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Council-In-Committee Meeting – December 14, 2021

Subject:	Insurance Program Renewal for 2022
Report Number:	CS 21-72
Division:	Corporate Services
Department:	Financial Management and Planning
Purpose:	For Decision

Executive Summary:

On July 20, 2021, staff presented report No. CS 21-39, which provided an update on the current state of the insurance market and obtained council approval for Norfolk County to extend its agreement with Intact Public Entities Inc. (Frank Cowan Company Limited) for 2022 in accordance with RFP ECS-CSS-18-02. Subject to the annual renewal report presented to Council in December 2021.

The purpose of this report is to present and advise Council on anticipated costs relating to the 2022 Insurance Program Renewal with Intact Public Entities Inc. (Frank Cowan Company Limited). Norfolk County's general insurance program operates on an annual basis, which is renewable on January 1st of each year.

Discussion:

On November 19, 2021, Intact Public Entities Inc. presented the renewal program to staff and advised that the 2022 total annualized premium renewal for Norfolk County, would be approximately $2,287,400 plus applicable taxes. The 2022 premium renewal presented does not include Cyber Coverage at this time. The 2022 insurance premium represents a 26.7% increase from the 2021 premiums paid.

In Schedule A, a year-to-year pricing breakdown by policy type, with the same deductible levels as in 2021, has been provided for review.

Market Trends

The worldwide insurance industry is under pressure to significantly increase premiums and the municipal insurance market is experiencing the effect. The insurance industry is currently experiencing a hardened market, typically characterized by a decreased availability of insurance, increased premium costs, and a reduction in coverage provided by insurers. Under normal conditions, a hard insurance market will typically last for approximately 1-3 years; however, a combination of the ongoing pandemic remediation measures, costs of claims, and lower investment income returns have drawn out this hard insurance market. Some industry experts expect this hard market to last until at least the end of 2022. Over the past five decades, there have been four hard markets: one in the 70's, mid 80's, early 2000's, and the one we are in right now. It had been 15 years since the last hard market, the consensus was that it was overdue.

Municipalities throughout Ontario continue to face significant increases in the cost of insurance. Increased losses across the insurance industry are seeing municipalities being hit with double-digit rate increases in their premiums, especially across Ontario. There are several factors contributing to this, however, the primary reasons are: (1) rising claim costs, (2) reduced capacity to write municipal policies, (3) increased reinsurance renewal rates.

Rising claims costs continue to have an impact on the insurance industry. Climate change has increased the frequency and severity of catastrophic property losses. An increasingly litigious society has also resulted in a higher frequency of liability claims being made, and we are seeing larger court awards than ever before. Severe bodily injury claims have increased dramatically over the last 10 years. Claims that may have settled for 5 million 10 years ago, now settle for 12-18 million driven by costs of providing future care for catastrophically injured plaintiffs. Regardless if a municipality is impacted directly, the substantial escalation in cost of claims has increased both property insurance and reinsurance rates worldwide.

Accessing adequate capacity is becoming increasingly hard across Canada. The County's insurance program is complex due to the County's size, scale, diversity in operations, and scope of risk, which limits insurers with the capacity, ability, and interest in insuring the County's risks. As a result, municipalities have limited insurance markets from which to obtain insurance.

Cyber liability claims have risen dramatically in the last 3 years. It is anticipated that these claims will continue to grow at an exponential rate. As a result, Cyber Liability coverage is becoming more difficult to obtain, especially for municipalities. Cyber quotations for 2022 are not currently available due to the rapidly changing and contracting cyber market. Staff has been advised by Intact Public Entities Inc. that a Cyber Coverage quote can hopefully be provided in late 2021.

In assessing the current market conditions and the County's overall position at renewal, staff has conducted market research to assess the impact of the current hard market on other municipalities. Our research has not identified a single municipality that was able to avoid a double-digit premium increase at renewal. This market research yielded that the County's premium increase was comparable to many other municipalities. Many municipalities also experienced a significant increase in their 2022 insurance premiums. This resulted in some municipalities having difficulty securing insurance coverage and/or opting to increase their deductibles.

The results of some of our market research is as follows: Oxford County experienced a 31% increase after going to market in 2021 and only receiving 1 bid. Municipality A experienced a 40% increase on renewal. Municipality B experienced a 21% increase even after increasing to a $1,000,000 Self-Insured Retention. One municipality in Ontario had to self-insure after going to market in 2021 and receiving zero bids. Thus, this helps provide some insight into the challenging insurance market within the municipal sector.

Municipal Liability

Under the Casualty Policy, Municipal Liability premiums have increased by $402,030, or approximately 31.2%. This is primarily due to several past and present liability claims against the County, dating as far back as 2011. Municipal liability claims continue to be a factor in rising insurance premiums. The long-tail nature of these claims and escalating frequency of joint and several liability claims continue to increase our exposure. With joint & several liability, there need only be a finding of 1% negligence against a defendant to result in that defendant being liable for a claimant's damages. As a result, this encourages claimants to target so-called "deep pocket" defendants, such as municipalities. This is particularly an issue in motor vehicle accidents whereby the municipality is drawn into a claim with allegations of negligent road design or maintenance.

Damage award settlements within Ontario continue to increase & the courts continue to view municipalities as "deep pockets" in litigation.

Property

Norfolk County insures assets totaling approximately $294,476,830, including buildings, structures, and contents. Additionally, the Property Policy further insures any unlicensed vehicles which are not covered under the Automobile Policy. The Property Policy has increased by $33,493 or approximately 13.5%. The claims costs and climate change has influenced the property insurance industry.

Auto

The County insures its licensed vehicles under one blanket policy, covering all risks. Staff report all changes to the County's insurer, to make sure that all assets and vehicles have current and appropriate coverage, for both first party losses and liability exposures. The Auto policy saw an increase of approximately $18,671, or approximately 15%.

Deductible Options:

An Actuarial Review was completed in 2020 on the County's Self Insurance Reserve Fund with the outcome showing it to be adequate for the current deductible levels. In order to canvass potential premium savings, staff requested additional quotes from Intact Public Entities Inc. at various deductible levels for the 3 main coverages of

Liability, Property, & Auto. No significant savings were identified as a result of additional deductible changes.

Financial Services Comments:

Based on the information presented in this report, as well as the recommendations approved through the 2020 actuarial study, a total increase in 2022 of approximately $696,300, or 23.1%, is projected for the 2022 Risk Management Services budget.

The primary budget drivers can be summarized as follows:

1) Insurance Premiums: +$555,100
2) Insurance Deductibles: +$29,100 (per actuarial study recommendations in keeping with "Best Estimate" funding levels)
3) Reserve Fund transfer: +$100,000
4) Net Administrative Cost Changes: +$12,100

The actual increase in premiums as presented in Schedule A over 2021 budgeted numbers (including tax impacts) is $503,000 (26.1%) which includes a 0% change in Cyber Coverage (status quo is $22,800). Due to the uncertainty around the Cyber Insurance component, and based on an overview of market trends provided by Risk Management staff, the recommendation is to include a conservative 100% increase in budgeted premiums for Cyber Coverage ($49,200 including tax impacts) in anticipation of higher rates being confirmed before the end of 2021. This would make the overall Premiums budgeted in 2022 $2,483,700 (including applicable taxes) which represents an increase of $555,100 over 2021 budgeted numbers or 28.8%.

Consistent with the multi-year recommendations provided within the actuarial study analysis completed in 2020 as shared in report CS 20-12: Actuarial Review of Self Insurance Reserve Funds, optimal premium levels would be achieved by using the "Best Estimate" line as presented. Based on this guidance, Financial Services staff are recommending net insurance deductibles increase to $610,300 from $581,200 in 2021, which is a 5% increase of $29,100. Similarly, Reserve Fund Transfers are recommended to increase by $100,000 based on the same actuarial study findings.

Premium reductions would need to be well in excess of the required deductible level increases for the decision to make prudent financial sense, as the risk profile of the County is increasing when deductible levels are increased. Staff reviewed the financial implications of adjusting the deductible levels for 2022, and no significant savings were identified, therefore no change is being recommended from current levels.

Interdepartmental Implications:

The provision of General Insurance and Risk Management Services provides coverage to the whole Corporation and each division/department is allocated a proportionate cost for insurance premiums related to their respective business area(s). Every department must review the programs and operations; assess exposures; as well as determine which areas can be improved upon. Departments continue to review operational processes in order to improve the County's defence against municipal liability claims.

Consultation(s):

The Chief Administrative Officer, Corporate Services General Manager, & Director of Financial Management and Planning were consulted in the writing of this report.

Strategic Plan Linkage:

This report aligns with the 2019-2022 Council Strategic Priority "Build Solid Foundations".

Explanation:

Norfolk County's insurance portfolio supports long-term financial sustainability and fiscal responsibility by providing protection against financial loss of assets including buildings, structures, contents, equipment, and vehicles. Insurance also provides protection for negligent acts attributed to employees, Council Members, volunteer firefighters, and volunteers while conducting their activities as directed by Norfolk County.

Conclusion:

Intact Public Entities Inc. continues to consistently provide, alongside their insurance program, exceptional customer service for insurance claims services, risk management services, contract reviews, and annual facility inspections on both new and existing assets. Additionally, they continue to offer educational resources and workshops, which can be utilized by Norfolk County at no additional costs.

Staff will continue to work with each department to identify loss exposures, review procedures, and make recommendations to lower the County's overall risk. Staff will continually track and review claims with Intact Public Entities Inc. to identify ways to mitigate future losses.

Staff are recommending that Norfolk County execute a contract with Intact Public Entities Inc. for the 2022 Insurance Premium of $2,287,400 plus applicable taxes.

Recommendation(s):

THAT Staff Report CS 21-72 Insurance Program Renewal for 2022 be received as information;

AND THAT the General Manager, Corporate Services be authorized to execute the necessary documents with Intact Public Entities Inc. for the 2022 Insurance Program Renewal in the amount of $2,287,400 plus applicable taxes.

Attachment(s):

None

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Cost Analysis Schedule A

Casualty	2021 Premium	2022 Premium	% Increase
General Liability	1,157,088	1,504,217	30
Errors & Omissions Liability	54,127	86,603	60
Non-owned Automobile Liability	600	630	5
Environmental Liability	62,274	84,070	35
Crime	3,117	3,210	3
Board Members Accident	744	781	5
Volunteers' Accident	500	525	5
Conflict of Interest	780	819	5
Legal Expense	8,091	8,496	5
Facility User	8,000	8,000	0
Property			
Property	248,896	282,389	13.5
Equipment Breakdown	12,050	12,291	2
Property – OCWA	16,484	19,173	16
Equipment Breakdown – OCWA	2,713	3,767	39
Automobile			
Owned Automobile	124,476	143,147	15
Excess			
Excess Liability	81,868	104,982	28
Aviation			
Remotely Piloted Aircraft Systems	1,400	1,550	10.7
Cyber	22,750	Currently Unavailable	
Total Annual Premium (excluding taxes)	1,805,958	2,264,650	26.7