

Our File/N/Réf. 08-96-0006
Your File/V/Réf.

DATE 23 April 1997

TO/DEST. The Chair and Members of Council

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **1996 ANNUAL INSURANCE REPORT**

BACKGROUND

The Finance Department's mandate includes the administration of the Region's Insurance Program and the maintenance of an effective claims management information system. The risk management program involves the analysis of the Region's claims experience to determine the level of insurance coverage required and the adequacy of the Region's self-insurance program.

The Region purchases insurance coverage when available for risk exposures which cannot be eliminated or cost effectively assumed, and self insures itself for the deductibles of each policy and uninsured coverages such as environmental risks and punitive damages. A report on our 1997 Insurance Renewal Program was received by councillors on 4 February 1997 and the 1997 Insurance Budget was approved by Council on 26 February 1997.

This report provides highlights of the 1996 Insurance Program including the following charts:

- Annex A: Cost of Risk by Function
- Annex B: Insurance Premium History and 1996 Premium Breakdown
- Annex C: Cost of Claims by Policy and by Function

DISCUSSION

Cost of Insurable Risk

For the purpose of this report cost of insurable risk is defined as the cost of insurance premiums plus the self-retained cost of claims which fall below the Region's insurance policy deductible

levels. The 1996 cost of insurable risk was \$1,357,507, \$854,213 for insurance premiums and \$503,294 for claim costs, which is \$242,061 less than 1995. This decrease consists of a \$35,515 reduction in the cost of insurance premiums, primarily attributable to increasing the deductible on the automobile insurance policy to \$50,000. The balance consists of a \$206,546 decrease in claim costs, reflecting a return to an average year for claim payments. Annex A shows the cost of insurable risk by function for the last ten years and reflects the increase in the cost over those years. The increase in 1995 relates to the assumption of responsibility for Police Services effective 1 January 1995. The cost of insurable risk for police in 1996 amounted to \$263,122.

Insurance Premiums

Annex B shows the breakdown of 1996 insurance premiums by type of policy and provides a ten year history of the Region's insurance premium costs by policy. Increasing the deductible on the automobile insurance policy to \$50,000 resulted in premium savings of approximately \$83,000. A review of the Region's claims experience for auto insurance concluded that the insurance premium savings significantly exceeded the possible increase in absorbed claim costs of \$24,000 at the higher deductible level. This resulted in 1996 insurance premiums, including growth in fleet size and property replacement values, being a net \$35,515, or 4% less than in 1995. After taking growth in risk exposures into account (increases in the Region's fleet and property assets, addition of policing etc.), insurance premiums have remained fairly stable over the last ten years. The Region's per capita insurance premium cost of \$1.18 compares very favourably with the average per capita cost of \$1.99 for municipalities with populations over 150,000 as reported in the 1996 Insurance Survey commissioned by AMCTO.

Claim Costs

During 1996, a slight increase in the number of claims received (419 vs. 401 for 1995) was realized, but costs were \$206,546 less than in 1995 when an above average number of outstanding litigations were settled in addition to a couple of significant water damage claims due to water main breaks. Annex C illustrates 1996 claim costs by type of insurance policy and by functions. Although slightly more claims were paid in 1996 (148 vs. 141), the average total cost per claim was about 28% less than in 1995. Liability claims of \$452,305 in 1996, continue to account for the largest percentage (90%) of self-retained claim costs. Claims as a result of water related damage (watermain break flooding etc.) account for 35.6% of all liability claim costs. The balance is comprised of 27.4% for road maintenance claims, 16.1% for police liability claims, 14.1% for sewer claims, and 6.8% for all others. Regional property damage claims cost only \$39,810 in 1996. This is 49.5% less than 1995 and only accounted for 7.9% of our total claim costs.

Insurance Reserve Fund

Self-insured costs continue to exceed the amount of annual contributions, including investment earnings made to the Insurance Reserve Fund. The Insurance Reserve balance at the end of 1996 was \$2,821,734, down \$26,603 from 1995. Active claim reserve contingencies at the end of 1996

totalled \$3,039,041, \$217,307 more than the year end reserve fund balance. Given historic claim payout patterns and using an insurance reserve fund model developed in conjunction with the insurance industry in 1995, the potential effect of these contingent liabilities would be to eliminate the Insurance Reserve Fund balance within the next six to seven years if allocations to the fund are not increased.

CONCLUSION

The 1996 insurance results continue to confirm that the Region maintains a sound insurance and risk management policy which is providing cost effective risk financing of the corporation's many risk exposures while maintaining adequate insurance coverage for catastrophic losses. The cost of insurance premiums and retained claim costs compare favourably with prior years' experience as well as other similar organizations as confirmed by the 1996 AMCTO Insurance Survey. While premium costs reflect the Region's managed risk position, the continued erosion of the Insurance Reserve Fund balance and the ability of the fund to adequately provide future self insurance protection remains a question. This question must be addressed in future budget deliberations with increased contributions to maintain this reserve.

CONSULTATION

Public consultation is not required on this administrative matter.

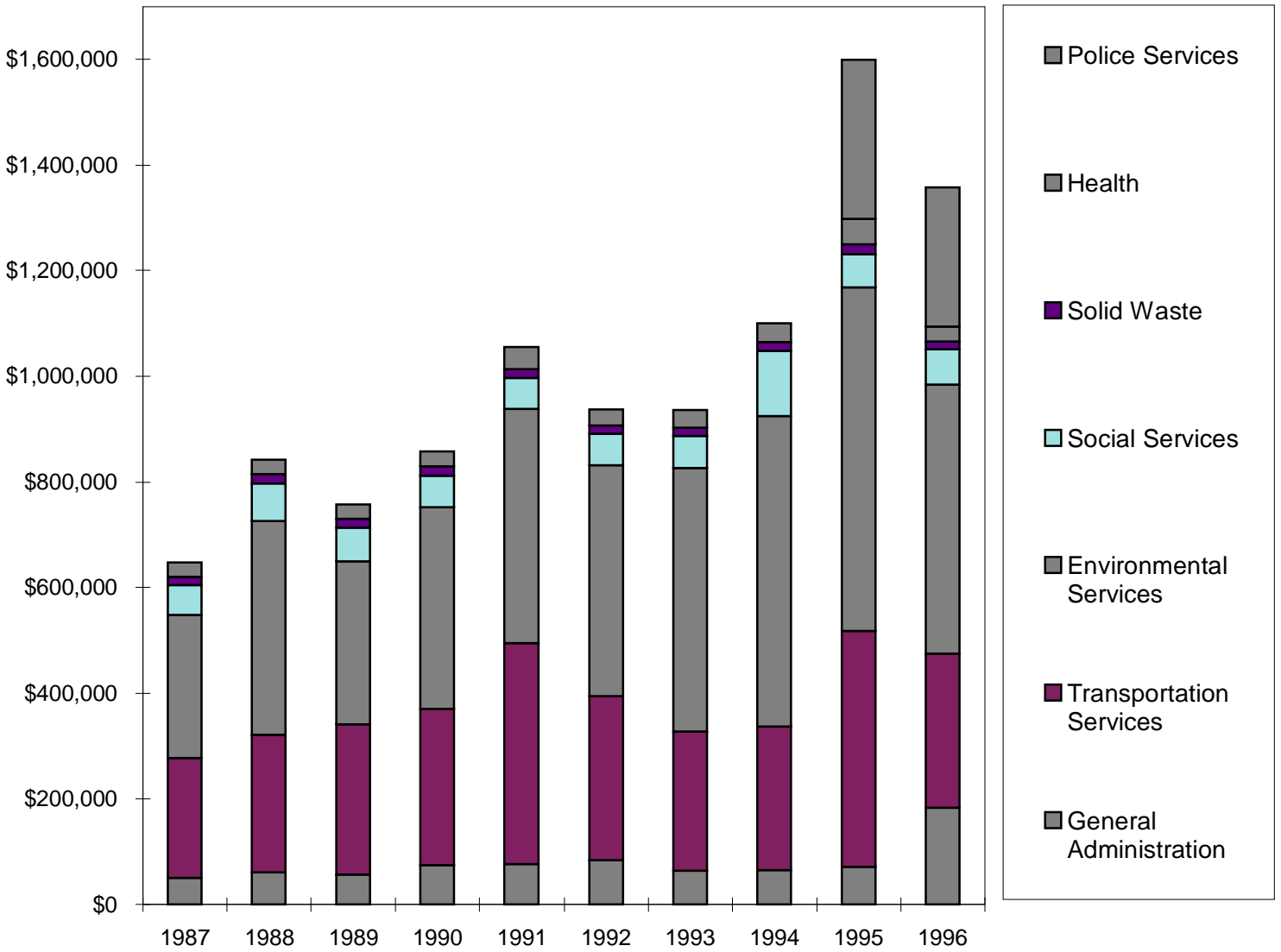
FINANCIAL COMMENT

Funds were available in the 1996 Insurance Budget to cover the cost of premium renewals and self-insured claim costs incurred in 1996.

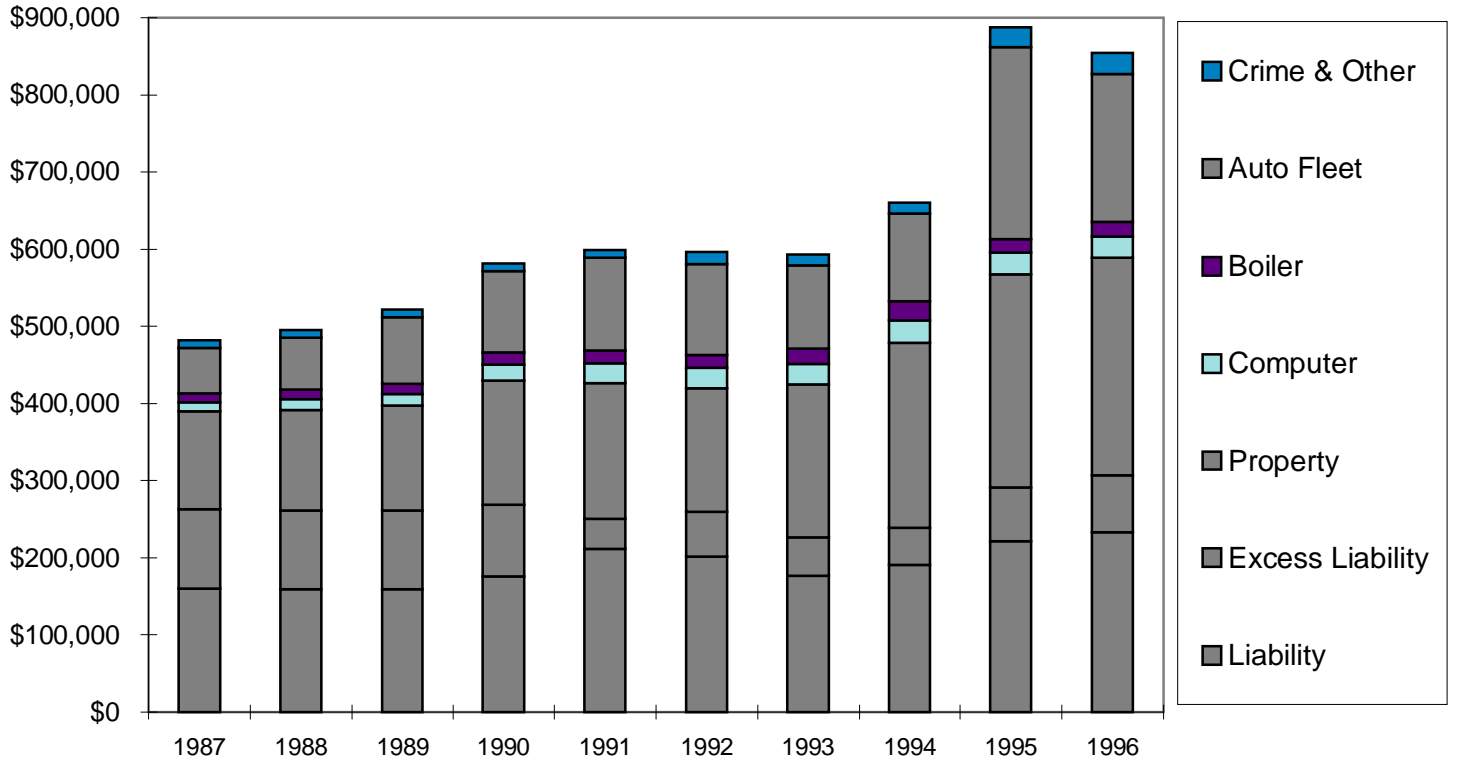
*Approved by
J.C. LeBelle*

Attach. (3)

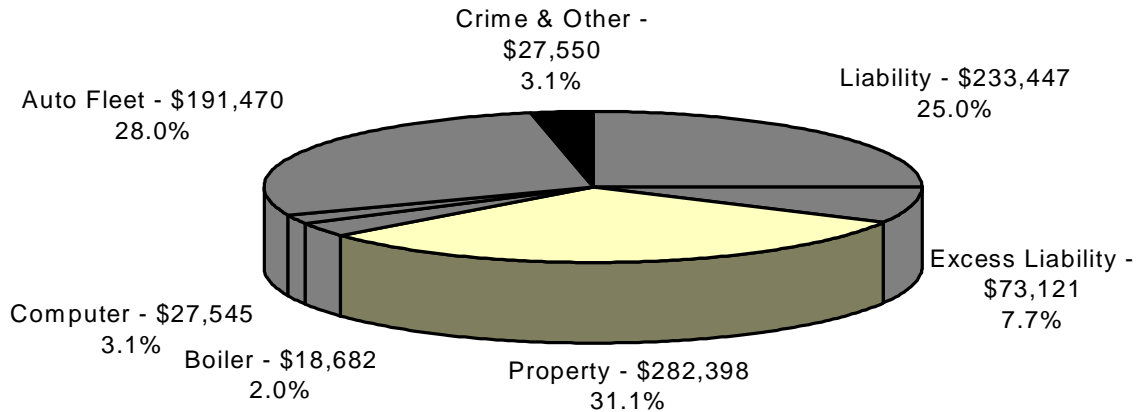
COST OF RISK BY FUNCTION



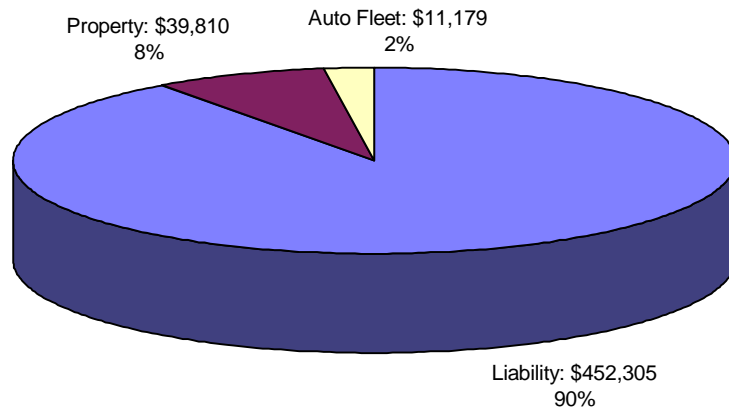
INSURANCE PREMIUM HISTORY



1996 PREMIUMS BY POLICY
(Total 1996 = \$854,213, 1995= \$889,728)



1996 CLAIM COSTS BY POLICY
(Total 1996 = \$503,294, 1995 = \$709,840)



1996 CLAIM COSTS BY FUNCTION

