



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
**Legal and Risk Management Services Division**

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	February 16, 2022
<b>SUBJECT/REPORT NO:</b>	2022 Property Insurance Renewals (LS22015) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Ron Sabo (905) 546-2424 Ext. 4520
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
<b>SIGNATURE:</b>	

**Discussion of Appendix “B” to Report LS22015 in Closed Session is subject to the following requirement of the City of Hamilton’s Procedural By-law and the Ontario Municipal Act, 2001:**

- a) **The security of the property of the City or a local board**

**RECOMMENDATION**

- a) Premium Summaries to Report LS22015, for the term January 1, 2022, to January 1, 2023 or beyond, be renewed through Arthur J. Gallagher Canada Ltd. at a cost of \$6,560,575 (plus applicable taxes).
- b) That the 2022 Risk Management Property and Liability Premiums budget shortfall of \$512,799 be funded through the 2022 year-end surplus of Tax Stabilization Reserve (110046).
- c) That the General Manager, Finance and Corporate Services, be authorized and directed to execute all associated documents related to the renewals of the Property and Liability Insurance coverage on behalf of the City of Hamilton per Recommendation (a), in a form satisfactory to the City Solicitor.
- d) That the contents of Appendix “B” to Report LS22015, remain confidential.

## **EXECUTIVE SUMMARY**

This report recommends renewal of City insurance coverages for Property and related liability involving Fleet, Transit, Garage, Property, Crime, Paramedics, Chemical / Biological / Nuclear / Radiation, Terrorism, and Environmental Impairment, all as listed in Appendix "A" to this report. The total premium for the listed coverages is \$6,560,575 not including taxes and would be paid to the City's Broker of Record Arthur J. Gallagher Canada Ltd. to pay premiums for various policies of insurance through various insurers. Appendix "B" to this report deals with additional premiums and coverage details for specific City property.

In 2021 Council had approved cost controls on insurance coverages and deductibles so as to limit premium increases in the City's municipal insurance in the difficult market conditions for insurance. Even with these cost control measures the annual increase in 2021 had averaged above 25% over the full range of the City's policies and premiums. In 2022 the difficult market continues, but the measures implemented through Council in 2021 along with the City's Broker's work on obtaining similar coverage have helped in limiting 2022 premium increases to 8.8% as proposed for the specific coverage listed in Appendix "A". The shortfall on the 2022 Risk Management insurance premiums budget of approximately \$513,000 in regards to the premiums in Appendix "A" will be funded through the 2022 year-end surplus or Tax Stabilization Reserve (110046).

The City is currently running on a brief extension of the existing policies and which required monthly or shorter extensions in some of the policies and alteration of their renewal dates. As such the renewals in this report are time sensitive, with payment due by the end of February 2022. The approach to renewal was designed with a goal of maintaining similar coverage to the prior year and which goal has been largely achieved. Staff are recommending renewal of the listed coverages for the specified terms, with the significant coverage changes limited to the loss limit in the Property / Boiler coverage being reduced to \$300 million from \$330 Million in 2021. Most of these policies will run from January 1<sup>st</sup>, 2022, to January 1<sup>st</sup>, 2023. The Paramedic policy will have a term running from January 31<sup>st</sup>, 2022 to January 31<sup>st</sup>, 2023. Environmental Impairment coverage is being proposed from January 31<sup>st</sup>, 2022 to January 31<sup>st</sup>, 2024 for additional premium savings.

Not included in this report are the General Liability coverages. The City's General Liability policies do not expire until June 1, 2022 with premium quotes expected in late April 2022. Premium increases in General Liability coverages are expected along with coverage changes. The expected increases will alter the calculation of annual premium increase between 2021 and 2022 and will result in a further financial shortfall in 2022. A further report in 2022 will follow for General Liability renewals.

**Alternatives for Consideration – See Page 5.**

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: The 2022 premium of \$6,560,575 (before applicable taxes), for the coverages specified in Appendix “A” will be funded through the 2022 Risk Management Services Budget, and the shortfall due to the increase in premiums of \$512,799 be funded through the 2022 year-end surplus or Tax Stabilization Reserve (110046).

Compared to 2021 these premiums including taxes are \$604,304 higher than the cost of the same listed coverages and includes an extra twelve months of Environmental Impairment coverage. Adjusting for the cost of extra year, the annualized 2022 impact is \$512,799.

The renewal of Environmental Impairment coverage for a two-year term adjusts to an annual premium of \$84,728, providing a savings of \$30,583 compared to the one-year coverage quote for 2022. Adjusting for this savings the annual percentage increase is 8.8% above 2021, again considering only the coverages as listed in Appendix “A”. There are few changes to coverages in Appendix “A”, unlike 2021 when the City reduced some coverages and substantially increased its self-insured retention / deductible in a number of policies. The most significant change in 2022 being the loss limit under Property (Property and Boiler) coverage has been reduced from \$330 million in 2021 to \$300 million. A minor change arises in the auto coverage applicable to ambulances, being an increase of a deductible to \$10,000 from last year’s \$2,500.

Staffing: N/A

Legal: N/A

**HISTORICAL BACKGROUND**

The City has faced significant premium increases over a number of years due to changes in the insurance market. There remain few insurers involved in municipal coverage. In 2022 as in 2021 the City’s Broker did not find suitable coverage or savings in the market investigations. The renewals proposed continue to be placed with a variety of insurers for specific coverages.

In 2022 the difficult insurance market continues to result in rises in premiums for most purchasers, including for entities such as municipalities many of whom who will see 20% or larger increases and denial or reductions in coverages. Market conditions include limited competition in municipal insurers, low interest rates affecting investment returns, multiple and large environmental claims which can be related to climate change, as well as municipal exposure and claim histories. Some of the premium increases in Appendix “A” are also attributed to growth such as vehicle fleet sizes and paramedic complements, and more significantly increases in the value of property assets and cost of repairs.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Insurance provides support to the City for unexpected losses and stability in the face of significant exposures, which can assist in maintaining operations, avoiding service interruptions, supplementing limited resources and in recovery from emergencies. Automobile insurance also has legislated coverage. Municipalities have various liability protections through legislation which may help limit or avoid claim costs in certain situations but would face the potential of increased exposure to claims involving other parties through joint and several liability. The Association of Municipalities' of Ontario along with individual municipalities including Hamilton, continue to seek added legislative protections and control on costs in part to address rising insurance costs. Without insurance the City's costs would vary with property losses or claims expense which have unpredictable frequencies.

## **RELEVANT CONSULTATION**

The City's Insurance Broker carried out consultation and market investigation for all available insurance options in the effort to provide the most favourable terms with respect to the maintenance and scope of coverage, limits of insurance, deductible or self-insured retention levels and premium costs. This effort included negotiation with the City's current insurers and resulted in the premium recommendations in Appendix "A". The broker has advised the rate increases applied are mainly market driven and within or below the average parameters experienced by most municipalities.

Financial Planning, Administration and Policy staff were consulted regarding budget and funding sources.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION**

The recommended approach provides stability in levels of coverage while adjusting for growth in property values and other measures relevant to insurers and maintaining a premium increase below 10%. This increase is expected to be below the average municipalities experience but does not yet factor in liability premiums which renew later in 2022.

Extensive review of insurance availability and maintenance of current coverages in Appendix "A" has resulted in the quotes for renewal of specific policies with the City's existing insurers, at levels to maintain similar coverages as had been provided in 2021. While other insurers were sought out the effort was primarily negotiation with the current insurers as there are very limited options for municipal coverages. Insurers in this market are taking additional care to assess changes in municipal exposures and growth affecting premiums. The result in 2022 was that various staff and departments were called upon to supply more information for analysis by underwriters who assess risks and calculate premiums for the insurers and added time for assessment by the insurer.

While some premiums have remained the same, there are increases in various coverages due to a variety of factors assessed as well as overall concern with insurability of municipal and similar entities and the market conditions.

The average annual increase in premiums for the coverages listed in Appendix "A" is approximately 8.8%. The change in premiums varies between the listed policies due to a variety of factors. Some of the factors are listed below for the individual coverages:

- Property coverage: The most significant premium increase involved this coverage at 13% growth, increasing from \$2.1 million to \$2.3 million in 2022. The limit of loss provided under this policy was also reduced from \$330 million to \$300 million. Part of the premium increase is attributed to the value of City assets covered which increased by \$75 million or approximately 11% more property value than in 2021. Further increase can be attributed to adding additional new facilities or locations, which additions had a similar impact on Environmental Impairment coverage mentioned below.
- Fleet, Garage and Transit coverage: Premiums increased 4% due in part to growth in vehicle fleets.
- Paramedic Medical Malpractice coverage: Premiums increased 15% from 2021, with the 2022 premium being \$36,750. Factors include growth in the number of full and part-time paramedic staff and assessment of the volume of ambulance responses and patients transported.
- Environmental Impairment coverage: Annual premiums of \$113,050 were expected to rise only slightly (2%) due mainly to the addition of new locations under this coverage. The insurer offered a two-year renewal option for a total premium of \$169,455 (\$84,728 per year), which staff are recommending to limit the costs in 2022 and 2023, and which may also avoid greater annual increases in 2023 due to ongoing market conditions.
- Excess Crime coverage: Increased 5% due to a required minimum premium increase set by the insurer.
- Premiums did not increase for Chemical / Biological / Nuclear / Radiation, Terrorism, and Crime coverages in 2022.

Consideration of the market conditions, municipal growth and Broker investigations, the coverages in Appendix "A" are recommended for renewal for the premiums and terms specified in Appendix "A".

## **ALTERNATIVES FOR CONSIDERATION**

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OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

Council could decide to self-insure and not renew insurance for 2022. This is not recommended for stability of municipal operations or the control of costs which then are directly affected by property losses and claim costs (See Policy Implications).

Environmental Impairment coverage could be obtained for only twelve months for a premium of \$133,050, and which premium is expected to rise a further 2% in 2023. Savings under the recommended two-year premium are estimated at \$61,167 over two years compared to paying annual premiums in each of 2022 and 2023. The savings are recommended to assist in reducing overall premium increases and the risk involved from deteriorating market conditions that may cause additional increase in 2023 premiums.

Automobile coverage for Transit was offered with three options for the deductible; (A) \$500,000 deductible, which maintains the higher deductible approved in 2020 renewals and assessed then in terms of risk and control of claim and premium costs. (B) Decreasing the deductible to \$250,000, at an additional cost to the City of \$1,006,387, or (C) Increase in the deductible to \$1,000,000 at a premium savings for the City of \$653,453. Staff's recommendation and Appendix "A" reflect Option (A) which maintains the level set in 2020 to control overall costs in premiums and claims, and as a balance in the risk of further and higher value personal injury claims in expansion of services and ridership. The reasoning for maintaining Option (A) over Option (C) is anticipation of future growth in bus travel volumes compared to the two prior years, continued growth in value of claims and damages, and risk that one or two significant claims could mostly or entirely offset the projected savings in Option (C). Option (B) has the potential for savings in potential claim costs for the same reasons just listed, but which would be a step backwards from efforts to limit premium increases. The added cost involved in Option (B) changes the year-over-year premium increase in this report from 8.8% to over 25%.

## **ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

### **Built Environment and Infrastructure**

Hamilton is supported by state-of-the-art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

### **Our People and Performance**

Hamiltonians have a high level of trust and confidence in their City government.

## **APPENDICES AND SCHEDULES ATTACHED**

Appendix "A" - 2022 Renewal Premium Summary

Appendix "B" - Confidential