

27. 6. 2002

**SUPPLEMENTARY REPORT NO 2 BY THE
CHAIRMAN OF THE STRATEGY AND FINANCE COMMITTEE**

PART A - MATTERS REQUIRING A COUNCIL DECISION

3. RENEWAL OF COUNCIL'S INSURANCE PROGRAMME

Officer responsible Director of Operations	Author Murray Sinclair, DDI 941-8852
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The purpose of this report is to seek approval for renewal of the Council's insurance programme for the 2002/2003 financial year as the total cost exceed the delegated authority granted to the Director of Operations.

The Director of Operations was granted delegated authority, in August 2001, to enter into arrangement for the placement of all the Council's insurance policies not exceeding \$1.75 million per annum, subject to such delegated power being reported back to the Council in each case.

During the past months there has been much speculation on the state of the insurance markets in New Zealand and overseas. International results and trends have a significant impact on the response of the New Zealand market. Events of September 11 have produced the largest insurance claim ever arising out of an event or series of events. Currently, losses are anticipated to be up to \$70 billion for terrorist attack on the Twin Towers. The events of September 11 come at a time when international insurance markets have encountered several years of poor financial results. Furthermore, over the past few years the New Zealand market has witnessed the withdrawal of a number of insurers. The most immediate impact of the above being on policy coverage, capacity and terms for policy holders to allow insurers and reinsurers the ability to recover costs and provide an acceptable return.

The Council's insurance policies are due for renewal from 30 June 2002 (4pm) for the forthcoming financial year. Details of the renewals are shown in the table below (figures are exclusive of GST).

Policy	2001/02 Premium	2002/03 Premium	Insurer
Material Damage	\$985,355 (sum insured \$843,350,071)	\$1,475,875 (sum insured \$984,000,691)	Civic Assurance
Business Interruption	\$15,862	\$25,254	Civic Assurance
Motor Vehicle	\$61,960	\$63,986	Civic Assurance
Fidelity Guarantee	\$10,000	\$15,000	Civic Assurance
Marine Hull	\$1,292	\$1,457	Civic Assurance
Personal Accident	\$1,985	\$2,184	Ace Insurance
Overseas Travel (Deposit)	\$2,800	\$5,280	Royal & Sunalliance
Combined Liabilities	\$199,050	\$228,000	RiskPool
Forest and Rural Fires	\$2,500	\$3,600	Civic Assurance
Machinery Breakdown	\$5,094	\$6,113	Civic Assurance
Machinery Breakdown Business Interruption	\$2,142	\$2,570	Civic Assurance
Punitive/Exemplary Damages	\$2,750	\$2,900	Royal & Sunalliance Liability
Directors & Officers CCHL	\$6,375	\$6,700	Royal & Sunalliance Liability
Directors & Officers Travis Group	\$2,000	\$2,100	Royal & Sunalliance Liability
Directors & Officers Jade Stadium Ltd	\$5,250	\$5,500	Royal & Sunalliance Liability
Directors & Officers CCFL	\$3,250	\$3,500	Royal & Sunalliance Liability
Total Premiums	\$1,307,665	\$1,895,319	

27. 6. 2002

- 2 -

Staff were aware of the impact that the September 11 incident and the hardening insurance markets would have on the Council's insurance premiums prior to the 2002/03 Annual Plan process and made budget provision to reflect the likely increases. The total premiums are very close to and within the 2002/03 budgeted provision.

MATERIAL DAMAGE POLICY

The proposed policy alterations for the Material Damage policy include:

- Minimum excess \$2,500 (previously \$1,000)
- Schedule of asset now forms part of the policy specification.
- Maximum amount payable in respect of contents and plant at anyone location is 20% of the total value of contents and plant insured. Sites with contents and plant in excess of this value must be specifically noted. This has resulted in the sum of the Council's contents and plant being reviewed and increased from \$150 million to \$200 million (additional cost of \$100,508).
- Parking meters, traffic lights and other free standing structure excluded unless specified in the insured asset schedules (these items are included in the \$200 million figure mentioned above).
- Works of art – maximum liability of the insurer in respect of any one item is \$250,000 unless specified (these have now been specified).
- The sum insured of buildings, contents and plant etc has increased from \$843,350,071 to \$984,000,691. The sum insured for 2002/03 includes inflation adjusted values for all buildings plus increased values relating to the redevelopment at QE2 (pools), English Park, and the new Thickening Filter Station at Bromley Treatment Works. Furthermore, as mentioned above the value of the contents and plant has been increased by \$50 million.

As part of the 2002/03 insurance renewals, staff obtained quotes for the Council's Material Damage policy as shown below:

Excess	Premium	Difference between premium with \$2,500 excess
\$2,500	\$1,475,875	
\$10,000	\$1,423,397	\$52,478
\$50,000	\$1,388,745	\$87,130
\$100,000	\$1,362,166	\$113,709

Should the Council elect to take a \$100,000 excess there would be a saving of \$113,709 in premium but the additional claims costs would be \$331,148 (based on 2001/02 claims history) i.e. a net additional cost of \$217,439.

The other possible alternative to consider is to move to a largely self insurance regime, to build up a fund to cover larger losses, and to insure for only the catastrophic losses. Staff have started a stream of work to investigate that approach, and will report the conclusions from that work to the Strategy and Finance Committee later in the calendar year. Such a move would be a significant change, and require careful consideration of the risks and advantages.

In the meantime, it is necessary to approve the insurance programme for the 2002/03 year, as the current policies expire on 30 June 2002, and the total cost exceeds the delegation given to the Director of Operations.

Chairman's

Recommendation: That the Council approve the renewal of the Council's insurance programme as set out in the table above, at a cost of \$1,895,319.

CONSIDERED THIS 27TH DAY OF JUNE 2002

MAYOR