Subject: Insurance and Risk Management Services Contract Extension for November 1, 2019 – November 1, 2020

Report to: Corporate Services Committee

Report date: Wednesday, April 17, 2019

Recommendations

1. That Staff **BE AUTHORIZED** to exercise the option in favour of The Regional Municipality of Niagara ("Niagara Region") to extend the insurance and risk management services contract with Jardine Lloyd Thompson Canada Inc. ("JLT") on the same terms and conditions for an additional term of one year for the 2019-2020 policy term based upon an estimated annual cost of $915,426 (including 8% PST) subject to renewal premium increases due to additional insured property and fleet values.

Key Facts

- The purpose of this report is to seek Council's approval to extend the insurance and risk management services contract with JLT for the upcoming policy renewal period from November 1, 2019 to November 1, 2020.
- In July 2017, Niagara Region competitively procured the insurance and risk management services by issuing a Request for Proposal ("RFP") which included Niagara Regional Housing ("NRH") and Niagara Regional Police ("NRP").
- On October 31, 2017, Council awarded the RFP to JLT at an annual cost of $790,838.80 (including 8% PST) for a two year period with an option in favour of Niagara Region to extend the contract on the same terms and conditions for an additional term of up to one year.
- In November 2018, Niagara Region entered into year two of the contract with JLT for the same rates subject to renewal premium increases due to additional insured property and fleet values as well as a mandatory surcharge on recycling facilities.
- In contemplation of a contract extension in year three, Staff reached out to JLT to provide a report outlining any municipal market concerns as well as JLT's estimated rates for the November 1, 2019 to November 1, 2020 policy renewal.
- JLT provided Niagara Region with an estimated overall premium percentage change of 4.75% over last year's premium (subject to any increase in property and fleet values).

Financial Considerations

The current cost of insurance premiums for Niagara Region (including NRH and NRP) is approximately $813,227 (inclusive of 1.76% non-refundable HST) and is included in the approved Legal and Court Services 2019 operating budget. The contract for year two runs from November 1, 2018 to November 1, 2019.

The renewal option for year three which will run from November 1, 2019 to November 1, 2020 is estimated at $874,507 (inclusive of 1.76% non-refundable HST). This option includes an increase in cyber premium of $22,400 to increase the Niagara Region's cyber coverage from $2,000,000 to $5,000,000 which was approved by Council as part of 2019 budget approval process.

Subject to Council's approval of this report, given that the term of the contract will expire on November 1, 2019, as a part of the 2019 budgeting process staff also included the estimated cost of coverage for the last two months of 2019. This estimated cost is within the approved budget for 2019. The remaining 10 months of the renewal option will be included in the 2020 operating budget.

Should Council not approve the recommended extension, Staff would be required to go out to market in June 2019 which could result in higher than budgeted premiums.

Analysis

The policy renewal for November 1, 2019 to November 1, 2020, will be third and final year to renew Niagara Region's insurance and risk management services contract with JLT.

On March 28, 2019, at Staff's request, JLT provided Niagara Region with a report outlining current market conditions and the estimated rates for the 2019-2020 insurance program for Niagara Region (which includes NRH and NRP). A copy of the March 28, 2019 report is attached as **Appendix 1**.

JLT's report confirmed a number of items which Staff had identified as being important factors in considering the option to extend with JLT for the 2019-2020 policy period. The following is a summary of the more relevant items considered by Staff and confirmed by JLT:

- Public Sector is in a state of flux and there is increasing pressure to not write business at a loss and municipal business is a class that sustains claims.
- Since the start of 2019, JLT has been made aware of several municipalities who received renewals with increases of 34% or more.
- At this juncture, JLT is seeing increased instability in Lloyds when it comes to writing municipal accounts yet JLT is not seeing any increase in appetite for public sector business from domestic insurers.
- Signs indicate that municipalities can expect that premium reductions, even when faced with competition, are a thing of the past.

- Municipalities can help protect their budgets from premium fluctuations by selecting an insurance program that is stable and use insurers who have exhibited a long term commitment to writing municipal business.
- Strong risk management practices, developing a long-term relationship with insurers, and retaining the appropriate deductible levels will increase in importance.
- The current push by responsible insurers to obtain regular increases of 3 to 10% is to ensure business does not continue to be written at a loss.
- JLT has been writing business with the same insurers for well over 10 years and its municipal program continues to remain strong, with only marginal increases expected for good performing accounts over the next few years.

JLT provided Niagara Region with an estimated overall premium percentage change of 4.75% over last year's premium, subject to any increase required as a result of additional property and fleet values.

In considering the above noted summarized items, Staff's recommendation to renew for the third year with JLT will result in an overall reasonable percentage increase that is within budget and will also allow Staff to focus its efforts on corporate wide risk management practices while continuing to build a knowledge base with JLT to help inform the future competitive procurement process.

It is Staff's intention to bring a report to Council in the Spring of 2020 to seek instructions and direction with respect to the overall competitive procurement process for insurance and risk management services for the November 1, 2020 policy renewal. This will include, but not be limited to, scoring and program rating criteria as well as increased contract term length (3 to 5 years).

Alternatives Reviewed

Staff considered competitive procurement for the November 1, 2019 renewal. However, Staff does not recommend procurement at this time for a number of reasons including the favourable estimated terms provided by JLT, the uncertainty of the Public Sector market, as well as the additional costs and resources required to complete a competitive procurement process with no certainty that any savings would be achieved.

Relationship to Council Strategic Priorities

Exercising the option to extend allows Niagara Region to benefit from additional cost savings while building further knowledge base with the current insurance provider, which aligns with Council's strategic priority of Advancing Organizational Excellence.

Other Pertinent Reports

N/A

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Appendices

Appendix 1	Forecast and General Market Conditions Report Submitted by JLT Canada dated March 28, 2019	5 to 10

FORECAST AND GENERAL MARKET CONDITIONS REPORT FOR THE REGIONAL MUNICIPALITY OF NIAGARA

Submitted by JLT Canada

March 28, 2019

MARKET CONDITIONS

There are a variety of factors that impact premium. In addition to an insured's exposures and loss ratio, there are considerations beyond an insured's control that affect premium:

- Reinsurance* arrangements: these contracts are impacted by the amount of surplus capital, overall losses (ex. Recycling facilities sustained significant losses globally and reinsurers required increased rates for all such facilities), and profitability within a particular sector.
- Capital surplus: investors put money into the insurance market looking for return on their investment and it is the surplus of these funds that allow underwriters to write competitive premiums. The amount of capital injected into the insurance market is tied to profitability. Subject to changes to interest rates, and if markets continues to product results at a loss, we can expect to see investors look for alternate investments with higher returns. The availability of capital is one of the driving factors that determine if we are faced with a soft market (competitive premium, some willingness to write at a loss) or a hard market (focus on insurer profitability through increased premium)
- Global outlook: continued catastrophic weather events impact property rates. This is not restricted to municipal business and can be felt even more heavily on commercial accounts.
- Claims frequency and severity: particular lines of business with frequent and/or costly claims can cause insurers to implement wide-brush mandatory increases.
- Legislation: this is a factor that impacts municipalities more then any other industry. Changes to the application of joint and several liability, environmental legislation, mandatory coverage by municipalities for integrity commissioners, legislated automobile accident benefits coverages, etc. have an impact on rates. The more the insurance industry is expected to fund the cost of injuries/losses to third parties, the more the public sector market space will be impacted as insurers need sufficient funds to pay these long tail claims.

****Reinsurance** is insurance that is purchased by an insurance company, in which some part of its own insurance liabilities is passed on ("ceded") to another insurance company. In the classic case, reinsurance allows insurance companies to remain solvent after major claims events, such as major disasters like hurricanes and wildfires. In addition to its basic role in risk management, reinsurance is sometimes used to reduce the ceding company's capital requirements, or for tax mitigation or other purposes. There are two basic methods of reinsurance – Facultative and Treaty.*

Following is a summary of the state of the insurance industry for the general domestic and London markets, as well as what the public sector space is undergoing.

LLOYD'S OF LONDON

At the beginning of November 2018 Lloyd's completed a bruising business planning process that saw an unprecedented number of changes to its syndicates' 2019 plans. We have seen everything from syndicates withdrawing from the market through to pulling out of weaker performing lines of business in order to secure approval. Property, construction, professional indemnity and marine cargo have all in particular been in the firing line. Whilst speculation at this stage and some syndicates will have modest growth signed off, this hard-line remediation stance could reduce overall planned premium levels by up to 10% in 2019.

The focus has now moved from planning to obtaining sufficient capital and ensuring that approved syndicates also have their regulatory capital in place to support their 2019 business plans as part of the so-called 'coming in to line' exercise. Following loss creep on second half (2H) 2017 catastrophe events, significant loss events in 2H 2018 such as the Californian wildfires, Lloyd's imposed capital loading as part of a wider de-leveraging project, the capital squeeze is on. Sitting behind this de-leveraging will be a Lloyd's concern that some syndicates were being too optimistic with their loss picks on both retrospective and forward looking business. It appears the majority of syndicates have been asked to find additional capital which will of course put further downward pressure on their returns, particularly on those who have to operate next year with a reduced premium income. It follows that by increasing syndicates' cost of capital to ensure an improvement in underwriting profitability will mean underwriters will be forced to stand tough in pushing for premium increases when faced with demanding brokers at their box!

It may also be the case that the market-wide increase in capital is the result of additional pressure faced by Lloyd's from the Prudential Regulation Authority (PRA) and the rating agencies. One of those rating agencies, Fitch, has recently said 'that despite the proactive approach by Lloyd's to confront underperforming syndicates in the market, profitability is expected to remain under pressure in 2019' and 'it does expect the market to respond with a renewed focus on profitable underwriting'.

The above has translated into London markets pushing for rate, cutting line sizes, moving away from writing certain lines of business, and tightening terms and conditions.

DOMESTIC MARKET

The Canadian insurance market remains relatively competitive for well performing accounts and classes of business; however rate reductions are slowing down across almost all lines of business as well as industries. Long-term outlook continues to point to a bottoming out of the market.

As 2017 entered the last months of a record year for Catastrophic losses, increases averaged 10 per cent for loss free accounts, but were as high as 50 per cent for some clients in the Caribbean. The wider industry's response to this year's natural catastrophe losses has been uneven, differing by line of business and geography.

Without taking into account losses or increases in values, domestic property underwriters in H2 of 2018 and H1 of 2019 have been looking for increases of up to 20% on the overall property rate. This is the trend in all types of business – hospitals, commercial operations, real estate, etc. Many domestic insurers are limiting their overall liability and capping the amount payable in the event of a catastrophic loss.

Last year's catastrophe losses have not resulted in a 'knee-jerk' response from the insurance market as of yet, although there is a renewed sense of discipline and determination among underwriters. There has not been a wider move to restrict cover, but insurers are generally looking to impose more disciplined underwriting, an increased reliance on actuarial results, and an increased focus on retentions and limit.

All of the syndicates on your program (QBE, Chaucer and MCI) have had their 2019 business plans approved.

PUBLIC SECTOR MARKET

The Public Sector market is in a state of flux. Although there is still capital in the marketplace there is increasing pressure to not write business at a loss and municipal business is a class that sustains claims. Since the start of 2019, we have been made aware of several municipalities who received renewals with increases of 34% or more.

At this juncture, we are seeing increased instability in Lloyds when it comes to writing municipal accounts yet we are not seeing any increase in appetite for public sector business from domestic insurers. Signs indicated that municipalities can expect that premium reductions, even when faced with competition, are a thing of the past.

Municipalities can help protect their budgets from premium fluctuations by selecting an insurance program that is stable and uses insurers who have exhibited a long term commitment to writing municipal business. Strong risk management practices, developing a long-term relationship with insurers, and retaining the appropriate deductible levels will continue to increase in importance. The current push by responsible insurer's to obtain regular increases of 3-10% is to ensure business does not continue to be written at a loss. Although difficult to justify increases in the short term, this strategy should reduce the risk of municipalities facing a sudden significant jump in premium, thereby maintaining budget stability. JLT has been writing business with the same insurers for well over 10 years; our municipal program continues to remain strong, with only marginal increases expected for good performing accounts over the next few years.

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THE REGIONAL MUNICIPALITY OF NIAGARA

The Region of Niagara has a comprehensive insurance program that effectively transfers a significant portion of the Region's risk. The primary lines most impacted by current market conditions include:

- General Liability, including Administrative Errors and Omissions
- Property, including Boiler and Machinery
- Automobile

Insurers are not able to provide pricing more then 60 days in advance of a renewal; however we did have discussions with insurers and are able to relay the following preliminary indications.

PRELIMINARY RENEWAL ESTIMATES FOR THE REGIONAL MUNICIPALITY OF NIAGARA 2019-2020

General Liability: In 2017 QBE agreed to a 2 year rate guarantee, therefore the 2018 policy renewed at the same rate as expiring. If the Region's loss ratio remains low, the Region may see renewal terms with only a 2-3% increase.

As discussed above, the liability market for municipal business is struggling and insurers are looking for slight increases to help reduce a spike in premiums. However, JLT would advocate for the Region and work with insurers towards a zero percent increase for the 2019 term.

Umbrella Liability: No changes expected at this time. Unless losses deteriorate for underlying policies, the Region can expect premiums to remain the same as expiring terms.

Property, including Boiler & Machinery: Without taking into account losses or increases in values, the JLT program property underwriters have been looking for increases of approximately 3-5% on the overall property rate per $100. If the Region's loss ratio continues to remain below 40%, we will advocate for 'as is' rates.

As discussed during the Region's 2018 renewal, the rates for recycling facilities recently increased. This is a world-wide issue and Aviva's reinsurers applied this surcharge to all accounts with scheduled recycling facilities due to the increasing number of losses that have taken place globally.

Automobile: There was a program wide automobile rate increase in 2018 of 5% due to the increased cost of claims, which is the result of costs for both vehicle repairs and medical care continuing to increase. The Region's auto policy loss ratio was approximately 66% in 2018. Insurers typically apply increases to accounts with loss ratios in excess of 64%. The Region employs a number of effective risk management practices therefore we were able to negotiate the typical 10% increase down to 3% in 2018. If the loss ratio for this line of business remains above 40%, the Region may see up to a 10% increase. Despite the typical increases noted above, we will negotiate with insurers to obtain the best possible pricing for 2019.

Crime and Excess Crime: Crime remains to be consistent in pricing despite municipalities being a class of business that faces substantial claims from internal theft. This is an area where internal controls and risk management practices are effective means of keeping pricing stable. Unless losses deteriorate no changes are expected. If insurers do require a program wide increase, which is not expected, we may see an increase of 2-3% at most.

Councillors Accident: No changes anticipated

Environmental Impairment Liability (First Party – NRH): Unless losses deteriorate, no changes in premium are expected.

Cyber: This is a coverage that is evolving and changing at a rapid pace. Although it is not recommended to remarket an account every year, this is one policy where obtaining alternate quotes for the Region's 2019 renewal could be advantageous.

The following preliminary estimate is based on what we foresee as the worst case scenario for the Region's 2019-2020 term. JLT would negotiate with insurers to provide the Region with the best possible terms when the renewal process begins.

Policy		2017-2018		2018-2019		Preliminary Estimate 2019 - 2020
Population		*449,098*		*449,098*		*449,098*
General Liability Premium:	$	104,200	$	104,200	$	109,230
Umbrella Liability Premium:	$	28,743	$	28,743	$	28,743
Blanket Property Limit	*$*	*2,301,895,766*	*$*	*2,415,416,917*	*$*	*2,415,416,917*
Property/Boiler & Machinery Premium:	$	349,948	$	409,369	$	423,855
Automobile - Number of Vehicles		*716*		*738*		*738*
Automobile Premium:	$	178,009	$	188,571	$	207,197
EIL First Party NRH Premium:	$	17,500	$	16,995	$	16,995
Crime Premium:	$	10,000	$	10,000	$	10,000
Excess Crime Premium:	$	15,000	$	15,000	$	15,000
Councilors Accident Premium:	$	4,320	$	4,320	$	4,320
Cyber Premium at $2M	$	25,225	$	25,225	$	25,225*
Directors & Officers Premium (NEDC):	$	7,500		n/a		n/a
TOTAL PREMIUM	$	740,445	$	802,423	$	840,565
OVERALL PERCENTAGE CHANGE				8.4%		4.75%
**Additional premium for increasing Cyber limit from $2M to $5M*						*$22,400*