

# Insurance renewal update

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<b>TO</b>	Audit and Risk Committee
<b>FROM</b>	Pieter Labuschagne - Risk Manager
<b>DATE</b>	1 November 2018
<b>SUBJECT</b>	<b>Insurance renewal update</b>

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## **1 Purpose of Report**

This report provides an update on the renewal of the Council insurance arrangements for 2018-2019.

## **2 Background**

Risk management makes a significant contribution to the Council's achievement of its responsibilities and desired community outcomes in the Long-Term Plan. Managing the financial consequences of risk in an efficient, affordable and sustainable manner will help to demonstrate the Council's prudent stewardship of the community's assets, sound governance and good business practice.

This report is provided for information purposes and has been assessed as being of some importance. Insurance is a way of responding to risks that would have financial implications but are less likely to occur. Therefore, the impact on the community is negligible if premiums and any uninsured losses can be managed within existing funding.

## **3 Discussion**

Insurance is a means of transferring the financial consequences of a risk being realised from the Council to another party. Over the years, the market for insurance has fluctuated as providers have entered and exited, while the impact of natural disasters has affected the amount the Council pays for its insurance. The 2017-2018 the total premiums and fees paid were \$284,814 (GST exclusive) but the 2018-2019 premiums and fees payable were not available at reporting date.

The Council's insurance covers asset (e.g. buildings and other infrastructure) and non-asset (e.g. liability and crime) categories, with insurance either sourced through our broker, Aon. No fundamental change in the programme is anticipated for 2018-2019. Nevertheless, the rest of this report notes the current arrangements and discusses external factors that influenced the programme for 2018-2019.

### **Waikato Councils insurance collective**

Council obtains insurance cover through a regional collaboration via the Waikato LASS. Although each Council has discretion when opting in to the various policies available and when setting their deductible.

There has been an increase in the overall cost of the programme due to the continued hardening of the market post Kaikoura and natural disasters globally in 2017 and an increase in values. The situation has not been helped by less insurers providing capacity with some withdrawing completely. The increase in premiums is still significantly less than seen elsewhere in New Zealand with other parties who have suffered natural disaster losses - especially with local insurance markets proposing rate increases anywhere between 10-40% depending on risk, location and loss history. The Waikato Regional

Council flood loss in Kawerau has not assisted with the pricing as this is still fresh in insurers mind. This difficult insurance market gave rise to a premium increase to the Waikato LASS members. The key themes that came out of Aon's annual underwriter visit are:

- **Hardening Market**  
As with the rest of the global market, Lloyds is experiencing a hardening market with reduced capital and capacity available. As a result, pricing is increasing, and underwriters are being more selective with the risks they will consider.
- **Lloyds Syndicates under pressure**  
The Lloyds underwriters are under a lot of pressure to lift profitability. Lloyds has asked the underwriting syndicates to divest from their lowest 10% performing clients.
- **Increased focus on Risk Management**  
Because of the above issues the underwriters are looking closely at their portfolios and clients who show proactive risk management / asset management programmes. There needs to be an increased focus on this to ensure longevity for the programme. This means high quality data and more accurate information relating to asset values, asset condition and asset type will become essential to maintain market support for our programme. It will also act as a differential between the Waikato Group of Councils and other clients going into the Lloyds markets.  
The better-quality information that can be provided to the markets will allow more detailed underwriting to be undertaken and give underwriters assurances that Waikato Councils are taking proactive steps to manage their risk and assets.
- **Loyalty to Existing Clients**  
As the Waikato Group have been in the Lloyds market for some time and make the effort with other Aon council clients to visit the markets in London, this has garnered loyalty with the underwriters and they are continuing to support Waikato Councils. With the market hardening having good relationships with the markets is essential to mitigate premium increases.

#### **Next steps**

The focus currently is renewing policies for renewal on 1 November 2018. Work will continue during 2018-2019 to get the most value from the risk modelling work by refining our insurance programme, and by identifying vulnerable critical assets that need further investigation in terms of resilience. All this work will be done in conjunction with the other Waikato Councils, so benefits can be realised across the region. The major area that all the Councils need to work on moving forward is the improvement of data quality and accuracy, accuracy of valuations, asset management information and loss modelling.

#### **4 Suggested Resolution(s)**

That the Audit and Risk Committee:

1. Receives the Insurance renewal update report, dated 1 November 2018.