

15 October 2012**Agenda Item: 4**

REPORT OF SERVICE DIRECTOR – FINANCE AND PROCUREMENT

INSURANCE TENDER

Purpose of the Report

1. The purpose of this report is to inform members about the strategy for the insurance tender.

Information and Advice

Background

2. The Council's insurance portfolio was last tendered for the 2007-08 renewal. The contracts were awarded for three years with the option to extend for a further two. Last year it was recognised that significant amounts of work were required within the Risk and Insurance Team to put the Council in a position where it was "fit to tender" and so a waiver of standing orders was granted to delay the tender for one year meaning that the current contract expires on 1 May 2013.
3. The annual external premium cost of the Council's insurances is in the region of £2.4million per annum. The value of the insurance therefore means that the tender must be run in line with European Procurement Rules.
4. The policies to be included in the tender are shown in Appendix A.
5. A project team has been drawn together to deliver the tender. The team is headed by the Group Manager, Financial Strategy & Compliance, and comprises members of the Risk and Insurance Team, the Council's brokers, Procurement and Legal Services.
6. The tender will be run in line with the OJEU open procedure.
7. The insurances will be grouped into 7 lots and insurers will be able to quote for just one lot or any combination. Insurers may offer a discount in return for the award of one or more lots and so a final option will be included to allow this to be evaluated.
8. The contract will be offered for three years with the option to extend for a further two.
9. A detailed timetable has been drawn up, but the key dates to be aware of are:
 - a. Insurer Day – 25 October 2012
 - b. Invitation to Tender (ITT) to be available to bidders – 3 December 2012

- c. Closing date for bids – 10 January 2013
- d. Intention to award letters issued – 3 April 2013
- e. Contracts commence 1 May 2013

10. It is requested that the committee delegate the decision to the Service Director – Finance & Procurement in conjunction with Chair and Vice Chair. The timeframes set out by the OJEU procurement regulations are rigid, they require a ten day standstill period after the contract is awarded during which competitors can challenge the decision. The existing contract ends on the 30 April 2013 meaning that the latest the standstill period can commence is the 20 April 2013. Unfortunately, the April Finance and Property Committee is scheduled for the 22 April and bringing the decision to this meeting would be too late for the contract to commence on 1 May. To bring the report to the March meeting would mean bringing forward issuing the ITT to November which the insurance market would regard as too early and is likely to create an adverse response.
11. A report will be presented to the 22 April 2013, Finance and Property committee to advise members of the outcome of the decision.

Market Response

12. There are only a limited number of companies that will provide liability and property insurance to large local authorities. In order to get the maximum response to the tender it is essential that the County Council puts forward the best possible tender pack and does everything in its control to give confidence to the insurance market.
13. To try to present the Council in the best possible light an “insurer day” will be held. Potential bidders will be invited to hear a presentation about the Council, the way it manages risk and its approach to insurance. Other actions being taken to put forward the best tender include:
 - a. Property Services have committed to undertake a full revaluation of all insured properties and are identifying all properties either leased in or leased out which the Council is not responsible for insuring.
 - b. The claims history data held by insurers and the Council has been “cleansed” to ensure that it is accurate and meaningful.
 - c. A market presentation on the higher risk areas of the Council and the risk improvement work being undertaken by the Council is being prepared.

Evaluation

14. The evaluation of the bids will be quite complex and will be carried out by the Risk and Insurance Manager and the Council’s brokers with input as required from other members of the project team.
15. Potential insurers will not respond with a policy wording that exactly matches the specification. Each bidder will provide their own policy wordings which, whilst broadly similar will have some significant variances that will need to be considered.
16. Price will also be quite intricate to evaluate. To get best value, the Council takes a high excess on its policies (£100,000 for liabilities, £500,000 for school property and £50,000 for other properties) and self funds claims falling under the excesses. In the tender bids will be requested based on a range of excess. To give an equitable comparison of cost we

therefore cannot just look at the premium quoted but will have to consider the total cost of risk, i.e. the premium plus the estimated value of self funded claims.

17. The other significant factor to consider on the liability and motor claims is the quality of the claims handling service. The majority of claims are handled by the Risk and Insurance Team but, the insurers will reserve the right to handle certain claims themselves. Price should not be the driver in assessing this part of the service, poor quality claims handling can cost significant sums in claims being settled when they could have been defended or claims not being dealt with quickly which adds to their cost.
18. The evaluation matrixes will be agreed in advance by the project team.

Options to be Requested for Level of Excess

19. Taking a larger excess should generate savings in the total cost of risk as, the higher the excess the less the premium will be paid. Premiums include non recoverable insurance Premium Tax, a profit element and a contingency for unforeseen risk which add to the total cost of insurance. Also with good management the cost of claims should reduce giving the savings to the Council and not the insurers. The converse is that several large claims or an increase in the number of lower value claims could push up the cost to the Council.
20. Bids for the liability, motor and property policies will be invited with the current levels of excess and any combination of the following options:

	Option 1	Option 2
Property	Schools - £100,000 Other- £50,000	Schools - £50,000 Other- £50,000
Liability	£50,000	£250,000

It is not out of the question that insurers will not be prepared to quote at the options given (as at the last tender when the only quote for School Property was with a £500,000 excess) so insurers will also be invited to quote at what they believe to be the best option.

21. The excess on the Council's Fidelity Guarantee insurers is currently £1m which is out of line with the level of risk that the Council has decided to retain on every other policy. The reason for the decision is uncertain and it is therefore intended to ask for quotes with a £50,000 and £250,000 excess.
22. The personal accident cover also has an unusual excess, £250,000 per event, and quotes will be sought for ground up cover, and a £50,000 excess as well as the current arrangement.
23. Sitting above the excess is a stop loss figure which effectively limits the Council's financial exposure. As claims are paid the excesses are aggregated and once the stop is hit the insurers will start to pay the claims in full. In practice the best way to deal with the stop loss in the tender is to allow insurers to put forward their own option.

Changes to Cover

24. The tender offers the best opportunity to review the cover in place and make sure that it reflects the current needs of the Council and the current coverage available from the market.
25. The current policies in place are largely acceptable and some relatively minor changes to enhance the cover will be requested.

Other Options Considered

26. The only other option is not to tender and ask the insurers to extend the existing contracts for a further year. This would put the Council in breach of OJEU regulations and possibly prevent the most cost effective option being in place.

Statutory and Policy Implications

29. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

30. It is recommended that the committee:

- 30.1 endorses the proposed tender process
- 30.2 Delegate the decision to award the contracts to the Service Director – Procurement and Finance in conjunction with Chair and Vice Chair, with a follow up report to be presented to the 22 April 2013 meeting of this committee.

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For any enquiries about this report please contact:

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Constitutional Comments (KK 19 September 2012)

31. The proposals in this report are within the remit of the Finance and Property Committee.

Financial Comments (NS 13 September 2012)

32. The annual external premium of circa £2.4million is recharged to departments and schools and any savings achieved through the tender will accrue to them.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

Appendix A – Policies to be included in the insurance tender

Policy	Current Insurer	2012-13 Premium	Excesses	Other
Lot 1 – Liabilities				
Public Liability	RMP	£271,000	£100,000	Combined stop loss of £4,250,000, Level of indemnity £60m
Employers Liability	RMP	£111,000	£100,000	Combined stop loss of £4,250,000, Level of indemnity £60m
Officials Indemnity	RMP	£32,000	£100,000	Combined stop loss of £4,250,000, Level of indemnity £10m
Professional Indemnity	RMP	£84,000	£100,000	Combined stop loss of £4,250,000, Level of indemnity £10m
Claim Handling	RMP	£47,000	n/a	The majority of claims are handled in house. Insurers reserve the right to handle any claim over £50,000 or for certain serious injuries. In 2011-12, due to capacity issues on the Risk and Insurance Team, some additional claims handling was passed to the insurers.
		£545,000		
Lot 2 – Motor				
Third Party Motor	RMP	£118,000	£100,000	Combined stop loss of £4,250,000. Own damage motor is wholly self insured.
Lot 3 – Computer				
Computer	Allianz	£3,000	£5,000	Provides cover for equipment in the Data Centres at County Hall and Lawn View House only. Includes

				£200,000 for reinstatement of data and £2.2m for additional cost of working.
Lot 4				
School & Youth Services Travel	ACE	£66,000	-	
Lot 5 – Property				
General Properties	Zurich Municipal	£146,000	£50,000	£2,000,000 combined stop loss.
Schools	Zurich Municipal	£1,025,000	£500,000	£2,000,000 combined stop loss.
Commercial Properties	Zurich Municipal	£15,000	£100,000	£2,000,000 combined stop loss.
Works in Progress	Zurich Municipal	£5,000	£100,000/ £500,000	£2,000,000 combined stop loss.
Business Interruption	Zurich Municipal	£215,000	£100,000/ £500,000	£2,000,000 combined stop loss. Combined excess with main property damage policy
		£1,406,000		
Lot 6				
Fidelity Guarantee	Zurich Municipal	£25,000	£1,000,000	Level of indemnity – £5m each and every claim

Lot 7				
Staff and members personal accident	CHUBB	£15,000	£250,000 per event	
Policies not to be included in tender				
Income Protection	Unum	£2,200	-	Policy held for 4 staff that transferred from the Health Authority – policy forms part of their terms and conditions. Alternative market is unlikely to be available. As staff leave the premium reduces.
Terrorism	Lloyds	£159,000	-	This risk can only be insured through the Lloyds market or the Governments Pool Re scheme. The Council has chosen to make savings on this policy by insuring on a first loss basis and this option is not available through Pool Re.
Officers Travel	CHUBB	£600		Premium is de minimus and therefore not included in tender