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Committee Council
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Further Investment in the Local Government Insurance Corporation – Trading as Civic Assurance

1. Purpose

To advise the Council of Civic Assurance's offer of shares and to make a recommendation on whether to invest in this offer or not.

2. The decision-making process and significance

The matter requiring decision in the report has been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (the Act).

Officers have considered the significance of the matter, taking the Council's significance policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining considering of the decision-making process is required in this instance.

3. Background

Greater Wellington (GW) currently has $80,127 invested with the New Zealand Local Government Insurance Corporation through Civic Assurance, who provides property insurance to the Local Government sector. This is a holding of 1.25% of the total share capital.

The recent events in Christchurch have had an adverse impact on the Company, such that they could no longer offer insurance due to the severely diminished strength of the Company's balance sheet.

Civic Assurance has provided insurance capacity and competition in the New Zealand market and it is argued they have been instrumental in keeping premiums down over the years for Local Government.

4. Comment

Why offer shares

The successful placement of shares will inject equity capital into the Company and is likely to see Civic Assurance's credit rating improve to Excellent, similar to where it was prior to the Christchurch Earthquakes. This will place them in a position of being able to offer insurance again, provided there is capacity in the reinsurance market.

What they are offering

They are seeking to raise up to $6.5 million through the offering of $7.2 million shares at 90c/share.

Our proportionate offer is for 12,000 new shares at 90c each and a rights issue of one share for every share we own at 11 January 2012 at 90c. This equates to $10,800 and $72,114 respectively or $82,914 in aggregate. We also have the opportunity to apply for shortfall shares, should the offer not be fully subscribed by other shareholders.

According to the offer document, the shares are being offered at a 43% discount to current net asset backing as at 30 November 2011.

Subscriptions must be received on or before 17 February 2012.

Should we take up our offer?

GW has used Civic Assurance for our Property cover for a number of years prior to the Christchurch Earthquake on the recommendation of our Insurance broker, Aon. This was on the basis that they were the cheapest offer and Aon considered their credit risk acceptable.

However the Christchurch earthquake has significantly changed the insurance market and it is uncertain at this time whether GW would use Civic Assurance going forward.

Civic Assurance has advised GW they have paid $277,000 in dividends to GW over the years. A verification of this confirms a net dividend receipt of $45,000 since the year 2000 when the recent accounting system was implemented.

In terms of future dividends, Civic Assurance are unclear, but have advised they do not expect to pay one before 2014. Based on these numbers our initial investment has more than paid for itself.

A recent poll of Local Authority investors reveals strong support for both the new entitlement and rights issue.

Of the 30 respondents to the Poll (there are a total 67 Local Authority shareholders), six were not taking up their placement entitlement of 12,000 new shares and two were not taking up their rights entitlement of one new share for every share owned.

The question to invest or not may is not black and white. Based on historical results, the business is profitable and has paid its way.

GW will still be able to use Civic Assurance, as we have done in the past, even if we do not invest further.

On the assumption that we don't invest and everyone else does, our shareholding ranking in terms of the 68 shareholders after placement would be at number 38 compared to 18 currently.

Our percentage of capital contributed would reduce from 1.25% presently to 0.59%. Either way, GW is a very minor shareholder with little voting impact.

The issue remains should GW invest in Civic Assurance for reasons other than purely financial returns.

If the argument that Civic Assurance's presence in the market does in fact lower the cost of insurance, GW will receive this advantage anyway without the need to invest.

However, if all shareholders took this approach the share offer, and hence the Company, would fail.

Indications are that the big shareholders will take up the offer and thus Civic Assurance will survive as an entity.

5. Conclusion

It appears that the large shareholders will take up the offer and ensure the continuation of Civic. The delivery of dividends on the new investment is unclear, making the financial rationale for any investment weak.

Based on the above, it is recommended we do not further invest in the Local Government Insurance Corporation.

6. Communication

No communications are necessary at this stage.

7. Recommendations

That the Council:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*
3. ***Rejects** the share offer to invest further in the Local Government Insurance Corporation.*

Report prepared by: | Report approved by:

Mike Timmer
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