

To: POLICY AND RESOURCES (FINANCE) SUB-COMMITTEE		Subject: INSURANCE TENDERS FOR PERIOD COMMENCING 1 ST APRIL 2006
From: DIRECTOR OF FINANCE		
Date: 13 th March 2006	Ref: JV/LM	

1 Introduction

- 1.1 The purpose of this report is to note that, in accordance with the delegations given to the Director of Administration in consultation with the Convener of the Committee, the contracts for insurance as detailed below were awarded prior to the Committee meeting in order to meet the deadlines required to satisfy the Public Contracts (Scotland) Regulations 2006.
- 1.2 The Council's insurance policies expire on 31st March 2006. A tendering process has been conducted, with tenders invited from interested insurers to provide all classes of insurance to commence on 1st April 2006.
- 1.3 Tenders were issued to 18 companies and quotations have been received from 6 companies for insurance, 4 for engineering inspection and 3 for claims handling.

2 Background

- 2.1 The Council has an insurance strategy that combines self-insurance with cover from the external market. Excesses are paid from the Insurance Fund on all claims, with the total amount that the Council may have to pay from the Insurance Fund capped by an aggregate stop loss.
- 2.2 The current excess levels and stop loss amounts on the main policies are:

	Excess	Aggregate Stop Loss
Property: <i>(Damage or loss to the Council's properties)</i>		
Education and general properties	£500,000	£1,500,000
Housing (flood, storm, escape of water)	£250,000	
Housing (fire and other perils)	£25,000	
Liability: <i>(Damage or loss to personal belongings of or injury to third parties, including the Council's employees)</i>	£300,000	£3,950,000
Motor: <i>(Comprehensive cover)</i>		
Council's motor fleet	£1,000	Nil
PPP vehicles	£250	

Additional policies are held for other covers, including personal accident, travel, money and engineering inspection.

- 2.3 This strategy has developed significantly since the last tendering exercise in 2001. As a result of increasing premiums, it was agreed by Committee, both in March 2002 and March 2003, that the Council should take higher excesses and thus retain more of the risk of the cost of claims in order to restrict the rise in premiums. This means that the Council pays less upfront costs to insurers. It also increases the focus on risk management in departments, creating a more obvious link between the cost of claims and the charge from the Insurance Fund to departments. The current tendering exercise has provided an opportunity to develop this strategy further.
- 2.4 Prior to the tenders being issued, the Risk & Insurance Section, in conjunction with the Council's insurance advisers, gave presentations to major insurers. This gave the opportunity to explain the Council's insurance strategy and to provide information on the improving claims experience. The presentations were well received and resulted in increased competition through stimulating the interest of insurers in the Council.
- 2.5 The insurance market has undergone a number of years of turbulence, resulting in the increasing premiums experienced by the Council in recent years. The market has become more stable recently and premium rates have declined. The general reduction in premiums, together with the risk management activity undertaken by the Council to improve its claims experience, have resulted in significant savings.

3 Evaluation Process

- 3.1 An evaluation scoring methodology was prepared and details were included in the tender documentation issued to prospective tenderers. Tender responses were evaluated, taking into account both cost and quality:

- Premium charges 40%
- Level of cover 30%
- Acceptability of claims handling procedures 15%
- Extent of risk control services available 10%
- Experience of local authority-related insurance 5%

4 Comparison of Tenders

- 4.1 Tenderers were requested to quote on the basis of a 5-year long-term agreement. Responses were evaluated over the 5-year period to 31st March 2011 to reflect premium increases over that period.

- 4.2 Insurance cover was requested in the following areas:

- Property
- Liability
- Motor
- Engineering
- Personal Accident and Travel
- Fidelity Guarantee
- Marine

4.3 Property

- 4.3.1 Quotations were requested based on the existing excess levels and aggregate stop loss. Insurers were also requested to quote on an increased stop loss figure of £2 million. Quotations were received from 3 companies:

Company	Bid Cost – 2006/07 £ 000	Bid Cost – 5 years £ 000	Total Points Score
Aspen (excluding terrorism cover)	1,416	7,078	355
Risk Management Partners	1,293	7,144	585
Zurich Municipal	1,321	6,604	690

4.3.2 The above quotations include cover of all of the Council's properties, including Broadwood Stadium. They also contain cover for Industrial & Commercial units that is recharged to the occupiers of those buildings. Risk Management Partners and Zurich Municipal have included quotations for terrorism cover but Aspen has not. Also, the quotations for Risk Management Partners and Zurich Municipal are based on a £2 million stop loss whereas the quotation from Aspen is based on a £2.5 million stop loss, making Aspen's quotation less competitive. It is clear, therefore, that the quotation from Zurich Municipal is more advantageous to the Council over the five years of the long-term agreement.

4.3.3 The effect of increasing the stop loss from £1.5 million to £2 million is to reduce the premium by £300,000 per annum. Claims experience since 1996 shows that at current excess levels the Council would have exceeded £1.5 million on only one occasion – by £284,000. Therefore, it is considered best value to accept the lower premium by increasing the stop loss to £2 million.

4.4 Liability

4.4.1 Quotations were requested based on the existing excess levels and aggregate stop loss. Quotations were received from 3 companies:

Company	Bid Cost – 2006/07 £ 000	Bid Cost – 5 years £ 000	Total Points Score
Risk Management Partners	469	2,592	670
St Paul Travelers	412	2,070	750
Zurich Municipal	419	2,254	720

4.4.2 Quotations received provide adequate cover and in terms of both price and quality the quotation from St Paul Travelers is the most advantageous for the Council over the period of the long-term agreement.

4.5 Motor

4.5.1 Quotations were requested based on the existing excess levels for both the Council's vehicles and vehicles provided to the PPP companies. Quotations were received from 2 companies:

Company	Bid Cost – 2006/07 £ 000	Bid Cost – 5 years £ 000	Total Points Score
Risk Management Partners	624	3,448	535
Zurich Municipal	558	3,083	670

4.5.2 Quotations received provide adequate cover and in terms of both price and quality the quotation from Zurich Municipal is the more advantageous for the Council over the period of the long-term agreement.

4.6 Engineering

4.6.1 Engineering inspections require to be carried out to ensure that plant owned and operated by the Council is safe and also that it meets statutory requirements. Quotations were requested based on the existing coverage of plant and equipment. The Social Work department has indicated that it wishes to combine routine maintenance of stairlifts, hoists, etc. with the statutory inspection and therefore alternative quotations were requested excluding this equipment. Quotations were received from 4 companies:

Company	Bid Cost – 2006/07 £ 000	Bid Cost – 5 years £ 000	Total Points Score
Allianz Cornhill	102	564	645
Risk Management Partners	116	643	575
Royal & Sun Alliance	144	797	495
Zurich Municipal	118	654	550

4.6.2 Quotations received provide adequate cover and in terms of both price and quality the quotation from Allianz Cornhill is the most advantageous for the Council over the period of the long-term agreement.

4.7 Personal Accident and Travel

4.7.1 Cover is required to provide compensation for injury of employees and members arising from accidents whilst on Council business, for travel of members and employees on Council business and participants on Council approved educational trips. Quotations were received from 3 companies:

Company	Bid Cost – 2006/07 £ 000	Bid Cost – 5 years £ 000	Total Points Score
ACE Europe	53	263	585
Risk Management Partners	46	255	585
Zurich Municipal	81	407	510

4.7.2 Quotations received provide adequate cover and in terms of both price and quality the quotations from ACE Europe and Risk Management Partners produce the same points score. ACE Europe is the current insurer for this class of business and it is recommended that ACE Europe be re-appointed for continuity.

4.8 Fidelity Guarantee

4.8.1 Insurance is required to cover the Council for losses as a result of fraud or dishonesty of an employee. Currently no excess is in place on this policy. Quotations were also requested with an excess of £50,000. Quotations based on the excess of £50,000 were received from 2 companies:

Company	Bid Cost – 2006/07 £ 000	Bid Cost – 5 years £ 000	Total Points Score
Risk Management Partners	10	57	620
Zurich Municipal	17	86	510

4.8.2 The effect of increasing the excess is to reduce the premium by £11,000 from the current year's figure. Given that the total payments since 1996 have been only £23,000, based on the claims experience it is recommended that an excess of £50,000 be taken. The quotation from Risk Management Partners has the highest points score. However, Fidelity Guarantee is not a standalone policy and cover is provided by the property insurer. It is recommended, therefore, that Fidelity Guarantee be placed with Zurich Municipal as in 4.3.2 above.

4.9 Marine

4.9.1 Cover is required on the Council's yachts, dinghies, etc. held at Strathclyde Park and Kilbowie Outdoor Centre and also the jetties, pontoons and equipment at Strathclyde Park. Quotations were received from 2 companies:

Company	Bid Cost – 2006/07 £ 000	Bid Cost – 5 years £ 000	Total Points Score
Royal & Sun Alliance	23	117	415
Zurich Municipal	17	85	480

4.9.2 Quotations received provide adequate cover and in terms of both price and quality the quotation from Zurich Municipal is the more advantageous for the Council over the period of the long-term agreement.

5 Conclusions

5.1 The total cost for 2006/07 of the individual policies that achieved the highest points score is as follows:

Policy	Insurer	2006/07 £000
Property	Zurich Municipal	1,321
Liability	St Paul Travelers	412
Motor	Zurich Municipal	558
Engineering	Allianz Cornhill	102
Personal Accident and Travel	ACE Europe	53
Fidelity Guarantee	Zurich Municipal	17
Marine	Zurich Municipal	17
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		2,480
Less: Rechargeable Property Premiums		255
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		2,225
Insurance Premium Tax @ 5% (excluding Claims Handling and Engineering)		102
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Total		2,327
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5.2 The comparative insurance costs for 2005/06 are £3.278 million. The proposed new arrangements, therefore, result in a saving to the Council in 2006/07 of £0.951 million.

6 Recommendation

6.1 Committee is asked to note the action taken by the Director of Administration to approve the insurance proposals as outlined above.



Director of Finance