

To: Warden and Members of County Council

From: Director of Corporate Services

2023 Insurance Program

RECOMMENDATION

1. That County Council approve the 2023 Insurance Program proposed by Intact Public Entities at a base premium rate of \$2,181,960 plus applicable taxes.

REPORT HIGHLIGHTS

- Proposed 2023 premium - \$2,181,960 (\$1,846,398 revised premium – 2022)
 - increase of \$335,562 (18.2%) over 2022

Implementation Points

Upon Council approval, the 2023 insurance program takes effect January 1, 2023.

Financial Impact







The proposed insurance premiums are included in the 2023 draft budget representing an increase of \$335,562 compared to the 2022 premium – representing a levy increase of 0.6%.

Due to the ongoing economic uncertainty, staff are not recommending any insurance program changes for 2023.

Communications

County staff will work with Intact Public Entities to confirm all property and vehicle listings prior to the effective date of the insurance policy, January 1, 2023.

Strategic Plan (2020-2022)

| | | | | | |
|---|---|---|---|---|---|
|  |  |  |  |  |  |
| WORKS WELL TOGETHER | WELL CONNECTED | SHAPES THE FUTURE | INFORMS & ENGAGES | PERFORMS & DELIVERS | POSITIVE IMPACT |
| | | | | 5.ii. | |

DISCUSSION

Background

On September 20, 2021 a Request for Proposal was issued by the County for the provision of Insurance and Risk Management Services, and only one submission, from Intact Public Entities, was received. Two plan takers issued letters to the County of no bid. There continues to be a lack of interest from insurers to take on municipal risk. The County's insurance program was awarded to Intact Public Entities on the basis of their Request for Proposal submission for a one year term, January 1, 2022 to January 2, 2023, with the option to renew for each subsequent year, based on satisfactory performance and service.

Table 1 below provides the coverage limits and deductibles for the current and renewing program.

Table 1 – Schedule of Coverage

| Schedule of Coverage | Coverage Limit | Deductible |
|------------------------------|----------------|------------|
| General liability | \$15,000,000 | \$50,000 |
| Follow form excess liability | 10,000,000 | 0 |
| Errors & omissions | 15,000,000 | 50,000 |
| Non-owned auto | 15,000,000 | 500 |
| Environmental liability | 3,000,000 | 50,000 |
| Crime | 1,000,000 | 0 |
| Councillors' accident | 250,000 | 0 |
| Legal expense | 100,000 | 0 |
| Property insurance | 559,362,002 | 50,000 |
| Automobile | 15,000,000 | 25,000 |

The cost of premiums to maintain these coverages has significantly increased by 18.2% and quantified at \$335,562 over the previous year (2022 – 31.2% increase at \$436,276).

Table 2 provides percentages for the last six-year period upon renewal.

Table 2 – Revised Premium

| Coverage Year | Increase/Decrease % |
|----------------------|----------------------------|
| 2017 | -2.63% |
| 2018 | 4.52% |
| 2019 | 3.50% |
| 2020 | 12.5% |
| 2021 | 31.2% |
| 2022 | 18.17% |

Significant premium increases in the municipal sector are being experienced province wide, largely due to increased claims activity compounded by an unstable economy due to the pandemic and other economic factors, constraining growth in insurance pools. This is the case with insurance markets and syndicates as a whole, because both public and private sectors' claims contribute to the volatile liability insurance market. In addition, there are several non-pandemic related drivers contributing to the escalating cost of claims, such as climate change and weather events, joint and several liability, apportionment of liability (1% rule), class actions, cybersecurity, damage awards and future care costs. Regardless of whether these losses have impacted a municipality directly, the substantial escalation in the cost of claims to insurers and their syndicates heavily impacts the rates.

When the Province uploaded social housing to the 47 designated Service Managers across Ontario, the Social Housing Services Corporation (SHSC) was established pursuant to the *Social Housing Reform Act*, 2000. Subsequently, this legislation was replaced with the Housing Services Act in 2011 and the SHSC was renamed the Housing Services Corporation (HSC). The HSC is an independent non-profit corporation that offers programs and services for social housing providers, such as natural gas purchasing, insurance coverage, business solutions, and financial services.

HSC's insurance brokerage services are conducted through HSC Insurance Inc., a fully owned subsidiary of Housing Services Corporation, and as such, the County is required to obtain a quote each year from HSC-Marsh. In prior years, the quotes obtained from HSC-Marsh have been more than the County's primary insurance carrier. The County then opts out of obtaining insurance from HSC-Marsh, subject to a fee and confirmation of our insurance being forwarded to HSC by our primary carrier.

Although Intact Public Entities (IPE) is phasing out providing insurance to independent Housing Corporations for the 2023 term, they have endeavored to retain housing portfolios where those

operations are part of an existing municipal client's operations. As such, the County is not affected by this change. However, the housing portion of the renewal quote from IPE is significantly inflated over prior years.

Table 3 provides the premium for HSC and IPE for the last three terms and current.

Table 3 – Social Housing Premium

| Coverage Year | HSC Premium | IPE Premium | HSC Opt Out Fee | Difference in Premium |
|----------------------|--------------------|--------------------|------------------------|------------------------------|
| 2020 | \$121,083.93 | \$77,149.00 | \$1,928.73 | \$42,006.20 |
| 2021 | 127,500.52 | 90,235.00 | 2,226.53 | 35,038.99 |
| 2022 | 157,157.46 | 119,784.00 | 2,912.80 | 34,460.66 |
| 2023 | 170,934.00 | 246,018.00 | 6,150.45 | 75,084.00 |

Table 4 provides a comparison of the two programs, including premium, coverages, limits and deductibles.

Table 4 – 2023 Housing Coverage Comparison

| Coverage | Limit | Deductible | Premium | Limit | Deductible | Premium |
|-----------------------------|------------------------|------------|-----------|-------------|------------|-----------|
| | Intact Public Entities | | | HSC- Marsh | | |
| General Liability | \$15,000,000 | \$50,000 | \$32,791 | \$2,000,000 | \$25,000 | \$1,097 |
| Excess Liability | 10,000,000 | 0 | Included | 3,000,000 | 10,000 | 1,464 |
| E & O | 15,000,000 | 50,000 | Included | Not Insured | | |
| Non-owned Auto | 15,000,000 | 500 | Included | Not Insured | | |
| Environmental Liability | 3,000,000 | 50,000 | Included | Not Insured | | |
| Crime | 1,000,000 | 0 | 453 | 250,000 | 0 | 1,641 |
| Councillors' Accident | 250,000 | 0 | Included | Not Insured | | |
| Legal Expense | 100,000 | 0 | Included | Not Insured | | |
| Equipment Breakdown | 100,000,000 | 10,000 | 1,997 | 50,000,000 | 25,000 | 1,323 |
| Property Insurance | 559,362,002 | 50,000 | 210,777 | 94,045,057 | 25,000 | 73,200 |
| Contribution to Claims Fund | Not Applicable | | | 92,210 | | |
| Total Premium | | | \$246,018 | | | \$170,935 |

The coverage and limits offered by IPE extend to the Housing portfolio, ensuring that the County has consistent coverage limits for all operations. The program offered by HSC-Marsh is not as comprehensive as that offered by IPE.

HSC requires that its policy holders pay a fixed amount each year into an insurance claims fund. Based on the quote, the County's contribution for the 2023 term would be \$92,210. This fund is designed to pool insurance claims costs by similar policyholders and would be subject to adjustment at the end of the policy term for the next renewal year. There is significant implications to a pooled insurance structure, in that it is subject to inflationary trends, target loss ratios and financially contributing to the cost of various risks that would not ordinarily effect the County.

The County's current loss ratio is around 16%, which is considered not only reasonable, but healthy by insurers. There would be no benefit, given our history to paying into the risk of others. Claims funds more or less lighten the burden on those with less than favourable loss ratios and claims costs.

Even though the County's loss ratio is in good standing, the housing portfolio has generated claims in recent years. Claims handling in this portfolio can present its own unique challenges, and we rely on a preferred independent insurance adjuster to ensure effectiveness. One of the criteria in the Request for Proposal last renewal term was the ability for the County to elect to use a preferred adjuster. The claims handling philosophy and procedures can directly impact not only staff resources, but the over-all insurance claim cost, which can then further contribute to premium increase.

The County's Insurance Program is managed solely by the Director of Corporate Services and designate, Coordinator of Legislative Services. The program not only consists of the large claims administration, but management of self-insured claims for those that do not meet the deductible threshold. Working with two different managing general agents could pose various administrative challenges and inefficiencies going forward, which are not necessarily known at this time.

Comments

The County's efforts to mitigate risks, based on a Risk Management Policy which establishes clear standards for planning and implementation of prudent practices across the County's business activities, all of which have proven effective in maintaining a comparatively good claims history. This has historically kept the County's premiums under a 5% increase year over year, until 2020 in which case the affects of the volatile market began effecting our premium.

In spite of the County's claims experience maintaining a steady trend of claims frequency, on the basis of its sound risk management, insurance claims management and reserve policies, the County's insurance program costs in the last four years have significantly inclined. The global insurance industry has been facing significant premium increases beginning in late 2019, which demonstrates we are in a hard market and experts in the field are predicting it will last well into 2023, notwithstanding the impacts of the pandemic and economy.

Table 5 provides a five-year summary of the types and number of insurance claims experienced each year.

Table 5 – Number of Insurance Claims per year

| Claim Type | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|----------|----------|----------|----------|----------|
| Liability | 1 | 5 | 5 | 2 | 4 |
| Environmental Liability | 1 | 1 | 0 | 1 | 0 |
| Professional Liability | 0 | 0 | 0 | 1 | 0 |
| Property | 1 | 2 | 1 | 0 | 0 |
| Auto | 1 | 0 | 0 | 0 | 0 |
| Legal Expense | 2 | 0 | 0 | 0 | 0 |
| Crime | 0 | 0 | 0 | 1 | 0 |
| TOTAL | 6 | 8 | 6 | 5 | 4 |

Although the County's claims frequency remains unchanged, there have been a few larger claims recently experienced under the Liability, Environmental Liability and Property policies. In speaking with the County's insurer they are not able to provide the quantum of the premium increase that relates to the hardened market versus the increased claims cost due to the actuarial approach used to determining premiums. However, in speaking with other municipalities regarding their 2023 renewal increases, it is apparent that we are not alone in facing another substantial increase this year. A total of nine other surveyed municipalities of similar size, increases are being experienced between 4.8% to 33%, with eight of them receiving at least a 12% percent increase. On that basis, it would appear that the significant increase is largely due to the hardened market and inflationary costs, for which we have no control over.

Table 6 provides a year over year comparison of premium increases by line of coverage indicating that the premium increase for Environmental Liability received the most significant increase in 2021 while the 2022 increase is predominantly in Environmental Liability, Property and Automobile coverages.

Table 6– Primary Areas of Increase

| Coverage | 2022 Premium | 2023 Premium | 2023 Inc % | 2022 Inc % |
|-------------------------|--------------|--------------|------------|------------|
| General Liability | \$ 1,195,626 | \$ 1,282,635 | 7.3% | 32.5% |
| Environmental Liability | 73,618 | 97,591 | 32.6 | 14.9 |
| Property | 355,058 | 557,147 | 56.9 | 24.6 |
| Automobile | 87,629 | 100,960 | 15.3 | 4.2 |
| Legal | 5,423 | 5,807 | 7.1 | 10.0 |
| Error & Omissions | 35,269 | 37,032 | 5.0 | 14.9 |

The increase in the Environmental Liability premium is due to a previous claim, however the increases to property and automobile premiums are largely due to factors outside of our control. More specifically, an inflation rate of 11% was applied this renewal term to our total insured value (TIV) of property, which has caused the significant increase in the property premium. The 15% increase to the automotive policy was also imposed to all policy holders, for the overall regulated rates.

Conclusions

Staff are recommending renewal of the County's 2023 Insurance Program, including housing, with Intact Public Entities for a one-year term from January 1, 2023 to January 2, 2024, with the option to renew for each subsequent year, based on satisfactory performance and service.

SIGNATURES

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