Municipal Risk

WINTER 2022

LAS AMO Business Services

How do municipalities manage risk?

Municipalities provide a wide variety of services that people depend on every day. They also manage large capital assets. These services, facilities and infrastructure all come with risk. Insurance is essential for protecting the financial interests of municipalities and no one can really afford to go without it.

As risks and costs rise, we need new approaches to manage risk and its related costs.

This is the first in a series of quarterly publications on the world of municipal liability and risk. The goal is to provide good information on a complex subject, so that the sector can improve risk management. This edition provides a general overview of municipal insurance and risk management concepts. Some topics, like pools, self-insurance and data analysis, will be detailed further in future editions. Contact us if there are topics you want to learn more about in future publications.

What is insurance?

Insurance protects a person or organization from financial losses. Insurance companies issue policies, which reimburse their clients from losses. Insurance companies can do this because they spread the risk across many clients, making the cost of insurance more affordable for the insured. In other words, the losses of the few are covered by the many.

The cost of insurance includes the premium, which reflects the cost of purchasing the coverage. It also includes deductibles, which reflect the share of the loss that the *insured* must cover if there is a claim.

Insurance companies play an important role in financial markets. Not only do they invest the substantial premiums they collect, but their role also helps ensure financial stability for institutions, organizations and households.

Who are the different players?

There are different kinds of people and organizations involved in providing insurance:

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 do not work for insurance companies or set premiums. However, they can have exclusive agreements with insurance companies. In Ontario, AON, Marsh, BFL and EQUA are all brokers serving the municipal community.

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. Frank Cowan Company was an MGA. The business is now a subsidiary of Intact Insurance (Intact Public Entities) and is still an MGA.

How are municipalities insured?

Typically, municipalities buy insurance the same way they buy other products and services, through a competitive Request for Proposal process.

However, the total cost of insurance is not like that of other goods and services. The RFP approach may put greater weight on a low premium, with less emphasis on many factors that affect the actual cost to the municipality. These include the cost of deductibles and various limits and exclusions on coverage, which all impact the municipal bottom line. Because of the complexity of municipal services and the number of variables involved, it can be difficult to make an "apples to apples" comparison of proposals.

Municipalities purchase policies with set deductibles. Those deductibles are rising over time, forcing municipalities to fund more and more risk costs out of the tax base. Some municipalities choose to self-insure – that is that they pay most of their claims out of their budget and have insurance only for catastrophic claims.

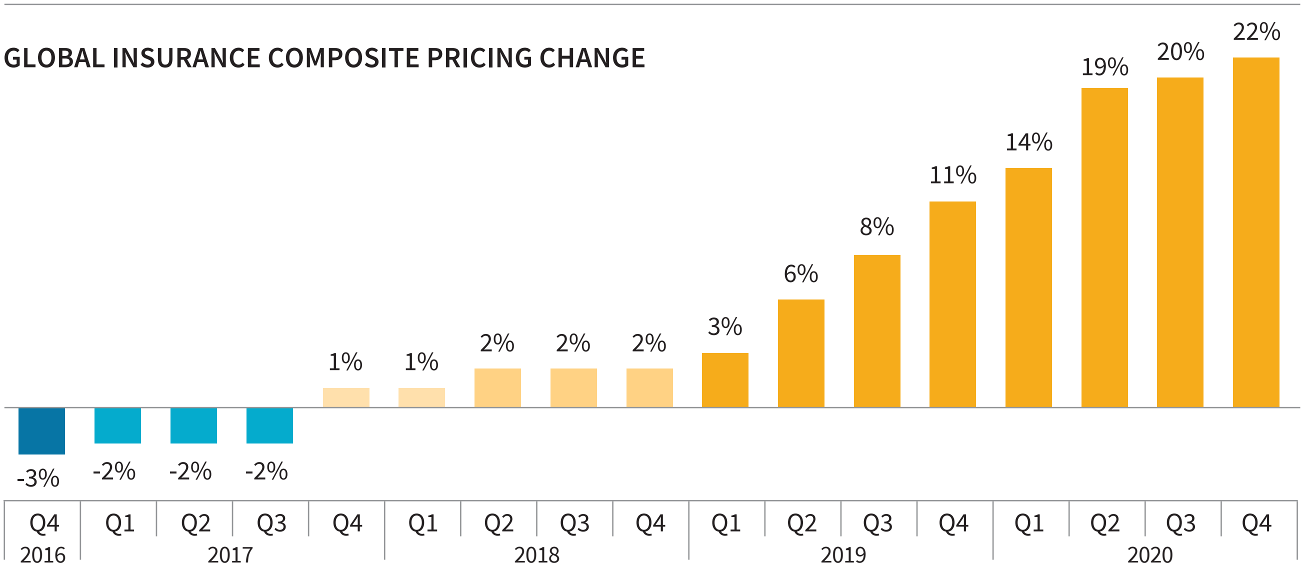
Insurance pools: One alternative to the traditional RFP is an insurance pool. This is when several organizations with similar needs share insurance coverage. The pool is not an insurance company and each of the members can have different deductibles. There are two municipal insurance pools in Ontario - the Waterloo Region Municipalities Insurance Pool and Durham Municipal Insurance Pool. By working together, municipalities can negotiate a better deal together than they could on their own. This is particularly helpful for smaller municipalities. Pools are different than a ***reciprocal***, which is a not-for-profit insurer. A reciprocal provides the insurance coverage, and therefore it can go back to members with retroactive assessments to cover unanticipated losses. OMEX was an Ontario municipal insurance reciprocal that operated from the late 1980s to 2016, when it went into runoff, meaning it is only managing legacy policies.

Many factors are driving up insurance costs

Municipal insurance costs in Ontario are skyrocketing. Many of the reasons are global and outside municipal control, like low interest rates, climate-related natural disasters and the pandemic.

Low interest rates have limited insurance companies' investment earnings. At the same time, their costs are increasing due to increased claims and losses from more frequent natural disasters, and newer risks like pandemics and cybercrime.

GLOBAL INSURANCE COMPOSITE PRICING CHANGE



Source: Marsh

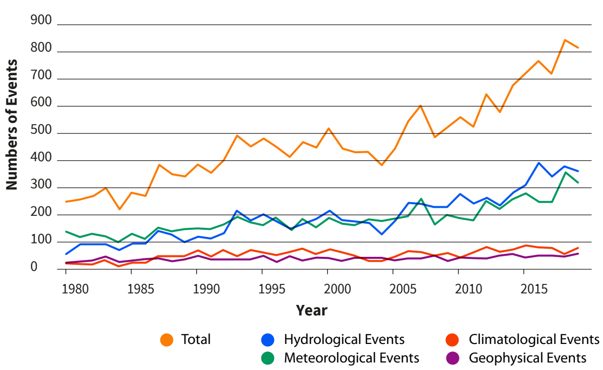
Hard markets vs. soft markets

A soft market for insurance is when there is plenty of money to cover losses, so insurance companies can take on more risk. Insurance companies are making good returns on their investments and there is a lot of capital being invested. For customers, this means lower premiums and broader coverage with fewer restrictions.

A hard market is when there is less money available to cover losses. When this happens, insurers must decide what risk they can take on given how much capital they have available. For customers, this means higher premiums and more restrictions on coverage.

With today's low interest rate environment, increased risks, and current financial cycles, the consensus is that we are into a hard market.

GLOBAL CATASTROPHIC LOSSES



Source: Munich Re NatCatSERVICE

What about joint and several liability?

The legal concept of joint and several liability means that if a municipality can be found even 1% responsible for an incident, property taxpayers may be left to pay the entire damage claim. Few other provinces put this kind of unlimited liability on municipal governments. Municipalities have been advocating for changes to the regime that would align Ontario with other provinces and protect municipalities from exorbitant claims.

Provincial governments, regardless of political party, have been reluctant to make changes. That's because many groups want to make sure that victims of accidents are protected and cared for.

Provincial regulators are also not convinced that fixing joint and several will rein in insurance costs. Gathering and analyzing a lot of claims data is the only way to know how much joint and several liability is driving up costs as compared to other factors.

It remains a priority to find a solution that protects municipal taxpayers while also sensitively providing for the needs of victims of catastrophic loss incidents.

How to manage risk better

Risk management means being proactive to prevent accidents, protect property and keep residents and employees safe. It includes everything from making sure that the right policies and procedures are in place and followed consistently, to processes for snow clearing and salting of roads and sidewalks. Anything a municipality does to help prevent potential harm to people and property falls under risk management. Right now, risk management is one important way a municipality can help manage costs.

The first step to risk management is getting good claims data. Municipalities need to track where the claims are coming from and what each claim costs them or the insurance company. For example, how many claims are paid out in full by the municipality because they fall below the deductible? How many weren't covered because of exclusions or limits to the policy? What services or asset are behind the most claims and what can we do to make them better?

Having an incident reporting system in place as well as current inventories of properties, vehicles, equipment, and more, can help a municipality better understand and manage its risks. Having a strong risk management program in place is also an excellent way to demonstrate your municipality'srisk profile when going to market for coverage.

ClearRisk: Online platform for better tracking and data

AMO has partnered with ClearRisk, a claim management software provider to create a platform tailored to municipalities. By tracking and managing insurance claims more efficiently, this tool provides better data to improve risk management.

AMO selected ClearRisk through a competitive process run by LAS. As more municipalities participate, the platform will also provide more aggregated, anonymous data. This will give a better overall picture of insurance costs and trends, helping to shape AMO policy and potential LAS business offerings.

Building staff knowledge

LAS provides ongoing learning opportunities. The Intact Public Entities Centre of Excellence provides an online resource dedicated to giving municipalities the latest trends and information on risk issues. A bi-annual fall symposium on risk management also brings together experts on municipal risk. In alternating years, LAS also offers quarterly webinars on municipal risk management topics.

Driving meaningful change

While good risk management is essential, it is not enough to prevent global and provincial pressures from impacting your renewal or RFP.

AMO and LAS are committed to finding long-term solutions. The municipal experience and experts in municipal insurance are driving this work.

AMO is also seeking better data on municipal insurance claims. Analyzing data would help to develop and advocate for meaningful policy solutions that reflect the municipal experience. The partnership with ClearRisk is one way that AMO can get aggregated and anonymous data to start coming up with evidence-based solutions.

LAS is also working with its Risk Management Working Group to research different insurance business models to further inform both policy and program work.

Municipal liability and risk management issues cost millions of dollars every year. Both AMO and LAS remain dedicated to finding solutions that will help build safer, stronger and more financially secure communities.

Quarterly Forum on Municipal Risk

AMO and Intact Public Entities will host a quarterly exchange where we welcome your voice, your questions and your expertise on the strategic and evolving issues that keep you awake at night.

Using the principles of the Chatham House Rule to allow for an open and robust dialogue, municipal administrators are invited to take part in a dynamic discussion on evolving issues facing municipal government.

March 3, 2022
Back to Basics – a foundational discussion about municipal insurance, terms and trends
- Via Zoom

June 2, 2022
What is your insurance strategy? Every municipality needs one.
- Via Zoom

September 2022
Date and topic TBD
- Via Zoom

November 2022
Date and topic TBD
- Via Zoom

September 2023 (date TBD)
Intact Public Entities/LAS Symposium
- Casino Rama Resort conference centre