reduction in renewal rates in 1987 and the insurance broker indicates there will be further reductions as a result of enactment of Bill 30 and general market improvement.

Difference in Coverage, MIA Proposals vs. Existing Policy

The MIA liability coverage at $5 million is less then our existing policy limit of $15 million. The proposed coverage cost is more expensive in year 1, which includes the cost of the reserve. The reserve costs for years 2 and 3 will be determined by an actuary, so it is not known at this time what the additional reserve costs, if any, will be for years 2 and 3. There is some uncertainty that we could purchase $10 million additional excess liability coverage in the commercial market over and above the $5 million MIA liability limit to increase our coverage to $15 million, and we do not know at what cost although it would probably be about the same as we now pay. This is a function of the strength of the underwriter of primary liability and the extent of the coverage of the primary policy.

ITEM SUPPL 17
MANAGER'S REPORT NO. 42
COUNCIL MEETING 87/06/22

An estimate of comparable $15 million liability insurance coverage is shown below.

Comparison of Comparable Coverage

	Existing Policy	Proposed by MIA
Primary liability $5 million		
- $25,000 deductible	-	$315,140
- $1 million self retention	$150,000	
Excess liability, $10 million layer		
- actual	109,000	-
- estimated	-	109,000
Errors and omissions $1 million limit	none	included
	$259,000	$424,140
	========	========

The comparable liability coverage by participating in the MIA program and purchasing excess coverage in the market is estimated to cost an additional $165,140 in year 1.

However, the MIA proposal has a $1 million coverage for errors and omissions on a claims made basis whereas we currently have no such coverage. A claims made basis means that a claim can be made only when the policy is in force, regardless of the past date of occurrence, which may generate additional claims.

Both the MIA and our existing liability policy claims are on an occurrence basis. The deductible in the proposed coverage is $25,000 per occurrence whereas our existing coverage is a $1 million self retention (deductible). For example, if all of our claims were $25,000 or less per occurrence, and we had 40 such claims each year, the claims cost to Burnaby would be $1 million, the same under each policy. Most of Burnaby's claims experience to date has been $10,000 per occurrence or less, therefore it is likely the payout costs would continue to be approximately the same under either policy.

Under the MIA coverage, claims management must be under the control of the Board. Members may settle claims up to $250 but they must report all such payments to maintain loss records. Since members will not normally be involved in claims settlements, Burnaby should realize some marginal administrative cost savings if it participates in the plan.

One of the problems in making the cost comparisons is that the proposed MIA coverage differs from our present coverage. We have rough estimates that primary $1 million coverage with $25,000 deductible in the commercial market is available for about $250,000 to $325,000 premium per year.

Burnaby's Loss History

Burnaby's history of losses resulting from liability claims is very good. Losses for recent years are as follows:

	1983	1984	1985	1986	Y-T-D May 1987
	$	$	$	$	$
Claims paid including insurance policy deductibles, ex gratia payments, legal and adjusting fees	29,189	57,395	33,053	36,760	26,544

The claims paid record is not completely correct because there are still some outstanding claims to be finalized. However, the figures are reasonably indicative of what our loss record has been for the last several years.

Losses can occur at any time, therefore there is no assurance that our record will be maintained. Financially, however, it is considered the muncipality is strong enough to be able to absorb losses up to $1 million annually, which is the worst possible scenario we currently face.

Participation of the MIA

The MIA task force retains the responsibility for the desired participation to make the proposed association a reality, subject to the Superintendent of Insurance's approval. The desired participation is about 135 members or 78% of the total municipalities and regional districts, although the participation needed could be lower.

Group	Population of Group	Desired Participation as % of population of Group
A	0 to 2,000	85%
B	2,000 to 3,000	85%
C	5,000 to 25,000	80%
D	25,000 and up	50%
Overall		60%

As can be noted, the plan was apparently designed for a higher participation by the smaller sized municipalities.

The plan becomes operational on 1987 September 01. Participation in the plan requires a minimum three year commitment. All member municipalities have been asked for their commitment by 1987 July 15, with the option of starting participation when their current policies expire or sooner.

Burnaby's current liability insurance policies have certain minimum retained premiums and penalties which discourage cancellation of these policies prior to expiry date which is 1988 April 15.

View of the UBCM Task Force

The UBCM Task Force study discusses some advantages and disadvantages of the proposed insurance exchange in their report which are summarized as follows:

What are some of the reasons to join?

- Superior coverage designed specifically to meet local government needs
- A non-profit association
- Reduction of local government insurance costs
- Stability of local government insurance costs
- Insurance costs that are fully justifiable to each subscribing member of the Association
- Ownership of reserves and interest on reserves
- Legal and claims handling services from specialists in local government liability claims
- Reduction of claims costs through risk management and loss control services provided by the Association
- Creation of a database of local government liability claims

What are the disadvantages of the program?

- Members who have consistently poor claims experience will find their contribution rates will gradually increase.
- Some members may view the staff time and expense of risk management programs as unwarranted in their particular community
- A large number of claims in a particular year or pool may increase contributions rates in subsequent years.

- Because claims are funded by members' contributions the Municipal Insurance Association has the authority to assess members who leave the group for its share of claims when it was a pool member. Although the pool will establish reserves and there is a limited reporting period for most municipal claims, this may be viewed as a disadvantage.
- A member may not agree with the decision of the Board with regard to claims payment.
- A member may not feel the need for coverage for errors and omissions insurance or excess liability insurance even though it is part of the package.

View of our Insurance Broker, Reed Stenhouse

Our insurance broker, Reed Stenhouse, which also acts as brokers to about 60 other B.C. municipalities has studied the proposal. The following paragraphs summarize the broker's views and comments as presented in his discussions with us.

Reed Stenhouse cautions us against enrolment without reviewing the disadvantges of a reciprocal agreement which they summarize from the Ministry of Consumer and Commercial Relations of Ontario:

- Members can be assessed for additional monies if losses are greater than anticipated. Premiums are hard to forecast.
- Reciprocals are open to "creaming" where excellent claim members could leave for lower commercial premiums, causing the reciprocal to breakup.
- There are startup costs and other costs to be maintained (a bureaucracy must be maintained)

Reed Stenhouse also made the following points:

- Members do not mind paying for their own claims, but not for claims of others.
- If known claims are inadequately funded, there will come a day of reckoning.
- It appears the $200,000 administration budget is too low, as are forecast claims administration and deferral costs too low.
- There is a liability exposure from the directors and officers of the reciprocal.
- It may be difficult for Burnaby to obtain additional excess insurance coverage to follow the exchange policy coverage.
- There is a three year commitment in a softening insurance market which will pass on some midterm reductions to insured, particularly with passage of Bill 30 and the resulting decrease in exposure.
- The statistical base for the proposal is questionable and outdated. It represents only 60% of the population.

However, Reed's did indicate that a reciprocal would be preferable if there were virtually no possibility of current premium rates ever reducing long into the future, or no market was available.

Main considerations for joining MIA

The report has discussed much of the background of the proposed MIA insurance, our existing coverage, our loss history and the views of the UBCM Task Force and our insurance broker. The following paragraphs will summarize the main points of this material and other points as they relate to the desirability of Burnaby joining the reciprocal insurance exchange program.

ITEM SUPPL 17
MANAGER'S REPORT NO. 42
COUNCIL MEETING 87/06/22

1. Coverage

The proposed coverage by MIA is better than our current policy but at a higher cost. However, to increase the limits of the proposed MIA liability coverage to match our current $15 million limit, Burnaby would have to purchase on its own, a $10 million excess liability cover in the commercial market that would extend the coverage provided by MIA. It is not certain that we could obtain the $10 million excess insurance policy, nor have we a firm price. Therefore there is some risk of participating in the MIA program.

2. Catastrophe Coverage

Our loss experience and insurance philosophy has been to self insure for the lower level and amount of claims (i.e. $1 million self retention) and to purchase insurance for possible catastrophe (i.e. we now have a limit of $15 million). It is estimated that the payout for claims under either policy would be similar, as our experience has shown, that most claims are $10,000 per occurrence or less. In other words, we would pay for most of the claims under the MIA policy of $25,000 deductible per occurrence, just as we do now under our self retention. In the event of a major claim Burnaby has the reserves and ability to absorb a $1 million loss. Such a large claim will undoubtedly increase our premium rates with the MIA in the future. Therefore there appears to be little or no advantage to join the MIA exchange.

3. Effect of Bill 30

It is not known whether the enactment of Bill 30, the UBCM self insurance proposal, or both, or other unrelated events had the effect of some reductions in the insurance premiums, but the recent upward cost trend has reversed. We have seen some softening in the market with our recent liability insurance renewal premiums in 1987. There is indication from our broker that there will be a further adjustment for conventional liability policies (our policy has a $1 million self retention and the reduction may be less) and he is of the opinion that the commercial market will continue to improve. Therefore, if this trend continues, the commercial market rates will be lower in the future, and we will benefit from this reduction.

4. Participation of the MIA

If there is not sufficient participation by municipalities and the exchange does not become a reality, there is a risk that the commercial market will not fully respond with better rates and coverage, or it may even increase rates. In this case, should municipalities reconsider their position at a later date, there would be additional time lost and additional monies spent in reviving the exchange and self insurance program. However, joining the exchange now does not guarantee that the MIA insurance rates will necessarily be lower in the long run, as the premiums will be experience rated after three years and the premiums will reflect each member's loss and claims experience.

When the exchange becomes operational, and commercial market rates become costly, Burnaby still has the option of joining the MIA at the discretion of the MIA Board and likely with a late membership fee.

Conclusion

The major questions to be addressed from Burnaby's point of view are:

- Will the proposed exchange provide better insurance coverage in the long run?
- Will the costs of insurance coverage with the exchange be better than with the commercial insurance market?
- Will there be any additional or fewer risks of joining the exchange insurance compared to the commercial market?

ITEM SUPPL 17
MANAGER'S REPORT NO. 42
COUNCIL MEETING 87/06/22

We don't fully know the answers to these questions, but we can draw the following conclusions:

- The costs of joining the MIA exchange are higher initially.
- The costs of the exchange in the future are unknown.
- There is currently a commercial market improvement trend and insurance rates are declining.
- Our claims loss experience has been low and will likely cost the same whether we join the exchange or not.
- We have the ability and reserves to maintain our self retention insurance of $1 million.
- There is the uncertainty of buying the existing level of coverage, $15 million in total, to cover catastrophic situations if we join MIA.
- The effect of passage of Bill 30 on 1987 May 26 will likely reduce the claims on muncipalities and therefore the municipal premiums charged by commercial underwriters.

Therefore it is recommended that:

1. THAT Burnaby not participate in the Municipal Insurance Association of B.C. self insurance program; and

2. THAT annually we examine the desirability and possibility of joining the Municipal Insurance Association of B.C.; and

3. THAT a copy of this report be sent to the UBCM for receipt prior to 1987 July 15.

Acknowledgement

The UBCM is to be congratulated on the excellent work that it has carried out with the self insurance proposal and its support of amendments to the Municipal Act resulting in the enactment of Bill 30 on 1987 May 26 and the beneficial effect on the insurability of municipalities that those actions will have.

for

Howard Karras
DIRECTOR FINANCE

PWT:ah

cc. Director Engineering
Director Administrative & Community Services
Director Planning & Building Inspection
Director Recreation & Cultural Services
Municipal Solicitor
Reed Stenhouse Limited