Part I
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WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 4 APRIL 2017
REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL SERVICES)

# RENEWAL OF INSURANCE POLICIES 2017/2018 – REQUEST FOR DELEGATED AUTHORITY

## 1 Executive Summary

1.1 The majority of the Council's insurance policies were tendered in 2015 and new long term agreements entered into with the successful bidders. The leasehold property policy was tendered separately in 2014. Renewal of all policies with existing insurers will therefore be sought in accordance with these agreements, however as in previous years, timetables preclude the terms from being presented to Cabinet for consideration.

## 2 Recommendation

2.1 It is recommended that the Executive Director (Resources, Environment and Cultural Services) in consultation with the Executive Member for Resources be given delegated authority to approve the renewal of insurance policies, in view of the need for expeditious decisions to be made outside of timetabled meetings. The outcome will be reported to September Cabinet.

## 3 Explanation

3.1 In 2015 the majority of the Council and Housing Trust's insurance policies were put out to tender, leading to only one change of insurer for Property covers from Travelers to Zurich Municipal. Five year long term agreements were entered into, with options to break after three, and so terms are now being sought from existing providers for the new policy year which starts on 24 June.

3.2 The policies being renewed are Public Liability, Employers' Liability, Officials' Indemnity, Crime and Motor, provided by Travelers Insurance Co. Ltd; Personal Accident through ACE; Engineering with Allianz; and Material Damage (including Property, All Risks, Works in Progress, Business Interruption, Money, Computers and Terrorism), which is provided by Zurich Municipal.

3.3 The policy covering Leasehold properties was tendered in 2014 and awarded to Ocaso SA (UK), again on the basis of a five year long term agreement with an option to break after 3 years,

Broker comment

3.4 For many years, the market for public sector insurance was dominated by three underwriting concerns: the insurers Zurich Municipal and Travelers, and RMP, whose underwriting capacity is currently provided by a combination of QBE, AIG, HSB and Ecclesiastical.

3.5 Capacity was, however, reduced when in 2014 Travelers took the decision to divest themselves of all public liability business for local authorities with a highways or social services responsibility. Although Travelers continued to pursue opportunities in selected areas, it was feared that this loss of capacity would have a damaging effect on future premium levels for the sector as a whole.

3.6 As it transpired, it seems that those fears were largely unfounded as the emergence of new providers such as Maven, Swiss Re and Protector, has acted as a counterweight, more than compensating for the effects of the decision by Travelers

3.7 Meanwhile, Ocaso and Aspen continue to maintain their interest in local authority leasehold portfolios, with the latter also pursuing commercial leasehold risks whilst Lloyds's and other underwriters within the London market, continue to express interest in what they regard as the 'right' motor' risk

3.8 As would be expected, underwriters continue to practice careful risk selection, highlighting of the importance of proactive risk management and good technical and risk management information. Generally speaking, rates in the property and motor markets remain competitive for public sector risks, with liability rates having stabilised during the latter part of 2016 and start of 2017.

3.9 On 27 February 2017, however, the Lord Chancellor announced that the discount rate for personal injury damages will be reduced from 2.5% to minus 0.75% with effect from 20 March. It is anticipated that this change will have a massive impact on the injury market, dramatically increasing damages awarded to all claimants receiving future loss awards. The NHS, public authorities and insurers now face a profound hit by increased compensation awards in catastrophic personal injury and high value clinical negligence claims.

3.10 Initial calculations suggest that where the claimant has a life expectancy of between 15-30 years, reduction to minus 0.75% could increase future loss awards by approximately 30%. A life expectancy of between 30-50 years or more will potentially increase the overall future loss award by approximately 50%. Consequently, this change to the discount rate will almost inevitably impact on future liability and motor premium levels.

3.11 Finally, the rate of insurance premium tax increased from 9.5% at WHBC's last renewal, to 10% in October 2016 and will increase again to 12% with effect from 1 June 2017.

## Implications

## 4 Legal Implications

4.1 This report contains no legal implications.

## 5 Financial Implications

5.1 At the time of writing, only the leasehold property insurer, Ocaso, has given an indication of proposed terms for renewal. Unfortunately claims experience on this policy has been poor since inception in 2014, with loss ratios (the amount paid out against premium income) currently as follows

| Year | Loss ratio |
| --- | --- |
| 2014 | 68.62% |
| 2015 | 215.49% |
| 2016 | *81.01% |

*pro-rata for current year

5.2 They are therefore proposing a premium rate increase at this point in time that equates to a rise of approximately 15%. These costs are charged to leaseholders, however, so this increase will have no effect on Council budgets.

5.3 Claims experience on other policies has been reasonable, however, and so it is hoped premium rates will be maintained this year. The last few years though have seen a growing number of severe weather events, which means this situation could change quickly and unexpectedly and any increase in claims may have an impact on renewal terms.

5.4 It is also not yet known whether the effects of the change in the discount rate, mentioned in paragraph 3.9 above will be felt at this renewal, and unfortunately not possible to quantify any potential increases in premium at this point in time.

5.5 Building cost inflation (currently 3.6%) will, however, be applied to property sums insured, so property premiums will rise accordingly. As mentioned in paragraph 3.11, Insurance Premium Tax is being raised to 12% with effect from 1 June 2017, compared to 9.5% at renewal last year. This increase will therefore apply to all premiums.

## 6 Risk Management Implications

6.1 The risks associated with levels of cover, policy excesses and premium charges are duly considered as part of both the tender and renewal processes.

## 7 Security & Terrorism Implications

7.1 This report contains no security and terrorism implications

## 8 Procurement Implications

8.1 The Council is currently within long term agreements and seeking terms from existing insurers complies with this obligation.

## 9 Climate Change Implications

9.1 This report contains no climate change implications.

## 10 Link to Corporate Priorities

10.1 The subject of this report is linked to the Council's Corporate Priority 'Engage with our communities and provide value for money'.

## 11 Equality and Diversity

11.1 An Equality Impact Assessment (EIA) has not been carried out in connection with the proposals that are set out in this report.

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