

COUNCIL CABINET
18 March 2003

ITEM 23A

INSURANCE TENDER

SUMMARY OF REPORT

- 1.1 This report seeks approval to award a contract for the Council's insurances to Zurich Municipal (ZM) following a tendering exercise. The approval of Cabinet is needed because the increase in costs is beyond budgeted levels for 2003/04. The report also considers actions to mitigate and control the increases in the short and long term.

OPTIONS CONSIDERED

- 2.1 As part of the tender evaluation, alternative cover options covering variations in levels of excess and aggregate stop loss have been considered. However, none of the options would yield any savings/benefits over the terms specified in the original tender document.

RECOMMENDATIONS

- 3.1 To award the five-year contract for insurance to ZM.
- 3.2 To approve the funding of additional insurance costs as set out in paragraph 6.
- 3.3 To restrict the level of self-insurance provision on the liability cover to £700k with an underwriting review of the Council's overall level of provision to be carried out during 2003/04.

REASON FOR RECOMMENDATIONS

- 4.1 The tender bid from ZM is proposed on the basis of being the most economically advantageous tender for the Council.

MATTERS FOR CONSIDERATION

5.1 Background

The tenders for the Council's long-term insurance arrangements have now been evaluated and this report sets out the results of this evaluation, along with the issues and recommendations arising. Under normal circumstances the tender would be accepted under delegated powers. However, in this instance the cost increases are beyond current budget provision and therefore the approval of Cabinet is required.

- 5.2 It is perhaps worthwhile considering the market considerations for insurance and the impact these have had on the bids received for the insurance programme:

Worsening conditions within the insurance market place

From mid-2000 the insurance market has been steadily hardening due to:

- continuing deterioration in the insurance companies underwriting results
- low interest rates
- ongoing fears over stock market investments.

There have also been government/legal influences that have affected both the administration costs and the level of awards made to claimants:

- Woolf Report
- Ogden – introduction of new tables for the assessment of longer term injury benefits
- NHS emergency treatment costs – now recoverable from insurers
- Law Commission Recommendations for increased general damages in respect of personal injury claims
- No win no fee companies
- Increasing number of ‘old’ claims such as asbestosis.

- 5.3 In addition, the events of September 11 and a general loss of capacity in the primary insurance market, aligned with greatly increased costs of re-insurance terms and generally increasing claims, have all led to substantial premium increases for all classes of insurance:

Specific restrictions in insurance cover

There are a number of areas where, in addition to the premiums rising, limitations of cover are being introduced:

- Terrorism insurance - property

With effect from 1 January 2003, all terrorism cover is excluded from the underlying property insurance. The Council’s only option is to purchase terrorism cover from pool, via our insurers. This will cost £78k (a £56k increase on current year).

- Terrorism insurance – liability

Terrorism is excluded from all liability insurance with the exception of employers' liability where the statutory minimum limit of £5m will be provided.

- Environmental impairment

The recent implementation of the Environment Act has raised the profile of environmental impairment. Existing liability cover provides very limited cover in respect of pollution.

- 5.4 Given the increasing trend in premiums, along with the tighter limitations on cover, it is clear that a much greater focus needs to be developed within the Council on risk management. The effective management and control of risks will have a significant and direct impact on the direct costs of self-insurance that the Council is increasingly having to bear. Reducing numbers and values of claims will have a consequential impact on containing external insurance premium costs.

5.5 Key Issues

- 5.6 Tenders were received from the three major insurance companies within the public sector:

- Zurich Municipal (the Council's existing insurer)
- Risk Management Partners (RMP)
- St Paul's

- 5.7 ZM's tender covered all the classes of cover included in the tender document. The bid from St Paul's excluded, schools balance of risks and the RMP bid only included liability cover.

- 5.8 Overall, the officer and broker assessment is that Zurich Municipal tender is the most economically advantageous tender for the Council

- 5.9 On a like for like basis, taking account of the full cost of both external premiums and internal self-funded costs, the ZM quote for 2003/04 represents a total increase of £903k for the City Council. Based on the Council's current claims history and the policy excess costs picked up by the Council, the self-insurance fund is being limited to £700k so the actual increase is £603k.

	External Premium	Self Insurance	Total	
	£k	£k	£k increase	
City Council	478k	425k	903k	Actual increase will be £603k as the self insured fund is being limited to £700k

Note:

The level of self-insurance does not include allowance for the 20% self-funding liability in respect of CLASP schools.

5.11 The key increases are:

- an increase of £129k in respect of property cover
- schools balance of risks increased by £43k but there are 30 schools of CLASP construction in the City with a combined property value of £93.5m which could be covered by the new 20% CLASP excess. Of these schools around half are of the earlier construction type that would attract the limitations in fire cover.
- motor insurance increases by £40k. However, there are options which could reduce this significantly with an increase in excess from £1k to £10k
- combined liability insurance has increased by £86k
- the major increase in risk is in the increase of the aggregate stop loss on liability insurance from £575k to £1m, an increase of £425k.

5.12 CLASP was a consortium of councils that agreed a type of construction and the building materials to be used in constructing schools. However, the schools constructed under the earlier standards have been shown not to have built in adequate fire precautions and it is these schools that ZM are looking to restrict fire insurance cover.

5.13 **Mitigating Actions**

5.14 The mitigating actions that we can take both in the short term and the longer term to limit the impact of the premium increases and limitations in cover are:

Short term

- a) Limit the self-insurance provision for the combined liability aggregate stop loss. Instead of providing for the full £1m aggregate stop, a lower figure could be provided for, coupled in with a regular underwriting review of the estimated liability against the self provision fund, much along the same lines as the actuarial assessment of pension fund assets and liabilities. The recommendation is to limit the

self-insurance provision for 2003/04 to £700k.

- b) Motor insurance premiums could be renewed with an increase in excess from £1k to £10k –

£31k (plus IPT) Saving for own damage excess each and every loss

£94k (plus IPT) Saving for all claims per event excess including third party damage

The fleet manager has decided against increasing the excess, as this does not warrant the savings that would be made.

- c) *Reallocate premium costs to service costs*

There is scope for reviewing the split of insurance costs between premiums which attract IPT at 5% (unrecoverable) and insurance services such as engineering inspection and risk management support which attracts VAT at standard rate, but is recoverable. The potential savings here are not significant.

A number of options have been considered in varying levels of excess and aggregate stop loss, but none of the options when evaluated would lead to any tangible savings.

- d) In respect of CLASP construction schools, an urgent review to be carried out to –

- identify which schools are mark v and above and which are the earlier type of buildings (the former are more resilient and more likely to be fitted with fire stops)
- which schools are fitted with fire stops in accordance with BB7 (Building Bulletin 7) issued by the DFES
- confirmation of any programme to fit fire stops in those buildings.

Including the terrorism cover which shows a significant increase of £56k, the cost of insurance for the Council in 2003/04 is:

<i>Summary table showing internal and external cost of insurance for 2003/04</i>		
	£	% increase
City Council	2,388,965	34

Includes internal funding based on liability stop loss being limited to £700k

Medium/long-term

- a) Instigate a capital programme to install appropriate fire precaution measures at identified CLASP schools to mitigate the additional 20% excess.
- b) Increased focus on risk management supported by devolvement of insurance costs to departments for 2004/05. Departments would be charged with the full cost of insurance (both external premium and internal self insurance). Insurance recharges will be reviewed and restructured to better reflect claims history and thus offer clear incentives for departments to proactively manage risk -
 - the insurance programme and management of the self insurance provision would continue to be managed corporately
 - departments will be charged the full cost of insurance, both external premiums and internal provisions for self-insurance
 - costs to departments will be apportioned based on a range of defined factors/drivers, one of which will be claims history. This will provide a real incentive for departments to manage risk and in so doing, reduce claims and cost of insurance.

FINANCIAL IMPLICATIONS

- 6. The total increase in external and internal premiums over 2002/03 is £603k. Of this increase, £170k will be funded through additional recharges to trading accounts, HRA and other external accounts. The remaining £433k will be funded by the General Fund. £125k was anticipated in the budget, leaving a further £308k still to be financed. It is proposed for 2003/04 to apply forecast underspends in the 2002/03 insurance budget and additional savings made in Treasury Management borrowing costs in 2002/03. Funding from 2004/05 onwards will be an ongoing pressure on budgets to be considered.

LEGAL IMPLICATIONS

- 7. None directly arising.

PERSONNEL IMPLICATIONS

- 8. None directly arising.

ENVIRONMENTAL IMPLICATIONS

9. The recent implementation of the Environment Act has raised the profile of environmental impairment and it needs to be noted that existing liability cover provides only very limited cover in respect of pollution.

EQUALITIES IMPLICATIONS

10. None directly arising.