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Presented by: Darija Slokar, Manager, Strategic Services

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Insurance Renewal - Request for Budget from Financial Reserve - Risk Management
Presented by: Darija Slokar, Manager, Strategic Services

RECOMMENDED MOTION

1. That Council approve the withdrawal of up to \$200,000 from the Financial Reserve - Risk Management to cover increase in property insurance premiums to ensure proper insurance coverage for 2021 and 2022.

PURPOSE OF REPORT

The purpose of this report is to obtain Council approval for the withdrawal of funds from the Financial Reserve - Risk Management to cover additional, not planned, increase in insurance premiums to ensure that the City has appropriate level of insurance coverage in place for City owned buildings.

ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN

Not applicable

ALIGNMENT TO LEVELS OF SERVICE DELIVERY

Management of the City's Insurance Program

ALIGNMENT TO COUNCIL DIRECTION OR MANDATORY STATUTORY PROVISION

Council Policy C-FS-01 Financial Reserves - Risk Management

Purpose: To provide funds for the management of unexpected risk as managed and defined by the Legal Services Department.

Application: To be used for stabilizing budgetary impacts resulting from changes in insurance and risk management related costs, including but not limited to premiums, risk control and prevention, and losses that exceed the claims retention fund.

BACKGROUND AND DISCUSSION

As a result of the current changes in the insurance market and increased property values for City-owned buildings, the insurance premium for the City has increased from \$146K last year to \$184K this year and the coverage for property decreased from 350 million to 100 million. The cost associated with increasing the coverage back to the original \$350M is presently unaffordable for the City. It is recommended that the coverage be increased to \$200M which, at this time, is believed appropriate to cover the City's risk. Administration requires additional funds to ensure that proper levels of insurance coverage are in place that more closely align with the current value of our City owned buildings. Typically, Administration budgets for 2% increase in insurance premiums; however, this year increase in premiums and the need to top up property coverage is significantly higher. Budget is currently not available in our approved operating budget.

At this time, Administration is asking for additional funds to cover increase in insurance premiums in 2021 and 2022. This withdrawal from the reserve will provide sufficient funds to be used to obtain proper coverage until we know if these cost increases are permanent. Should these increased costs remain, Administration will proceed with a permanent adjustment to our operating budget for the insurance to make sure that proper budget is available for future years. By withdrawing funds from the reserve, Administration is avoiding the impact on tax rate that would occur with increase to base budget for insurance premiums.

Information provided below provides additional insight into changes that are taking place in the insurance market and property values of City owned buildings that are driving increase in insurance premiums.

Insurance Market

In the last quarter of 2019 and early 2020 Canada was rapidly moving into its current hard market cycle that consumers haven't experienced in nearly 20 years. Hard market conditions occur when insurers experience poor underwriting results from paying out high claims and their related costs in mainly property and casualty lines of coverage where premiums/rates and investment income are not sufficient to offset claims. In Alberta alone property losses were in excess of 20 billion in recent years due to the Calgary's flood and hailstorm and Fort Mac's wildfire and recent flooding.

In order to return to profitability insurance companies have had to increase rates/premiums and raise deductibles. Their risk appetite in this market becomes much more selective, capacity shrinks in certain classes and in some cases it disappears completely. Then COVID-19 hit and it resulted in a perfect storm with government lockdowns to prevent the spread of the virus shutting down businesses, the economy suffered and through all this the hard market persists.

Government and Municipal risks have not been immune to these increases. Once viewed as attractive risks to insure has

changed due to poor underwriting losses in this sector. In addition, to further compound the situation, a number of insurers have withdrawn their support (ceased insuring municipal risks) with Travelers Insurance the most recent insurer to exit this class of business while other insurers have reduced their capacity which puts additional strain on those insurers who continue to offer their support. Currently there remains less than a dozen "A" rated insurance companies left in Canada insuring Government and Municipal risks. Municipalities are experiencing minimum rate and premium increases of 20% with many increasing their deductibles to help offset their premium costs.

Property Values

The basis of settlement in the event of an insurable claim for the City buildings and contents is on a replacement cost basis. Therefore the values reported to the insurer each year at renewal must represent today's replacement values. To ensure values are kept up to date the City completes building appraisals annually with rotating schedule to ensure that all buildings have updated appraisal over the two year period. Upon completion of the 2020 building appraisals there has been significant increase in the City's property values, approximately 17%. The building value for Servus Place alone increased by approximately 32 million accounting for the majority of the increase for those buildings appraised in 2020. The unfortunate result was that the City experienced a significant property premium increase due to the current hard market coupled with the increase in City's values. Additional funds are required to obtain level of coverage that is adequate for the value of City owned buildings. Our insurance broker is anticipating that insurance rates will begin to level off over the next 12 months with rates beginning to soften and insurance market capacity returning.

Administration will continue to work with our insurance broker to monitor changes in the market and to identify any other potential actions that can be taken to maintain and/or reduce the cost of the insurance premiums through proactive approach to risk management and claims reduction where possible. These actions include implementing recommendations from the Risk Management review completed in 2019 by MNP.

Currently, Administration maintains the Emergency Management Plan that includes all hazards and is updated on annual basis. In addition, annual risk management review is conducted with community stakeholders to identify potential hazards and plan accordingly. Lastly, the City maintains Business Continuity Planning with a more comprehensive planning planned in 2022, subject to budget approval in November 2021. These plans help ensure that the City has proper plans in place to mitigate risks associated with hazards identified.

Lastly, Administration will explore opportunities for self-insurance for some policies that may have more cost effective options when self-insured.

Attached are two reports that may be of interest to Council:

1. Aon 2020 Insurance Market Report - Canada
2. 2021 Property Benchmarking Report

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

Not applicable

IMPLICATIONS OF RECOMMENDATION(S)

Financial:

The Risk Management reserve has a current uncommitted balance of \$1.043 M.

Legal / Risk:

Approval of the withdrawal will ensure that the proper insurance coverage is in place to manage the risk associated with potential damage to City owned buildings. Not having proper coverage in place can result in significant and unplanned costs for the City to repair or rebuild City own buildings. Should something happen to one of our higher value buildings, the coverage of 100 million would not be enough and the City would be responsible for covering any additional cost over 100 million.

Program or Service:

Not applicable

Organizational:

Not applicable

ALTERNATIVES AND IMPLICATIONS CONSIDERED

None recommended at this time.

Report Date: June 7, 2021

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Chief Administrative Officer: Kevin Scoble