



## Council Report

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**Report Number:** LGL2023-007  
**Meeting Date:** March 21, 2023  
**Title:** **2023 General Insurance and Risk Management Program**  
**Description:** Program Renewal Update  
**Author and Title:** Jolene Ingribelli, Insurance Risk Management Officer

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**Recommendation:**

That Report LGL2023-007, **2023 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.

## **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 2023 policy term marks the second contract extension with Aon.

The City continues to be well served and supported by Aon and its representative as the City's insurance broker since transitioning the program to Aon.

The City's general insurance program includes the following lines of coverage: General Liability, Excess Liability, Environmental Impairment Liability, Property Insurance including Crime Coverage, Equipment Breakdown, Automobile and Transit Insurance, Council Accident and the Facility User Group Program.

The City's insurance program is reviewed annually with extensive renewal applications and updates provided to the insurer(s) through Aon to ensure coverages remain adequate and that municipal assets are properly valued in the program. The insurance program covers a one-year annual period from January 1 to January 1.

The program transition in 2021 resulted in an increase to the City's self-insured retention (SIR) to \$250,000 on the General Liability and Errors & Omissions line of coverages from the former \$100,000 deductible. Substantial premiums savings were achieved in the transition of the program to Aon and its insuring partners as well as with the increased SIR with such savings transferred to the insurance reserve.

A deductible and an SIR have the same effect of the City being responsible for all costs incurred up to \$250,000 limit per claim, however under an SIR program the City manages such claims with minimal insurer intervention. This helps the City to maintain a favorable loss ratio. A loss ratio is the losses an insurer incurs paying claims as a percentage of premiums earned. If a loss ratio becomes too high, premiums are likely to rise or an insurer may choose not to renew the policy.

In 2022 alternate SIRs were explored and the City moved to increase the SIR further to \$500,000 with respect to the General Liability and Errors & Omissions claims; all other SIRs remained the same. This move resulted in a reduction in the 2022 insurance premiums by \$220,000 and assisted the City to renew within a 0% 2022 Operating Budget for Insurance Premiums.

The City's decision to increase its SIR to such levels 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 maintain a SIR that picks up 50-70% of claims payments. This is a more efficient use of corporate funds as it avoids paying premium dollars to the insurer for potential costs the City is able to retain and manage on its own. A larger SIR balances the benefits of premium reduction and transfers large catastrophic losses only to the insurance market, thus helping to maintain a favorable loss ratio and ensure premium stabilization in the future. The City's optimal SIR rests between \$500,000 and \$2,500,000 as per actuarial recommendation.

A higher SIR on other lines of coverage including Environmental Liability, Automobile and Transit Liability and Property insurance has been explored over the last two insurance terms, however the increase does not currently yield sufficient premium savings. The SIRs currently remain at \$100,000.

The City will continue to monitor and investigate increased SIRs annually on all lines of coverage and take advantage of cost savings where it can and where it is in the best interest of the City.

A favorable loss history is an indication to the insurer that such claims and risks are being well managed by the City and both frequency and severity of future losses is low. This assists with future premiums and also makes the City a more attractive risk in the market allowing it to access more options for coverage from additional insurance providers. When municipal programs are marketed by the broker insurers currently require a 10 year loss history. Therefore for the City's current renewal insurers reviewed the City's reported claims to past insurers for the 2012-2022 period.

The City has consistently taken an active approach to claims management which has resulted in fewer reported losses. As at December 31, 2022 there are only two claims that have been reported to the City’s current liability insurer through the Aon program, both of which have minimum reserves and are expected to resolve well within the City’s SIR.

The City has a well established external support structure to help manage claims within its SIR. This includes contracting with an independent adjusting firm (Sedgwick Canada) as well as working with a panel of external legal counsel. The City also uses ClearRisk as its claims and risk management software program provider. The system allows the City to manage the status of claims and total payments made per claim. It also provides various reporting capabilities that track claims by department, area or cause of loss to trend and identify potential areas for improvement and risk reduction.

The municipal insurance market continues to be in 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. With the close of 2022 Aon is optimistic that the ending of the hard market is near, with rates starting to stabilize, more favourable terms and quite possibly increased market competition projected. The current municipal insurance market is quite small with only an handful of providers. In 2020, when the City released its Request For Proposal for the insurance program, only two companies submitted a proposal.

As we have seen over the last few years many municipalities throughout Ontario have experienced difficult insurance renewals with some facing substantial premium and rate increases. Review of prior insurance renewals indicates the the City has fared very well with respect to the premiums incurred despite being in a hard market and global pandemic. Below are the City premiums excluding tax for the years 2020-2022:

<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>\$2,562,173</b>	<b>\$2,116,121</b>	<b>\$1,942,975</b>

Although the City’s 2023 general insurance program renewal resulted in an increase, premiums remained relatively stable, within inflation and still below premiums paid in 2020.

The overall 2023 renewal premiums increased by approximately 9.4% or \$182,051 over the expiring 2022 premiums for a total annual premium of \$2,125,026 plus PST where applicable. This increase is considered just below average in the municipal market and within the 10% budgeted increase. This breaks down as follows:

- The General Liability and Errors & Omissions coverage saw a 10% increase with Excess Liability increasing by 6.4%.

- The Property Insurance rates remained flat, however the total insured property values increased to \$373,602,500 to accommodate for a 9% inflationary factor resulting in more premium.
- Auto and Transit Liability rates increased by 5% as well as changes in the addition/deletion of vehicles to the Fleet Schedule.

The premium renewed with all self insured retention limits remaining at current levels and no significant changes to coverage. Although the City requested a quote to increase the \$500,000 SIR to \$1,000,000 on the General Liability and Errors & Omissions lines of coverage only, this change or doubling of the SIR would only reduce the liability premiums by \$217,500. This reduction did not provide adequate savings to offset the anticipated increased claims costs and the \$500,000 SIR was maintained.

Aon and staff are committed to the continual review of the City's insurance program to ensure it remains competitive with stable premiums and provides adequate coverage that meets the City's growing needs. The current structure of the City's program and the focus moving forward reflects an attempt to balance premiums with the cost of risk retained by the City. Premium savings achieved and transferred to the insurance reserve help to achieve and build a level of comfort to take on more risk while allowing the City to reduce its overall insurance costs and shield itself from significant events.

The City will continue to investigate alternate SIRs to reach its ideal risk retention. Alternate liability limits and potential coverage changes or reductions will continue to be investigated, however at this time the savings associated with a reduction of the current \$50,000,000 liability limits is insufficient to warrant a change in coverage. A softer market in the future may produce greater premium reductions with coverage and program changes and increased retentions.

#### Cyber Insurance:

Although the general insurance program does not include cyber coverage, the City is fortunate to continue to maintain cyber coverage through Marsh Canada with many municipalities unable to obtain such coverage and forced to self-insure. The City's coverage includes a \$5,000,000 limit of liability and a \$250,000 deductible at a cost of \$98,749 plus PST. As above, the City will investigate alternate deductibles and available coverage options at the time of the policy renewal in June 2023.

#### Airport Insurance:

The City maintains a separate coverage for its airport operations as aviation exposure is generally excluded through the municipal program. The coverage includes aviation general liability, directors & officers liability, environmental impairment liability and

drone coverage. The annual premium in 2022 was \$12,925 plus PST. The policies renew in June 2023 and coverage options and deductibles will be reviewed at that time.

**WSIB Excess Coverage:**

As a WSIB Schedule 2 employer the City is individually liable for the full cost of its own WSIB claims and responsible to reimburse the WSIB for all costs relating to those Schedule 2 claims. The City currently purchases two types of insurance to deal with the risk of a catastrophic WSIB incident. The City purchases both Excess Indemnity Coverage, with a self insured retention of \$1,000,000, and Accidental Death and Dismemberment Insurance, with a self insured retention of \$750,000. The total annual cost of both policies combined for the 2023 term is \$312,064 plus PST. These policies are located within People Services / Finance budget and not included in the general insurance program.

As of 2023 the policies have been moved to Aon as the City’s broker of record. The City will look to Aon Risk Control Services to review the City’s WSIB liabilities and provide recommendations with respect to future insurance coverage and additional reserve funding.

**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 2023 Operating Budget as per the table below:

2023 Budget for Insurance Premiums (Acct# 11420.75520)	\$2,500,000
Less: Cyber Insurance (estimate)	\$125,000
Less: Airport Insurance (estimate)	\$15,000
Remaining Budget in Insurance Premium	\$2,360,000
Renewal Premiums	\$2,125,026
PST	\$137,076

Total Program Premiums	\$2,262,102
Estimated Surplus in Premium Budget Line	<b>\$97,898</b>

Since transferring the City's general insurance program to Aon in 2021 the City has transferred \$481,065.00 to the insurance reserve (Acct# 11420.79510) annually. This amount represents the savings in insurance premiums experienced following the 2020 RFP and program transfer to the new insurance providers.<sup>1</sup>

As at December 31, 2022 the insurance reserve balance was \$1,543,014.08. A further \$481,065 will be transferred into that reserve for a balance of \$2,024,079 at the end of 2023. The City will work with Aon Risk Control Services to determine the appropriate reserve funding required to maintain the existing and future self insured retention levels.

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**Department Head:** Robyn Carlson

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<sup>1</sup> Note, however, that this does not represent total cost savings. With a higher SIR/deductible, the City pays more claims out directly (that it would previously have coverage for). This has been an increase in approximately \$200,000, so a net annual savings of approximately \$281,000.