



Administrative Report

Office of the Director of Financial Services/Treasurer

To: Warden McNamara and Members of Essex County Council

From: Sandra Zwiers, MAcc, CPA, CA
Director of Financial Services/Treasurer

Date: Wednesday, April 21, 2021

Subject: Regional Insurance Study

Report #: 2021-0421-FIN-R06-SZ

Purpose

To provide information relating to the Corporation's insurance programs and opportunities that exist to investigate a regional service delivery approach with a goal of achieving improved economies of scale and overall cost savings for the Corporation and its seven local municipalities.

Background

General liability insurance has and continues to be a significant expense for municipalities. Similarly, health benefit insurance programs for municipal staff form a considerable component of annual salary and wage costs.

To date, the County and its local municipalities procure general liability insurance on an individual basis. Health benefit insurance is procured on a hybrid basis with some municipalities participating in a buying group (Essex County Municipal Buying Group (ECMBG)) with the remainder procuring independently. (ECMBG members include: County of Essex, Leamington, Amherstburg, Essex, Lakeshore and Pelee)

The municipal general liability market is small with few players competing for programs. The health benefit market is more robust but is also dominated by a few larger national/international providers. In theory, going to market on a regional basis should result in economies of scale/savings,

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provide some financial relief and improve administrative procurement efficiencies for all participating municipalities.

Discussion

General Liability Insurance

A typical municipal program consists of the following policies:

- General Liability
- Excess Liability
- Environmental Impairment Liability
- Municipal Accident / Councillor
- Property and Business Interruption
- Automobile / Fleet
- Cyber

For each policy within the program, coverage limits and deductible levels must be established. The coverage limit and deductible levels appropriate for a municipality will depend on a number of factors such as:

- The size of the municipality;
- The level of risk associated with services the municipality provides;
- Previous claims experience; and
- The financial ability to pay (i.e. premiums, deductibles, claim costs)

Once the municipal liability program is set, the focus shifts to the day to day risk management efforts of reducing liability exposure and the administrative tasks of managing claims against the municipality.

Health Benefit Insurance

A typical municipal program consists of the following policies:

- Prescription Drug

- Dental
- Vision
- Paramedical (eg. massage, chiropractic)
- Short Term Disability
- Long Term Disability
- Life Insurance (Basic, Dependent, Accidental Death & Dismemberment)

Collective bargaining agreements are often the main driver of coverage limits and deductibles for health benefit policies. Programs can be structured to allow for a third party to administer/adjudicate claims to relieve the municipality of the administrative burden.

Regional Opportunities – General Liability Insurance

To date, a regional review of general liability insurance coverages has not been conducted. On an individual basis, municipalities have issued RFP's for their own programs however often the RFP is structured to replicate existing coverage limits and deductibles. The County last went to market with a full RFP in 2014. Since that time, the program has been renegotiated annually with the assistance of the County's broker, AON Consulting.

In order to determine whether advantages exist to regionalize insurance procurement and/or programs, a comprehensive study is recommended that would analyze coverage and retention limits. By actuarially assessing the total cost of risk, retention, limits and risk-based technical premiums for major lines of coverage, recommendations can be formed that will assist in future decision making. This study could be done for the County alone and provide support for future renewals. If conducted regionally, with the participation of all local municipalities, the study could be leveraged to support decision making at the regional level and highlight alternatives to traditional municipal insurance program structures.

Other jurisdictions within the province have been able to effectively manage insurance costs and protect from market volatility by forming pooled insurance groups. These structures exist in the Durham and Waterloo Regions. A regional study would assist in assessing the feasibility of pooled insurance groups for our region.

Regional Opportunities – Health Benefit Insurance

With respect to health benefit insurance, a poll conducted at the October 2020 Regional Treasurers meeting indicated there is interest to invite non-participating members of the ECMBG to an information session to explore expanding participation in the regional health benefit insurance program.

The ECMBG program affords participants the flexibility of pooling savings on certain lines of coverage while also allowing premium costs for other lines of coverages to be based on a municipality's own claims experience. According to statistics provided by our broker at renewal in the fall of 2020, due to the magnitude of the County's participation in the program, local municipalities in the ECMBG are experiencing economies of scale savings over members not in the program.

The ECMBG structure also allows for differences in health benefit program coverages among its members. As noted earlier, collective bargaining agreements often dictate coverages and limits and the structure of the ECMBG program can support these differences.

CAO Consultation

Over the past month, the Corporation's CAO, Mike Galloway, presented the information in this report and the proposal to undertake a regional insurance review to the seven local CAO's. All CAO's are in support of a regional study.

Project Plan

If approved, the following project milestones are proposed:

- 1) County solicits for actuarial services and awards contract
- 2) Each municipality submits comprehensive insurance data to the consultant
- 3) Consultant prepares draft report for preliminary presentation to the County CAO and Director of Financial Services / Treasurer
- 4) Presentation of draft report to the Regional CAO group (staff with responsibility for insurance program duties and/or Treasurers are recommended to attend as well)
- 5) Finalization of the report by the consultant
- 6) Presentation of the study recommendations to County Council

7) Presentation of the study recommendations to each Local Municipal Council

The project plan commits participation in the study. The decision of each municipality to participate in the study's recommendations will be considered separately at the conclusion of the study process. The project scope will be defined to support analysis both in whole and in part should consensus not be reached on the recommendations at the conclusion of the study process.

Financial Implications

It is recommended that the review/study be championed at the County level and paid for through funds in the Rate Stabilization Reserve. The approximate cost of the review for only the County would be \$37,500. The estimated cost to including participation of all seven local municipalities and the County would be in the range of \$100,000 to \$125,000 and take approximately 10 to 13 weeks to complete.

Recommendation

That Essex County Council approve the transfer of funds from the Rate Stabilization Reserve to cover the cost of a regional insurance review/study.

Respectfully Submitted

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Concurred With,

Mike Galloway

Mike Galloway, Chief Administrative Officer