
Subject: Program Review and Options for 2021-2022 Insurance Renewal

Report to: Corporate Services Committee

Report date: Wednesday, April 14, 2021

Recommendations

1. That Council **AUTHORIZE** staff to negotiate with Niagara Region's existing Insurer/Broker, Marsh Canada Limited ("Marsh") in order to secure an insurance agreement extension on behalf of Niagara Region, Niagara Regional Police Service and Niagara Regional Housing for the November 1, 2021, to November 1, 2022, policy period;
2. That staff **BE DIRECTED** to continue the review of the current insurance program and associated risks and to report back to Council by the end of April 2022, regarding all available options to Council including potentially going back out to market in 2022-2023; and
3. That staff **BE DIRECTED** to obtain an updated actuarial analysis of Niagara Region's loss exposure and risk financing.

Key Facts

- As approved by Council following cancellation of the RFP for insurance and risk management services issued on behalf of Niagara Region, Niagara Regional Police Service ("NRPS") and Niagara Region Housing ("NRH"), staff negotiated renewal terms for the November 1, 2020, to November 1, 2021, policy period with Marsh.
- As noted in report CSD 74-2020, Niagara Region experienced significant premium increases and changes to desired program coverages which were primarily due to the hard market, impacts of COVID-19 as well as Brokers' reduced ability to secure other liability and property markets as a result of the competitive procurement process undertaken.
- In preparation for the November 1, 2021, renewal and as indicated in CSD 74-2020, staff have been undertaking a review of the current insurance program and associated risks in the context of the now known changing insurance market.
- Based upon the research completed to date, the insurance market has not improved and there is no indication that there will be any favourable changes in 2021, therefore proceeding with a competitive procurement process for insurance in 2021 is not advisable.

- Staff proposes to work with Marsh to secure suitable insurance for 2021-2022 on behalf Niagara Region, NRPS and NRH based on the current conditions; while continuing to review and research other alternative coverage and procurement options for Council to consider for the following 2022-2023 insurance renewal period.
- The review undertaken to date has disclosed that Niagara Region would benefit from obtaining updated actuarial analysis of Niagara Region's loss exposure and risk financing; and, independent property valuation and loss control inspection reports for some of its property holdings in order to assist with future decision making with respect to insurance coverage and procurement options for Niagara Region, NRPS and NRH.

Financial Considerations

In 2020, the insurance premium budget was \$904,100. The negotiated 2020-2021 insurance premium resulted in an increase of \$899,386 or 99.5% over the 2020 budget. The 2021 insurance premium budget is \$1,803,487 which anticipated the hard insurance market and impact of COVID-19 continuing into 2021. The anticipated increase was factored into the last two months of the 2021 budget.

Depending on the scope of work for the recommended actuarial services, the estimated cost provided by Marsh was in the \$35,000 to \$65,000 range. Staff believe this can be accommodated within the approved 2021 Budget for Corporate Services.

Given Niagara Region's high property value schedule (over \$2.4B), and the feedback received by staff from subject matter experts/industry stakeholders, staff believe it would be beneficial to obtain independent property valuation and loss control inspection reports for some key property locations to enhance the level of information available to insurers/the market. Depending on the complexity, the estimated cost of such reports provided by Marsh was in the \$16,000 to \$42,000 range per property. In light of this cost, as part of the continued program review, staff will identify which of Niagara Region's 123 properties valued over \$1M should be considered to maximize the benefit of such reports and to ensure appropriate budget is set aside in 2022 to accommodate such expense.

Analysis

As indicated in CSD 74-2020 - Insurance Program Update for 2020-2021, the hard market and impacts of COVID-19 resulted in Niagara Region experiencing significant

premium increases and some changes to desired program coverages in its insurance and risk management services for the November 1, 2020, to November 1, 2021, policy period; similar to the experience of many municipalities across Ontario.

In accordance with Council direction, staff have been undertaking a review of the current insurance program and potential options for 2021.

As noted in previous reports, there are less insurers in the municipal insurance market than previously. In addition, the following areas of concern related to municipal insurance have been identified to staff that may limit competition: 1) reduced coverage capacity for large property schedules (such as Niagara Region's \$2.4B value), 2) professional/E&O liability and medical malpractice coverage for Public Health/Senior Services/EMS Paramedics, 3) markets refusing to quote on Social Housing leaving a small market willing to insure and 4) Transit is deemed to be high risk and costly to insure. As a part of the program review, staff is considering options that may assist in mitigating these areas of concern for insurers to the extent possible that make it challenging for Niagara Region to competitively procure the type/level of coverage traditionally sought.

It is also of note that utilizing a competitive process to secure insurance services does not necessarily function to maximize options available to municipalities in an already reduced market. In practice, the existence of a competitive process restricts the ability of brokers to canvass all available markets for coverage due to existing commitments on the part of insurers to only engage with certain brokers as well as the general practice of a "first come first serve" basis to access the market as part of an RFP process.

After canvassing a number of municipalities and subject matter experts, there is no indication at this time that there will be any favourable changes in the insurance market in 2021. Since hard markets generally last for shorter periods of time than soft markets, there is hope for change in 2022; however, proceeding with a competitive process to secure insurance in 2021 is not advisable given the prevailing market conditions and likelihood of further premium increases.

As a result staff believe that Niagara Region would be better served to work with Marsh to negotiate an insurance agreement extension on behalf of Niagara Region, NRPS and NRH for the November 1, 2021, to November 1, 2022, policy period; during which time staff will continue to review and research other coverage and procurement options with a view to place Niagara Region in a better position for future renewals.

One of the ways this can be accomplished is by enhancing the data Niagara Region has available to assist with future decision making with respect to insurance coverage and procurement options for Niagara Region, NRPS and NRH.

In 2015/2016, staff retained the services of an actuarial consultant to perform a comprehensive review of Niagara Region's insurance program, cost allocation methodology and reserve funding. The combined cost in 2015/2016 for these reports was \$32,500 before taxes. Staff reached out to Marsh to obtain a current cost estimation with respect to performing actuarial services. Depending on the scope of work, the estimated cost provided was in the \$35,000 to \$65,000 range before taxes.

Staff recommend obtaining an updated actuarial analysis of Niagara Region's loss exposure and risk financing in order to assist in making informed decisions on the overall insurance coverage and risk financing program.

Given the challenges securing coverage for large property portfolios (such as Niagara Region's \$2.4B value), and the importance of data to better inform the market regarding risk exposures, staff also reached out to Marsh to obtain an estimated cost for independent property valuation and loss control inspection reports. These types of reports can help Niagara Region answer key questions that will support property insurance placement which include 1) what is the current valuation of key assets, 2) what types of property losses could be most impactful, 3) how property risks are being managed and 4) what opportunities are there to invest in loss control to better manage property risks. In a hard market, these reports become more of a necessity than a "nice to have"; particularly, when your Broker is looking for insurance markets with less capacity to make a decision to take on the risk and what rate should be applied to the risk. Depending on the asset complexity, the estimated cost per property would be in the \$16,000 to \$42,000 range before taxes. In light of the cost of these reports, and the significance of Niagara Region's property holdings, staff would need to determine which of the 123 key properties valued over \$1M should be considered for property risk valuation and loss inspection report and to ensure appropriate budget is set aside in 2022 to accommodate such expense.

In addition, staff will conduct further research with respect to other options that are responsive to the other challenges/concerns identified, and associated cost implications, to place Niagara Region in a better position for future renewals such as 1) divide Niagara Region's large property schedule, an example of this might be to insure all WWTP and WTP separately, 2) obtain separate medical malpractice coverage for Public Health/Senior Services/EMS Paramedics, 3) explore impact of potential changes

to renewal date and duration of insurance contract, 4) procure coverage for NRH's social housing program separate from Niagara Region/NRPS and 5) use of a Negotiated RFP process that incorporates a Best and Final Offer (BAFO) approach to procure insurance or other methods of securing insurance.

Staff will report back to Council by the end of April 2022, regarding all available coverage and procurement options to Council.

Alternatives Reviewed

As noted above in the analysis, staff reviewed the option of commencing a competitive procurement process in 2021. However, due to the prevailing market conditions that were the primary driver of the premium increases/coverage changes experienced by the Region in 2020, staff do not recommend proceeding with a competitive process in 2021.

Relationship to Council Strategic Priorities

The proposed renewal and review of Niagara Region's insurance program 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

- CSD 16-2020 – Proposed Procurement Process for Insurance and Risk Management Services RFP
- Confidential CSD 54-2020 – A Matter of Legal Advice that is subject to Solicitor-Client Privilege – Insurance Program and RFP
- CSD 74-2020 – Insurance Program Updated for 2020-2021
- CSD 14-2021 – Motion by the Municipality of Charlton and Dack respecting the Cost of Municipal Insurance

Prepared by:
Donna Pasto
Risk Management Program Manager
Corporate Services

Recommended by:
Todd Harrison, CPA, CMA
Commissioner/Treasurer
Corporate Services

Submitted by:

Ron Tripp, P.Eng.

Acting Chief Administrative Officer

This report was prepared in consultation Donna Gibbs, Director Legal and Court Services.