

V.7. Montréal's Self-Insurance Approach



Vérificateur général
de la Ville de Montréal

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V.7. MONTRÉAL'S SELF-INSURANCE APPROACH

1. INTRODUCTION

Given the size of its territory and the range of its activities, the Ville de Montréal (the city) is exposed to the risk of events or incidents causing harm to others or of the city compromising its own assets.

Regarding civil responsibility, while the Civil Code of Québec and the *Cities and Towns Act*, among others, include exemptions that could apply to municipalities,¹ various situations may nevertheless touch on the city's responsibility, depending on the specific circumstances, and result in a claim being filed against it. This could involve personal injury or property damage causing harm to third parties, for example:

- injury due to a fall on the sidewalk
- damage to property (flood) due to water main breaks or sewer backups
- damage to a vehicle due to a fallen branch from a tree belonging to the city

The city is also exposed to the following risks, among others:

- incidents (e.g., breakage, minor accident), disasters (e.g., fire, flood), thefts or vandalism compromising the stability of various assets (e.g., buildings, vehicle fleet, drinking water and wastewater treatment plants, computer equipment) required to carry out its activities
- crimes, misappropriation of funds or fraud

Following evaluation, the city must decide whether to transfer all or part of these risks to a private insurance company (insurance contract) or opt to assume them itself and cover the total costs of damages when such risks materialize (self-insurance).

It is our understanding that, for some years now, the city has been self-insuring its risks to cover various claims related to both civil responsibility and property damages as well

¹ For example: damage caused to a vehicle's tires or suspension due to the condition of the roadway. *Cities and Towns Act*, section 604.1.

as any other crimes committed. However, in situations where the city hires contractors to perform work (e.g., snow removal operations or road repairs) for example, or it authorizes the occupation of premises belonging to it (e.g., lending premises to community organizations), it transfers the risks to the contractors or organizations in question by requiring them to take out, at their own costs, a civil responsibility insurance policy in which the city is designated as a co-insured for protection of up to \$5 million.

Two city business units handle the claims filed. The Bureau des réclamations, which comes under the Service des affaires juridiques et de l'évaluation foncière, handles all civil responsibility claims (citizen claims), while the Direction du budget, under the Service des finances, handles claims related to theft or property damage from city business units.

Payment, when applicable, of claims assumed by the city under the self-insurance system is charged to the [TRANSLATION] "Contingency allotment" budget item. It should be mentioned that the *Charter of Ville de Montréal* (the Charter) sets out, in section 94 of schedule C, that the city is required to appropriate an annual amount of at least 1% of the total budget to cover unforeseen expenses, claim settlement and payment of court verdicts. To illustrate this, the [TRANSLATION] "Contingency allotment" budget item indicated a budgeted amount of \$43.3 million and \$45 million for 2010 and 2011 respectively.

In effect, the statistics compiled by the Bureau des réclamations for claims actually submitted show claims paid and charged to the contingency budget item totalling \$3.1 million in 2011 and \$1.9 million in 2010.

As for the claims handled by the Direction du budget, Table 1 shows the data compiled on the claims paid and charged to the contingencies item.

Table 1—Direction du Budget Contingencies

Expenditure	Year		Total
	2010	2011	
Buildings	\$782,418	\$2,807,499	\$3,589,917
Automotive equipment	\$477,393	\$302,224	\$779,617
Total	\$1,259,811	\$3,109,723	\$4,369,534

Therefore, the total amounts paid and charged to the contingency item for 2011 and 2010 are displayed in Table 2.

Table 2—Contingencies per Unit

Business unit	Year	
	2010	2011
Direction du budget	\$1.3M	\$3.1M
Bureau des réclamations	\$1.9M	\$3.1M
Total	\$3.2M	\$6.2M

We did not obtain any statistics on the value of damages or losses attributable to other types of city property, including computers, tools, communication devices and office supplies. According to the Service des finances, it appears that incidents involving these types of property are generally handled by the business units through their designated budgets, in accordance with the provisions of the Charter (section 143.2).

It should also be mentioned that, where the city has required contractors hired to perform work or organizations with which it does business to take out a civil responsibility insurance policy, the Bureau des réclamations is in charge of sending claims to the contractor or occupant of the premises as well as to their insurance companies for processing.

2. AUDIT SCOPE

The purpose of our audit was to determine the existence of market studies or specific analyses to support the decision of the city to self-insure its risks rather than take out a full or partial insurance contract with an insurance company.

This audit was performed with the Service des affaires juridiques et de l'évaluation foncière, specifically with the Bureau des réclamations, but also with the Direction du budget. It dealt primarily with 2010 and 2011; however, information from previous years was also considered.

3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

3.1. LACK OF COST-BENEFIT ANALYSIS FOR THE RISK INSURANCE OR SELF-INSURANCE OPTION SELECTED

3.1.A. Background and Findings

According to the information obtained from all the people involved and from as far back in time as it was possible to go, it appears that no cost-benefit analysis was performed to support the city's decision to self-insure its risks. Everyone consulted agreed that this mode of operation was in existence at the city well before the 2002 municipal merger. Some people we met with recalled that at the time of the municipal merger, the issue of self-insurance had been a topic of discussion due to the fact that some boroughs from the former suburban municipalities had insurance policies with private insurance companies. Following these discussions, the decision was made to adopt the self-insurance approach for all city business units. No document could be found in support of this decision, however.

We question the validity of the self-insurance solution selected by the city because no recent measures have been taken to validate the strategy selected with a documented analysis evaluating what it would actually cost the city to take out full or partial insurance policies rather than opt for self-insurance:

- Would it be more cost effective to transfer the risks that may affect certain categories of assets to an insurance company?
- Are there insurance companies that would agree to cover an excess portion of the risks that a large-scale municipality such as the city may face in the event of a major disaster (e.g., major flood, major strategic building fire)?
- What would the expected cost of insurance premiums based on the applicable deductibles be?

At this time, it appears that several questions do not have a clear answer or the answers are based on assumptions.

Furthermore, the information obtained from the representatives contacted in the cities of Québec, Laval, Longueuil and Gatineau revealed that different strategies have been adopted with regard to risk insurance. Two of them (Québec and Longueuil) opted for 100% self-insurance while the other two (Laval and Gatineau) opted for a combined approach wherein self-insurance is used for civil responsibility damage and a private insurance company is used for some property damage to (e.g., vehicles, buildings). According to the information received, the cities of Québec and Gatineau reassess the chosen strategy on an annual basis.

We recognize that various factors specific to the city may argue in favour of the self-insurance approach retained, in particular the:

- size of the city administration and the territory covered (e.g., 1.6 million inhabitants in 2011, 19 boroughs, each with their own distinct governance structure)
- complexity of role- and responsibility-sharing given the organizational structure in place and the difficulties that could result from it in terms of attributing insurable risks
- need to precisely determine the city's insurance needs to create specifications in the event that a call for proposals would be considered
- need to precisely establish a detailed list of all assets owned or leased by the municipal administration, to provide a potential insurance company, and all the difficulties that go along with such an exercise

Nevertheless, even though the self-insurance option may ultimately prove to be the most cost-effective solution for the city, we feel that it is currently difficult to confirm the merit of this option given the lack of evidence available. We believe that it may be appropriate to perform a cost-benefit analysis for the purpose of confirming the choice made by the city with regard to risk insurance. To do so, the insurance company market could be polled by way of calls for proposals or any other method deemed appropriate.

3.1.B. Recommendations

To confirm, with back-up evidence, that the self-insurance option currently retained is still the most cost-effective solution for the city based on the risks that characterize it, we recommend that the Direction générale:

- evaluate the relevance of performing a cost-benefit analysis and documenting the results
- designate, if necessary, the business unit that will be responsible for taking the necessary steps to carry out and report on such an analysis

3.1.C. Action Plan of the Relevant Business Unit

[TRANSLATION] "The Service des finances has been designated as the unit responsible for taking the necessary steps to carry out and report on the analysis. (Planned completion: April 2012)

Evaluate the relevance of performing a cost-benefit analysis of the self-insurance approach and documenting the results." (Planned completion: June 2012)