

**To:** **COUNCIL**

**Meeting Date:** **01/18/2022**

**Subject:** **Waterloo Region Municipalities Insurance Pool – Subscribers Agreement**

**Submitted By:** **Sheryl Ayres, Chief Financial Officer**

**Prepared By:** **Sheryl Ayres, Chief Financial Officer**

**Report No.:** **22-014(CRS)**

**File No.:** **C1101**

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## **Recommendation(s)**

THAT report 22-014(CRS) Waterloo Region Municipalities Insurance Pool – Subscribers Agreement be received for information.

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## **Executive Summary**

### **Purpose**

The purpose of this report is to update Council on recent challenges faced with acquiring cyber insurance coverage and the option approved for future coverage approved by the Waterloo Region Municipalities Insurance Pool (WRMIP) Board.

### **Key Findings**

- The rate of cyber-crime has increased significantly, particularly over the past two years as a result of the ongoing COVID-19 pandemic and a shift to more online transactions and people working from home.
- Recently it has become difficult to secure insurance against cyber-crime and rates increased significantly.
- The WRMIP Board has explored many options to mitigate the impact of cyber-crime, insurance costs and coverage, as outlined in this report.
- A Subscribers Agreement for the creation of a self-insured Assistance Program for cyber insurance has been prepared.

## Financial Implications

The insurance premiums for the 2021 – 2022 renewal period, including the premium of \$105,306 for cyber coverage through the Assistance Program, were approved in the City's 2022 Operating Budget.

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## Background

The WRMIP Board membership is made up of the Treasurer of each municipality within the Region of Waterloo. The Board is supported by staff at the City of Kitchener.

The renewal of the City's insurance policy occurs annually as of June 1. Historically the insurance policy included coverage for cyber crime but due to an increasing rate of cybercrime as a result of the ongoing COVID-19 pandemic, this coverage is difficult, if not impossible to secure and insurance rates have increased significantly.

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## Analysis

### Strategic Alignment

PROSPERITY: To support and encourage the growth of a highly competitive local economy where there is opportunity for everyone to contribute and succeed.

Goal #2 - Governance and Leadership

Objective 2.4 Work collaboratively with other government agencies and partners to achieve common goals and ensure representation of community interests.

The WRMIP Board has worked collaboratively to develop a Subscribers Agreement for the creation of an Assistance Program. The Agreement achieves a common goal and ensures responsible financial management to fund potential cyber-crime related events

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## Comments

Over the past two years there has been an increasing trend in cyber-crime. This is due to many factors but specifically is a result of a rapid move to work from home due to the ongoing COVID-19 pandemic which presented massive opportunities for cybercrime – the cybercrime industry grew 80% last year. Also, ransom amounts have escalated, and the cost for a 'typical' event has grown from under \$100,000 to well over \$250,000, according to statistics released by Ridge Canada Cyber Solutions. Insurers are pulling out of the Cyber Market rapidly as a result of significant losses and in response have been reducing limits, reducing coverage, increasing deductibles and premiums rapidly in order to regain profitability. In particular the Municipal sector has been hard hit by underwriting restrictions, with most insurers and reinsurers considering municipalities a restricted class.

As a result of the challenges with securing cyber insurance, the WRMIP Board considered various options to mitigate future risk. The options considered include the following:

- Uninsure – Insurance would not be secured through the WRMIP and each municipality would be required to secure its own insurance
- Buy Insurance – Accepting market terms would result in an increase to premiums of three times current rates and ten times for deductibles along with greater restrictions and a total premium of \$400,000.
- Self Insurance – Build a self insurance structure within the Pool that would result in a shared risk amongst the local municipalities and a total levy of \$250,000 and optional excess insurance, if available, at an additional \$250,000.

The Board decided that moving to a self-insurance model through the development of an Assistance Program would be the most feasible and cost-effective solution. The Assistance Program creates a ‘pool’ of money to fund uninsured liabilities of the member municipalities, such as cyber-crime. A Subscribers Agreement has been created based on the existing Subscribers to the Purchase of Insurance Agreement between the area municipalities.

The Subscribers’ Agreement for the Assistance Programs establishes the ability to create and administer multiple assistance programs; establishes the objects and purposes of the assistance programs to provide, on a fully discretionary basis, financial and other assistance to subscribers related to uninsured claims; incorporates by reference the accounting and financial reporting, subscribers, termination and general provisions from the Insurance Funding Agreement.

The main feature of the Agreement is that the WRMIP Board will operate and manage all aspects of the assistance programs and Subscribers are eligible to request assistance related to uninsured claims that fall within the objects and purposes of an assistance program during the assistance period.

At this time, an Assistance Program has been created to provide financial assistance that falls within the definition of Uninsured Cyber Claims. The maximum amount of assistance to any Subscriber shall be \$500,000 per each Request for Assistance and the maximum amount of assistance for all Subscribers shall be an aggregate of \$1,000,000 per year of any Assistance Period.

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## Existing Policy/By-Law-

The City’s Delegated Authority bylaw 18-29 delegates authority to the Chief Financial Officer to execute agreements related to the City’s membership in the Waterloo Region Municipalities Insurance Pool and the City’s application for insurance policies.

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## Financial Impact

The insurance premiums for the 2021 – 2022 renewal period, including the premium of \$105,306 for cyber coverage through the Assistance Program, were approved in the City's 2022 Operating Budget.

The City also maintains a Self Insurance Reserve Fund to fund any unforeseen claims that cause the City to go above the annual insurance operating budget. The balance of the Self Insurance Reserve Fund is currently \$2,062,550.

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## Public Input

Posted publicly as part of the report process.

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## Internal/External Consultation

Various options to secure cyber insurance were discussed with the Region of Waterloo and area municipalities as members of the Waterloo Region Municipalities Insurance Pool.

Internal consultation occurred with the City Solicitor, Deputy City Manager - Corporate Services, Chief Information Officer, Deputy City Manager – Corporate Enterprise and the Chief Risk Officer.

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## Conclusion

Due to an increasing trend in cyber-crime and ransom amounts, insurance providers are pulling out of the Cyber Market rapidly and it is becoming increasingly challenging to secure this type of insurance at affordable rates. As a result, the WRMIP Board has considered various options to mitigate risk and provide coverage in the event of a potential cyber attack to the member municipalities. A self-insurance model through the development of an assistance pool has been established to provide future coverage within the agreement limits.

Through the authority delegated in the City's Delegated Authority Bylaw, the Chief Financial Officer has the ability to enter into these types of agreements with the WRMIP on behalf of the City. This report provides a summary of the Subscribers Agreement that has been entered into along with the other municipalities within the Region for coverage against cyber-crime.

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## Signature

### Division Approval

Reviewed by Legal Services



**Name: Sheryl Ayres**  
**Title: Chief Financial Officer**

### Departmental Approval



**Name: Dave Bush**  
**Title: Deputy City Manager – Corporate Services**

### City Manager Approval



**Name: Hardy Bromberg**  
**Title: Acting City Manager**

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## Attachments

None