

Portfolio Holder Concurrence - Insurance Renewal 2019

The Council tendered its insurance premium portfolio in 2016 with a mix of insurers being appointed across the various classes of insurance.

The contracts awarded in 2016 were for an initial period of 3 years with an option to extend for a further 2 years. 2019 is therefore the year in which the Council needs to decide whether it wishes to extend existing contracts for a further 2 years to 2021.

To support the Council in making this decision, the following renewal premiums have been quoted by the various current insurers which would become payable on 1 October 2019 (the renewal date):

Table 1

Summary of All Premiums	Insurer	2018 Premium (Incl IPT) £	2019 Renewal Premium Quotation (Incl IPT) £	Increase
Combined Liability	Aspen	166,083.62	150,790.08	(15,293.54)
Property (Incl. Terrorism)	Protector	187,614.56	350,364.00	162,749.44
Terrorism	Protector	17,456.32	18,933.48	1,477.16
Motor Fleet	Protector	32,668.16	48,562.08	15,893.92
Cyber Liability	AUM (Beazley)	6,713.38	6,850.88	137.50
Marine	AUM (RSA)	3,292.80	2,709.01	(583.79)
Computer Equipment & Loss of Data	AUM (RSA)	3,750.00	3,764.15	14.15
Personal Accident and Travel	AUM (Chubb/RSA/AXIS)	1,943.07	1,945.12	2.05
Employment Practices Liability	XL	9,535.23	9,520.00	(15.23)
Environmental Impairment Liability	Chubb	2,796.64	2,709.01	(87.63)
Property - Redoubt Fort	Ecclesiastical	16,312.65	15,867.41	(445.24)
Drone Liability	Allianz	952.00	940.54	(11.46)
Engineering	ZM	27,593.75	27,152.44	(441.31)
Fidelity Guarantee	ZM	2,766.40	2,418.71	(347.69)
Total		479,478.58	642,526.92	163,048.33
Annual Budget			441,110.00	
Increase			201,416.92	

The total cost of premiums in 2018 was above the annual budget but this was accommodated via the move to accrual accounting, with a net 'saving' experienced in the year due to this change. Although the increase in premium costs of £201,416.92 set out in the table reflects this rebased cost, the primary increase is due to the change in rates that the various insurers have applied to reflect a worsening / historic claims history. The two classes of insurance where this has happened is property and motor fleet as highlighted within the table.

Given the significant increases in these two premiums, the relevant insurer has provided alternative quotes based on an increase in the level of deductible payable per claim. Additional information has also been provided by the Council's Insurance Brokers which sets out the cost that would have been incurred by the Council if the deductibles being proposed were in force over the last 3 years (average claims costs used):

Property Cover - Alternative Quote

Table 2

Alternative Deductible	Premium	Reduction in Premium	Cost up to deductible (Historic Claims Cost Average)	Total Cost to the Council
	£	£	£	£
	(A)	(B)	(C)	(A + C)
£5,000 (current)	350,364	-	17,133	367,497
£10,000	296,787	(53,577)	32,193	328,980
£15,000	278,927	(71,437)	45,526	324,453
£20,000	261,068	(89,296)	58,356	319,424
£25,000	243,209	(107,155)	70,023	313,232
£50,000	180,702	(169,662)	118,245	298,947

When reviewing historic claims history, most of claims have been associated with the Council's housing stock and our insurers have indicated that there would only have been a marginal (4%) premium increase if this had been excluded. Therefore it would be permissible to charge any premium increase to HRA. Based on this underlying position and claims continuing to be associated with housing properties, the decision to take a higher deductible or not would be a decision taken within the overall HRA position. However the level of deductible applies to the overall policy and the General Fund would also have to consider underwriting the risk of this change if claims arose in 2019/20 and the first half of 2020/21.

Based on the figures set out in the table above the total cost to the Council would be £298,947 with a £50,000 deductible, compared to £367,497 with a £5,000 deductible (current deductible level). However a review of historic claims cannot be relied upon to indicate the level of future claims and it could be significantly worse in the coming years.

However the Council is working directly with the insurer to identify an action plan with the aim of responding to the existing / worsening claims history. Based on this approach it could be argued that future claims should be no worse / or potentially less than the historic position. By taking this view it would therefore be reasonable to accept an increase in the deductible to £50,000. To support the Council, the relevant insurer has also agreed to an aggregate stop loss of £290k to limit the overall financial risk during the year.

If this approach was agreed, then the budget implications would be considered as part of the HRA business plan/ budget and GF budget over the remainder of 2019/20 and into 2020/21. By taking a higher deductible, the Council is effectively self-insuring up to a limit of £50,000 per claim, with the financial risk underwritten by HRA balances / one-off GF budgets.

Also, it is important to highlight that the position could be reviewed again in 12 months' time. If the cost of claims reduced then this would have a significant impact on future premiums which would provide a better foundation against which to go out to tender in future years.

Motor Fleet Cover - Alternative Quote

Table 3

Alternative Deductible	Premium	Reduction in Premium
£250 (current)	48,652	-
£500	47,325	(1,327)
£750	46,440	(2,211)
£1,000	44,229	(4,423)

Similar to property cover, the worsening claims history experienced over recent years has prompted the Council's insurers to increase the cost of motor fleet cover. However this is relatively minor in cash terms compared with the increase in the premium for property cover.

Although the Council is working with services on an action plan to reduce the number of claims going forward, given the relatively small premium increase proposed, it is not planned to change the level of deductible this year but review the position again in a year's time.

In addition to the option to increase the level of deductibles for property and motor fleet cover, the Council could decide to not renew with existing insurers and go back out to the wider market to see if it was possible to improve on the prices quoted. However on careful consideration by the Council's Brokers who have a broad UK perspective on the current insurance market, their view is that there is a very real risk in tendering as the outcome could potentially be much worse. The Council's current claims experience is such that the risks are unappealing to alternative markets and therefore there may be very little market wide interest generated by a tender exercise.

Based on the above the proposed way forward and overall position is set out in the table below: (Property premium reduced based on the proposed move to a £50k deductible)

Table 4

Summary of All Premiums	Insurer	2018 Premium (Incl. IPT) £	2019 Alternative Renewal Premium Quotation (Incl. IPT) £	Change £
Combined Liability	Aspen	166,083.62	150,790.08	(15,293.54)
Property (Incl. Terrorism)	Protector	187,614.56	180,097.12	(7,517.44)
Terrorism	Protector	17,456.32	18,863.69	1,407.37
Motor Fleet	Protector	32,668.16	48,651.68	15,983.52
Cyber Liability	AUM (Beazley)	6,713.38	6,850.88	137.50
Marine	AUM (RSA)	3,292.80	2,709.01	(583.79)
Computer Equipment & Loss of Data	AUM (RSA)	3,750.00	3,764.15	14.15
Personal Accident and Travel	AUM (Chubb/RSA/AXIS)	1,943.07	1,945.12	2.05
Employment Practices Liability	XL	9,535.23	9,520.00	(15.23)
Environmental Impairment Liability	Chubb	2,796.64	2,709.01	(87.63)
Property - Redoubt Fort	Ecclesiastical	16,312.65	15,867.41	(445.24)

Drone Liability	Allianz	952.00	940.54	(11.46)
Engineering	ZM	27,593.75	27,593.75	0.00
Fidelity Guarantee	ZM	2,766.40	2,766.40	0.00
Total		479,478.58	473,068.85	(6,409.74)
Annual Budget			441,110.00	
Increase			31,958.85	

The Council's Insurance Brokers

The Council's current brokers (AON) have been mentioned above and it is timely to review the Council's current arrangement with them. They have provided robust advice and provided essential / specialist insurance knowledge over recent years in what is an increasingly complicated market. It is therefore proposed to continue to work with AON over the next year to support the Council through next year's insurance renewal process and in preparing for the major tender exercise required in 2021 when the current 5 year arrangement comes to an end. The total cost of AON's services is £6,000 per annum, which is deemed to still represent good value for money.

Recommendation:

- 1) That the Council extends the current arrangements with existing insurers for 2019 based on the proposal set out in Table 4 above (that reflect an increase in the deductible for property cover from £5k to £50k) and reviews the position at renewal next year.
- 2) That the increased cost of £31,958.85 (compared to the 2019/20 budget) be considered as part of the Council's financial performance / long term forecast process.
- 3) That the financial risk of accepting an increase in the level of deductible for property insurance be considered as part of the Council's financial performance / long term forecast process (General Fund) and Business Plan and associated budget (HRA).
- 4) That an exemption to procurement rules is agreed to enable AON to be appointed as the Council's Insurance Brokers for a period of 24 months from 1 October 2019.

.....
Head of Finance, Revenues and Benefits

.....
Date

Agreed (Concurrence):

.....
Portfolio Holder for Corporate Finance and Governance

.....
Date

.....
Portfolio Holder for Housing

.....
Date