
HALDIMAND COUNTY

Report LSS-18-2020 General Insurance Renewal – 2021

For Consideration by Council in Committee on December 8, 2020



OBJECTIVE:

To renew the County's General Insurance Program for 2021.

RECOMMENDATIONS:

1. THAT Report LSS-18-2020 General Insurance Renewal – 2021 be received;
2. AND THAT the 2021 insurance policies and premiums proposed by Marsh Canada and Arthur J. Gallagher Canada Ltd. be approved as follows:
 - a. General Insurance Program, including liability, automobile, property, cyber and volunteer accident policies, at a cost of \$542,331, plus applicable taxes, taking into consideration any necessary adjustments for additions/deletions of assets included in the Automobile and Property policies and confirmation of final price for the Property policy occurring before January 1, 2021;
 - b. The Community Hall Boards' Liability Insurance Policy, at a cost of \$12,000, plus applicable taxes;
 - c. The Recreation Affiliates Policy, at a cost of \$2,400, plus applicable taxes, subject to the agreement of the current recreation affiliate organizations, Dunnville Soccer Park Corporation and Haldimand Youth Soccer, with the two organizations; contributions to this policy premium capped at the amount of \$550 each;
3. AND THAT the 2021 Closed Landfill Policy be renewed with Marsh Canada and Arthur J. Gallagher Canada Ltd. at a premium cost of \$19,637, plus applicable taxes, conditional on the approval of and cost sharing with Norfolk County as joint owners.
4. AND THAT staff conduct a review of options related to the General Insurance Program as outlined in Report LSS-18-2020, and report back to Council by the end of the 2nd quarter, 2021 with recommendations.

Prepared by: Michelle Brandt, Supervisor, Risk Management & Legal Services

Reviewed by: Lori Friesen, Manager of Legal and Support Services

Respectfully submitted: Cathy Case, General Manager of Corporate & Social Services

Approved: Craig Manley, MCIP, RPP, Chief Administrative Officer

EXECUTIVE SUMMARY:

Staff recommend renewal of the 2021 General Insurance Program with Arthur J. Gallagher Canada Limited and Marsh Canada Ltd. at a cost of approximately \$556,731 (including taxes). Staff further recommend renewal of the 2021 Joint Landfills Policy, subject to Norfolk County's approval of the policy and cost sharing of the approximate \$19,637 (including taxes) annual premium. The details of the proposed 2021 insurance policies are discussed further in the body of this report.

BACKGROUND:

Haldimand County's General Insurance Program consists of its self insurance program and its external insurance program. The general insurance program operates on an annual basis, which is renewable on January 1st. Within the General Insurance Program, there are multiple lines of coverage under a number of policies, covering typical municipal insurable risks, which are common to municipal programs. The program and this report do not address any Council/employee benefits insurance coverage, which are insured separately and administered through the Human Resources Division.

Funds are allocated annually to the self insurance program to cover the costs of investigation, defense and settlement of all claims falling below the deductible levels, as well as paying the respective deductibles on all claims exceeding these levels. The external insurance program provides coverage for County claims that exceed the current deductible levels, which is the subject of this report. Specific information regarding the deductibles by policy type are included in Attachment 2.

In 2016, Haldimand County issued a Request for Proposal (RFP) for the General Insurance Program, the results of which were reported in CS-SS-23-2016. Per Council's approval, the General Insurance Program's contract was awarded to Pearson Dunn Insurance Inc., as the broker, and Jardine Lloyd Thompson Canada Inc. (JLT) as the insurer, commencing on January 1, 2017. Since that time, Pearson Dunn Insurance Inc. has become Arthur J. Gallagher Canada Ltd. and JLT has been purchased by and is now known as Marsh Canada Ltd. For the purposes of this report, all references to both entities will be made with their new names, recognizing their former names precede a certain date. The award of the RFP stipulated a five year term with the option of five additional one year renewals, pending annual approval of the updated premium. The 2021 policy year represents the fifth year of the initial five-year contract term.

The 2021 renewal process has been subject to a number of challenges. On a global scale, commercial insurance prices have risen 19% in the second quarter of 2020, which represented the eleventh consecutive quarter of price increases. On the property side, insurers have been heavily focused on reducing volatility and achieving a sustainable level of profitability, which has resulted in insurers reducing the amount of capacity offered to any one customer or any one risk. In the casualty market (liability) there has been a shift from growth-focused markets driven by capacity to analytical marketplaces, focused on reducing loss volatility. Essentially this represents a hardening of the markets. With these changes in the global insurance markets and the ongoing COVID-19 pandemic, Haldimand County has, along with many other municipal entities, seen a substantial delay in the response for its municipal program renewal. The delays have affected staff's ability to review and coordinate with the broker and insurer in the timelines that have been attained in previous years. A portion of the municipal program had to be marketed as existing underwriters in these markets are no longer providing coverage. Further, COVID-19 has resulted in a market review of medical malpractice liability coverage and a confirmation of the wording and exclusions in existing coverages for communicable diseases.

Staff have been engaged in ongoing discussions with representatives from Gallagher and Marsh to review the proposed 2021 insurance renewal, as well as the concerns and changes mentioned above, in order to determine what deviations from the typical insurance program we would see for the 2021 policy term. It has been communicated to Haldimand County that the proposal being submitted is reflective of insurance market conditions and not representative of the County's claims (loss) experience, as they have been extremely favourable. By municipal standards, Haldimand County is seen as a model municipality in terms of its loss experience. Although the increases noted below represent, to a very large extent, changes that are beyond the control of the municipality, further details on the options available to Haldimand County are also outlined below.

ANALYSIS:

Current Program:

General Insurance Program

Table 1 outlined within the Financial/Legal Implications section of this report, breaks down the cost of the County's General Insurance Program and compares the 2020 premiums to the proposed 2021 renewal premiums, with the Joint Landfill Sites Policy shown separately. The premiums for the 2021 General Insurance Program – including liability, automobile, crime, cyber, property, community hall boards' liability and recreation affiliates policies – total \$556,731, plus applicable provincial sales tax. In comparison to the 2020 premiums, this represents a net increase of 21.8% or \$97,031, plus tax.

Outlined below are the details of the changes in the different lines of coverage. The data confirms that the savings Haldimand County achieved through the soft market in previous renewal years, has in essence, compensated for the hardening of the market and upward pricing trends of the 2020 and 2021 renewals. This provides some insight to the insurance sector's assertion that they are going through a 'market correction'.

i. General Liability Insurance

General Liability applies primarily to liability related to property damage and bodily injury to third parties. The policy includes a number of extensions of coverage and endorsements, such as Errors & Omissions Liability, Environmental Liability, Employers' Liability, Employee Benefits Liability, Wrongful Dismissal, Conflict of Interest and Legal Expense Reimbursement, Non-Owned Automobile coverage, as well as other smaller lines. Table 1 outlines the proposed premium increase for 2021 as \$76,279, which represents an approximate 24% overall increase from the previous year. The increase includes a 2.5% credit as a result of a mandatory change to a \$100,000 deductible from the current \$25,000 deductible on Errors & Omissions coverage contained within the General Liability line of coverage. Additionally, new exclusions and restrictions for 2021 include a sublimit of \$1 million for Communicable Diseases and all health care facilities and long term care facilities have a total exclusion from the new policy. The County is awaiting clarification on the new exclusion clauses removing Directors & Officers (D&O) Liability. As D&O coverage is considered necessary to protect certain municipal boards, there may be a need to procure a stand-alone policy as a result of this particular change. Staff will provide an update to Council if an additional policy is required. Further updates to the policy wording includes removal of items not previously clarified (such as an exclusion of cyber coverage, as that coverage has been a stand-alone policy since 2018).

ii. Umbrella Coverage

The County's General Liability Coverage is for \$5 million. With the increased costs of jury awards related to auto and general liability exposures, which can sometimes exceed \$5 million, it is important that the County retain Umbrella Coverage. This Coverage provides an additional layer of insurance; so if the main policy is exceeded, then the Umbrella Coverage is triggered. The total increase to Umbrella Coverage is 25%, bringing the premium to \$20,288 plus taxes.

There is a decline in the number of umbrella carriers and it has become increasingly difficult to obtain through one market. Underwriters are increasingly unwilling to cover large policies and the bulk of risk associated with losses that exceed the main policy. For 2021, the Umbrella Coverage is provided through a layered approach. If the main policy is exceeded and the first layer of Umbrella Coverage is exceeded (\$20 million), then the second layer of Umbrella coverage (\$25 million) would be triggered. Ultimately, we have the same \$45 million coverage as the 2020 insurance policy, however the risk is shared by multiple markets.

iii. Medical Malpractice Liability – EMS Professional Liability

As noted in the 2020 renewal, the Medical Malpractice Liability policy is provided as a separate and stand-alone policy from the Municipal Insurance Program. This type of insurance provides coverage for the risks associated with various employees of the County that may provide services to the public related to healthcare, for example: paramedics, personal support workers, firefighters, registered practical nurses, etc. The limits of coverage are currently set at \$10,000,000 and are subject to an increase of the deductible to \$50,000 from \$25,000. Although the County has been able to maintain zero losses in the 2020 policy term, Marsh has noted that the insurance sector has been undergoing a full market review of medical malpractice insurance, taking into consideration this past year's global events. As with the property policy, due to the current volatility of the market, the terms of renewal for this coverage are noted as subject to change upon review by the Insurer; however, the 2021 renewal premium is being provided at a 10% increase from the 2020 premium, at \$31,064 plus applicable taxes. Of note to the coverage is a new exclusion of communicable diseases to a sublimit of \$1 million, as is noted in the General Liability policy. Although staff have not yet seen the wording on this exclusion, it is understood that any losses arising due to COVID for example, would only be covered up to \$1 million. This coverage does not apply to any COVID or Communicable disease claim originating from health care facilities or long term care facilities including any staff that are working these areas that may transmit to patients, residents, or clients within these facilities. We are waiting on clarification from the insurer to confirm this understanding.

iv. Property Insurance

Property-related coverage applies to physical damage and machinery breakdown. This coverage applies to properties of every description (POED), meaning a list of all properties a municipality owns; with the property value updated on a biannual basis, based upon construction costs attributed to those properties (including contents and equipment in most cases). The limits of loss in property to date have always applied to a blanket limit of coverage. In 2020, that limit was applied to the total insurable value of just over \$448,500,000 for Haldimand County POED; the 2021 renewal increases that value to roughly \$454,000,000 or 1.2%. In terms of underwriting property risk, the proportional share of coverage has been historically realized through two markets to make up the 100% coverage. One of the markets has reported an average of 15 - 20% rate increases to their municipal accounts in the Ontario markets, a response from the other market remains outstanding; meaning, staff have not yet received a final renewal rate for the property policy.

Additionally, Marsh has confirmed that any property policy will be written on a "limit of loss" basis, which means that blanket coverage of the total value of the loss is no longer available and that the limit will only apply to a maximum of \$100 million. Staff are investigating and working with Gallagher and Marsh to realize the potential to reduce the POED limits and allow the loss of limits to be raised back up to \$400 million, the results of which will be reported back to Council in a subsequent report.

Factoring in the increase of property asset values, and a 2% inflationary increase, the Property premiums are noted as \$255,550, plus applicable taxes, representing a 31% increase from the previous year's premiums. Although we are provided with renewal terms for property, the underwriting discussions on property are noted as being subject to change and will not be confirmed until prior to December 25, 2020. In the absence of these final numbers at this time, it is recommended that the County agree to bind coverage to ensure continuance of insurance coverage past January 1, 2021. Following January 1st, the County has the ability to make any changes on a pro-rated basis and any changes would be reflected retroactively to January 1st. The current deductible for property coverage is \$50,000 and we are expecting to receive an outline of where increases to the deductible might realize a savings in premiums, if at all.

v. Automobile Insurance

Total insurable fleet licenced vehicles increased from 197 to 208 units. The premium changes per unit represents a 4% increase, totalling \$134,550, plus taxes for 2021.

vi. Cyber Insurance

Cyber liability coverage was put into place as a stand-alone program in 2018 reflecting the growing trend of cyber risk to municipalities. Cyber breaches, cybersecurity matters and ransomware are becoming more commonplace and underwriters are realizing the losses associated with this type of risk, which is unfortunately only expected to grow. Coverage differs slightly from other lines of coverage in the sense that, in addition to incident response, a more proactive service is also included in the premium costs, which is an asset to a municipality in the event of a cyber incident concern. This includes risk management and mitigation processes, conducting risk analysis and gap analysis of current use of technologies, to name a few. Based on the steadily increasing rates in cyber, the proposed premium of \$21,600, or 17% increase overall, is considered an acceptable increase for the level of service provided.

vii. Municipal Volunteers' Accident Benefit Policy

Council approved the addition of the Municipal Volunteers' Accident Benefits Policy to the County's insurance program in 2018. As with 2020, there is no longer an age restriction for this line of coverage and the premium of \$1,000, plus tax remains unchanged since 2019.

viii. Recreation Affiliates Insurance

The Recreation Affiliates component of the General Insurance Program provides liability coverage for incorporated groups who cannot be identified as volunteers under the County's general liability policy, due to their incorporated status, and who operate County-owned sports fields under an agreement or lease. There is no proposed increase to the premium for 2021. Currently, the Dunnville Soccer Park Corporation and Haldimand Youth Soccer Corporation are insured under the Recreation Affiliates Policy. For several years, the County has facilitated this insurance coverage, on the groups' behalf, in an effort to get the lowest possible premium. Since 2012, Council has capped these two organizations' contributions to the annual premium at \$550 each with the remainder of the premium paid by the County. Staff are not recommending any changes to the cost sharing since the renewal premium of approximately \$2,400 plus tax has not changed.

ix. Community Hall Boards

The Community Hall Boards Liability premium remains at the same premium level it has been since 2017, at \$12,000, plus applicable taxes.

x. Joint Municipal Landfill Liability

The joint landfill coverage is a stand-alone policy. Despite a slightly lower asset value of property coverage, the liability and property coverage is subject to the same underwriting considerations of the main municipal program. The increase to this coverage is noted in its new premium allocation of \$19,637 plus tax, representing a 36% increase. Norfolk County, as co-owner, will cost share the annual premium (56.52% Norfolk share) and will be notified of the 2021 renewal rates.

Overall, the County's General Insurance Program (not including Landfill, Community Hall Liability or Recreation Affiliate policies) will see an estimated increase of 21.4%, equating to \$96,531 for the 2021 coverage year. As noted above, Property premiums are not yet completely finalized and are subject to change. Property premium projections make up most of the increase. General Liability and Cyber Liability increases are also notable, especially considering some of the mandated deductible increases

and new exclusions. The majority of increases are related directly to the overall insurance market conditions and not reflective of the County's loss experience. Municipalities across Canada with a loss history less exemplary than that of Haldimand County's are facing much higher increases and some are even seeing significant exclusions or increases to deductibles. Despite this, the County must bind coverage in order to be insured as of January 1, 2021.

At this time, staff are recommending approval of the 2021 General Insurance Program Renewal and the 2021 Landfill Policy Renewal, with any necessary property adjustments to also be approved for renewal on January 1, 2021. However, staff feel it is necessary to conduct a much more in-depth review of options that may be available to the County as we move forward. Those options are discussed below, and staff will investigate further during the first half of 2021 and report back to Council with recommendations.

Future Considerations:

Attachment 1 outlines an overview of the insurance market conditions for municipal risks, which is provided by Gallagher and addresses some key take-aways from this renewal process as well as some options for consideration moving forward.

Of note is the need to address the limits of loss related to property coverage. Staff will be undertaking a review of the insurable assets listed with the property policy to remove and/or separate the high risk/high value properties and potentially seek separate insurance to address the limits imposed by the current model. By reducing our values of coverage in our main program, we have been given information from Marsh that there would be a potential to increase the limits of loss from the current projected coverage of \$100 million to \$400 million, which is a much more desirable risk outlook for the municipality and would ensure complete coverage for the municipality.

Further investigation into the new Directors & Officers Liability exclusion will also be part of the staff review to ensure that necessary Council-appointed Boards have adequate coverage.

Additionally, staff will be reviewing the County's insurance reserve, loss experience trends and current level of deductibles to see if there are opportunities available for Council to consider.

Although there are five further optional years built into the existing contract, and despite the fact that this is the first year in many years that the County has experienced this level of increase in premiums, staff will also consider the overall public sector insurance market to determine whether it is feasible to consider alternatives.

Staff are continuing to work with Gallagher to review the insurance programs, market conditions and available options to ensure that the County is receiving the best value in terms of coverage while being fiscally responsible. Further consideration on these options will be reported to Council by the end of the 2nd quarter of 2021 and staff will provide recommendations to Council to move the County forward in the most appropriate manner.

FINANCIAL/LEGAL IMPLICATIONS:

The table below shows the current insurance program, including a comparison of the 2020 premium to the proposed 2021 premium, inclusive of Provincial Sales Tax where applicable.

Table 1

POLICY	2020 Premium (including tax)	2021 Premium (including tax)	Net Increase (including tax)	Percentage Increase
Municipal General Liability (includes Public Officials Liability, Environmental Impairment Liability, Employee Benefits Liability, Legal Expense Insurance, Non-Owned Automobile)	\$66,528	\$82,381	\$15,853	24%
Umbrella Liability (\$45 Million Excess of \$5 Million Primary)	\$17,496	\$21,911	\$4,415	25%
Medical Malpractice Liability – Paramedic Services	\$30,499	\$33,549	\$3,050	10%
Crime	\$2,160	\$2,160	0	0%
Owned Automobile (tax exempt & incl. additional vehicles)	\$123,684	\$134,550	\$10,866	9%
Property (includes Boiler & Machinery)	\$210,142	\$275,994	\$65,852	31%
Cyber Insurance (includes \$500 policy fee)	\$19,980	\$23,328	\$3,348	17%
Volunteers' Accident	\$1,080	\$1,080	0	0%
Community Hall Boards Liability	\$12,960	\$12,960	0	0%
Recreation Affiliates	\$2,592	\$2,592	0	0%
Landfill Policy (gross amount; to be cost shared with Norfolk County whose share is 56.52%)	\$15,595	\$21,208	5,613	36%
TOTAL	\$502,716	\$611,713	\$108,997	21.4%

As shown above, the cost for coverage is increasing by \$108,997 or 21.4%. The gross 2020 insurance premium, including taxes and the cyber policy fee, would be \$611,713. Recoveries of \$1,100 from the two soccer clubs as well as Norfolk's share of the Landfill Policy at approximately \$11,987 reduces the County's net external insurance expense to approximately \$596,626 for the upcoming year. This excludes third party insurance coverage related to employee/Council benefits.

As per the User Fees & Charges By-law, the amounts quoted for the insurance policy renewals in this report exclude the Special Events Insurance Program and the Facility Users Insurance Program, which are expected to be maintained at the base budget level for 2021 and recovered through specific user fees.

STAKEHOLDER IMPACTS:

All departments and various County Boards are insured under and impacted by elements of the General Insurance Program.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: Yes

Policy: No

ATTACHMENTS:

1. Insurance Market Conditions for Municipal Risks – Haldimand County
2. Municipal Insurance Renewal – Deductible Listing