
Subject: Municipal Insurance Program Update and Recommendations for 2024-2025 Renewal

Report to: Corporate Services Committee

Report date: Wednesday, April 10, 2024

Recommendations

1. That Staff **BE AUTHORIZED** to negotiate a renewal with Niagara Region's existing Broker/Insurer, Marsh Canada Limited ("Marsh") on behalf of Niagara Region, Niagara Regional Police Service ("NRPS") and Niagara Regional Housing ("NRH") for an additional one year policy term for the period November 1, 2024 to November 1, 2025, and that the CAO be authorized to execute any required agreements and documentation for purposes of the extension, subject to available budget.

Key Facts

- The purpose of this report is to seek Council approval, pursuant to Section 19(a)(vi) of the Procurement By-law, to negotiate an additional one-year renewal term with Marsh to secure insurance coverage for the 2024-2025 renewal period on behalf Niagara Region, NRPS and NRH.
- A further one-year extension for the 2024-2025 renewal period will allow time for: the completion of Property Inspection and Loss Control Reports for key Niagara Region locations which will afford critical information to support future renewals; the market to further stabilize and improve capacity; and, for Staff to continue to research alternative coverage and procurement options for Council to consider for the following 2025-2026 insurance renewal period.
- In accordance with the Council approval of CSD 13-2022, Staff exercised the last one-year option to renew with Marsh for the 2023-2024 renewal period, and was able to bind coverage for Niagara Region, NRPS, and NRH commencing November 1, 2023, for similar and improved coverages compared to the previous policy term for a modest overall premium increase.
- The insurance premium for November 1, 2023 to November 1, 2024, is \$2,441,443 (inclusive of non-recoverable 8% PST where applicable) compared to the last term's premium of \$2,341,003.
- In addition, the proposed extension will give NRH the opportunity to benefit from participation in the combined insurance program with Niagara Region and NRPS for another year.

- A Confidential Appendix to this Report is provided regarding cyber coverage.

Financial Considerations

The total cost of the premium for November 1, 2023 to November 1, 2024, is \$2,441,443 (inclusive of non-recoverable 8% PST where applicable) which is within the approved 2023/2024 budgets.

Given the term of the premium, it is funded by the budgets of two fiscal years; namely the months of November and December 2023 were funded from 2023 budget and the months of January to October 2024 are funded from the 2024 budget.

The 2024 budget also includes funding for an estimated increase for the months of November and December 2024 that are part of the subsequent renewal process for the 2024-2025 term of insurance. Staff believe there is sufficient funding within the approved 2024 budget for the above noted two months. In addition, Staff believe the 2024 budget can accommodate the increases in premium that are anticipated to result from additional assets being added to the Region's property portfolio (namely the 2 new long-term care home facilities being constructed) and increased property values that may arise from the multiple Building Condition Assessment Reports and pending Property Valuations and Loss Control Reports currently underway.

The approved budget for the 2024 fiscal year is \$2,968,264 compared to \$2,418,106 for 2023, due to the factors outlined above.

Analysis

November 1, 2023 to November 1, 2024 Insurance Renewal Update

On May 19, 2022, by approval of Report CSD 13-2022, Council authorized Staff to negotiate with Niagara Region's existing Broker/Insurer, Marsh in order to secure an insurance agreement extension on behalf of Niagara Region, NRPS and NRH for up to two additional one-year policy terms, and further authorized the CAO to execute any required agreements and documentation for the purposes of the extension, subject to available budget.

For the 2023-2024 renewal, Staff worked extensively with Marsh and its insurance providers to secure favourable terms at a modest premium increase which included improved coverages and reduced deductibles for certain coverages. On October 30, 2023, Staff obtained CAO approval and was able to bind the 2023-2024 insurance

program for Niagara Region, NRPS and NRH commencing November 1, 2023, for an annual premium of \$2,441,443.48 (inclusive of non-refundable 8% PST where applicable). A Confidential Appendix to this Report is provided regarding cyber coverage.

Current Market Conditions

As reported in CSD 13-2022, the independent external consultant retained by the Region with expertise in insurance, Axxima Insurance Services (“Axxima”) noted the Region experienced difficulties with the competitive procurement of insurance which is indicative of the overall current market experience. This continues to be the case and relates directly to a “hard market” for insurance stemming from reduced available capacity, and more stringent underwriting requirements by insurers. Axxima also recommended that the Region revisit the approach it has historically taken of procuring insurance on a frequent basis and in the same manner as other services; given that the short-term savings it yielded were rapidly eroded by retained losses, pricing volatility, and diminishing coverages relative to other municipal insureds who have remained with a single carrier over a longer period.

Recent communications with insurance market experts and other comparator municipalities across the Province, including regional municipalities, confirmed they continue to experience significant challenges resulting from the volatility of the market conditions and the reduction in available insurance providers. As such they are also exercising caution in their current approach to securing insurance (e.g. longer term renewals up to 5 to 10 years to promote greater certainty and stability) and are reviewing available options and alternatives.

Reasons for Extension

In consideration of the above and Niagara Region’s experience with the most recent renewals: pursuant to Section 19(a)(vi) of the *Procurement By-law*, Staff recommends the negotiation of an additional one-year renewal term with Marsh to secure insurance coverage for the 2024-2025 renewal period on behalf Niagara Region, NRPS and NRH. Staff believe that an additional one-year renewal term would be more effective than proceeding with a competitive process at this juncture for the following reasons:

- Leveraging the certainty and stability Niagara Region is now realizing with Marsh is consistent with the advice previously provided by Axxima and the approach being taken by comparator municipalities. Although there is some indication the market is improving; capacity issues and rate increases are still being experienced across the municipal sector and other areas. The municipal market is still a difficult sector to insure due to the inherent risk complexity. In addition, due to shortage of markets and capacity issues, competitive procurement of insurance services does not necessarily result in multiple cost-efficient bid submissions. This was the case in 2020 for Niagara Region (as previously reported to Council - Confidential CSD 54-2020) and continues to be the case for other municipalities who either recently competitively procured or (if exempted from their Procurement By-Law) informally solicited insurance service quotes.
- Consistent with the direction to Staff as part of CSD 13-2022, Staff have been seeking improved data with respect to Regional assets and property; and to that end competitively procured a consultant to complete Property Inspection and Loss Control Reports for key Niagara Region locations. Given the scope and scale of the Region's asset portfolio, allowing this additional time will increase the number of assets the consultant is able to complete reports for, to enhance the Region's property data information to benefit future insurance procurement processes.
- NRH will continue to benefit from enhanced coverages and lower premiums by remaining part of the combined municipal insurance program with Niagara Region and NRPS provided the Region renews with Marsh for an additional year. This is by reason of the following:
 - HSC is a non-profit corporation that is mandated by the *Housing Services Act* to provide and manage a group insurance program for prescribed social housing providers. The HSC Group Insurance program is administered through Marsh.
 - NRH has historically sought quotes during the renewal process both as part of Niagara Region's municipal program and the HSC Group Insurance program and has found the inclusion within Niagara Region's Region municipal program to offer more favourable coverages at lower premiums (for example HSC has previously offered \$35M Property Limits vs \$300M which Staff are able to secure by renewing the Region's current municipal program with Marsh).
 - The Region's current municipal provider Marsh (formerly JLT) is also the provider under HSC Group Insurance program as noted above. Marsh (after acquiring JLT) grandfathered in the practice of including NRH when quoting for the Region's municipal insurance program. However, Marsh

recently advised that the next time Niagara Region competitively procures its municipal insurance program, it can no longer honour this practice at which point NRH may be required to seek insurance under the HSC Group Insurance program. In canvassing the market and other municipalities informally, it is Staff's understanding that outside of the HSC Group Insurance program there may only be one other provider who offers social housing coverage, but it is on a limited basis.

- The proposed strategy provides Staff additional time to continue to research other alternative coverage and procurement options for Council to consider for the 2025-2026 insurance renewal period; including but not limited to the following:
 - Options being canvassed by the risk management working group under the Local Authority Services (LAS) Working Group created by AMO which is conducting a feasibility study on alternative insurance offerings for municipalities, including joint procurement, reciprocal, captive and an insurance pool. Staff participates in this risk management working group which meets quarterly. Staff understand that an update regarding the feasibility study and next steps is being targeted for later in Q1 2024.
 - Consideration of the potential benefits of shifting the annual insurance renewal date from November 1 to January 1 to harness greater market capacity.
 - Assessment of the option of consolidation of the Niagara Transit Commission (NTC) insurance program with the municipal insurance program (as to whether it is an approach that staff would recommend the consideration of NTC and the Region). A consolidation could entice certain markets to quote on transit if they are also quoting on the municipal insurance program given that insurers are less likely to take on a new stand-alone transit account due to its risk profile if they are not already insuring the municipal program. Given the recency of the NTC assuming operational responsibility for transit (effective January 1, 2023) and the lack of substantive claims history (pre-consolidation) to draw upon, Staff recommend additional time to review this.
 - Alternative non-binding or multi-phased competitive processes such as Request for Prequalification to allow Broker/Insurers greater flexibility to secure a municipal insurance program for Niagara Region without having to tie up or block multiple markets; or, the use of a negotiated RFP process that incorporates best and final offer (BAFO) approach.

- Revisiting duration of contract for risk and insurance services, for example a term of 5 years or more noting that the general consensus of comparator municipalities canvassed by Staff is that most procure for a minimum of 5 years or longer.

Subject to Council approval of this Report, Staff will seek the renewal with Marsh for the 2024-2025 term, subject to available budget, and will continue to undertake research and necessary steps as outlined above and report back to Council on options for future renewals targeting Q1 2025.

Alternatives Reviewed

Staff reviewed the option of commencing a competitive procurement process in 2024. However, due the reasons outlined above, including the previous consultant report, prevailing market conditions and the favourable negotiated renewal terms experienced by the Region in 2022-2023 and 2023-2024, Staff does not recommend proceeding with a competitive process for the 2024-2025 renewal term at this time.

Relationship to Council Strategic Priorities

Niagara Region's insurance program placement for 2023-2024 and Staff's recommendation to negotiate an additional one year renewal with the current provider is consistent with Council's 2023-2026 strategic priority focus on Effective Region by delivering fiscally responsible and sustainable services.

Other Pertinent Reports

- CSD 13-2022 dated May 11, 2022 – Insurance Program Review and Options for 2022-2023 Insurance Renewal
- CSD 19-2023 dated April 5, 2023 – Municipal Insurance Program Renewal Update

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Appendices

Appendix 1 – Confidential Update regarding Cyber Coverage