

Committee:	Executive	Agenda Item No.:	8.
Date:	7th November 2011	Status	Open
Category	3. Part of the Budget and Policy Framework		
Subject:	Renewal and Tendering of Insurance Policies 2011		
Report by:	Senior Technical Officer		
Other Officers Involved	Director of Corporate Resources Head of Finance & Revenues		
Director	Director of Corporate Resources		
Relevant Portfolio Holder	Councillor E. Watts, Portfolio Holder for Customer Services and Policy and Performance		

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 Council's entire insurance portfolio and test the insurance market in compliance with OJEU, to ensure value for money and obtain competitive renewal terms, whilst maintaining adequate insurance cover.

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.

THE REPORT

Purpose of the Report

The Authority's insurance policies were subject to a Long Term Agreement (LTA) which expired on the 1st October 2011. These have recently been subject to OJEU requirements, with a negotiated procedure being elected.

This report is to inform members of the outcome of the tender process carried out under powers delegated to the Director of Corporate Resources, in

consultation with the Chief Executive Officer, Deputy Leader and the Chair and Vice Chair of Improvement Scrutiny Committee.

Delegated Powers

The Council has granted delegated powers to the Director of Corporate Resources to renew the Council's insurance cover, in order to obtain the most economically advantageous outcome. This report outlines the actions of the Director of Corporate Resources.

Members are now asked to endorse the actions of the Director of Corporate Resources in renewing the Authority's insurance cover as described in the report.

Background

The principal insurance contracts were insured as a package with Travelers Insurance Company. The engineering inspection, contractors hired plant insurance and vehicle uninsured loss recovery agent were with Allianz and MAPS respectively.

These contracts were awarded following a tendering exercise in 2006, expiring in September 2011, and were subject to a 3 year Long Term Agreement (LTA) with an option to extend for a further 2 years.

The principal insurance policies were subject to a £20,000 excess each and every claim. The exceptions were vehicles (and Council tools contained within) which were subject to a £250 excess, engineering plant having £10,000, leasehold flats having a nil excess except subsidence claims where £2,500 applied, and a £50,000 excess in respect of the flood peril at Pleasley Vale site.

ISSUES/OPTIONS FOR CONSIDERATION

Portfolio Movement Summary

Insurance premiums are predominately based on factors including sums insured, claims history, risk exposure, market fluctuations, geographical area and Council activities. The following areas are compared to the 2010 renewal. All remaining policies have shown minimal movement on sums insured.

- ➔ Salary and wages figure declared to insurers reduced by 6.4%.
- ➔ Housing properties and leased flats sum insured increased by 5.2%.
- ➔ General properties sum insured increased by 2.2%
- ➔ Play areas sum insured increased by 15.2%
- ➔ Vehicle numbers reduced by 2.5%.
- ➔ All Risks sum insured reduced by 4.7%

Fidelity Guarantee indemnity limit for nominated Officers has increased from £2.5 Million to £5 Million, to align with the Treasury Management Strategy.

Additional professional negligence cover was added to the policy mid term to provide advice for retail development on behalf of Amber valley B C. This shall continue.

The Chancellor's increased Insurance Premium Tax (IPT) on the 4th January 2011 from 5% to 6%. This would have equated to an additional £3,177 cost based on 2010/11 premium figures.

Tender Outcome Summary

Insurers were asked to tender for a 3 year LTA with an option to extend by 2 years, including options to reduce the excess on certain policies. The Council's broker (AON) has been involved in the tender process to assist in achieving the most cost effective proposals, recognising that 60% of the scoring was based on price and 40% on technical capability and coverage. The following summarises the outcome of the 2011 tender process:

- To give the Council maximise choice and value for money, policies were categorised into eight 'lots' within the tender. These were split as follows –
 1. Property Risks
 2. Casualty & Professional Risks
 3. Engineering Inspection & Hired in Plant
 4. Crime / Fidelity Guarantee
 5. Terrorism
 6. Motor Vehicles
 7. Computer Risks
 8. Risk Management & Training
- Eight tenders were received with Travelers, RMP and Zurich Municipal quoting as completed packages, (excluding Engineering from Travelers), as well as for individual 'lots', with the remaining insurers quoting in isolation for policies within 'lots'.
- The table below summaries the options which were compared and considered -

2011 TENDER COMPARISONS (Inc IPT with LTA, package, day one, discounts)	Costs £
Paid in 2010/11 – Travelers (Package)	340,346
Option A - Travelers Package (current insurer). Based on existing terms (£20K excess on Property & Casualty)	452,278
Option B – Travelers Package (current insurer). Based on £250 excess on housing stock storm peril	378,087
Option C - Zurich Package. Based on £250 excess on housing stock storm peril	361,165
Option D - RMP Package (underwritten by Chartis Insurance). Based on £20,000 excess on Property & Casualty policies	459,199
Option E – Split policies (5 insurers). Best pricing option Based on £250 excess on housing stock storm peril	340,176

- ➔ Option A – Current insurer with package, LTA and day one payment discounts, with no change to terms and conditions (excess £20,000 per incident).
 1. Travelers increased the Housing Stock premium considerably due to claims experience.
 2. Includes 3 free risk management days.
 3. Low claims rebate (or profit share) of £14,421+IPT for 2008/09 applies only if a complete package is renewed. Additional rebates of £24,495+IPT and £17,039+IPT would also apply to respective years 2009/10 and 2010/11.
 4. Vehicle accumulation policy removed as the sum insured limit has been raised to £2.5 Million before becoming necessary.
 5. Alternative excess level of £10,000 in respect of property policies would cost an additional £27,960+IPT (before discounts).

- ➔ Option B - Current insurer with package, LTA and day one payment discounts, with **significant change to Housing Stock peril excess level**.
 1. Terms as option A, with a major change effecting housing stock which would be subject to a **£250 excess per property** relating to the storm damage peril. Excess of £20,000 would apply per incident for remaining perils. Eg, If 500 properties were damaged by storm and each property suffered losses exceeding £250 the council would have to self fund £125,000 as opposed to the current £20,000, thus increasing the Council's self insurance exposure. The break even ratio is 80 properties, based on the assumption that the damage per house amounts to £250 or more.

- ➔ Option C – New insurer with package, LTA and day one payment discounts, with **significant change to Housing Stock peril excess level**.
 1. Similar terms as option B, with regard to the housing stock being subject to a **£250 excess per property** for the storm damage peril.
 2. Cover under the property and BI policies are subject to a £50 Million loss limit (reduced from the current £100 Million).
 3. Reduced inner terrorism limit from £10 Million to £5 Million under EL & PL policies. Primary limits still apply at £10 Million.
 4. Zurich considered Pleasley Vale Business Park site high risk and quoted a premium (after discounts) of £32,382+IPT as compared to £9,405+IPT with Travelers.
 5. Alternative excess level of £10,000 in respect of property policies, excluding Pleasley Vale would cost an additional £11,065+IPT (before discounts).

- ➔ Option D – New insurer with package and LTA discount, with £20,000 excess on property, casualty and minor classes, with £250/£50 on motor.
 1. Housing stock insured on similar terms to option A, where the excess of £20,000 would apply per incident and not per premises.
 2. Claims management fee of £10,141+VAT applies to casualty policies.
 3. Cover under the property and BI policies are subject to a £30 Million loss limit (reduced from the current £100 Million).

4. Money limit for safes reduced from the current £46,000 to £10,000.
- ➔ Option E - Best Price (Split policies) – Travelers / Zurich / RMP / RSA / MAPS
1. Travelers had the most competitive price for all property policies, based on option B (£250 excess on storm peril on housing stock). Three inclusive Risk Management days relate only to property.
 2. Zurich had the most competitive price for casualty policies (EI, PL, OI and PI), Fidelity Guarantee, hire of plant and engineering inspections. Premium ratings guaranteed for an initial 2 year period.
 3. RMP had the most competitive price for fleet and lease cars. Vehicle excess to remain at £250 fire / damage and £50 for windscreen. (MID electronic data will require transferring). Premium adjustments have to be made on a 50% premium basis at each renewal period. Negotiations have secured agreement to use current vehicle approved repairer.
 4. RSA had most competitive price for computer offering a much lower excess at £1,000 for breakdown and £250 for all other losses, than the current £20,000. Cover also has wider limits.
 5. MAPS would retain the vehicle uninsured loss recovery agency.
 6. Engineering had to be awarded to Zurich as Allianz (current provider) did not quote due to failing to meet the tender deadline.
 7. There would be no 'low claims rebate' for 2011/12 from Travelers as the loss ratio exceeds 100% (for 2008/09), due to Kissingate LC fire, however projected rebates for 2012/12 and 2013/14 renewals would be £11,438 and £12,658 +IPT, respectively.
 8. LTA discount at 5% and day one payment discount of 1% applied to Travelers and Zurich policies. RMP offered 5% for LTA.
- ➔ Lot 5, Terrorism for material damage is not covered at present, but a price was obtained. The best price was quoted at £7,023+IPT. It was decided not to accept this policy, due to the likelihood being low risk.
- ➔ Lot 8, Risk Management training was included free within the Travelers package for all policy classes. In isolation, Travelers offer 3 free risk management days for property only. The most competitive daily rate was from RMP at a cost of £1,225. This wont be utilised as the Council's broker (AON) can provide a limited inclusive service for areas not covered.

Conclusion & Costs

- ➔ Option E (split policies) was chosen as it was considered the most financially viable for the Council.
- ➔ It is accepted that a package policy has benefits in managing insurance, however by splitting polices additional savings can be made which outweigh the additional resources required.
- ➔ When comparing 2010/11 premiums with 2011/12 option E, 'best pricing option' and excluding Travelers low claims rebate for period 2007/08 and IPT, the saving is £25,074 (£346,447 - £321,373). However when

comparing actual payments, including the rebate and additional IPT (now at 6%), the saving is £170, (£340,346 - £340,176).

- The following comparison table shows premiums by category and compares with 2010/11:

	2010/2011 £	2011/2012 £	Variance £
Vehicles			
➤ Fleet	78,381	72,055	(6,326)
➤ Lease Cars	16,338	14,945	(1,393)
➤ Vehicle Accumulation policy	5,770	-	(5,770)
➤ MAPS Recovery Loss Agent	768	784	16
Total Vehicles premiums	101,257	87,784	(13,473)
Casualty			
➤ Public liability / Libel & Slander	40,965	28,458	(12,507)
➤ Employers liability	66,568	18,717	(47,851)
➤ Officials indemnity / Land Charges	7,674	5,057	(2,617)
➤ Professional Indemnity	1,973	4,626	2,653
Total Casualty premiums	117,180	56,858	(60,322)
Property			
➤ Housing Stock	75,066	108,346	33,280
➤ Leased Flats	2,073	3,292	1,219
➤ General Properties	19,815	27,362	7,547
➤ Play Areas	1,128	1,546	418
➤ Contents	3,140	3,493	353
➤ Car Parks	942	1,019	77
➤ Work In Progress	2,733	2,888	155
➤ Business Interruption	2,613	3,661	1,048
➤ All Risks	1,188	1,224	36
➤ Money	324	329	5
➤ Council Tools (in vehicles)	609	658	49
➤ Pleasley Vale B P Mills	4,741	9,405	4,664
➤ Pleasley Vale B P Lodges	350	430	80
Total Property premiums	114,722	163,653	48,931
Minor Classes			
➤ Fidelity Guarantee	2,067	3,035	968
➤ Computer	4,022	1,805	(2,217)
➤ Engineering (hired plant & inspection)	7,199	8,238	1,039
Total Minor premiums	13,288	13,078	(210)
Sub Total (exc IPT)	346,447	321,373	(25,074)
Less profit share	(21,989)	(0)	21,989
I.P.T. @ 6% (5% in 2010)	15,888	18,803	2,915
Grand Premium Total (inc IPT)	340,346	340,176	(170)

Specialist Advice / Brokering

Consultancy and Brokering services were reviewed in March 2010 with savings being found when testing the market. The annual cost for the 2012 renewal process will be £3,200.

Reserves & Provisions

At 1st April 2011, the opening balances for the Insurance Provision was £185,810 and the Reserve was £131,951 before any scheduled contribution. The withdrawals were £99,069 and £15,781 respectively. Annual contributions of £100,000 to the Provision and £10,000 to the Reserve are budgeted for in the Medium Term Financial Plan to fund claims below the excess and finance any uninsured losses.

Due to the excess now being £250 per Council house relating to the storm peril, the Council has increased its exposure significantly and could suffer major losses, without having a sufficient insurance reserve to fund, therefore it has been decided that the Housing Revenue Account (HRA) will contribute an additional £50,000 per annum to the Insurance Reserve to finance the losses within the revised excess.

To give an indication of recent housing stock losses, over the past 5 years the Council paid £40,000 in insurance claims which related only to the storm peril for housing properties based on the current £20,000 excess per incident. Reducing the excess level to £250 per property, the Council would have paid £151,937, with the insurer paying £32,218 above the £250 excess.

IMPLICATIONS

Financial:

1. The overall annual cost is £503,376, spanning two financial years as this figure is based on the insurance year, 1st October 2011 to 30th September 2012. The following table shows and compares with 2010:

	2010 Costs £	2011 Costs £
Premiums (net of IPT)	324,460	321,373
IPT @ 6% (2010 = 5%)	15,887	18,803
Provision Contribution (Gen Fund)	100,000	100,000
Reserve Contribution (Gen Fund)	10,000	10,000
Reserve Contribution (HRA)	0	50,000
Consultancy / Brokering	4,800	3,200
Total	455,147	503,376

Legal: None

Human Resources: None

RECOMMENDATION

That the action of the Director of Corporate Resources (in consultation with the Chief Executive Officer, Leader and Deputy Leader and the Chair and Vice Chair of Improvement Scrutiny Committee) under delegated powers be noted.

REASON FOR DECISION TO BE GIVEN IN ACCORDANCE WITH THE CONSTITUTION

The Council has assessed value for money, quality and service issues, and selected the option financially beneficial to the Council.

ATTACHMENTS: **N/A**
FILE REFERENCE: ***Held by Senior Technical Officer***
SOURCE DOCUMENT: **N/A**