
Subject: Insurance Program Update for 2020-2021

Report to: Corporate Services Committee

Report date: Wednesday, December 9, 2020

Recommendations

1. That this report **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to provide Council with an update with respect to the insurance program negotiations and renewal terms for the November 1, 2020 to November 1, 2021 insurance policy period in accordance with Council's approval on September 17, 2020, of the recommendations in Confidential Report CSD 54-2020 .
- The 2020-RFP-78 – Insurance and Risk Management Services was cancelled and immediately thereafter Staff commenced negotiations with Niagara Region's existing Broker/Insurer (Marsh) to secure an insurance agreement extension to commence November 1, 2020 for a period of one year with an option to cancel.
- On October 30, 2020, Staff obtained the approval of the Acting CAO and was able to bind coverage for Niagara Region (which includes Niagara Regional Housing and Niagara Regional Police Services) commencing November 1, 2020.
- The premium for November 1, 2020 to November 1, 2021 is \$1,800,650 (inclusive of non-refundable 8% PST where applicable) compared to the last term's premium of \$970,074.
- Staff are undertaking a review the current insurance program and associated risks in the context of the now known changing insurance market and will report back to Council by the end of April 2021 regarding all available options to Council including potentially going back out to market in 2021 with a new procurement process and a revised insurance program.

Financial Considerations

For the 2020 and 2021 insurance premium budget, Staff forecasted a significant premium increase due to the hardening insurance market and impact of COVID-19. However, Staff did not anticipate the magnitude that the declining insurance market would have on the overall 2020-2021 premium quote of \$1,800,650.

The renewal from November 1, 2020 to November 1, 2021 will increase the proposed budget for 2021 to \$1,803,486 from \$904,100 in 2020 (an increase of \$899,386 or 99.5%). The 2021 budget includes a further estimated increase for November and December 2021. The 2021 proposed budget increase was settled on two months prior to the finalizing of the negotiated insurance premium to help facilitate the finalizing of the corporate 2021 budget process. Staff are still considering potential mitigation strategies for this budget pressure which will be brought to Budget Review Committee of the Whole for consideration as part of the 2021 operating budget submission.

The increased costs for November/December 2020 have been captured and accommodated in the Q3 consolidated financial update.

Analysis

On September 18, 2020, the 2020 RFP-78 was cancelled and immediately thereafter Staff commenced negotiations with Marsh. Numerous meetings and discussions were required by Staff with both Marsh and the Insurers in order to gain a better understanding of the current market condition and consider how Niagara Region's insurance program requirements could be achieved.

Marsh reported experiencing great difficulty finding a market to provide Niagara Region with its desired coverages for both liability and property and as result negotiations and the process to secure coverage took considerable time, with Marsh submitting its formal written proposal on October 27, 2020.

The significant notable changes in liability and property coverages include:

Re: Liability

- Medical Malpractice and Errors & Omissions Liability limits have been reduced from \$50M to \$25M for all Public Health Units, EMS, All Health Operations including Care Homes, Senior Services, Community Services including Homeless Shelters, and Police Services.
- Policy now includes Communicable Disease Exclusion for Public Health Unit, All Health Operations and Care Homes.
- Cyber Liability deductible increased from \$50,000 to \$150,000.

Since binding coverage, Staff have continued to explore available options with the Insurer to improve liability coverage.

Re: Property

- Reduced coverage from full property value of \$2.4B to a \$200M Limit of Loss (LOL) per occurrence. To put this into perspective, if there was a catastrophic weather event that hit the Niagara Region which resulted in damages to multiple locations totalling \$400M, the most the insurer would pay is \$200M for that one occurrence. However, there is no aggregate limit for the year. Therefore, if there was a fire loss on a different occasion, there would still be up to \$200M LOL available for that loss as well and so on throughout the year.
- NRH was only provided with 70% insurance limit capacity, as Marsh could not locate any other insurer willing to insure Social Housing property for the remaining 30%. This means that if NRH were to experience a total loss of one of their buildings valued at \$10M, they would only receive 70% of the loss, being \$7M.

Some of the rationale provided by Marsh for the premium increases and coverage changes include:

- When the market was soft, competition drove down pricing to levels below the risk a municipality presented. Niagara Region's premiums over the last few years were below market standard.
- In 2020, the Insurers took a corrective pricing position, which combined with the hard market and the impact of recent world events such as the Pandemic, resulted in significant premium increases for the Region.
- The reduction of limits and communicable disease exclusion with respect to Health Operations is primarily due to the impact of COVID-19 and the lack of appetite for insurers to take on the additional risk.
- For clients with high valued property schedules and CAT exposed risk (in terms of catastrophic events, Niagara Region falls within a high-risk earthquake zone), Marsh is seeing insurers applying LOL, and rate increases in excess of 50%. It is expected that these increases will continue into 2021.
- The lack of insurers' appetite to apply capacity to large property schedules (provide coverage to the extent of full property value) resulted in a \$200M LOL per occurrence. Quotes were obtained to increase this limit to a minimum of \$500,000,000; however, were viewed by Marsh as cost prohibitive.
- It was also noted that Niagara Region is facing property rate increases and difficulty obtaining capacity due to the fact that many property insurers will not write social housing risks.

Given the current market and Niagara Region's conditions as noted above, as well as the need to secure insurance before end of business on October 30, 2020, Staff recommended and sought the approval of the Acting CAO to proceed with the renewal terms as presented at that time to bind coverage with Marsh.

Staff are undertaking a comprehensive review of the existing insurance program and associated risks in the context of the changing insurance market. Staff plan to reach out to other municipalities to review their experiences and will explore options for 2021. Staff aim to report findings and options back to Council by the end of April 2021 in order to seek Council direction on a longer term strategy, including competitive procurement options, given the current renewal is only for a 1 year term.

Alternatives Reviewed

Negotiations with the current Broker/Insurer were successful for a 1 year term to allow Staff to develop a longer term strategy and as such no alternatives were considered.

Relationship to Council Strategic Priorities

Niagara Region's insurance program placement for 2020-2021 (which includes NRH and NRP) is consistent with Council's strategic priority focus on Sustainable and Engaging Government – High Quality, Efficient and Coordinated Core Services and Fiscally Sustainable.

Other Pertinent Reports

- Confidential CSD 54-2020 dated September 17, 2020 – A Matter of Legal Advice that is Subject to Solicitor-Client Privilege – Insurance Program and RFP

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