

Members' Library Service Request Form

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Originator	Karen Mcleod, Insurance & Claims OfficerJ
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Document Title	Tender for Property/Material Damage & Business Interruption Insurance

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Additional information:

Authorised By	Jim Lamond
Designation	Head of Council Resources
Date	08/06/15

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REPORT TO: Members' Library Service

DATE:

BY: Head of Council Resources

SUBJECT: Property Insurance Tender – 1 July 2015

1 PURPOSE

1.1 To recommend decision for the Council's insurance policy for Property/Material Damage & Business Interruption which falls due for tender on 1 July 2015.

2 RECOMMENDATIONS

2.1 Cabinet is asked to note the decision of the Head of Council Resources to approve the tender from AIG Europe Limited (via RMP) on the following terms:

	Premium	Excess per event	Annual Aggregate
AIG Europe via RMP	£172,791.99	£250,000	£750,000

The policy cover will be as per the existing property/material damage/business interruption policy. Alternative options were consider, these are shown overleaf. This is a 3 year long term agreement with a further two year option as per existing policy

It is recommended that the deductible (policy excess) is not moved from the current £250,000 level as the financial savings are not considered to be commensurate with the current risks. The Council is able to select one option and change this to another option at a later date. It is recommended that the existing cover is maintained for the next year and a review of claims experience be carried out in 2016.

3 BACKGROUND

- 3.1 East Lothian Council currently has in place an insurance policy for major perils. The current policy will expire on 30th June 2015. The Council's requirements were tendered via Crown Commercial Services. The specification requested three options, one based on existing terms (option 1) and a further two alternative (options 2 and 3).
- 3.2 Two tenders were received but only one tender quoted for the specification requested in the tender document (AIG). A check was carried out with the non-compliant tenderer (Travelers) to ensure that the quotation provided was correct. This was confirmed, therefore the tender from Travelers was excluded. Tenders were checked with the assistance of the Council's Insurance Broker, Marsh Limited who produced an evaluation report. It was not possible to directly compare the two tenders received as RMP quoted excesses per event and Travelers quoted per premises. The premium quoted by RMP would remain the lower even if Travelers had quoted on the same basis. See below for tenders' provided.

Deductible Options	Option 1 Existing £250K	Option 2 £50K Housing/£250K All Others	Option 3 £100K
AIG Europe via RMP	£172,791.99	£190,071.19	£209,078.31
Travelers	£191,949.32	£217,308.13	£215,613.45

Premiums quoted exclude Insurance premium tax of 6%

To consider whether an alternative option should be selected, a comparison was carried out using claims experience since 01/04/09. Based on the claim costs, only one claim would have exceeded the excess on **Option 2**, £50,000 excess. Total claims would not have exceeded the aggregate

Option 3 was considered but does not relate to the current claims profile for either housing or non-housing. Total claims would not have exceeded the aggregate

Future costs of housing claims have been estimated using information from the Building & Construction Industry. Construction costs have continued to rise in the last with the UK average rate of tender price increase reaching 4% year on year.

Allowing for increase in building costs, based on previous house claims, it is estimated that the highest value house claim will be £57,200 in year 1, 59,488 in year 2, £61868 in year three. The Council would need to suffer 3 losses in excess of £50,000 in year one to offset the increased premium for **option 2**.

Material Damage claims in since 01/04/09. These claims relate to damage to structure of buildings and fixed contents.

	No of claims	Total Material damage claims paid	Total Material damage claims Reserves	Cost of Housing Claims	Highest single cost of housing repairs	Cost of non-housing Claims	Highest Cost of non-housing repairs
2009/10	Housing 8 Non Housing 5	268,983	Nil	252,937	48,600	16,046	7,073
2010/11	Housing 7 Non Housing 8	131,370	Nil	96,301	29,525	35,069	19,312
2011/12	Housing 3 Non Housing 5	121,099	79,639	88,823	40,340	32,276	19,654
2012/13	Housing 4 Non Housing 3	163,057	31,852	154,345	45,745	8,712	4,314
2013/14	Housing 1 Non Housing 4	123,011	33,000	11,839	35,200	11,172	2,239
2014/15	Housing 1 Non Housing 3	30,000	105,000	NIL	55,000	1200	1200

On average, the number of housing claims is decreasing. Based on the assumption that such claims will remain steady. Only one claim has exceeded £50,000.

	Existing	Option 2	Option 3
	£250,000 excess-All £750,00 annual aggregate cap	£50,000 excess housing £250,000 non housing £750,000 annual aggregate cap	£100,000-All £300,000 annual aggregate cap
Premium	£171,792	£190,071	£209,078
	Difference in premium between existing and new options 1 year	£18,279	£37,286
	Difference in premium between existing and new options over 3 years	£54,737	£111,858
	Difference in premium between existing and new options over 5 years	£91,395	£186,430

All premiums exclude Insurance Premium Tax at 6%

The last premium paid for Property Insurance in July 2014 was £216,887.00. Although this premium is lower than the current tender price, the premiums quoted in the tenders was based on Property and Contents values as at 01/02/15. The premium will increase once an up to date schedule of properties including all new additions up to end of June 2015.

4 COMMUNITY BENEFITS IN PROCUREMENT

4.1 Nil

5 EQUALITIES IMPACT ASSESSMENT

5.1 Information provided in tender document stating policy on equality

6 POLICY IMPLICATIONS

6.1 External Insurance is designed to protect the financial well-being of the Council in the case of unexpected loss, whilst achieving an appropriate balance between the cost of premiums and the risk the Council takes on under an insurance policy. Good risk management can help reduce reliance on external insurance so that cover is only required for major or catastrophic events. Insurance & Claims within Council Resources hold regular meetings with Risk Management and Health & Safety and will provide management information throughout East Lothian Council to identify the highest risks and costs of claims.

7 RESOURCE IMPLICATIONS

7.1 Financial – As stated in the report. Cost of insurance premiums is already budgeted with an inflationary increase being applied each year. The proposed premium costs associated with the new contract can be met within approved budget levels.

7.2 Personnel – No change to existing personnel.

7.3 Other – None known at this time.

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