

Members' Library Service Request Form

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Originator	Karen Mcleod, Insurance & Claims Officer
Originator's Ref (if any)	
Document Title	Tender for Cross Class Insurance 1 st October 2016

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Additional information:

Authorised By	Jim Lamond
Designation	Head of Council Resources
Date	27/09/16

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REPORT TO: Members' Library Service

DATE:

BY: Head of Council Resources

SUBJECT: Tender - Cross Class Insurance 1st October 2016

1 PURPOSE

To recommend decision for placement of the Council's insurances for the policies and service listed following tender published 6th June 2016 on Public Contracts Scotland in two lots:

- Employers' Liability **Lot 1**
- Public Liability including libel/slander and pollution liability **Lot 1**
- Professional Negligence **Lot 1**
- Officials Indemnity **Lot 1**
- Motor Fleet **Lot 2**
- Claims handling services determined by insurers **Lots 1 & 2**

2 RECOMMENDATIONS

2.1 Cabinet is asked to note the decision of the Head of Council Resources to approve the placement for each policy on the following terms:

All premiums are subject to Insurance Premium Tax (IPT) of 10%.

Claims handling fees are subject to vat

Claims for all classes of business shown with the exception of the Motor Fleet all count towards the aggregate of £850,000.

Motor Fleet claims are subject to a lower annual aggregate of £160,000.

The quotations are based on a long term agreement of three years with option to extend for a further one or two years.

Estimated claims handling charges were evaluated along with insurance premiums.

In line with the Council's current procurement practice, price over five years was used in the evaluation allowing for increases specified in the tender responses where applicable.

2.2 Following evaluation, awards have been made to QBE via Risk Management Partners (RMP) for both Lots 1 and 2. RMP is a managing general agent who acts on behalf of their partner insurer QBE. All contracts of insurance are entered into directly between the Council and the insurer.

2.3 Premiums for Year 1, 1st October 2016- 30th September 2017

	2016/17	Annual premium excluding IPT	Excess per occurrence	Annual aggregate
Employers/ Public Liability	QBE via RMP	£118,900	£75,000	£850,000
Libel & Slander included within Public Liability				
Professional negligence	QBE via RMP	£6,600	£5,000	£850,000
Officials Indemnity	QBE via RMP	£23,500	£5,000	£850,000
Motor Fleet	QBE via RMP	£52,690	£75,000	£160,000

Total premiums £201,690 plus IPT

As a result of redesigning the cross class insurance programme, there is an initial saving of £34,900 on the premiums paid for 2015/16.

For Motor Fleet claims, each business unit has a minimum own damage excess of £2,000 per occurrence, most own damage claims are less than £2,000.

Under the terms of handling claims, the insurance contract specifies that all injury claims and property damage claims over an agreed value (£2,000) and Motor Damage claims over £7,500 are handled by appointed claims handlers. The appointed claims handlers are Gallagher Bassett Limited. A deposit premium is paid for the estimated number of

Lot 1-Options

DEDUCTIBLE	£50,000	£75,000	£75,000	£100,000
AGGREGATE	£540,000	610,000	£850,000	£670,000

Lot 2-Options

DEDUCTIBLE	£25,000	£50,000	£75,000	£75,000
AGGREGATE	£130,000	140,000	£160,000	£850,000

Selected options shown in bold

The policy cover, excesses and aggregates have been selected taking into account a risk optimisation carried out by the Council's Broker, Marsh Limited. This looked at all claims over the past seven years, payments made in the past, projections for future payments and the likelihood of individual claims exceeding the policy excess and the annual aggregates being breached.

After analysing the data, it was decided that the Council would seek four options within the tender.

Two insurers quoted for Lot 1 and four insurers quoted for Lot 2. In evaluating the tenders, a comparison of price was taken for the options selected in 2.1.4 over five years

Lot 1	Premium excluding IPT over 5 years	Claims Handling charges		
QBE	£745,000	£134,851	£879,851	75 claims
MAVEN	£881,950	£97,762	£987,712	75 claims

Lot 2	Premium excluding IPT over five years	Claims Handling charges		
QBE	£263,450	£16,575	£280,025	5 claims
MAVEN	£292,500	Nil	£292,500	5 claims
TRAVELLERS	* £124,450 *225,000	£37500	£386,950	Set annual fee
PROTECTOR	£326,800	Nil	£326,800	Nil

The tender asked for claims handling for five motor claims

*Travellers were not able to offer cover for the Council's vehicle accumulation limit which would mean that further insurance cover would have to be purchased. Based on the quotation received for another layer of insurance of £45,000 per annum, this resulted in the most expensive pricing.

Tenders were assessed using the following scores which applied to both lots 1 and 2 and Claims handling

Criteria	
Price	60
Public Sector Experience	10
Scope of Cover	10
Quality	20

3 BACKGROUND

East Lothian Council currently has in place a number of insurance policies for major perils. Policies are tendered every three to five years and are renewed annually. The Council self fund's almost all property or liability losses with insurance cover only for critical losses. The bulk of the losses are met from the Council's insurance fund, the cost of which shall be apportioned to departments by exposure (value of assets, number of employees, budget etc) and weighted according to claims experience (number X value). All insurance premiums, consultancy fees, administration costs, statutory inspections, negotiation and payment of claims and payment of legal expenses are paid from the fund.

4 POLICY IMPLICATIONS

External Insurance is designed to protect the financial well-being of the Council in the case of unexpected loss, whilst achieving an appropriate balance between the cost of premiums and the risk the Council takes on under an insurance policy. Good risk management can help reduce reliance on external insurance so that cover is only required for major or catastrophic events. Insurance & Claims within Council Resources hold regular meetings with Risk Management and Health & Safety and will provide management information throughout East Lothian Council to identify the highest risks and costs of claims.

The new Insurance Act 2015 Act came into force in August 2016, it will significantly impact disclosure obligations when taking out or renewing any business insurance. Under the new Act, if we don't comply with our duties, insurers will have a new range of "proportionate remedies", which could include reducing claim payments significantly if it would have entered the contract on different terms such as a higher premium. If the breach was deliberate or reckless, the insurer can avoid the contract and keep the premiums paid by the insured. We will have to disclose information known by senior management and by the individuals responsible for arranging the Council's insurance to our insurers in a "reasonably clear and accessible" manner.

We will have to carry out a reasonable search for information, which could include making enquiries of people outside our organisation, such as external consultants.

It is intended to provide the insurer with a bi-monthly report informing of any relevant changes.

5 INTEGRATED IMPACT ASSESSMENT

The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – As stated in the report. Cost of insurance premiums is already budgeted with an inflationary increase being applied each year for future premiums. The total cost of premiums and fees identified in Section 2.1.4 demonstrate a saving relative to current arrangements and can therefore be contained within approved budget levels.
- 6.2 Personnel – No change to existing personnel.
- 6.3 Other – A further in-house review of claim experience should be carried out for both Lots 1 and 2 leading up to each annual renewal to ensure that the current excesses and aggregates remain in line with the Council's risk appetite.

7 BACKGROUND PAPERS

7.1 Risk Optimisation by Marsh Limited.

AUTHORS' NAME, DESIGNATION & CONTACT INFO	Karen McLeod, Insurance & Claims Officer Tel. 01620 827876 Email: kmcleod2@eastlothian.gov.uk
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