

Committee:	Executive	Agenda Item No.:	11.
Date:	2 <sup>nd</sup> November 2009	Status	Open
Category	3. Part of the Budget and Policy Framework		
Subject:	Renewal of Insurance Policies 2009		
Report by:	Senior Technical Officer		
Other Officers Involved	Director of Resources Head of Finance		
Director	Director of Resources		
Relevant Portfolio Holder	Corporate Efficiency		

### **RELEVANT CORPORATE AIMS**

**STRATEGIC ORGANISATIONAL DEVELOPMENT** – Continually improving the efficiency and effectiveness of Council services by demonstrating value for money by reviewing the current basis of risk transfer arrangements whilst maintaining sound financial management.

**TARGETS** - To review the entire insurance portfolio with the current insurer, whilst endeavouring to retain within a Long Term Agreement (LTA) to improve the effectiveness and efficiency of the renewal process. This enabled the Council to maintain LTA and package discounts and obtain competitive renewal terms, therefore contributing towards the Council's efficiency gains targets.

**VALUE FOR MONEY** - Obtain competitive renewal terms for all of the Council's insurance policies following significant insurance claims, during a period where the insurance market is experiencing rising costs.

### **Purpose of the Report**

The Council's insurance policies were due for annual renewal on 1<sup>st</sup> October 2009. This report is to inform Members of the outcome of the recent insurance renewal process carried out under powers delegated to the Director of Resources.

### **Delegated Powers**

The Council has granted delegated powers to the Director of Resources to renew the Council's insurance cover, in order to obtain the most economically advantageous outcome, without the restrictions imposed by meeting deadlines.

## **Background**

The principal insurance contracts are insured with Travelers Insurance Company. The engineering inspection, contractors plant insurance and vehicle uninsured loss recovery agent are with Allianz and MAPS respectively. These contracts were awarded following a tendering exercise in 2006 and expire in September 2011.

The principal insurance policies are subject to a £20,000 excess each and every claim. The exceptions are vehicles (and Council tools contained within) which are subject to a £250 excess, engineering contractor's plant having £10,000, leasehold flats having a nil excess except subsidence claims where £2,500 applies and respect of Pleasley Vale flood peril an excess of £50,000.

## **Premium Rating Factors**

Insurers base their premium rate calculations on a variety of factors, a number of which have changed for the Council since the last renewal:

- Salary and wages figures declaration, which increased significantly due to Job Evaluation on top of annual increments and pay award.
- Property valuation figures, for all general properties, leased flats and housing stock.
- Claims history (settlement values and types of losses).

## **Rating Review**

At the 2009 insurance renewal the insurer altered the basis of premium rating to reflect the Council's claims trend. Whilst the overall balance of premium rates remains neutral, this has resulted in the following:

- All property rates have increased due to the deteriorating loss experience.
- A reduction in rates applied to Public Liability, Employer Liability and Officials indemnity policies due to improving loss experience.

## **Excess Levels**

The Council sought comparisons of varying excess levels to premiums, but the premium reductions were not significant compared to the additional risk.

## **Profit Share Scheme**

The policies with Travelers are linked to a profit share scheme. This is based on a sliding scale to reflect the loss ratio (premiums to claims) at each forthcoming renewal. Due to the loss experience for the period 2006 -2007 the profit share at the 2009 renewal is nil (compared with a profit share of £8,714 in 2008/09).

## Renewal Outcome Summary

The following summarises the outcome of the 2009 renewal process:

- Renewed principal insurance policies with Travelers which includes a total of 6 free risk management consultancy days.
- No change to excess levels
- Premium ratings revised but the balance of the rates remain unaltered, increases in premium costs are due to increases in sums insured.
- Other limits within the policy remain unchanged, with the exception of an endorsement to an extension on the 'All Risks' policy relating to Council tools in vehicles was added with a reduced excess of £250.
- Long Term Agreement expires in September 2011.

## Conclusion & Costs

The increases in 2009 premiums are due to increased sum insured figures and salary costs. Significant examples would include the acquisition of Riverside Depot (whilst still insuring Oxcroft Lane and South Normanton depots); and the Job Evaluation process increasing salary costs.

The following comparison table shows premiums by category and compares with the renewal in 2008/09:

	2008/2009 £	2009/2010 £	Variance £
<b>Motor</b>			
➤ Fleet	69,707	70,804	1,097
➤ Lease Cars	15,561	16,062	502
➤ Vehicle Accumulation policy	3,540	4,883	1,343
➤ MAPS Recovery Loss Agent	790	741	(49)
<b>Total Motor premiums</b>	<b>89,598</b>	<b>92,491</b>	<b>2,893</b>
<b>Liability</b>			
➤ Public liability / Libel & Slander	50,251	43,678	(6,573)
➤ Employers liability	82,438	70,978	(11,460)
➤ Officials indemnity / Land Charges	9,569	8,758	(811)
➤ Professional Indemnity	1,855	1,943	88
<b>Total Liability premiums</b>	<b>144,114</b>	<b>125,357</b>	<b>(18,757)</b>
<b>Property</b>			
➤ Council properties	65,471	95,838	30,367
➤ Contents	1,862	3,191	1,329
➤ Business Interruption	1,667	2,327	660
➤ All Risks	853	1,073	220
➤ Money	324	324	-
➤ Council Tools (in vehicles)	-	533	533
<b>Total Property premiums</b>	<b>70,177</b>	<b>103,286</b>	<b>33,109</b>

	2008/2009 £	2009/2010 £	Variance £
<b>Minor Classes</b>			
➤ Fidelity Guarantee	2,011	2,204	193
➤ Computer	3,999	4,012	13
➤ Engineering (plant & inspection)	7,784	7,942	158
<b>Total Minor premiums</b>	<b>13,794</b>	<b>14,158</b>	<b>364</b>
Claims Handling	6,500	6,500	-
I.P.T. @ 5%	15,107	16,415	1,308
Less Profit Share	(8,714)	(-)	8,714
<b>Total</b>	<b>330,576</b>	<b>358,207</b>	<b>27,631</b>
<b>Total to Travelers</b>	<b>321,914</b>	<b>349,439</b>	<b>27,525</b>
<b>Total to MAPS- Motor Loss Recovery</b>	<b>830</b>	<b>778</b>	<b>(52)</b>
<b>Total to Allianz - Engineering Policies</b>	<b>7,832</b>	<b>7,990</b>	<b>158</b>

### Specialist Advice

Consultancy and Brokering services are to be retained, continuing to provide the Council with guidance and support, claims analysis, advice, monitoring the adequacy of the "insurance fund" and verify insurers' contract terms and conditions. The annual cost for this service is £4,500. An additional fee of £5,000 is required to assist in the 2010 renewal process. Brokering services are to be subject to tendering in 2010 to test the market.

### Reserves & Provisions

The availability of funds to meet the Council's liability and responsibility for claims below the excess and finance any uninsured losses is a vital component in the risk transfer process.

At 1<sup>st</sup> April 2009, the opening balances for the Insurance Provision was £155,631 and the Reserve was £138,210 before any scheduled contribution. Annual contributions of £60,000 to the Provision and £50,000 to the Reserve are budgeted for in the Medium-term Financial Plan. Over the past 3 years the average annual cost for claims incurred below the excess equated to £137,835, and withdrawn from the provision, significantly more than the annual contribution. If this trend continues the provision will have insufficient funds to meet incurred costs. In the short term it is appropriate to re-allocate funds from the reserve to the provision. Therefore £100,000 is to be allocated to the provision in an attempt to maintain adequate balances. The remaining £10,000 will be allocated to the reserve, which has an average annual withdrawal of £22,810. The withdrawals of £137,835 and £22,810 are based on historical claims experience and are no indication of projected withdrawals. However, if these figures continue additional contributions may be necessary for the long term.

## **IMPLICATIONS**

Financial:

1. Contributions to the Reserve and Provision to be reallocated as aforementioned and continue to review options to increase these funds to meet the eventuality of unforeseen losses and finance claims below the excess.
2. The overall annual cost is £477,707, as the following table shows and compares with 2007 :

	<b>2008 Costs £</b>	<b>2009 Costs £</b>
Premiums (net of IPT)	315,469	341,792
IPT @ 5%	15,107	16,415
Provision Contribution	60,000	100,000
Reserve Contribution	50,000	10,000
Consultancy / Claims Analysis	4,500	4,500
Renewal Consultancy	5,000	5,000
<b>Total</b>	<b>450,076</b>	<b>477,707</b>

The impact spans two financial years as the figure of £477,707 is based on the insurance year, 1<sup>st</sup> October 2009 to 30<sup>th</sup> September 2010. The financial year budget for 2010/11 will differ dependent upon:

- the probability that premiums will increase again in October 2010
- a judgement on whether the provision for future years will be sufficient;
- the LTA is breached, obligating the Council to tender.

The Council's Business Risk Group will be looking to implement changes during this premium year to enhance the Council's claims history and result in a more competitive renewal premium in 2010.

Legal: None

Human Resources: None

## **RECOMMENDATION(S)**

1. **That the action of the Director of Resources under delegated powers be endorsed.**

## **REASON FOR DECISION TO BE GIVEN IN ACCORDANCE WITH THE CONSTITUTION**

The Council has assessed value for money, quality and service issues, together with the preferred risk transfer method and selected the option financially beneficial to the Council.

ATTACHMENTS: **N/A**

FILE REFERENCE: ***Held by Senior Technical Officer***

SOURCE DOCUMENT: **N/A**