

**Report to Tony Kershaw, Director of Law and Assurance**

**September 2021**

**Award of Contract: County Council Insurance Provision**

**Report by Richard Pearce, Principal Lawyer Litigation & Insurance**

**Electoral divisions: n/a**

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**Summary**

Currently the County Council's commercial/casualty combined insurance cover is placed with AIG, QBE, Lloyds and HSB Engineering insurers.

The Long Term Agreement (LTA) with the named insurers covering the County Council's external insurance arrangements expires on 28<sup>th</sup> September 2021. In preparation for this and in consultation with the County Council's contracted insurance brokers Marsh Ltd, a marketing exercise has been undertaken in accordance with the Public Contracts Regulations 2015 via the YPO Insurance Dynamic Purchasing Scheme (DPS) to ensure fair, open and transparent competition.

The County Council intends to award the contract of insurance on the basis of the quotes that demonstrate to be the most economically advantageous taking in to account the agreed evaluation matrix. The most economically advantageous quote received was that from Risk Management Partners (RMP) on behalf of AIG and QBE.

All options considered are based on a 3 year LTA with an option to extend for a further 2 years.

Separate quotes were obtained for engineering combined, terrorism, drones cover and airside liability due to the specialty of the market.

**Recommendations: That the Director agrees:**

- (1) That the renewal terms quoted by Risk Management Partners (RMP) on behalf of AIG and QBE for the period 29<sup>th</sup> September 2021 – 28<sup>th</sup> September 2022 are accepted.
- (2) That external insurances for commercial / casualty combined (all cover) for West Sussex County Council be implemented by entering in to a 3 year LTA commencing 29<sup>th</sup> September 2021 with RMP on behalf of AIG and QBE with an option to extend for a further period of 2 years at the end of the 3 year period at a cost for the renewal with RMP of £2.0m.

- (3) That the insurances for engineering combined, terrorism, drones and airside liability be implemented in accordance with standalone quotes in accordance with brokers recommendations.
- (4) That the County Council retain existing deductibles of £250,000 for material damage and £750,000 for casualty combined.

## **Proposal**

### **1 Background and context**

- 1.1 The County Council adopts a successful policy of active risk management combined with a high deductible supported by an internal fund (the Insurance Reserve), overarching stop loss insurance to ensure that the County Council is never exposed to unmanageable levels of risk and regularly exposing the County Council's insurances to competition at approximately 5 yearly intervals.
- 1.2 The current tendering has been an expression of the successful policy and a very favourable presentation to the market with combination of tight claims handling and active risk management. The exercise has been supported throughout by the external advice and support of the council's contracted insurance brokers Marsh Ltd.
- 1.3 Historically, the County Council has entered in to a 3 year LTA with an option to extend for 2 years. Currently the County Council is within a 1 year extension to a 5 year LTA for commercial / casualty combined with AIG and QBE which expires on the 28<sup>th</sup> September 2021. The 1 year extension arose due to the Covid-19 pandemic and the uncertainty that caused within the insurance market.
- 1.4 The current marketing exercise has not identified overall savings. The insurance market for property, casualty and motor covers prior to the covid-19 pandemic was both challenging and unpredictable at that time and this has been exacerbated by the pandemic.
- 1.5 Currently the County Council has a deductible of £250,000 for material damage and £750,000 for casualty combined.

### **2 Proposal details**

- 2.1 That the County Council accept the renewal terms quoted by RMP on behalf of AIG and QBE for the period 29<sup>th</sup> September 2021 – 28<sup>th</sup> September 2022.
- 2.2 That the County Council external insurances for commercial / casualty combined (all cover) for West Sussex County Council be implemented by entering in to a 3 year LTA with QBE and AIG commencing 29<sup>th</sup> September 2021 with an option to extend for a further period of 2 years at the end of the 3 year period.
- 2.3 That the insurances for engineering combined, terrorism, drones and airside liability be implemented in accordance with standalone quotes as recommended by brokers.
- 2.4 That the County Council retain the deductible levels of £250,000 and £750,000 for material damage and casualty combined respectively.

### **3 Other options considered (and reasons for not proposing)**

- 3.1 Four compliant bids were received for differing lots (RMP, Zurich Municipal, Mavern and Protector). The quote by RMP was on a package discount basis and RMP could not write on any cover in isolation. Some quotes from other insurers were less for individual cover but when placed separately this would not represent Most Economically Advantageous, in line with the tender evaluation methodology, with increase in total premium costs being greater.
- 3.2 A Risk Finance Optimisation study was undertaken by Marsh Ltd to determine optimal insurance programme. Alternative deductibles were considered. Whilst an increase to £750,000 for material damage identified a minimal saving on premium (3%), this significantly increased the risk on internal funds.

### **4 Consultation, engagement and advice**

- 4.1 Following the tendering process, responses were received from 4 insurers. Of the quotes received, only RMP quoted for all areas of cover which included a package discount. The remainder of the insurers provided quotes for a combination of cover or standalone policies neither of which attracted package discounts. The quote from RMP was the Most Economically Advantageous.
- 4.2 Separate quotes were obtained from existing insurers for engineering combined, terrorism, drone and airside liability due to specialist nature of such markets. All quotes received were competitively priced. Engineering combined premium was increased by RPI only, with enhanced policy wording, quotes for terrorism and drones was reduced against current programme and airside liability cover is only available from existing insurer.
- 4.3 A total quote of £2.0m inclusive of Insurance Premium Tax (IPT) for all cover was provided by RMP. This is an increase of £0.1m (5%) inclusive of IPT (12%) compared to the actuals for the year to 28<sup>th</sup> September 2021 of £1.9m.
- 4.4 Marsh Ltd are satisfied having regard to the evaluation of all quotes received and savings made against some individual policy premiums that the recommendations to place cover in accordance with quotes and existing deductibles as set out in the brokers renewal report provides an insurance programme with necessary cover and at a very competitive price in current market and value for money will be achieved.
- 4.5 Appendix 1 sets out breakdown of premium costs payable as quoted comparing such premiums paid for current insurance year inclusive of IPT.

### **5 Finance**

- 5.1 The net budget available for insurance premiums for 2021/22 is £1.7m, including £0.5m which was the first stage of the approved policy to add an additional £2.5m to the revenue budget over the current MTFS cycle, to meet the self-insurance cost of claims. In addition to the budget, the Council holds an Insurance Reserve to fund the future claim costs, with a current balance as at 1<sup>st</sup> April 2021 of £5.8m.
- 5.2 The premium costs for the renewal with RMP are £2.0m, of which £0.3m is to be funded for 2021/22 from the Covid Government Grant, reflecting the impact Covid-19 has had on the insurance market. In future years this additional cost will be met from the MTFS funding.

### 5.3 The effect of the proposal:

#### (a) **How the cost represents good value**

Insurance is a mandatory requirement with the outcome of procuring the council's insurance provision being a continuation of risk management

#### (b) **Future savings/efficiencies being delivered**

Whilst every effort has been made to secure savings on premium costs, there has been no overall savings made. This is due to current insurance market conditions which have been exacerbated by the Covid-19 pandemic. The additional cost of £0.3m attributable to Covid-19 will be funded from the external grant received from Government.

#### (c) **Human Resources, IT and Assets Impact**

None

## 6 **Risk implications and mitigations**

- 6.1 Insurable risk is a key part of Corporate Risk Management. The County Council has recognised this and how important it is to our insurability within the market. RMP on behalf of AIG and QBE insurers have recognised this having tendered competitively.
- 6.2 The current LTA with our existing insurance cover expires on 28<sup>th</sup> September 2021.
- 6.3 All bidders had experience of underwriting or managing the Public Sector risk and has financial security acceptable to the securities department of Marsh Ltd and FSA.

## 7 **Policy alignment and compliance**

- 7.1 Marketing exercise was undertaken in accordance with Public Contracts Regulations 2015 via the YPO Insurance Placement of Dynamic Purchasing System..

### **Richard Pearce**

Principal Lawyer Litigation & Insurance

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### **Appendices**

Premium cost – attached below

### **Background papers**

None

## Appendix

<b>Policy Description</b>	<b>2020/21 Premium</b>	<b>Renewal Terms</b>
Material Damage	673,417.00	638,400.00
Contracts All Risk	4,429.97	6,083.36
Combined Casualty	262,970.40	308,840.00
Medical Malpractice	32,592.00	33,304.32
Officials Indemnity	61,600.00	82,775.84
Professional Indemnity	19,840.80	20,078.24
Claims Handling	5,000.00	1,663.00
Motor Fleet incl. general vehicles	458,987.20	466,719.68
Minibuses, including Guaranteed Auto Protection (GAP)	93,844.80	82,320.00
Personal Accident/Travel	17,111.36	18,097.14
School Journey	42,534.24	115,288.32
Crime	36,099.84	42,985.60
Excess on Crime	10,080.00	11,592.00
Engineering Inspection	93,882.02	97,324.99
Engineering Insurance	10,411.86	10,367.55
Terrorism	107,731.68	96,968.20
Drones	1,680.00	1,631.50
Airside Liability	6,580.00	3,500.00

<b>Totals</b>	<b>1,938,793.60</b>	<b>2,037,939.74</b>
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