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Report to Policy, Finance and Strategy Committee
from Ted Maguire, Council Secretary

Insurance Renewal 2002-2003

1. Purpose

To inform the Committee of the changed environment for insurance, post 11 September 2001, and to advise the likely financial impacts on the Council.

2. Background

The Council has an insurance strategy in place whereby infrastructural assets such as stopbanks and lakes/pipelines are self insured through accumulating funds. This strategy was agreed in March 1999 after the Council considered report PE99.67.

The balance of the required insurance cover is placed on the insurance market on an annual basis. Through AON Risk Services Limited, (Council's insurance broker), the Council carries a variety of policies ranging the spectrum from material damage, business interruption, public liability to harbour wreck removal and directors' and officers' liability.

For the 2002-2003 renewal, most premiums are expected to rise above last year's premium levels. All divisions were required to assume for their budgets for the coming year a 20% increase in provision for insurance premium over those for 2001-2002. Latest information shows that for the coming year, our overall premium costs, including Earthquake and Fire Service Levies, are expected to increase from $816,000 by some $494,000 to $1.31M. The premiums increase for material damage cover in particular is substantially above the budgeted provision, (i.e. from $325,000 in the 2001-2002 year to nearly $780,000 in the coming year – a 140% increase).

The material damage policy is the insurance which covers Council buildings, structures, bridges and plant assets. With a few minor exceptions, the material damage policy caters for reinstatement of the assets. The assessed cost of total reinstatement is nearly $100 million for wholesale water plant and machinery and equipment for water treatment and pumping facilities. For all other Council buildings and structures, the value is some $90 million.

3. The Insurance Environment

As a result of the impacts of events on 11 September 2001, the international insurance industry is in recovery mode. Several companies have not survived and most remaining companies are now carrying large debt. Premiums worldwide are reflecting not only the risk profiles, but also the recovery required by the insurance companies. A likely scenario is that these premium rates will remain for 2 to 3 years and the market should then begin to soften, provided no further major disaster occurs around the world.

Unfortunately the impacts are not only in the premiums. There is now a total exclusion for any claim where the loss arises from terrorism. The insurance definition of terrorism includes any act, which is politically motivated. Minimum excesses have also risen. For example, buildings will have a minimum excess of 5% of the building value. The effect of this is that very few claims will ever be made against loss within a building unless the loss is major.

Risk profile by geographical location appears to have been focussed on, and Wellington is not well favoured with its history of earthquakes and reclaimed land.

4. The Impacts

The major impact of the increased cost of material damages cover is for Bulk Water and this has been factored into the officers' recommendations in respect of the 2002-03 bulk water levy (refer report 02.289).

Any arbitrary action in the level of insurance cover could expose Council to significant risks and our policy towards insurance has been a deliberate one of adopting a conservative approach. Despite the increase in premiums, officers are proposing no change to the nature of Council's insurance cover for 2002-03.

5. Follow Up Action

Over the coming months, officers will be further reviewing the approach to insurance to see whether or not there are more cost effective options available (e.g. increased self insurance through creation of further reserves) particularly for material damage. We have undertaken such reviews in the past and these lead to self insuring infrastructural assets referred to above. Previously, we have also evaluated local government sector "club" arrangements such as the Local Authority Protection Programme (LAPP) and Riskpool, a joint approach to liability cover.

Any proposals for change will be reported to the Policy, Finance and Strategy Committee at an appropriate stage.

6. Recommendation

That the report be received and the contents noted.

TED MAGUIRE
Council Secretary