

**22 April 2013****Agenda Item: 4****REPORT OF SERVICE DIRECTOR FINANCE AND PROCUREMENT****INSURANCE TENDER****Purpose of the Report**

1. This report seeks to inform the Committee of the tender process that has been carried in respect of the Council's insurance contracts and advise them of the decision made by the Service Director for Finance and Procurement in consultation with the Chairman of the Finance and Property Committee with respect to the award of the contract.

**Information and Advice**

2. An Official Journal of the European Union (OJEU) tender process has been carried out for the placement of the Council's insurance portfolio which is due for renewal on the 1 May 2013. A report was presented to the October 2012 Finance and Property Committee which provided details of the reasons for the tender and the strategy that was to be followed.
3. At the October committee meeting the decision to award the contracts was delegated to the with Chairman of the Finance and Property Committee in consultation with Service Director, Finance and Procurement
4. The bids in response to the tender have been evaluated by the Risk and Insurance Manager, The Risk Officer, Procurement and the Council's broker Gallagher Heath. The evaluation has been carried out in line with the criteria contained within the Invitation to Tender (ITT), which depending on the type of insurance covered, price, policy cover, claims handling and other benefits.
5. It should be noted that, in what is a limited market, there has been an excellent response to the tender. This is partly due to the amount of pre-work that the Risk and Insurance Team and the brokers did with the potential bidders to help them understand the risk. Thanks must also be given to other officers across the Council that supported the preparation of a very detailed Invitation to Tender.
6. Bids were received from Zurich Municipal and RMP who responded to all lots, Travelers who bid for the liabilities and motor with CHUBB, ACE and Allianz responding to some of the specialist lots.

## Outcome of the Evaluation

7. The outcome of the tender has been extremely positive. In a time when the insurance market is generally quoting higher premiums the exercise has generated savings estimated at £650,000 and an improved level of insurance cover.
8. The evaluation of the tender was extremely complex, with insurers all quoting slightly different policy terms. Quotes were provided with various levels of excess and the added variable of two insurers quoting with discounts for the award of all lots. Given the number of variables the outcome has been remarkably close.
9. In order to evaluate the best package the “total cost of risk” has had to be considered. This is the sum of the external premium quoted and the cost of funding claims falling below the excess. The cost of claims falling under the excess can only ever be an estimate, and for this process, figures provided from an actuarial review of the Council’s historic losses have been used. As you would expect the higher the excess, the higher the estimated cost of self-funded claims but, in return a lower premium.
10. The package that has been approved moves the Council from a £100,000 excess on its liability and third party motor policy to a £250,000 excess which is not out of line with other large authorities. Clearly, moving to a higher excess exposes the Council to a potentially higher cost of claims but, given the savings involved this is a calculated risk. There is the reassurance that the Council’s financial liability is capped by the insurance policy’s “aggregate stop loss” which is the cumulative value of claims at which the insurers take on full financial responsibility for paying all claims.
11. The scores for the top six options are shown in appendix A. It can be seen that option 4 gives the best overall score of 623 out of 700. This places the Liability, Motor, Property and Fidelity Guarantee policies with Zurich Municipal, the Computer with Allianz, the Personal Accident and Travel (School Journey) with ACE and the Staff and Members Personal Accident with CHUBB. The closest result which gives an alternative provider for the major policies is option 5 at 610 points; this would place the major risks with RMP.
12. The new contract is on the basis of a 3 year long term agreement with the option to extend for a further 2 years
13. The tender has achieved a saving in external premiums of £246,000 per year and an estimated saving in the total cost of risk of £130,000 per year, potentially £650,000 over the maximum life of the contract. A summary of the savings between the 2012-13 total cost of risk and the total cost of risk under option 4, is shown below. It must be noted that these savings come on top of the saving of £282,000 saving negotiated for the 2012-13 renewal.

	<b>2012-13 Renewal</b>	<b>Tender Quotation</b>	<b>Saving</b>
External Premium	£1,849,000	£1,603,000	-£246,000
Estimated Cost of Self-Funded Claims	£3,180,000	£3,296,000	£116,000
<b>Total Estimated Cost of Risk</b>	<b>£5,029,000</b>	<b>£4,898,000</b>	<b>-£130,000</b>

14. The tender exercise has not only generated savings but it has been used as an opportunity to improve the level of cover and remove some of the anomalies with the existing arrangements. The significant changes are summarised in appendix B. Two of the potentially most beneficial changes are the move to a per event, rather than per property excess, for losses arising from earthquake, storm, flood and escape of water and the reduction of the excess on the Fidelity Guarantee policy from £1m to £250,000.
15. Part of the savings will relate to schools. At this point we do not have the detailed split from insurers and so are unable to calculate the impact on the County Council and Schools. The value of the retained saving will become clearer in due course.
16. The charges to schools have already been set and communicated and so it would not be practical to adjust their 2013-14 charges at this point. The conversions to academies create volatility in the Insurance Fund as they create another dynamic in estimating the funding required for claims under the excess. It is considered prudent to retain a proportion of any savings that relate to schools within the Insurance Fund and ring fence the balance for risk management initiatives.

#### **Points for Post Award Clarification**

17. Zurich Municipal's liability bid was for a £50m limit of indemnity as opposed to the requested level of £60m. This means that an excess layer policy will have to be purchased elsewhere in the insurance market (this is not an unusual situation). To give a consistent evaluation an assumption has been made that the layer will cost £20,000 which is the premium RMP included in their quotation. Our Insurance Brokers have confirmed, that in their experience, £20,000 is a fair estimate. This will have been resolved before the start of the new contracts on 1 May 2013.
18. As part of the Computer lot, quotations were requested for Cyber Cover. This is a risk that the Council does not currently insure and none of the insurers that responded would quote for this specialist area of cover. It is therefore proposed that once the tender has been fully completed, this area is revisited with relevant colleagues and consideration be given to approaching specialist markets.
19. The Council currently only has a £5m limit of indemnity on its Fidelity Guarantee Policy which is considered low and is out of line with other large authorities. In the evaluation the quotes at £5m have been used however, the proposed insurer has also quoted at a level of £20m which would incur an additional £36,000 in premium. The advice from the Council's brokers is that consideration should be given to moving to the higher level.

#### **Statutory and Policy Implications**

20. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, 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.

## **Financial Implications**

21. The financial implications are laid out in paragraph 12 of the report.

## **RECOMMENDATION/S**

18. It is recommended that members note this report and the decisions made by the Service Director for Finance and Procurement in consultation with the Chairman of the Committee which were:

- a. That the Council place its insurances, in line with option 4.
- b. That the limit on the Fidelity Guarantee policy is increased from £5m limit to £20m.
- c. That the impact of the tender on the County Council is built into the insurance recharges for 2013-14.
- d. The savings relating to schools in 2013-14 are retained in the Insurance Fund with a proportion being earmarked for risk management work in schools and that from 2014-15 the savings are passed on.
- e. That options for the excess layer of £10m on the liability policy should be obtained and so long as the premium is the region of the estimated £20,000 that the cover is placed. Should the premium significantly exceed £20,000 a further report should be brought before the Chairman of the Finance and Property Committee and the Service Director for Finance and Procurement.

## **Paul Simpson – Service Director – Finance and Procurement**

### **For any enquiries about this report please contact:**

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## **Constitutional Comments**

22. None – report for information only

## **Background Papers and Published Documents**

None

## **Electoral Division(s) and Member(s) Affected**

All

## Appendix A – Summary Evaluation

Option	1	2	3	4	5	6	7	8	
1 Liabilities	ZM	RMP	ZM	ZM	RMP	RMP	Travelers	Travelers	
2 Motor	ZM	RMP	ZM	ZM	RMP	RMP	Travelers	Travelers	
3 Computer	ZM	RMP	ZM	Allianz	Allianz	Allianz	Allianz	Allianz	
4 Personal Accident and Travel (School Journey)	ZM	RMP	Ace	Ace	Ace	Chubb	Ace	Ace	
5 Property (excluding terrorism)	ZM	RMP	ZM	ZM	RMP	RMP	ZM	ZM	
6 Fidelity Guarantee	ZM	RMP	ZM	ZM	RMP	RMP	ZM	ZM	
7 Personal Accident (Excluding School Journeys)	ZM	RMP	Chubb	Chubb	Chubb	Chubb	Chubb	Chubb	
<b>Total Score</b>	<b>560.00</b>	<b>488.29</b>	<b>610.32</b>	<b>622.8</b>	<b>609.85</b>	<b>595.56</b>	<b>584.39</b>	<b>568.209</b>	<b>700</b>

## Appendix B – Changes to Cover

Lot	
1 Liabilities	<ul style="list-style-type: none"> <li>• Increase of excess from £100,000 to £250,000</li> <li>• Reduction of aggregate stop loss (cross class with motor) from £4.7m to £3.95m</li> <li>• Fixed cost for claims handling rather than per claim</li> <li>• Environmental liability cover (limited to statutory cover) £1m now included</li> <li>• Options for NCC Claims Handlers to attend training sessions that insurers provide for their own staff</li> </ul>
2 Motor	<ul style="list-style-type: none"> <li>• Increase of excess from £100,000 to £250,000</li> <li>• Reduction of aggregate stop loss (cross class with motor) from £4.7m to £3.95m</li> <li>• Fixed cost for claims handling rather than per claim</li> <li>• New insurer has offered the opportunity to link into a much more pro active claims handling service which should help to reduce the cost of self funded claims</li> </ul>
3 Computer	<ul style="list-style-type: none"> <li>• No significant change</li> </ul>
4 Personal Accident and Travel (School Journey)	<ul style="list-style-type: none"> <li>• No significant change</li> </ul>
5 Property (excluding terrorism)	<ul style="list-style-type: none"> <li>• Per event rather than per property excess now applies to losses arising from earthquake, storm, flood and escape of water</li> <li>• Increased inadvertent to insure limit from £5m to £25m</li> <li>• Cover now included for the motor accumulation risk (ie damage to multiple vehicles while parked at a depot)</li> <li>• Cover now included for private properties where the Council has been appointed as deputy – risk was previously wholly self insured</li> <li>• Business Interruption period of cover increased from 48 months to 60 months at no extra premium</li> <li>• Contingency cover for academies now included</li> </ul>
6 Fidelity Guarantee	<ul style="list-style-type: none"> <li>• Reduction of excess from £1m to £250,000 keeping the level of risk in line with other policies and giving the Council greater protection</li> </ul>
7 Personal Accident (Excluding School Journeys)	<ul style="list-style-type: none"> <li>• No change</li> </ul>