
DATE: June 13, 2012

REPORT TITLE: **INSURANCE AND BROKER SERVICES**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services
Patrick O'Connor, Regional Solicitor and Director of Legal and Risk
Management

RECOMMENDATION

That Document Number 2012-171P be awarded to Frank Cowan Company Limited in the estimated amount of \$1,147,407 (exclusive of applicable taxes) for the provision of insurance and to Aon Reed Stenhouse Inc. in the estimated amount of \$18,750 (exclusive of applicable taxes) for the provision of Broker Services for the term of July 1, 2012 to June 30, 2013 in accordance with Purchasing By-Law 63-2008;

And further, that approval be granted to extend the contract for five additional 12 month periods, based on satisfactory service, performance and pricing, in an amount up to the limit of the approved budget for each optional year.

REPORT HIGHLIGHTS

- The Request for Proposal (RFP) was issued by invitation to providers of insurance and broker services for municipalities.
- The RFP was divided into two sections: insurance and broker services. Vendors had the option to bid on both sections or each individually.
- Frank Cowan Company is recommended for the insurance portion and Aon Reed Stenhouse Inc. is recommended for broker service portion.
- The combination of the Frank Cowan Company for insurance and Aon Reed Stenhouse Inc. for broker services is the best overall solution for the Regional Municipality of Peel.

DISCUSSION

1. Background

The insurance market for municipalities is quite limited, unlike regular personal or commercial lines of insurance.

There are three principal distribution channels available to municipalities: the independent broker; managing general agents; and an insurance reciprocal.

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The independent broker identifies the risks to which an organization may be exposed and then recommends insurance products. Brokers' knowledge of insurance products and insurance companies serves as the strength of their service. The broker operates on commission.

The Managing General Agent (MGA) packages insurance products for a specific business segment to address common risks faced by the segment. The MGA obtains underwriting from one or more insurers but the insurers may change from time to time whereas the MGA remains constant. As the MGA addresses the general business segment, it does not necessarily address specific or unique risks faced by one of the members.

The reciprocal is essentially an insurance company owned by the members who participate in it. A reciprocal facilitates its members to exchange agreements to share proportionately in other members' loss experience. Accordingly, reciprocals estimate loss costs (premiums) for a given policy period and then have the ability to return unused amounts to its members or in the alternative, require further financial participation years after the policy period has expired. Unlike an insurance company, broker or MGA, the reciprocal does not look to profit but only to cover losses and its operational expense. The reciprocal operates like an MGA in that it packages insurance products for common exposures faced by the group.

The Region has purchased insurance through the MGA distribution channel for sixteen of the last twenty years. There is value in maintaining a long term relationship with the same distribution channel, as long as the premiums remain relatively stable.

2. Procurement Process

The Region issued an RFP for the provision of insurance and broker services. The proposal was divided into two sections and vendors had the option to submit proposals for any or all sections.

Document 2012-171P was issued April 20, 2012 by invitation to the following four vendors that are well established providers of insurance and broker services for municipalities:

- Frank Cowan Company Ltd. (MGA)
- Ontario Municipal Insurance Exchange (reciprocal)
- Jardine Lloyd Thompson Canada Inc. (broker)
- Aon Reed Stenhouse Inc. (broker)

The document closed in May 18, 2012 and compliant submissions were received from all four vendors.

Many organizations procure for broker services only and then allow the broker to recommend the insurance to be purchased. The Region has historically sought insurance coverage directly in order to save on broker commissions. However, some of the services provided by a broker remain of value and accordingly, those services are procured.

To take advantage of the potential combinations of brokers and insurers and recognizing that respondents may have the ability to provide only insurance coverage, only broker services or both, the RFP was structured such that the respondents could quote on either or both of the Region's insurance and broker service program requirements.

An evaluation committee consisting of staff from the Legal and Risk Management Division of Corporate Services, in consultation with the Purchasing Division, reviewed and evaluated the

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submissions in accordance with the document evaluation methodology. The evaluation consisted of a two phase evaluation for both insurance and broker services. The first phase involved a technical analysis of the submissions in order to evaluate experience, underwriting services, coverage specifications, policy wording and claims services. The phase one evaluation of broker services involved the review of broker service proposals and requirements and the vendor's breadth of experience. All four vendors advanced to the second phase which involved an assessment of the pricing for each section. In addition, the evaluation team considered offsetting premium savings that could be realized when taking a higher deductible.

The scores were then combined and the vendor with the highest overall score in each section was determined.

The evaluation summary for each section is as follows:

Section I - Insurance

Vendor Name	Technical (80 per cent)	Financial (20 per cent)	Price Submitted	Overall Ranking
Frank Cowan Company Ltd.	1	1	\$1,265,172	1
Jardine Lloyd Thompson Canada Inc.	2	2	\$1,854,903	2
Ontario Municipal Insurance Exchange	3	3	\$3,741,880	3

Note: Aon Reed Stenhouse Inc. did not submit a bid for this section of the document.

Section II – Broker Services

Vendor Name	Technical (70 per cent)	Financial (30 per cent)	Price Submitted	Overall Ranking
Aon Reed Stenhouse Inc.	2	1	\$18,750	1
Ontario Municipal Insurance Exchange	3	n/a	n/a	n/a
Jardine Lloyd Thompson Canada Inc.	1	n/a	n/a	n/a

Note: Frank Cowan Company did not submit a bid for this section of the document.

Ontario Municipal Insurance Exchange and Jardine Lloyd Thompson Canada Inc. did not provide a separate price for broker services. Their fees for broker services were included in their fees for the insurance portion. Therefore, their bids in this section could not be properly evaluated. Further, both vendors indicated their broker services could not be separated from their insurance product; their respective submission would have to be accepted in its entirety or not at all.

The combination of the Frank Cowan Company for insurance and Aon Reed Stenhouse Inc. for broker services is the best overall solution for the Region.

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FINANCIAL IMPLICATIONS

Funding is available in the Region of Peel Operating Budget dept id NR30021, NR30022, NR30023 and accounts 23129 and 23200 and the Peel Regional Police Operating Budget dept id PA00017 and accounts 23630, 23631 and 23632.

CONCLUSION

Frank Cowan Company and Aon Reed Stenhouse Inc. are responsive and responsible vendors and are therefore recommended for awarded in accordance with Purchasing By-Law 63-2008.



Norma Trim
Chief Financial Officer
and Commissioner of Corporate Services



Patrick O'Connor
Regional Solicitor

Approved for Submission:



D. Szwarc, Chief Administrative Officer

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