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# HALDIMAND COUNTY

## Report LSS-03-2022 Insurance Renewal Update

For Consideration by Council in Committee on March 29, 2022

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### OBJECTIVE:

To provide an update to the 2022 Municipal Insurance Program with final premium amounts and to obtain approval to purchase additional Property insurance coverage to mitigate potential loss exposure.

### RECOMMENDATIONS:

1. THAT Report LSS-03-2022 Insurance Renewal Update be received;
2. AND THAT a \$50 million excess property insurance policy at a cost of \$63,720 including tax, to obtain a total of \$150 million in property insurance coverage as part of the 2022 Municipal Insurance Program, be considered during the 2022 Tax Supported Operating Budget deliberations.

**Prepared by:** Lori Friesen, Manager of Legal & Support Services

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

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

### EXECUTIVE SUMMARY:

As was the case for many Ontario municipalities, the continued global hardening of the insurance market affected the County's ability to maintain favourable rates for the 2022 insurance renewal program. This resulted in a lengthy renewal process extending into mid February, with a retroactive date of January 1, 2022. All final costs for 2022 premiums are now confirmed at \$793,683 resulting in a decrease of \$9,472 from the proposed premiums provided in the December 13, 2021 CIC report; however does represent an increase of 22.5% or an additional \$145,823 over the 2021 premiums.

Due to the 2022 \$100 million limit of loss aggregate on property insurance imposed by insurance companies, staff have reviewed the County's risk exposure and are recommending the purchase of an additional \$50 million in property insurance coverage for Council's consideration at a cost of \$63,720 which would bring the total insurance costs for 2022 to \$857,403. By comparison the total 2021 insurance costs were \$647,860 – an increase of \$209,543 should Council approve the additional coverage.

### BACKGROUND:

Council received report LSS-17-2021 in December of 2021 and approved the 2022 proposed Municipal Insurance Program, as presented to Haldimand County by A.J. Gallagher (Gallagher) and Marsh Canada (Marsh). As noted in the report, a number of the final premiums for certain lines of coverage had not been confirmed by the underwriters at that time. To expedite the 2022 renewal, Council provided delegated authority to the General Manager of Corporate & Social Services to finalize the 2022 general insurance renewal once the final figures were received, based upon an upset limit of \$810,000 inclusive of applicable taxes. In addition, staff committed to providing Council with an update

on the premium allocations once they were finalized by the insurer and to report on any significant policy changes and recommendations for 2022.

## ANALYSIS:

The 2022 renewal has been very challenging with the County not receiving final insurance premiums or policy terms until mid February 2022. The rationale provided for the delays and the market hardening included:

- The insurance industry perceives risks in a different manner which has resulted in double digit rate increases, reduced capacity and new exclusion clauses.
- The number of insurers that have previously provided municipal insurance has decreased, resulting in less competition.

Gallagher has confirmed that municipalities are experiencing overall premium increases of 20-25% with relatively good loss histories such as Haldimand County; and those with less than desirable losses are experiencing 25%+ increases coupled with mandatory deductible increases, coverage limitations in certain cases or not being provided insurance for certain lines of coverage.

There were several items within Report LSS-17-2021 which staff committed to provide follow up on and are noted below, with supporting information provided in Table 1.

1. **General Liability Insurance** – Staff completed an analysis to determine if increasing the deductible to \$500,000 was a viable option to assist in reducing premium costs without over exposing the municipality.

Marsh confirmed that to increase the current deductible for General Liability from \$250,000 to \$500,000 would only represent a premium savings of \$5,719. Due to the insignificant savings and increased risk exposure to the County, staff are recommending the deductible remain status quo at \$250,000.

2. **Medical Malpractice** – At the time report LSS-17-2021 was submitted, no premium coverage details had been provided, only that industry averages were seeing an increase of 22-25% with some changes in policy terms. For budgeting purposes, an assumption of 25% increase was applied to the 2021 premium rate.

Marsh confirmed that the premium value is \$36,904 which is \$3,355 more than the 2021 rate or a 10% increase, which is less than the industry average. Marsh confirmed that the policy coverage remains unchanged from the previous year and that the County's deductible is reduced from \$50,000 to \$25,000.

In an effort to determine if there would be any significant premium savings by retaining the \$50,000 deductible, Marsh confirmed that there would only be a savings of \$1,025. Due to the insignificant savings and increased risk exposure to the County, staff are recommending the deductible remain at \$25,000.

3. **Environmental Impairment Liability** – The estimated premium proposed by Marsh was \$10,800, representing an increase of 100% or \$5,426 over the 2021 premium. Although the County has experienced no fines, penalties or claims that would be indicative of an increase; staff were informed that rates are market driven due to the significant costs to address environmental impairments and that there are a limited number of insurers providing this coverage.

4. **Property Insurance** – Insurers imposed a significant change to property policies by implementing a "limit of loss" aggregate, which means that the previously enjoyed blanket coverage of the County's total property value is no longer available. The County will now only have a limit of \$100 million of property insurance coverage. Given that County has a total insurable value of \$466 million,

the limit of loss is a significant gap in insurance coverage and a detriment to the County. There are several areas of notable risk with having a \$100M coverage limit:

- If full loss was to occur, any expense exceeding the \$100 million would need to come from other funding sources such as the County reserves or other available funding mechanisms.
- The Nanticoke Treatment Plant which is located in a dense space and valued at \$111 million would not be fully covered. The County also has several other properties which are located in a dense space or within a single community, that as a group, exceed the \$100 million limit of loss, such as in the Dunnville community where the collective properties have an assigned value of \$119 million.

Although the County to date has not made any substantial claims for property losses at the \$100 million value, there is a risk of environmental conditions including flooding, tornados and fire that are a growing problem for communities and dense space occupations. Should the County experience a multi-property loss in one event, additional insurance would be required to cover replacement costs without having a significant impact on other reserve balances or the levy. A staff analysis was conducted looking at groupings of properties located in close proximity (i.e. either dense areas or single communities) due to the likelihood of any catastrophic event occurring across one specific area rather than the entire geographical space of the County.

In order to assess all options, staff sought quotes for excess property insurance coverage. An additional \$25 million in coverage was quoted at \$60,480 including tax; and for an additional \$50 million in coverage was quoted at \$63,720 including tax. Staff are recommending purchasing the additional \$50 million in excess coverage to obtain a total of \$150 million in property coverage to help mitigate the County's loss exposure. The \$150 million also aligns with the property coverage that the County had in previous policy years.

Although this level of additional coverage is still a gap from the total insured value of the County's property portfolio, it does provide what staff feel is adequate coverage should specific areas of the County experience isolated damages due to some of the environmental factors noted above. Although it is much less likely that a catastrophic event would occur effecting the entire County property portfolio in one policy year, it is important to point out to Council that should that occur, even with the excess insurance coverage, the total value to replace the facilities would not be covered through insurance.

5. **Cyber Insurance** - At the time report LSS-17-2021 was submitted, the estimated 2022 premium was \$59,940, or a 79% increase from 2021 and required an increased deductible from \$50,000 to \$100,000. Gallagher followed up with the insurer to see if there would be any consideration to leave the deductible at \$50,000 - they are unwilling to reconsider the deductible increase. The insurer reported that ransomware continues to dominate the headlines with losses reported by insurers taking a 600% increase, with public entities experiencing the most cyber losses.

## FINANCIAL/LEGAL IMPLICATIONS:

Table 2 provides the 2022 estimated insurance program premiums as reported in LSS-17-2021 compared to the actual 2022 premiums (inclusive of Provincial Sales Tax where applicable) which are now confirmed at a cost of \$793,683 which represents a 22.5% increase from the 2021 insurance premiums. If Council approves the recommended \$50 million in excess property liability coverage the total 2022 premium would be \$857,403 which would represent a 32.3% increase from the 2021 insurance premium. The 2022 draft tax-supported operating budget that will be presented to Council at the March 31<sup>st</sup> Committee of the Whole meeting does not include the recommended increase in property liability coverage as it is considered a change in scope and therefore not captured as a base

budget change. Staff suggest that the recommendation to purchase the additional property insurance coverage be deferred to the 2022 Tax Supported Operating Budget Deliberations.

**Table 2**

<b>POLICY</b>	<b>2022 Estimated Premium Provided</b>	<b>2022 Actual Premium</b>	<b>Difference from Estimate</b>
Municipal General Liability	\$88,558	\$88,558	-
Umbrella Liability	\$43,200	\$43,200	-
Medical Malpractice Liability	\$41,936	\$36,904	(\$5,032)
Community Hall Boards Liability	\$13,152	\$13,152	-
Recreation Affiliates	\$3,240	\$2,646	(\$594)
Environmental Liability	\$10,800	\$10,800	
Crime	\$2,700	\$2,700	-
Owned Automobile	\$143,720	\$143,720	-
Property	\$368,319	\$368,561	\$242
Volunteer Accident	\$1,080	\$1,080	-
Cyber	\$59,940	\$59,940	-
Landfill**	\$26,510	\$22,422	(\$4,088)
<b>TOTAL</b>	<b>\$803,155</b>	<b>\$793,683</b>	<b>(\$9,472)</b>
Proposed \$50M excess property coverage		\$63,720	
<b>TOTAL</b>		<b>\$857,403</b>	

\*\* cost shared with Norfolk County as joint owners

## **STAKEHOLDER IMPACTS:**

Not applicable.

## **REPORT IMPACTS:**

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

## **ATTACHMENTS:**

None.