



## Council Report

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**Report Number:** LGL2022-001  
**Meeting Date:** February 22, 2022  
**Title:** 2022 General Insurance and Risk Management Program  
**Description:** Program Renewal Update  
**Author and Title:** Jolene Ramsay, Insurance Risk Mangement Officer

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### Recommendation:

**That** Report LGL2022-001, **2022 General Insurance and Risk Management Program**, be received.

**Department Head:** \_\_\_\_\_

**Financial/Legal/HR/Other:** \_\_\_\_\_

**Chief Administrative Officer:** \_\_\_\_\_

## **Background:**

At the Council Meeting of November 17, 2020, Council adopted the following resolution:

### **CR2020-372**

That Report PUR2020-031, 2020-70-OP General Insurance and Risk Management Program, be received;

That Aon Reed Stenhouse Inc. being the highest scoring proponent be awarded 2020-70-OP General Insurance and Risk Management Program for the term January 1, 2021 to January 1, 2022 and the annual premium be funded through the 2021 Operating Budget;

That Council authorize the option of the renewal term of four (4) additional, one (1) year terms with Aon Reed Stenhouse Inc. contingent on satisfactory negotiations with regards to pricing and service performance;

That all surplus 2021 Insurance Premium operating budget be placed in the Insurance Reserve to fund future premium increases and any claim expense overages within the City's increased self-insured retention; and

That subject to the receipt of the required documents, the Mayor and Clerk be authorized to execute an agreement.

This report addresses that direction and the renewal term of the General Insurance and Risk Management Program with program changes.

## **Rationale:**

Council authorized the option of the renewal term of four (4) additional, one (1) year terms with Aon Reed Stenhouse Inc. (Aon) contingent on satisfactory negotiations with regards to pricing and service performance.

The 2022 policy term marks the first contract extension with Aon.

The City has been well served and supported by Aon and its representative throughout the transition from the City's former insurance provider and during the first year of contract.

The municipal insurance market has seen many challenges in the recent years and is considered to be in what is known as a 'hard market'. Municipalities have been faced with increased premiums, reduced capacity, restrictions in coverage and increased

retentions. This is in part due to the ever rising cost of claims, increased settlements and the impact of joint and several liability.

Many municipalities throughout the Province experienced difficult insurance renewals this term with some facing premium increases between 25-30% or greater.

While some of the City's coverage lines, including General Liability, Errors & Omissions, Automobile, Environmental and Transit, saw minimal changes in comparison to current marketplace increases, the overall 2022 renewal premiums increased by approximately 7.4% over the expiring 2021 premiums. In the current market, this increase is quite modest and reflective of Aon's negotiations on behalf of the City as well as the City's positive loss history and risk management achievements. This premium increase however did exceed the 2022 Operating Budget for Insurance Premiums and therefore changes to the program were required to remain within budget.

Alternate deductibles or Self Insured Retentions (SIR) were explored with respect to the General Liability and Errors & Omissions lines of coverage. The City had a \$250,000 SIR in 2021. The City decided to increase to a \$500,000 SIR for 2022, which reduced the annual 2022 premium by \$220,000 from last year. The City's decision to increase the SIR to \$500,000 was supported by a 2021 actuarial review completed on behalf of the City by Aon Risk Control Services. As per the actuarial report, best practices generally recommend to have a SIR/deductible that picks up 50-70% of claims payments to avoid trading dollars with the insurer. This is a more efficient use of corporate funds as it avoids paying premium to the insurer for potential costs the City is able to retain and manage. At a \$250,000 SIR the City was retaining 41% of liability claims over a 10-year period. Increasing the SIR to \$500,000 increases the amount retained to 50% and is in line with best practices and the actuarial recommendation. Increasing the SIR balances the benefits of premium reduction and transfers large catastrophic losses only to the insurance market, thus helping to ensure premium stabilization in the future.

Property insurance coverage saw a change with the reduction of the \$200,000,000 loss limit to \$100,000,000. In order to maintain the expiring loss limit of \$200,000,000 the broker negotiated Excess Property coverage at the cost of \$100,000 premium to the City. The actuarial review completed by Aon Risk Control Services considered the severity of losses in an adverse loss year. The City's 10-year property loss review indicates that the overall property damage claims have been low in both frequency and severity. Based on this review it is suggested that an adverse year, considered a 1-in-1000 year event, could produce losses of \$77,000,000. A reduction in the loss limit to \$100,000,000 still provides adequate protection to the City at a reduced cost.

Alternate liability limits were also investigated in order to reduce the City's insurance premiums. The savings associated with a reduction of the current \$50,000,000 liability limit was insufficient to warrant a change in coverage. Further market research including surveying other municipalities will be undertaken prior to the next renewal to determine the optimal liability limit for the City. A softer market in the future may produce greater premium reductions with coverage and program changes.

The increased SIR and reduced property coverage allowed the City to renew the General Insurance and Risk Management Program for the 2022 term within budget.

### **Other Alternatives Considered:**

No other alternative is being considered.

### **Alignment to Strategic Priorities**

This report aligns with the City's strategic priority of Good Government. A comprehensive review of the City's insurance program and renewal within budget ensures adequate coverage and protection is in place in the most affordable manner.

### **Financial/Operation Impacts:**

Funds for insurance premiums are allocated in the 2022 Operating Budget as per the table below:

2022 Budget for Insurance Premiums (Acct# 11420.75520)		\$2,340,490
Less: Cyber Insurance (estimate)		\$90,000
Less: Airport Insurance (estimate)		\$15,000
Less: User Group Premiums		\$2,268
Remaining Budget in Insurance Premium		\$2,233,222
Renewal Premiums	\$1,940,875	
PST	\$126,405	
Total Program Premiums		\$2,067,280
Estimated Surplus to go to Reserve (Acct# 11420.79510)		\$165,942

If there remains a surplus at end of year, that will go to the Insurance Reserve. Previous to 2021, the City was transferring \$50,000 per annum to the Insurance Reserve. In 2021, the City transferred \$481,065.00 to the reserve, being the savings in insurance premiums over the previous year. In 2021, the City spent \$198,693.53 over the budgeted amount (\$550,000.00 per annum, which amount was not increased when the deductible was increased) in payout on claims, bringing the net savings for that year

to \$282,371.47. In the 2022 Operating Budget, the City transferred a further \$481,065.00 to the reserve.

By the end of 2021, the Insurance Reserve balance was \$1,061,949. At the end of 2022, a further \$481,065 will be transferred into that reserve, for a balance of \$1,543,014.

**Consultations:**

City Solicitor  
Aon Reed Stenhouse Inc.

**Department Head email:** rtaylor@kawarthalakes.ca

**Department Head:** Ron Taylor