



NOT FOR PUBLICATION: The Appendices to this report contain information considered to be exempt under Paragraph 3 of Schedule 12A to the Local Government Act 1972 as amended

REPORT TO	Cabinet
DATE:	20 September 2006
REPORTING OFFICER:	Head of Financial Management <i>(Val Hunter)</i>
SUBJECT:	INSURANCE RENEWAL 2006
WARDS AFFECTED:	None specifically
FORWARD PLAN REF:	08/06/DR10

1.0 PURPOSE OF THE REPORT

1.1 The purpose of the report is to inform Members of the key facts concerning the renewal terms for the Council's insurance arrangements covering the period October 2006 to September 2007.

2.0 RECOMMENDATIONS

2.1 That the insurance renewal premiums for the insurance year 1 October 2006 to 30 September 2007 as set out in **Appendix 1** and summarised in Paragraph 10.1 be approved.

3.0 RECOMMENDED REASONS FOR DECISIONS

3.1 The Authority needs to ensure that adequate arrangements are in place to protect its insurable risk. This requires cover to be in place with effect from the expiry of the current arrangements on 30 September 2006.

4.0 ALTERNATIVE OPTIONS CONSIDERED AND RECOMMENDED FOR REJECTION

4.1 There is no alternative.

5.0 BACKGROUND

- 5.1 The Authority operates a large insurance portfolio covering a wide range of insurable risks. The principal risks covered are Liability, Property, Motor and Engineering.
- 5.2 Insurance risks are placed through the brokers Heath Lambert Group who were appointed in April 2001 following a competitive tendering process. In July 2005, the Cabinet Member Resources agreed a two-year contract extension to 31 March 2008.
- 5.3 The Authority's insurance arrangements are currently subject to Long Term agreements (LTA). An LTA is an arrangement whereby an insurer offers a discount in return for a guarantee to offer the business for renewal for a fixed period. The majority of the LTAs are due to expire at this renewal.
- 5.4 For those policies where the LTA is due to expire at this renewal, Heath Lambert has requested tenders in accordance with EU procurement regulations. The outcome of this process is set out in more detail in sections 6 to 8 below.
- 5.5 The report to Cabinet on 21 September 2005 identified a number of key factors, which continued to influence the UK commercial insurance market:
- ❖ An increase in the frequency and severity of large losses
 - ❖ The impact of increases in bodily injury claims across a number of different classes of insurance. This has been influenced by the proliferation of "no win, no fee arrangements"
 - ❖ A reduction in the number of insurers within the market following "mega mergers"
 - ❖ An escalation in reinsurance costs following the large losses suffered as a result of the terrorist attacks in the United States in September 2001
- 5.6 Although the position remains difficult, the market has continued to stabilise over the last three years. This has been brought about by a number of factors:
- ❖ A return to underwriting profitability for a large sector of the insurance market
 - ❖ An improvement in insurers' capital base
 - ❖ The introduction of additional underwriting capacity leading to an element of competition in the market

- 5.7 There continues to be an increased recognition of the importance of risk management. Organisations, who are perceived by the market as being willing and able to manage risk, are best placed to obtain recognition from insurers for commitment.

6.0 PROPERTY INSURANCE

6.1 **Material Damage/Works in Progress/Money/All Risks/Theft**

Following the expiry of the current LTA, this policy has been marketed and the alternative quotations received are set out in **Appendix 2**. This shows that the current insurer, Zurich Municipal, has submitted the most competitive quotation. The premium, which represents a 14% saving on the 2005 renewal premium is offered by Zurich in return for a 5-year long-term agreement valid until 30 September 2011. It is recommended that cover be renewed with them with effect from 1 October 2006.

6.2 **Business Interruption**

This forms part of the Commercial Combined policy and provides cover against loss of revenue or increased costs of working following an insurable event. Despite an increase in sums insured, the 2006 renewal premium still represents a small saving against the 2005 premium.

6.3 **Terrorism**

Following a change to the way in which the government backed Pool Re scheme operates, for renewals after 1 January 2003 insurers are required to provide optional cover for terrorism under their policies. This cover is backed by Pool Re (and ultimately the Government). Terrorism cover will, therefore, continue to be provided by Zurich Municipal in line with the main Commercial Combined policy.

7.0 LIABILITY INSURANCE

7.1 **Public/Products Liability/Employers Liability/Officials Indemnity/Professional Indemnity**

Following the expiry of the current LTA, this policy has been marketed and the alternative quotations received are set out in **Appendix 2**. This shows that the current insurer, St Paul Travelers, has submitted the most competitive quotation. The premium, which represents a 19% saving on the 2005 renewal premium is offered by St Paul in return for a 5-year long-term agreement valid until 30 September 2011. It is recommended that cover be renewed with them with effect from 1 October 2006.

7.2 **Excess Employers/Public/Products Liability**

These policies provide cover over and above the underlying Combined Liability policy. All three tender submissions include for this to continue with the current provider, ACE Europe. Renewal for 2006 has been invited on an unaltered basis from 2005.

7.3 Claims Handling

Since 1999, when liability cover transferred to St Paul Travelers, claims handling in relation to public liability claims that fell within the £50,000 policy excess has been undertaken by AON Claims Management (now Capita). Previously St Paul Travelers did not offer a claims handling service in respect of self-insured public liability claims although they have always handled claims in respect of employers liability (where there is no policy excess) and in theory would handle any claims above the £50,000 excess. At a recent meeting, St Paul indicated that they were now in a position to offer a claims handling service for self-insured public liability claims. Although this is their preferred option, they have indicated that they will allow the Council to use a third party claims handler if required. St Paul have included a quotation for a claims handling service as part of their tender submission. The details of this together with the quote from Capital Insurance Services are set out in **Appendix 2.**

The claims handling fee is very difficult to assess in terms of value for money. As stated above the deductible on the Public Liability policy is £50,000. This means that the Council funds the settlement of most claims. It is important, therefore, that the Council is confident that its claims handler is operating in its best interest to minimise the number and level of settlements. A claims handler could offer to handle the claims for a lower fee, but this saving could quickly be swallowed up by increased settlements. As St Paul has been the Council's insurer since 1999 and has handled employers liability claims over the past 7 years, there is no reason to believe that it will not operate in the Council's best interests. As the policy also includes an aggregate cap (currently £350,000) above which St Paul would become responsible for settlement of claims, they also have an interest in minimising the number and level of settlements.

If the Council chooses to change its claims handler, all claims currently outstanding plus any new claims that relate to previous insurance years will continue to be handled by Capita Insurance Services. There are currently 50 outstanding claims with a current reserve against them of £460,000. There is a risk that if the claims handling contract is not renewed, Capita will have less incentive to rigorously defend claims, which could result in an increased cost to the Council. A safeguard against this is that St Paul, as insurer, undertake periodic reviews of the claims handler's performance. A copy of their report is made available to the authority as a matter of course. As there will always be residual claims this will always be an issue in deciding whether to change claims handlers.

It is recommended that the Council should transfer its claims handling to St Paul for an initial period of one year. This will give the Council an opportunity to monitor the performance of both companies in dealing with its claims and provide an incentive (if needed) for both companies to operate in the Council's best interests to minimise the number and level of settlements.

7.4 **Personal Accident & Travel**

This policy was transferred to Impact in 2001 following the change in insurance brokers. The policy, which is not subject to an LTA, was last marketed in 2003. At that time Impact provided the cheapest quotation by a considerable margin. Following the recent marketing exercise, the alternative quotations received are set out in **Appendix 2**. This shows that the most competitive quotation has been submitted by Risk Management Partners. It is recommended, therefore, that cover be transferred to them with effect from 1 October 2006.

7.5 **Fidelity Guarantee**

Fidelity Guarantee cover is included within the Commercial Combined quotations set out in paragraph 1 of **Appendix 2**. As such, it is recommended that the policy is renewed with the existing insurer, Zurich Municipal

8.0 **MOTOR INSURANCE**

8.1 **Motor Fleet/Motor Uninsured Loss Recovery**

Following the expiry of the current LTA, this policy has been marketed and the alternative quotations received are set out in **Appendix 2**. This shows that the current insurer, Zurich Municipal, has submitted the most competitive quotation. The premium, which represents a saving of 18% on the 2005 renewal premium is offered by Zurich in return for a 5-year long-term agreement valid until 30 September 2011. It is recommended that cover be renewed with them with effect from 1 October 2006.

9.0 **ENGINEERING/MISCELLANEOUS INSURANCE**

9.1 **General**

The following policies are covered under this section:

Lifting Plant/Pressure Plant

Electronic Equipment

Hired in Plant

Computer - Material Damage/Increased cost of working

Engineering – Business interruption/Breakdown

These policies were renewed with Allianz Cornhill in 2003 under a five-year LTA following a full marketing exercise. Details of the individual policies are set out below:

9.2 **Lifting Plant/Pressure Plant – Inspection**

Although classified as insurance policies these actually relate to payment for inspection services – payments being subject to VAT rather than Insurance Premium Tax. Renewal for 2006 has been invited at the same rates as 2005. Overall the cost has reduced due to a reduction in the number of inspections carried out.

9.3 Pressure Plant (Insurance)/Electronic Equipment/ Hired in Plant/ Engineering – Business Interruption

Renewal has been invited in 2006 at the same rates as 2005.

9.4 Computer - Material Damage/Increased Cost of Working

Renewal has been invited in 2006 at the same rates as 2005. There is an increase in premium to reflect the increase in sums insured.

10.0 OVERALL POSITION

10.1 The overall position in respect of 2006 renewal is set out at **Appendix 1**. From this it can be seen that savings have been achieved against virtually every class of insurance. The total premium for the period 1 October 2006 to 30 September 2007 is £405,630. This represents an overall reduction of £78,117 (16.1%) on the 2005 renewal premium and a saving of £97,727 (20.2%) on the estimated 2006 renewal premium.

10.2 Whilst the insurance year runs from October to September, for budget purposes Business Units are charged insurance costs in respect of the normal financial year April to March. Of the saving against budget 50% (£48,864) relates to the financial year 2006/2007 with the remaining 50% relating to the financial year 2007/2008.

10.3 As charges to Business Units are not normally amended, once set, the saving in 2006/2007 will be credited to the Insurance Reserve. In previous years where costs have increased this has been met by drawing down funds from the Insurance Reserve.

10.4 The saving in relation to 2007/2008 will be taken account of when the recharges to Business Units for that year are calculated as part of the 2007/2008 revenue budget process. As well as savings to the General Fund this will result in savings to both the Housing Revenue Account and Harrogate International Centre.

Background Papers – Renewal submissions retained within Accountancy

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SUSTAINABILITY ASSESSMENT/POLICY CONSIDERATIONS

		Implications are		
		Positive	Neutral	Negative
A	Economy		✓	
B	Environment		✓	
C	Social Equity			
(i)	General		✓	
(ii)	Customer Care/People with Disabilities		✓	
(iii)	Health Implications		✓	
D	Crime and Disorder Implications		✓	

If all comments lie within the shaded areas, the proposal is sustainable.