

INSURANCE MARKET CONDITIONS FOR MUNICIPAL RISKS

Prepared for Haldimand County

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What Impacts Municipal Rates?

- Joint and Several Liability ("The 1% Rule"): This is an ongoing and significant concern for Ontario municipalities and concerns have been expressed to the provincial and legal regulators for reform.
- Municipal Liability claims tend to be complex and "long tail" leading to costly and lengthy defense and adverse development due to the multiple exposures facing a municipality such as:
 - Roads – Motor Vehicle Accidents; Sightlines, Signage, MMS compliance, design
 - Sidewalks – Trips and Falls
 - Municipal Building Inspections – Errors & Omissions
 - Toboggan Hills
 - Trails
 - Bike Lanes
 - Transit/Public Transportation
 - Long Term Health Care facilities and other health care services
 - Sporting and major events drawing public crowds
 - Police and public safety divisions
- The perceived "deep pockets" of a municipality make it a target for law suits
- Class Action Lawsuits are continuing as our society becomes more litigious in finding fault in "others". There is a rise in class action certifications through our court systems leading to higher defense costs.
- The actual amount of awards has increased substantially over the years for bodily injury claims primarily driven by the costs of providing future care costs. Reports from insurer claims departments indicate that general damages today have seen over 200% increases in the past 6 years!
- In addition costs for rebuilding, repairing and the procurement of supplies and labour continue to rise due to inflationary factors and availability limitations.
- Actuarial analysis of municipal claims has shown that there is a rising trend in the frequency and severity of liability losses
- Large Property Schedules that are subject to catastrophic loss
- For the past few years, there has been a continuation frequent, severe and catastrophic property losses arising from wildfires, floods, windstorms, earthquakes.
- Ontario Auto loss ratio for all insurers is averaging 103% (for every \$1 in premium \$1.03 is paid in losses) making the underwriting of auto insurance (commercial and personal) a "loss leader"

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- Less than satisfactory profit performance in insurers' investments as interest rates continue to fall and be at an all time low. (Investment income is used by insurer to offset underwriting losses.)

The Municipal Insurance Markets

The major insurance markets consist of domestic (Canadian) and London (UK) entities. There is a limited number of insurers willing and able to address the risk exposures of municipalities. The major "players" in the municipal space include:

Lloyds of London: Whether it is at the primary liability level or at the reinsurance side, Lloyds of London (a collection of syndicates) underwrites the most significant amount of municipal risks worldwide including Canada.

In 2019 Lloyds suffered significant losses and as a result a number of syndicates withdrew from weaker performing lines of business such as property, construction, professional and including municipal risks. Those that remained had regulatory pressures applied to find additional capital and improve their profitability. As a result the market size for municipal risk within the Lloyds "family" started to shrink. As supply tightened, capacity reduced and premiums started to rise in 2019 continuing into 2020.

Now in the last quarter of 2020, this trend is continuing with average rate increases ranging between 15-20% while capacity, or ability to take on risk is reduced by an average of 30%-50%.

Domestic Insurers: The number of Canadian insurers underwriting municipal risk is very limited and found in very restricted product lines such as automobile, property, environmental liability and excess liability.

Some insurers have aligned themselves with certain program managers in order to take advantage of larger portfolios in order achieve spreading of the risk ("the law of large numbers"). These include Marsh's Public Entity Program through AVIVA and BFL through certain insurers like Zurich and AON.

At one time the above "program managers" held exclusivity with their insurers and provided exceptional rates and value added services in order to achieve competitiveness. Today, the reality is that most insurance lines are placed in the "open market" and each "deal" is negotiated separately.

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What are the current options for a Municipality?

Although limited, a municipality does have options available.

The “Open Market”

As previously discussed, in the past few years (since 2018) the number of insurers willing and able to underwrite municipal risk has declined. The underwriters are currently experiencing an influx of new submissions while working on renewing their existing clients with added challenges.

Nevertheless there are insurers that are “open” for municipal business such as:

AVIVA
ZURICH
TRAVELERS
QBE
AIG
C N A
NORTHBRIDGE
AXA XL
FM GLOBAL
FRANK COWAN CO / INTACT
RSA

The current Program Managers include:

MARSH
BFL
AON
FRANK COWAN CO.

Alternative Risk Financing options are also available such as:

MUNICIPAL POOLS...a shared option: OMEX was an example of a pool/reciprocal that unfortunately didn't survive the hardening of the insurance marketplace as claims outpaced premiums. There are however variations of “pooling” that may be available to Ontario municipalities.

A.J. GALLAGHER

Pearson Dunn is now part of the A.J. Gallagher, the third largest broker in the world but most importantly one of the largest brokers in the public entity space. In the USA, AJG manages a very large and successful municipal reciprocal in addition to providing captive (self insurance) options.

We deal with all the major insurers in the open market above as well as work in relationship with all of the Program Managers where we see a good fit for our clients.

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We are continually working to ensure you have every viable option available to you and any new alternatives that are created or arise during the term of your policy in 2021.

As an independent broker, we serve you and your interests first and will always strive to bring you the optimum current insurance market offerings.

Here is an excerpt of our unique expertise in the public sector.

LONGSTANDING COMMITMENT TO THE PUBLIC SECTOR

Gallagher's Public Sector Practice is one of the oldest and largest practice groups within our company, and has long been committed to helping public entities manage their total cost of risk. Our Municipal Clients benefit from our specialized team, which brings a blend of resources and talent from both Canada & the United States. Gallagher's U.S. public sector operations will work diligently with our Canadian brokerage team to offer the robust insurance credentials and quality representation that our clients deserve in the marketplace. The broker team consists of experts in public sector risk and several have won prominent industry awards specific to public sector insurance and brokerage, such as Risk & Insurance, Power Broker.

We are a leader in not only public entity pool brokerage, but also administration. Gallagher has a separate division called Risk Program Administrators (RPA), whose sole job is to provide outsourced administrative services to pools and complex insurance programs. For pools with full-time staff including claims and loss control personal, our team works to enhance, rather than replace those services to help pools reach their maximum potential to serve their members. The RPA team has more than 35 years of experience administering public entity programs and have 58 pools for which we provide administrative services.

We believe our administrative expertise sets us apart from other brokers who are only versed on placement. In contrast, our strategy is to take a 360-degree view to our client's operations to help them achieve the best possible results. This unique combination of experience with local knowledge, allows our team to completely understand and cohesively align with your strategic plans to meet your current and long-term risk management and coverage needs.

Our expertise at a glance includes:

- 19,700+ public sector clients globally
- 50+ years of dedicated service to the public sector
- \$1B+ public sector premium placed annually
- 450+ public sector professionals
- 110+ public entity pool/reciprocal clients

SYSTEMATIC APPROACH TO EVALUATING TOTAL COST OF RISK

Gallagher understands that public entities must be sensitive to their cost structures to honor their commitments to taxpayers and the communities in which they serve. Our significant influence with leading public sector carriers, claims and litigation management, and innovative loss control teams ensure our clients remain on solid financial ground, even while the dynamics of the marketplace remain volatile.

Gallagher has long embraced a **Total Cost of Risk** strategy to help our clients deal with the challenges of risk management costs. We call it **CORE360™**. This model, offers a systematic approach to examine the six cost drivers of risk management: insurance premiums, program structure, loss prevention and claims, uninsured and unsecured losses, coverage gaps, and contractual liability. We use **CORE360** as the blueprint for our strategic plan to re-examine your risk management program through the lens of these six cost drivers.



Proposed Next Steps for Haldimand County

I would like to propose that we continue to negotiate the best possible terms with the current program manager, Marsh, for the Jan. 1, 2021 renewal date.

I also propose we review the property schedule in order to determine if the total properties and respective values are required. In addition, I recommend we receive deductible options for your review and consideration in managing the total cost of risk to you.

I, and my team at AJG are fervently working on finding alternative insurance and risk financing options for you over the next six months. I will provide you with a complete report of our offerings including the advantages and disadvantages to the current program (the latter will be minimal if any.)

This report was provided for your reference and based on the current knowledge and experience of broker. If there are any questions please feel free to address them to me personally.

Respectfully submitted,
Z. Linda Papadopoulos