



The Corporation of the Town of Tecumseh

Chief Administrative Officer

To: Mayor and Members of Council

From: Margaret Misek-Evans, Chief Administrative Officer

Date to Council: April 27, 2021

Report Number: CAO- 2021-07

Subject: Municipal Insurance Trends

Recommendations

It is recommended:

That Report No. CAO-2021-07, “Municipal Insurance Trends” **be received.**

Background

Insurance continues to be a cost driver for municipalities, large and small. Increasingly, correspondence is received by Council from other jurisdictions imploring support to advocate to the Province regarding the rising costs of insurance, much of which is attributed to joint and several liability¹. At a regular meeting of Council in January following the 2021 ROMA Conference, the Mayor requested that the topic of joint and several liability (J&S) as it affects municipal insurance rates be raised at the upcoming regional CAO meeting. His concern on this topic arose from the ‘bear-pit’ session at the conference when the Minister of the Attorney

¹ **Joint and Several Liability**

If other parties are unable to pay, damages can be recovered from any defendant, even if they are deemed just one per cent responsible.

As a result, a fraction of fault can push municipalities to pay huge damage awards. Often they are targeted deliberately as “deep pocket” insurers when other defendants do not have the means to pay. Source:

<https://www.amo.on.ca/advocacy/municipal-finance/municipal-liability-and-insurance-costs>

General was questioned on J&S and indicated that the government was still looking at it, but were not finding a connection with rising insurance premiums.

Subsequently, the matter was added to the regional CAO meeting agenda for February 19, 2021. Whilst the CAOs in general were well aware of the issue and had all experienced the 'hard market'² impacts on their municipal insurance rates, there was little appetite for a grass roots movement to lobby the Province. There was a feeling that the Province is entrenched in the social safety net of J&S. Nonetheless, the group also felt that it was worth pursuing at the Provincial level and acknowledged the jointly prepared document on liability reform by the Association of Municipalities of Ontario (AMO) and the Municipal Finance Officers Association (MFOA) (see: <https://www.amo.on.ca/advocacy/municipal-finance/municipal-liability-and-insurance-costs>). AMO advocates that the Provincial government adopt a model of full proportionate liability to replace J&S and implement a cap for economic loss awards. Regional CAOs felt it would be appropriate for both AMO and MFOA to resume their efforts to lobby the Province in this regard. The AMO report at the link above was provided to Council in October, 2019 and a resolution of support was adopted by Council at that time and sent to the Attorney General (Report CS-2019-34).

Notwithstanding this discussion, several Essex County municipalities indicated large lifts in municipal insurance premiums this past year with the lowest year-over-year premium increase reported at 7 percent and the highest at 27 percent. The Town of Tecumseh increase fell within that range; a recent history of the Town's rate increases is shown in the Financial Implications section of this report. Our insurance broker commented that municipalities are consistently experiencing year-over-year increases in the range of 20 to 40 percent.

Comments

As part of the regional CAO discussion on insurance, Essex County Director of Financial Services/Treasurer, Sandra Zwiers, prepared a memo outlining the County's recent experience

² "Lloyd's of London is a reinsurer out of London, the largest in the world, they reinsure most of the worlds excess capacity so when large catastrophic losses happen (flooding in Western Canada, wild fires in BC, hurricanes in the Caribbean, etc.) Lloyd's is hit with all of them since they are reinsuring much of that excess capacity. When this happens, they need rate to bring their combined ratios back to a profitable state so they have funds to pay claims when they happen.

This series of events is what creates a hard market and in that environment capacity of insurers goes down and rates go up. Your rate increase has nothing to do with the individual performance of the account, it's strictly the minimum increase that our partners need for rate. When insurers underwrite accounts in a soft market they take your expiring premium as a starting point for the next renewal, from there they add any credits or surcharges that might be warranted based on claims activity and/or good performance to come up with renewal premiums. Contrast that in a hard market, we take your expiring premium, then right away add the minimum increase that is required simply due to market conditions and that becomes our new starting point...then from there we would look at surcharges and credits and apply from there. In Hard Markets, there are rarely if ever credits given on the minimum mandated increases." Source: Town of Tecumseh Insurance Provider, Fall, 2020.

with municipal general liability insurance. It is noteworthy that Ms. Zwiers was also part of the AMO task force on insurance in 2019, as a board member of the MFOA.

Ms. Zwiers notes that, in recent years, since 2017, the evolution of a hard market has resulted in part from:

- Global and local natural disasters
- Equity market volatility impacting investment returns of carriers
- Continued litigation pressure against municipalities, increasing exposure risk for underwriters (including J&S in Ontario).

She further notes that there are fewer companies underwriting municipal liability with recent mergers and acquisitions reducing the number of competitors in the market. With all of these factors at play, traditional levers of increasing deductibles or lowering coverage limits no longer result in the lowering of premiums. In the last 12 to 18 months, municipalities are experiencing reduction in coverage limits, higher deductibles and increasing premiums. These trends are expected to continue.

In addition to the traditional levers noted above, self-help measures to contain insurance costs include risk management to manage claim occurrences, in-house claims management and self-insuring on small claims (using an insurance reserve rather than going through the insurance company). The Town has adopted some of these practices, although the overall impact on premiums is not expected to be great, particularly as the Town already benefits from a favourable claims history.

Following on the regional CAO discussion, Ms. Zwiers prepared an Administrative report dated March 10, 2021 to provide information to the County's CAO, as well as the CAO's of the local municipalities, with respect to opportunities that may exist to regionalize the procurement and management of insurance services, including two presentation decks from other regionalized municipalities (Durham and Waterloo) that have successful insurance pools.

Other jurisdictions in the Province have been able to better manage insurance costs and protect from market volatility by forming pooled insurance groups. In order to determine whether advantages exist to regionalize insurance procurement and/or programs, the County of Essex has offered to undertake a comprehensive study that would analyze coverage and retention limits, as well as actuarially assessing the total cost of risk, retention, limits and risk-based technical premiums for major lines of coverage.

In March, the County CAO reached out to all area municipalities to gauge interest in participating in this regional insurance review, at the County's cost. Tecumseh, among others, have confirmed interest in participating in this review, without further commitment at this time. With the area CAOs' favourable response to the County CAO, a report was prepared for the County Council meeting of April 21st outlining the regional review and requesting sufficient funds for this comprehensive review. County Council gave favourable consideration to this request. (See <https://coe-pub.escribemeetings.com/filestream.ashx?DocumentId=15933>.)

Further discussion is anticipated at the upcoming regional CAO meeting on April 30th. Also, members of Tecumseh Senior Management will participate in an upcoming webinar on local insurance pools hosted by LAS – AMO Business Services, featuring the President of Frank Cowan Company, on May 6th.

Consultations

Corporate Services & Clerk
Financial Services
Area CAOs Regional Group

Financial Implications

The Town's recent Insurance Premium history is presented in the following table.

Insurance Premium Trend	2017	2018	2019	2020	2021
Annual Premium	\$394,000	\$422,000	\$317,000	\$347,000	\$387,000
Annual Percent Increase	-1%	7%	-25%	9%	11%

The Town's annual insurance premium has risen an average of 4% per year since 2012 and has experienced wide fluctuations during the most recent five years primarily due to the change in insurance providers in 2019 following a tender process and subsequent above-average annual increases the following two years primarily attributable to the recent "hard market".

There are no financial implications associated with this report.

Link to Strategic Priorities

Applicable	2019-22 Strategic Priorities
<input type="checkbox"/>	Make the Town of Tecumseh an even better place to live, work and invest through a shared vision for our residents and newcomers.
<input type="checkbox"/>	Ensure that Tecumseh's current and future growth is built upon the principles of sustainability and strategic decision-making.
<input type="checkbox"/>	Integrate the principles of health and wellness into all of Tecumseh's plans and priorities.
<input checked="" type="checkbox"/>	Steward the Town's "continuous improvement" approach to municipal service delivery to residents and businesses.
<input type="checkbox"/>	Demonstrate the Town's leadership role in the community by promoting good governance and community engagement, by bringing together organizations serving the Town and the region to pursue common goals.

Communications

Not applicable ☒

Website ☐

Social Media ☐

News Release ☐

Local Newspaper ☐

This report has been reviewed by Senior Administration as indicated below and recommended for submission by the Chief Administrative Officer.

Prepared by:

Margaret Misek-Evans, MCIP, RPP
Chief Administrative Officer

Reviewed by:

Laura Moy, Dipl. M.M., CMMIII HR Professional
Director Corporate Services & Clerk

Reviewed by:

Tom Kitsos, CPA, CMA, BComm
Director Financial Services & Chief Financial Officer

Recommended by:

Margaret Misek-Evans, MCIP, RPP
Chief Administrative Officer

Attachment Number	Attachment Name
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None	
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