Hamilton

INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	November 7, 2016
SUBJECT/REPORT NO:	Former Town of Dundas Insurance Retro-Assessment Payment (FCS16086) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	John McLennan (905) 546-2424 Ext. 5736
SUBMITTED BY: **SIGNATURE:**	Rick Male Director of Finance and Corporate Controller Corporate Services Department

Information:

The City of Hamilton has been notified by the Ontario Municipal Insurance Exchange (OMEX), ROMA Special Underwriting Group 1, that a deficit exists within the reciprocal insurance program for the years of 1998, 1999, 2000. The Town of Dundas was a member of this reciprocal immediately prior to the amalgamation of the City of Hamilton in 2001. It has been identified that the reciprocal has a deficiency in claim reserves resulting from claims reported during this term. In accordance with the agreement entered into by the Town of Dundas, payment of an insurance premium retro-assessment totalling $139,257.17 has been requested. The amount of the retro assessment reflects the Town of Dundas' share of the current deficit that OMEX, ROMA Special Underwriting Group 1 has calculated for the period February 15, 1998 to December 31, 2000, as at December 31, 2014. The retro-assessment was created by the claims activity of other participants in the reciprocal, not by any claims activity on the part of the Town of Dundas

As part of the agreement, the Town of Dundas and other members of the reciprocal are responsible for the payment of the deficit through a retro assessment process, for the unfunded liabilities of claims arising during their common membership period. The amount of the retro assessment is based on the ratio of the Subscribers' individual premiums to the total premium of all Subscribers for that period. In the converse, should there be a surplus of funds during the term of membership such funds would be returned to the Subscribers at the same ratio as retro assessments are shared amongst Subscribers.

In reciprocal insurance exchange agreements, Subscribers, comprised of groups engaged in a similar activity; in this case municipalities, agree to mutually insure one another based on the ratio of individual premiums to the total Subscriber premium for the specific period of their membership.

OMEX is an insurance reciprocal organization owned and managed by participating Ontario municipalities. It is a not-for-profit entity marketed as a member-governed alternative to the conventional insurance market. The intent of a reciprocal is to jointly fund the member losses by establishing sufficient premiums and investment income to offset operating and claims costs, including claim reserve funds.

A retro assessment is a supplemental premium charged by the reciprocal to cover deficits in funding for claims. If annual premiums forecasted by the reciprocal's actuary are insufficient to cover the cost of claims, reciprocals are allowed by the Superintendent of Insurance, to implement a retro assessment to raise additional funds based on the premium ratio as per the agreement of the Subscribers. In the converse, should there be a surplus of funds during the term of membership, such funds would be returned to the Subscribers at the same ratio once all claims have been closed.

The annual premiums forecasted by the OMEX for each of 1998, 1999 and 2000 were insufficient to cover the cost of actual claims incurred and insufficient to fund the claims and the claim development incurred during the membership period. As a result, a deficit situation occurred. Governing insurance legislation stipulates that a reciprocal will not operate with a deficit. Accordingly, as per the reciprocal agreement, a retro assessment has been calculated for each of the SUG subscribers which include the Town of Dundas.

The Risk Management Services Section (RMS) is responsible for addressing the insurance needs of the City of Hamilton (City), and the former Regional Municipality of Hamilton-Wentworth before it. RMS has never considered reciprocal insurance as a viable option for insuring the City. While the lower premiums on the front end appear attractive, the unknown of future and potentially unlimited retro-assessments through the sharing of risk with other municipalities over which the City has no control, renders reciprocal insurance an unacceptable proposition for the City. This retro-assessment, coming 16 years after the final policy period, provides a perfect example of why RMS has historically avoided reciprocal insurance.

As a result of a declining subscription base and ongoing significant claims activity, OMEX announced this past August that it will be suspending reciprocal underwriting operations for an undetermined time while they reconsider their product offerings and their position in the municipal insurance market place.

While the City of Hamilton, as successor to the former Town of Dundas, is contractually obligated to pay this retro-assessment, RMS will be deducting $2,943.12 in interest from the total as it was incurred during an extended period of time when OMEX was not sufficiently explaining the composition of the retro-assessment to RMS.

OMEX has advised that there are currently no open claims pending against the reciprocal. As such, this will likely be the final retro-assessment assessed to the City of Hamilton as successor to the former Town of Dundas.

JM/dw