



Subject: *Request from Fire Service to investigate self-insurance as a method of cost saving*
To: Corporate and Residential Services Committee (in camera)
Date Prepared: April 25, 2024
Related Motions: C24(74)
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Approved by: Adam Clarkson, Director Corporate Services
Kim Ramsay, CAO

Summary

The East Hants Fire Service would like to investigate self-insurance as a method of reducing their expenses with respect to insurance. This report addresses the information staff would need to understand the Fire Service's comfort level with the risk associated with self-insurance, their expectations for financial and administrative support in developing a self-insurance program, and the support they would need in investigating their options.

Financial Impact Statement

Staff are recommending the fire service develop the business case. The direct costs of developing a business case by the Fire Services Risk Advisor has been estimated as \$2,250.

There are several points noted under the financial considerations section of this report related to long term financial impacts to self-insurance.

Recommendation

If Council wishes the Fire Service to continue to investigate self-insurance, staff recommend that the Fire Service prepare or obtain a written business case which lays out the ways they may consider self-insurance going forward (lines of insurance affected, levels of SIR, administrative support), the sources of funding they would use for the self-insurance retention (if any), the administrative costs (if any), and the savings they anticipate can be made by self-insuring.

The Fire Services' risk manager, Bruce Langille, has indicated he could prepare a written business case which would provide this information for approximately \$2,250. If Council would like this topic investigated further they need to consider allocating the funding or requesting the Fire Service fund the development of the business case.

Recommended Motion

Possible motion:

Move that the Corporate & Residential Services Committee recommends to Council that Council direct Staff to advise the Fire Service to prepare or obtain a written business case which lays out the ways they may consider self-insurance going forward (lines of insurance affected, levels of SIR, administrative support), the sources of funding they would use for the self-insurance retention (if any), the administrative costs (if any), and the savings they anticipate can be made by self-insuring.

Council may also choose to fund the cost of the business case or require the fire service to fund it from the levy.

Background

In a letter dated March 8, 2024, the Chair of the East Hants Fire Service Chief Tyler Dauphinee, requested that Council consider self-insurance as a means of saving on premium costs in their insurance program. The letter did not lay out the particulars of a proposed self-insurance program, but staff understood that the option was suggested by the Fire Service's Risk Advisor.

The intent of the letter was to get Council's permission to begin looking into and support a review for self-insurance in more detail.

Discussion

Staff were initially unsure what the Fire Service were considering when they raised the question of self-insurance; there were a number of ways they could approach it. Staff called the Fire Service's risk advisor for a brief overview of what was being suggested. Staff learned, subject to a written business case:

- A self-insured retention (SIR) was recommended for property and automobile damage claims up to a certain value to be determined. This value would be the aggregate retention for all departments in the Fire Service.
- All damage claims for property, equipment, or apparatus incurred by the Departments would be documented, adjusted, and paid by the Fire Service, up to the SIR.
- Liability claims would remain covered under traditional insurance.
- Traditional insurance would still be used for claims in excess of the SIR.

Through discussion, it was suggested that Council may wish to fund the SIR and that the Fire Service's risk advisor may be available to provide the administrative support (claims tracking, adjusting, and payment).

It was noted by the risk advisor that consideration of self-insurance programs is usually preceded by an actuarial assessment of the potential savings and costs; such an assessment is typically expensive and might be cost prohibitive given the relative costs under consideration.

Staff believe that it is important to understand the likely and the worst-case outcomes of the proposed program and that the Fire Service, and their risk advisor, is in the best position to assess those outcomes as they can discuss the potential impact on premiums with their insurer and the Departments have to understand and be comfortable with the amount of financial risk they are taking on. There is less risk to the Departments if Council agree to fund their self-insurance retention, but, in the event Council chooses not to fund the SIR or to fund it but reduce the levy by an equivalent or partial amount, the Departments need to understand that impact.

For administrative costs, these may be variable. The risk advisor estimated these costs to be minimal (\$10-15,000 annually), they could be more than expected, grow over time, or there may come a time that the risk advisor no longer wishes or is able to perform these services. Staff are not resourced or trained to perform these services, so this is not something the Municipality could undertake on behalf of the Fire Service.

Staff recommend that the program be documented in a business case which addresses the SIR funding options, the options for administrative support, and that demonstrates the likely savings.

The business case should consider scenarios where the SIR is funded by Council and where the SIR is funded by the Departments themselves. It would be important for Departments to understand their obligations under such a program and agree to be committed to the self-insurance program during the insurance year, even if the results are less than optimal.

The business case should consider different models of obtaining the administrative support. Staff have no objection (as they understand the program today) of the Fire Service using their risk advisor for these services, subject to Council approval, but there needs to be an understanding of the resources available if the risk

advisor is not available. The business case should discuss the availability of these services in the open market and the relative cost of such services.

The business case must estimate the residual insurance premiums to which the Fire Service would be subject if putting in place a self-insurance retention. There may be different scenarios based on the value of the SIR. The business case should clearly compare current traditional premiums with the likely actual costs under the self-insurance program. For example, staff anticipate that the cost of self-insurance would be a function of the administrative costs plus legal costs (if any) plus any additional adjustment costs above the retainer plus the actual settlement of claims up to the SIR plus any traditional insurance. These costs would need to be quantified, with settlement scenarios at worst-case (full depletion of SIR) and some reasonable estimate of probable claims based on the Fire Service's loss run.

Staff recommend that the Finance and Corporate Services departments be involved in the evaluation of the business case.

There may be value in engaging actuarial services if the estimates of actual claims are uncertain. Staff presume that a professional actuary would be able to assess the likelihood of claims and the likely cost of settling those claims, based on understanding the assets involved (quantity, age, condition, location, etc.).

In order to address the Fire Service's request, it is important to understand if Council would:

- Consider funding the SIR or if Council would expect the Fire Service to fund this. This decision is not binding, but provides clarity to the Fire Service when assessing their risk. This information may impact the viability of a self-insurance program.
- Consider resourcing the administrative requirements of such a program. Such resources and related skill (claims management and adjusting) do not exist in the Municipality at present.
- Wish staff to support such an investigation to their ability and capacity to provide such support.

STRATEGIC ALIGNMENT

Corporate Excellence

Goal: Our goal is to provide greater value to the community by improving the way we do business.

Objective: Proactively manage organizational risk through tools and education of employees and Council.

LEGISLATIVE AUTHORITY

The insurance program falls within Council authority.

FINANCIAL CONSIDERATIONS

A self-insurance program would have several input factors which would incur cost and which staff would need to understand how each of those cost inputs would be funded.

Self-insurance usually involves some form of self-insurance retention (SIR) in the form of a reserve from which all claims less than the SIR would be paid. This fund would need to be in place/funded each year that the SIR was in place, relative to amounts claimed against it. If the SIR were \$200,000, all claims covered by the SIR would be paid out the SIR until the SIR was fully depleted or the year ended. The SIR will need to be "topped up" for the subsequent coverage year, up to the full SIR amount.

Claims need to be tracked, investigated, adjusted, and settled, which will incur administrative costs. These costs need to be included when considering the financial viability of self-insurance, but, more importantly, the administrative supports will need to be funded each year the SIR was in effect.

Self-insurance does not eliminate insurance premiums. There should be a significant savings by retaining claims under the SIR within the department, but the Fire Service will still have to buy insurance above the SIR. The essential understanding will be whether self-insurance is likely to save the Fire Service money, by understanding the revised premium: traditional insurance premium versus the costs associated with the SIR, administration costs, and residual insurance coverage premiums.

Alternatives

Council may request further information on specifics this topic.

Attachments

N/A