



## Staff Report

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<b>Report To:</b>	<b>General Government Committee</b>		
<b>Date of Meeting:</b>	June 21, 2021	<b>Report Number:</b>	FSD-032-21
<b>Submitted By:</b>	Trevor Pinn, Director of Financial Services/Treasurer		
<b>Reviewed By:</b>	Andrew C. Allison, CAO	<b>Resolution#:</b>	
<b>File Number:</b>		<b>By-law Number:</b>	
<b>Report Subject:</b>	2021 – 2022 Insurance Report		

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### Recommendations:

1. That Report FSD-032-21 be received;
2. That the general insurance placement, in conjunction with the other member municipalities of the Durham Municipal Insurance Pool, with Intact Insurance (formerly Frank Cowan Company) for an integrated pooling arrangement that includes integrated insurance coverages and common self- retention deductible levels for the period July 1, 2021 to June 30, 2021, at a cost to Clarington of \$996,351 be confirmed; and
3. That the purchase of cyber liability coverage through Ascent at a cost of \$42,000 be confirmed.

## Report Overview

2020/2021 has been another successful year for the Durham Municipal Insurance Pool (DMIP) and the Municipality of Clarington has benefitted through a premium increase of 7.3 per cent (2020 – 3.2 per cent decrease).

This report is primarily an update on the status of the DMIP and current initiatives being undertaken.

## 1. Background

- 1.1 The purpose of this report is to provide an update to the General Government Committee regarding the status of the Municipality's insurance program.
- 1.2 This report also includes a review and update of the Durham Municipal Insurance Pool, which is now entering its twenty-first year of successful operation.
- 1.3 Clarington is a founding member of the DMIP which was established to achieve financial savings by co-operatively purchasing insurance coverages with local and pool level deductibles and by implementing common risk management practices. The pool protects participating municipalities from increasing insurance premium costs through an alternative risk-financing program with a higher single deductible and collectively self-insuring claims within that deductible.
- 1.4 Clarington's Treasurer held the position of Chair of the Board of DMIP from inception to September 2019. The current chair of the Board is Laura Barta, Director of Finance/Treasurer for the Township of Scugog.
- 1.5 The DMIP was launched in July 2000 with the participation of the Town of Ajax, Town of Whitby, Municipality of Clarington, Township of Brock, Township of Scugog, Township of Uxbridge and the Region of Durham. The City of Oshawa joined the pool effective July 1, 2017.
- 1.6 Member municipalities are provided coverage in the areas of general liability, errors and omissions, auto liability and property insurance. The DMIP provides municipal specific resources such as loss prevention programs, claims handling, advice for boards and committees, site audits, review of contracts and training.
- 1.7 The Municipality's insurance coverage renewed on July 1, 2020. GGC passed resolution #GG-547-19 at its meeting on November 25, 2019, which provided approval to remain in the DMIP for the 2020/21 renewal term and provided the Director of Financial Services/Treasurer (at the time Director of Finance/Treasurer) the discretion to determine when a review of the Municipality's insurance may next be conducted, such time not to exceed five years.

- 1.8 Given the current state of insurance in Ontario (as noted below), that being one with escalated prices or even the refusal of coverage, I do not feel that this is the right time to conduct a market review given we attempted one a year ago. Staff will continue to monitor the market to determine the appropriate time to conduct the next review.

## **2. 2021/2022 Insurance Coverage Renewal**

- 2.1 Within the terms of the subscribers' agreement, DMIP members agree to make a contribution sufficient enough to pay administration costs, expenses (including actuarial and audit), premiums and a claim funding amount that is supported by full actuarial projections and analyses.
- 2.2 DMIP members are also required to give a minimum six months' notice of termination if they wish to leave the pool. To date no member of the pool has asked to leave while one of the two Durham municipalities that did not originally found the pool have asked to be admitted.
- 2.3 The DMIP has been able to position itself to minimize the impact of increases in insurance premiums paid to insurance companies related to property, casualty and liability coverages.
- 2.4 For 2021/2022, the DMIP negotiated with the insurer and has secured the broadest and most comprehensive coverage available to municipalities. The Municipality's increase is 7.3 per cent, or \$68,064.
- 2.5 The allocation methodology was reviewed for 2020/2021. The DMIP reviews the allocation approximately every three years. The Municipality saw a decrease in its participation rate from 12.42 per cent to 11.06 per cent. Overall, the net cost for the annual DMIP insurance program for the Municipality decreased by 3.2 per cent in 2020/2021.
- 2.6 The Board of Directors of the Durham Municipal Insurance Pool has placed coverage with Intact Insurance (formerly Frank Cowan Company) for an integrated pooling arrangement. During 2020/2021, Frank Cowan was purchased by Intact Insurance and is being integrated into their insurance offerings. There has not been a change in the insurance coverage or services received by the DMIP.
- 2.7 For 2021/2022 the cyber insurance coverage will change from AXA XL to Ascent. The deductible has increased from \$40,000 to \$75,000, with the premium being \$42,000. The premiums are not completely comparable to AXA XL as there are additional coverages which were not part of the previous coverage. Overall, Staff feel that the value is fair for the Municipality and it provides protection against cyber risks.

### 3. Benefits of an Insurance Pool

- 3.1 The main components of the structure of the Durham Municipal Insurance Pool arrangements are summarized as follows:
- Each municipality retains their respective current deductibles ranging from \$5,000 to \$100,000 (Clarington's deductibles are primarily \$25,000 (liability) and \$5,000 (fleet);
  - The pool self-insures losses between these local deductibles and a per claim limit of \$500,000 (on a group basis) for integrated coverages;
  - Under this structure, local municipalities are responsible for funding losses from \$0 to their individual deductible amounts (\$25,000 in the case of Clarington);
  - Between these local municipal deductibles and the pooled retention limit of \$500,000, the eight (8) members share the cost on a collective basis; and
  - Excess of a \$500,000 per claim loss, the members purchase insurance from municipal insurers for protection on a collective basis against catastrophic claim losses.
- 3.2 During its 20 years of existence, this innovative risk financing venture continues to be a highly effective method by which the municipalities have enjoyed:
- Broader insurance coverage;
  - Control over the costs of insurance claims below the \$500,000 deductible;
  - Pro-active, comprehensive and coordinated risk management services to reduce property and liability exposures;
  - Increased investment income on the retained portion of the pre-funded claims loss reserve; and
  - Increased price stability.
- 3.3 As the DMIP is self-funded to a degree, there are opportunities for surpluses to be refunded to the Municipality. The Municipality has received refunds in 2014 (\$202,950), 2016 (\$223,500), 2017 (\$544,740) and 2020 (\$91,155) for a total refund of \$1,062,345. Staff are anticipating a refund of approximately \$91,200 to be received in the summer of 2021 for the previous year.
- 3.4 At the May 2019 DMIP Board meeting it was approved that from 2020 to 2028 the founding members (including Clarington) would receive an annual payment from the accumulated surplus in the pool. It is estimated, subject to annual review, that the Municipality will receive \$91,100 per year. In keeping with past practice, this will be used to fund risk management initiatives (including safety audits, sign replacement, and other projects which lowers the risk to the Municipality and residents).
- 3.5 The estimated rebate in 2021/2022 is \$91,684 which is in excess of the insurance increase for the year. These funds will be placed into the reserve fund for future use in risk mitigation activities. These funds will be received in June 2022.

- 3.6 At December 31, 2020 the balance in the Self-Insured Losses Reserve was approximately \$716,000. These funds can be utilized for risk-mitigation activities throughout the Municipality. In the past, funds have been used to conduct risk audits, additional sidewalk repairs and other similar capital activities to reduce risk. These funds are primarily used to fund the Municipality's deductible. Staff will be working with departments to identify risk-mitigation activities, such as risk-audits or capital improvements, to be considered to be funded from this reserve in the draft 2022 budget.

### **Insurance Market in Ontario**

- 3.7 The past two years have seen a hardening of the insurance market in Ontario. This hardening is cyclical, and similar situation was the reason why the DMIP was created.
- 3.8 Municipalities are seeing premium increased that can be in excess of 50 per cent, with many municipalities seeing at least 10 per cent increases.
- 3.9 The hardening markets and increased premiums have resulted in several municipalities, as well as the Association of Municipalities of Ontario (AMO), look at developing their own insurance pools modeled after the two existing pools in the Region of Durham and the Region of Waterloo.
- 3.10 There continues to be advocacy from municipal associations for reform to the joint and several liability legislation that currently exists in Ontario. Staff at Clarington and at the DMIP continue to monitor this development.

## **4. Concurrence**

Not Applicable.

## **5. Conclusion**

It is respectfully recommended that Council approve the renewal of insurance services with the Durham Municipal Insurance Pool.

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Attachments:

Not Applicable

Interested Parties:

List of interested parties available from department.