Municipal Risk

SPRING 2022

LAS AMO Business Services

How do municipalities buy insurance?

This quarterly publication provides helpful information on insurance and risk management. Topics like pools, self-insurance and data analysis, will be detailed in future editions.

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

Municipal Insurance Procurement

As major providers of important public services and infrastructure, municipalities must ensure they have appropriate insurance to protect people, property, and municipal finances.

While most municipalities use a traditional Request for Proposal (RFP) procurement method to select either an insurance broker or insurance carrier, purchasing insurance in this context can sometimes feel like pounding a square peg into a round hole.

Shannon Devane, Risk Manager for the City of Vaughan, is a veteran of municipal insurance and a member of the LAS Risk Management Working Group. She notes that insurance is different than most other services that a municipality must purchase through a traditional RFP. There are several challenges to evaluating an insurance-related RFP:

1) Municipalities must compare apples and oranges. Proposals for a construction project can be compared in terms of labour and material costs. However, there can be thousands of different data points to compare in a municipal insurance program.

The actual costs to a municipality are not reflected just by the proposed premium. Insurance policies can include any number of limits and exclusions, as well as varying deductibles and differences in various value-added services offered by insurers. Each of these factors impact the bottom-line cost to the municipality and it makes evaluating and scoring proposals complex and highly subjective.

Another challenge is striking an evaluation committee that includes insurance experts and others with some training on the topic to be able to evaluate proposals fairly and consistently.

2) RFPs seek multi-year commitments, although insurance policies must be renewed annually. Another variable is the term for the insurance policy. The standard length of an RFP contract is three to five years. The challenge for many municipalities is that while they may sign a multi-year agreement with an insurance provider, the insurance policies and the pricing of each are only applicable for the first year. That can result in unanticipated price increases in subsequent years.

3) There are limited players in the marketplace. Insurers often view municipal clients as higher risk due to the nature of the assets and services they provide to the public. As a result, there are only a limited number of underwriters, limiting the value of a competitive bidding process.

4) Lack of flexibility to respond to markets. In the current hard market, municipalities will be hard pressed to find a good deal, but the RFP cycle is generally fixed, requiring municipalities to go to market regardless of conditions.

Given these challenges, the County of Essex is one municipality that has sought a different way to manage insurance procurement. Sandra Zwiers, the County's Director of Financial Services/Treasurer said when they updated their procurement policy to align with trade agreements (CFTA and CETA), they categorized insurance as an excluded financial professional service. This differentiation allows for the exclusion of insurance services from a typical RFP process. While this process still required a fair amount of staff work, it allowed the municipality to ensure that it was getting the insurance that best fit its needs.

She said that the County has worked with an insurance broker for many years, and together they did a deep analysis of the municipality's insurance needs, looking at claims, risks, and areas where they were over-insured. Zwiers notes that because brokers align with certain insurance carriers, it's still important to conduct some informal outreach with other insurers to validate that you are getting a good deal. This more flexible approach to procurement better reflects the realities of the tight insurance market for municipalities while ensuring good, data-based decision making that meets the expectations of the public.

Understanding Brokers and Procurement

When municipalities purchase insurance, they have two options, both of which likely involve insurance brokers.

Municipalities can retain the services of an insurance broker using an RFP. In this scenario, the RFP is only for the services of the broker, not the cost of the actual insurance policy. Brokers in the Ontario municipal market typically have proprietary relationships with insurers. That means if a broker is selected, they will place coverage with their partners.

Alternatively, municipalities can issue an RFP seeking the insurance policy itself. Brokers will respond to the RFP with an insurance program they have developed with their insurance partners. In this case, the municipality will be reviewing the full policy with the cost. Vaughan Risk Manager Shannon Devane outlined the pros and cons of each approach:

RFP Process for: Broker and Risk Services

PROS

- Neither the pricing of the insurance nor the coverages are contemplated – allowing for greater flexibility
- Policy wordings are not provided as part of the review – allowing for greater flexibility
- Ability to score based on each brokers offering
- More manageable procurement

CONS

- No clear indication of the cost of the policies they would place – limiting any financial planning at the time of award
- No way to access information on insurance coverage available from partners not aligned with the selected broker
- With fewer players in the market, it is getting harder to provide differentiation between broker services

RFP Process for: Insurance and Risk Services

PROS	CONS
Each broker brings their program to the table so the full program can be reviewed, and it includes cost	Difficult to create a scoring matrix that fully captures the variations from program to program
Provides transparency around market partnerships	Large unwieldy documents
Opportunity to review insurers and their operations	Difficult for those in the evaluation group who do not have an insurance background to review

To know which option is right, municipal staff need to consider their municipality's unique situation and experiences, including any specialty coverage requirements, claim history and risk management programs, as well as previous experience with insurance markets.

When going to market, it's important to build in language that includes flexibility to take advantage of other risk financing options that may become available during the term, like a pool or reciprocal. LAS has developed language for this, which is available to municipalities.

Considerations when going out to market for insurance and risk services include:

- What are your main priorities for the term?
- How will you score subjective aspects of the policy?
- What are the main coverages in each policy that are non-negotiable for your operations? (Look to your declaration pages in each policy for coverage highlights).
- Which policies are of greater value to your operation? Consider how to place greater score value on those coverages.
- Consider the kind of relationship you want to build with the broker and insurer.
- Look at the number of service providers who would be involved – how many brokers would be responsible for your account?

Considerations when purchasing broker services include:

- How are you going to differentiate value between service providers?
- What are your priorities?
- Are there any sub-brokers or other partners involved?

Risk management: Taking the fear our of municipal insurance

Municipal insurance can feel complex and overwhelming for both staff and for insurers. While the range of municipal services and assets can make some insurers cautious, the best way to reduce fear and improve municipalities' insurance options is to be proactive in reducing risk, says Tina Gardiner, Manager, Risk Management Services at The Regional Municipality of York.

"The reality is that in this insurance market, municipalities have to sell themselves," Gardiner said. Having a strong risk management program in place demonstrates to insurers that the municipality is reducing potential claims risk by managing its assets and services well.

At York Region, the risk and insurance functions are embedded in the finance department. Strong relationships are needed with the legal department, and the risk manager must also work across all departments and services.

Gardiner says it's essential to have at least one municipal staff person with dedicated responsibility for risk management, regardless of the size of the municipality. The role includes handling claims, as well as looking at all the ways a municipality protects people and property – from infrastructure maintenance to driver training and staff certifications. The insurance policy should be seen as a safety net that is below all of these other high priority, proactive activities.

In a hard market with fewer underwriters taking on municipal clients, demonstrating strength in this area is the best way to ensure a competitive response in the search for municipal insurance coverage. Gardiner notes it is common for municipalities to make presentations to underwriters with detailed information about their community, operations, assets and vehicle fleets. They will also present asset management and climate action plans, and other efforts to mitigate risk.

No matter how small the municipality, having a strong risk management program is essential to overcoming insurer and underwriter reticence and getting the right coverage to meet local needs.

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.

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

October 4 and 5, 2023
Intact Public Entities/LAS Symposium
- Casino Rama Resort conference centre

Learn more about these events: www.las.on.ca/riskmanagement/