

2010/11 Insurance Renewal

Finance and Administration Committee, 16 September 2010, item 9

**Committee: Finance & Administration**

**Agenda Item**

**Date: 16 September 2010**

**9**

**Title: 2010/11 Insurance Renewal**

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Item for decision

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## Summary

1. The Council's annual insurance renewal is due on 1 October and under the Scheme of Delegation the Committee is required to approve this.
2. Most of the Council's insurance is purchased from Zurich under a Long Term Agreement that expires on 30 September 2013. The renewal terms are subject to annual review.
3. A net saving of £7,076 has been obtained on the Zurich contract by ensuring that up to date property values are used and by adjusting Indemnity Levels and excess levels for some policies. Full details are in Appendix A.
4. Officers have given consideration to cancelling the Terrorism policy, which would save an additional £5,613. However, the risks are felt to be too significant, especially in the pre-2012 Olympics period. Members' comments on this subject are invited.

## Recommendations

5. The Committee is recommended to approve the Zurich Renewal terms for 2010/11 as detailed in Appendix A.

## Financial Implications

6. The recommendation has a cost of £317,850 and represents a saving of £7,076 of which £3,038 is a saving against the 2010/11 budget.

## Background Papers

7. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

Zurich Long Term Agreement

Zurich Proposal documentation

Insurance schedules

[Improvement East case study](#) on collaborative insurance procurement

**Impact**

Communication/Consultation	The Assistant Chief Executive – Legal was consulted as part of the review of policies. Other Essex district councils were consulted in relation to Terrorism cover.
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

**Zurich Long Term Agreement (LTA)**

8. In September 2009 the Committee decided to approve a once-only extension to the LTA with Zurich to 30 September 2013. This secured a 15% reduction in the premiums payable.
9. A consortium of 12 local authorities in the East of England recently carried out a full re-tendering of their insurance contracts and achieved an average saving of 16.7%; however it is understood that within this average figure there was a large saving for the lead authority and smaller savings for other authorities, and at least one authority ending up with an increase. This suggests that the Council achieved a good deal last year.
10. The nature of the LTA is that further savings are only possible if the Council takes on additional risk by reducing the scope of the various insurance policies, for example by reducing insured limits, increasing excess payments or cancelling cover altogether. Some small savings could arise from more efficient claims administration and the Council has been working with a neighbouring authority in this regard.

**2010/11 Policies review**

11. A review of policies highlighted that in some cases out of date property values were being used. This means that premiums were slightly incorrect but also there was a risk that insured sums were either too high or lower than would actually be needed if a claim was made. Property values have been reviewed in conjunction with Zurich and this has led to a net reduction in the sums insured and a consequent saving on the premium of £3,599.

12. The Assistant Chief Executive – Legal was consulted on the various indemnity limits and Excess levels in use for Indemnity/Liability policies. It was determined that in some cases, the limits were higher than the Council needs, or Excess levels too low given the claims history. Revised limits and excess levels have been introduced which gives rise to a net saving of £7,762.
13. The Motor insurance policy continues to be the most significant individual cost and the one with the biggest claims history. In recent years claims history has been quite poor and although has improved recently it will not be until next year at the earliest that this is reflected in the premium. An increase in the number of operational vehicles gives rise to an increase in this premium of £4,918. Given the claims history it is not considered appropriate to review insured limits and excess levels at the present time.
14. Other, less significant policies have been reviewed and minor adjustments made that give rise to net savings of £296.

### **Terrorism Cover**

15. Damage and incidental costs caused by terrorism is a standard exclusion in the Council's policies and accordingly a separate Terrorism cover is purchased; the proposed premium for 2010/11 is £5,613. Terrorism risk does not appear on the Council's risk register and therefore a review was undertaken to ascertain whether a saving could be achieved by cancelling this policy.
16. All Essex district councils were contacted as part of this review. All 7 of the respondent authorities stated that they were renewing their Terrorism policy and had no intention of cancelling it, with some citing the 2012 Olympics as a perceived risk.
17. Zurich were asked for their views and their comments are attached at Appendix B. In summary, terrorism has a wide definition that includes action by all extremist groups (not just the higher profile groups) and cyber-terrorism and the comments indicate that the intention is for all related losses to be refused by the Insurer without the standalone policy in place.
18. Although the probability of a terrorism-related incident occurring that causes losses for UDC is felt to be very low, such an incident could be very significant and of course there is a major airport within the district. In view of the comments received it is felt that now is not the right time to cancel this particular policy however Members' views are invited.

**Other insurance policies**

19. Last year the Committee approved delegated powers for the Assistant Chief Executive – Finance to agree renewal terms for a few smaller policies with different companies. There is a net saving for 2010/11 of £551. Details are shown for information below:

Company	Policy	Renewal date	2009/10 Annual premium including Tax & fees	2010/11 Annual premium including Tax & fees
A-On	Museum contents	30 September	£12,689	£12,356
A-On	Personal accident	30 September	£3,107	£2,889
Jardine Lloyd	Architects Indemnity	31 March	£1,050	£1,050

**Risk Analysis**

Risk	Likelihood	Impact	Mitigating actions
Not all risks are properly insured	2 (possibility of change in circumstances not being notified to Insurer)	3 (were an uninsured loss to occur, it could be significant)	Communication between council departments Liaison meetings with Zurich relationship manager
Insolvency of insurance provider	1 (extremely unlikely that Zurich would become insolvent)	4 (new insurance arrangements would need establishing, possibility of uninsured losses arising)	Risk to be tolerated

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

**SUMMARY OF ZURICH RENEWAL TERMS****APPENDIX A**

<b>Policy</b>	<b>2009/10 premium</b>	<b>2010/11 premium</b>	<b>Cover changes &amp; reasons for change in premium</b>	<b>(Saving) / increase</b>
<u>Property</u>	£	£		
Material Damage	63,448	58,389	Property values have been reviewed.	(5,059)
Works In Progress	3,618	6,022	Larger capital programme this year	2,404
Business Interruption	4,952	4,040	Expenditure insured reduced from £3.9m to £3.15m	(912)
Money	1,838	1,806		(32)
All Risks	2,618	2,618		0
Theft	2,738	2,738		0
<b>Total Property</b>	<b>79,212</b>	<b>75,613</b>		<b>(3,599)</b>
<u>Casualty</u>				
Public Liability	54,397	49,489	Indemnity limit reduced from £20m to £10m. Excess of £1,000 introduced.	(4,908)
Officials Indemnity	3,224	2,298	Indemnity limit reduced from £5m to £1m. Excess of £1,000 introduced.	(926)
Employers Liability	27,410	25,935	Indemnity limit reduced from £20m to £10m. Excess increased from £1,000 to £5,000.	(1,476)
Libel & Slander	1,454	1,001	Indemnity limit reduced from £1m to £0.5m. Excess of £2,500 introduced.	(452)
Prof'l Negligence	500	500		0
<b>Total Casualty</b>	<b>86,985</b>	<b>79,223</b>		<b>(7,762)</b>
<b>Motor</b>	<b>124,263</b>	<b>129,181</b>	Increase in number of vehicles. Claims record improving, should see reduction in premium next year.	4,918
<b>Engineering</b>	<b>1,124</b>	<b>899</b>		(225)
<b>Fidelity Guarantee</b>	<b>2,315</b>	<b>2,101</b>	Excess of £5,000 introduced.	(214)
<b>Land Charges</b>	<b>1,990</b>	<b>1,475</b>	Excess of £5,000 introduced.	(515)
<b>Computer</b>	<b>2,223</b>	<b>2,223</b>		0
<b>Car Loans</b>	<b>250</b>	<b>0</b>	Cancelled as car loans are ending.	(250)
<b>Inspection Contract</b>	<b>5,998</b>	<b>6,386</b>		388
<b>Terrorism</b>	<b>5,093</b>	<b>5,613</b>		520
<b>SUB TOTAL</b>	<b>309,453</b>	<b>302,714</b>		<b>(6,739)</b>
<b>IP Tax</b>	<b>15,473</b>	<b>15,136</b>		<b>(337)</b>
<b>TOTAL</b>	<b>324,926</b>	<b>317,850</b>		<b>(7,076)</b>

**Terrorism Insurance cover – comments of Zurich Insurance**

Terrorism is a standard exclusion under all property insurance contracts issued by Zurich Financial Services. If required it can be purchased on request for material damage and business interruption covers by any of our customers subject to satisfactory information being received. The principle of selection applies to terrorism cover; this means that if you require the cover you must purchase for all your business not just those deemed to be at risk.

If a client requires terrorism insurance then Zurich will purchase reinsurance protection from Pool Re. Pool Re is a reinsurer established by the Government in 1993 when the scale of terrorism losses were reaching levels that were unsustainable by the insurance market.

The terrorism exclusion applied by insurers is a complete exclusion in accordance with the Terrorism Act 2000, encompassing action “in pursuit of political, religious, ideological or similar purposes”. This means the exclusion would apply to terrorist acts by organisations such as the IRA and Al Qaeda but also animal rights organisations and extreme political groups. The wording extends to include threats of terrorism and cyber terrorism.

When a client purchases terrorism insurance from Zurich what cover do we provide? The cover provided can be broken into two segments –

1. We give cover that mirrors the terrorism cover offered by Pool Re. This is “all risks” cover and follows the definition of terrorism derived from the Prevention of Terrorism Act 1989, with the only exclusions being war and cyber terrorism.
2. As mentioned our terrorism exclusion is based on the definition in the 2000 Act. The cover provided by Pool Re is narrower than this and certain terrorist acts would not be insured if we relied solely on this wording when providing terrorism protection. For this reason we further extend our wording to include certain terrorist acts not defined in the 1989 Act. The main difference is terrorist acts by individuals who are not part of an organisation. We will exclude terrorist attacks involving nuclear materials under this element of cover

Where terrorism cover is not purchased we will treat every loss on its own merits; however our customers should be aware that a complete terrorism exclusion applies with the intention of excluding all terrorism losses.