Municipal Risk

FALL 2022

LAS AMO Business Services

Insurance and Procurement

This quarterly publication provides helpful information on insurance and risk management.

Contact us if there are topics you want us to cover.

Challenges

The current hard market for insurance continues to be a challenge for municipalities. In Ontario, there remain just four main companies that can place insurance for municipalities (Intact Public Entities, Marsh, Aon, and BFL). They are finding that insurers are limiting the number of risks they are willing to underwrite. These insurers are also increasing premiums and deductibles across many areas of coverage, while limiting coverage in others due to more rigorous underwriting.

Cyber insurance coverage continues to be the most challenging.

Municipalities are reporting higher premiums for less coverage, increased deductibles and/or self-insured retentions[1]. Some insurers are notifying municipalities that cyber coverage will not be renewed. The provider – a broker or Managing General Agent (MGA) – must then work to obtain coverage through another insurer. It is important to note that some insurance carriers have exclusive agreements with a specific broker/MGA – which may further limit choice for municipalities.

Municipal insurance is unique in that it is generally procured every three to five years but must be renewed annually with potential for changes in rates or coverage.

Many municipalities are receiving annual renewals late in the process, sometimes within just days of the renewal date. Staff have no time to review the coverage, and if any changes are unfavourable, there is no time to find or consider alternatives. Given the time constraints, municipalities often have no choice but to accept the terms offered by their current providers.

Staff may need to look outside of an RFP process to build in more flexibility in hard or difficult market conditions.

Definitions

Insurer/Underwriters: Insurers or insurance companies are the organizations that agree to take on financial risk for a fee, also known as an insurance premium. These fees are set by an insurer's underwriters, who evaluate and analyze the potential risk.

Brokers: Brokers are independent businesses that provide expert insurance advice. They are paid to find the best policies and price for their clients. They can have exclusive agreements with insurance companies.

Managing General Agent: An MGA is a specialized kind of broker that has been given authority by an insurance company to bind coverage, set premiums and provide other management functions.

[1] Both deductibles and self-insured retentions represent the costs to the municipality before insurance coverage kicks in.

New Approaches to Procurement are Needed

Municipalities may want to reconsider how they procure insurance coverage. One approach is to review the current procurement policy. Can you remove insurance procurement from your main procurement by law? For example, the Canadian Free Trade Agreement defines insurance as a financial service, making it exempt. If you had a corresponding by-law, you could build in some room for your insurance procurement staff to seek quotes from insurers that your current broker might not have access to.

The County of Essex has been highlighted previously for finding a flexible approach to insurance procurement. By categorizing insurance as an excluded financial professional service, Essex pulled out insurance services from a typical RFP process. While this did not reduce staff work in terms of due diligence, a more flexible approach to procurement was more suited to the tight insurance market. It allowed the municipality to do the research and analysis needed to make sure it was getting the insurance that best fit its needs.

This approach also addresses the reality of a significant increase in premium, policy changes or coverage cancellation close to renewal. Staff would have flexibility to seek a quote from other providers.

In lieu of issuing an RFP, municipal staff would be able to approach targeted providers to request a competitive quote for the missing coverage or the entire program. This helps staff find solutions that meet their unique needs more efficiently. It removes the need for an emergency procurement or a move to a self-insurance model before the municipality is ready. This is especially critical when the next years budget has already been set and the funds required for self insurance or significant increases are not available.

If insurance remains within the procurement program, municipalities will need to find alternative ways to finance sudden premium increases and/or loss of coverage. A future edition of the newsletter will provide more information on strategies for risk financing as a whole.

The Canadian Free Trade Agreement (CFTA) definition of Financial Services

financial service means any service or product of a financial nature, and a service incidental or auxiliary to a service of a financial nature, and includes:

(a) deposit-taking;
(b) loan and investment services;
(c) **insurance;**
(d) estate, trust, and agency services;
(e) securities; and
(f) all forms of financial or market intermediation including the distribution of financial products;

Section 11 Non- Application notes that:

Non-Application

11. **This Chapter does not apply to:**

(h) procurement of:
(i) **financial services** respecting the management of government financial assets and liabilities (i.e., treasury operations), including ancillary advisory and information services, whether or not delivered by a financial institution;