

### 3.2 INSURANCE PORTFOLIO RENEWAL 2020/2021 (ST/RG: F20-2505)

Responsible Officer: Danny Wain, Chief Financial Officer

#### **RECOMMENDATION**

*That Council notes this report.*

#### **INTRODUCTION**

This report provides advice on the placement of Council's insurance portfolio for 2020/21.

#### **BACKGROUND**

At the 25 June 2019 meeting, Council approved the officers' recommendation for Council to delegate authority to the Chief Executive Officer to approve and renew Monash City Council's annual Public and Products Liability, Professional Indemnity and Industrial Special risks (Property) insurance. This came about as negotiations with reinsurers regularly continue into mid to late June making it difficult to inform the Council of the final insurance terms and premiums in time for formal approval at the June Council meeting. To maintain transparency and governance, a report summarising the outcome of the insurance renewal was to be provided to Council commencing in the 2020/21 financial year.

By way of background, Jardine Lloyd Thompson (JLT, a subsidiary of the Marsh & McLennan Companies) are the appointed insurance brokers for Monash City Council.

The insurance portfolio, with the exception of the Public Liability & Professional Indemnity policy and the Commercial Crime policy, is placed by JLT.

Public Liability & Professional Indemnity insurance and Commercial Crime insurance is placed directly with MAV Insurance.

#### **DISCUSSION**

##### **Insurance program review**

The Victorian Auditor General's Office undertook a performance audit of Local Government Insurance Risks with the Audit Report presented to the Victorian Parliament in July 2018.

The key finding for local government was, that:

*“Councils are not always giving the purchase of their insurance the thorough consideration it deserves. At best, this means they may be paying more than they need to and, at worst, if there are gaps in their coverage it may significantly impact their operations should an undesirable event occur”.*

Monash City Council committed to evaluate our insurance program including whether tendering for insurance, in line with procurement better practice, would provide better outcomes. The analysis would also consider:

- Appropriateness of the current policies,
- Premium competitiveness, and
- Service provider offerings.

Incon Insurance Consulting services were engaged to conduct the analysis against the above criteria. The report provided positive findings, including that Council’s insurance portfolio is fit for purpose and premiums appeared to be competitive. The report recommended that the current market conditions were not conducive to tendering the program.

To ensure value is achieved from the program, the following work was undertaken for the renewal of the 2020/21 portfolio.

- Analysis of current portfolio against current and emerging risks
- Acceptance of higher deductibles for classes of insurance where the claims history is low to achieve savings in premiums
- Re-evaluated activities due to the COVID-19 pandemic to achieve savings in premiums
- Negotiations on fee for service items.

### **Market conditions**

JLT advise the global insurance industry is experiencing significant change in market conditions. Following are some key insights:

- Large catastrophe losses and the COVID-19 pandemic has impacted the global market
- Bushfires, hailstorm, floods, and the COVID-19 pandemic has affected the Australian market
- JLT has experienced Insurers declining both new and renewal business
- Councillors and Officers policy premiums continue to increase due to increased litigation.
- Property insurance is experiencing rapid change due to natural events causing several insurers to withdraw from the market
- Motor vehicle insurers are taking a stricter view of loss ratios resulting in considerable increases to premiums

- Adequate limits of insurance, policy coverage and reasonable deductibles for Public Liability & Professional Indemnity insurance is very difficult to obtain from traditional insurers.

### Placement of policies

The table below summarises the renewed policies:

2020/21 Insurance Program	
Class of Insurance	Insurer
Industrial Special Risks (Property & Art works)	Jmapp
Public Liability & Professional Indemnity	MAV-LMI Insurance
Motor Vehicle	Vero
Community Liability	QBE
Commercial Crime	Chubb
Environmental Impairment Liability	Liberty
Cyber Liability	Chubb Insurance Ltd Zurich Insurance Australia
Councillor & Officers Liability	XL Insurance
Personal Accident Insurance	Chubb Insurance
Corporate Travel	Chubb Insurance
Plumbers Liability	Zurich

The LMI Scheme was established in 1993 when the local government sector was having increasing difficulty finding commercial insurers willing to quote on local government liability. It was designed specifically to cover the various risks and exposures experienced by local governments. During these challenging market conditions the scheme continues to offer Monash City Council adequate limits of insurance, acceptable deductibles, specialist claims management, high quality service and confidence with the product. All 79 Victorian local governments and all 29 Tasmanian local governments are members of the scheme for 2020/21.

The Jmapp scheme is a mutual discretionary fund scheme established for JLT Victorian local government clients with a primary cash pool established from members' contributions. The scheme pool meets the first \$6,000,000 aggregate of claims from members. The maximum contribution by the trust towards this annual aggregate for any one event will be \$1,500,000. This means that the members are insuring the first level of claims themselves from the pool. A key strength of the scheme is that it provides stability and confidence to its local government clients regardless of the volatility within the insurance market.

### Compliance implications

#### Public Liability & Professional Indemnity Insurance:

On 30 June 2020, the Minister for Local Government granted approval for all Victorian municipal councils to enter into insurance contracts with the

Municipal Association of Victoria (MAV) from 30 June 2020 until 30 June 2021 without undertaking a tender process, where the contract concerns the provision of Liability Mutual Insurance.

**Industrial Special Risks (Assets):**

In order for Monash to comply with its Procurement Policy, which complies with S186 of the Local Government Act 1989, JLT was appointed to undertake a Public Tender in relation to the procurement of affected insurance, i.e premiums in excess of \$150,000, which for Monash is the Industrial Special Risks policy. Submissions were sought from licenced insurers in relation to Council's requirements.

The followings organisation were contacted and encouraged to partake in the in the tender process.

- Jmapp
- Vero Insurance
- AIG
- Allianz Australia Insurance Limited
- AXA / XL
- Berkshire Hathaway
- CGU
- Chubb Insurance
- QBE
- Swiss Re
- Zurich Financial Services Australia Limited.

The following organisations submitted a tender and were able to demonstrate compliance with the requirements of the tender.

- Jmapp
- Vero Insurance.

It is acknowledged that JLT has a conflict of interest in conducting the tender on behalf of Councils who participate in the Jmapp scheme. The Jmapp scheme is owned by Council members, including Monash City Council, and is administered by JLT. To ensure transparency and impartially the Jmapp Manager is removed from the tender process and a tender evaluation panel and probity manager appointed.

Evaluation panel:

- Bronson Justus, JLT (Tender Manager)
- Glenda McMillan, Casey City Council
- Mary Scully, Northern Grampians Shire Council

Probity manager:

- Mark Hayes, Maddocks Lawyers

Administration assistant:

- Alissa Roberts, JLT Public Sector

As only one tender was received for industrial special risks, evaluation against other submissions was not required.

JLT was satisfied with the overall increase on JMAPP being 10% on the excess of loss coverage with all other facets of the program remaining proportional to assets.

***FINANCIAL IMPLICATIONS***

The draft 2020/21 budget allowed for an 8% increase in insurance premiums, expecting that it may be higher based on industry commentary. The program has delivered a 12.7% increase, which will be funded from savings throughout the year. The potential increase was higher but Council was able to balance premium reduction through acceptable increases in claim excess.

***CONCLUSION***

It is requested Council notes this report.