

### 3.4 PUBLIC LIABILITY, PRODUCTS LIABILITY AND PROFESSIONAL INDEMNITY INSURANCE SERVICES

(ST/DW: INSUR22)

Responsible Director: Danny Wain

#### **RECOMMENDATION**

*That Council renews its membership of the mutual liability insurance scheme with MAV Insurance, Liability Mutual Insurance, for the period 4pm 30 June 2018 to 4pm 30 June 2019 for the sum of \$586,882.00 (GST exclusive).*

#### **INTRODUCTION**

This report recommends the renewal of Council's public liability, products liability and professional indemnity insurance cover.

#### **BACKGROUND**

Council's current cover is provided through a local government mutual liability scheme. The scheme, known as MAV Insurance, Liability Mutual Insurance (LMI), is operated by the Municipal Association of Victoria (MAV), with scheme services delivered by a dedicated team from Jardine Lloyd Thompson (JLT) Insurance Brokers.

The scheme was established in 1993 when the industry 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 Government. The scheme remains exempted, by Ministerial approval, from the requirements of the Local Government Act 1989 to advertise financial arrangements over \$150,000 in value.

The long-term strategic approach for the LMI scheme is to provide members with a reliable product at a steady price, regardless of market conditions. The not-for-profit structure means any excess revenue is either kept in the fund to help keep premiums down or returned directly to members as a surplus distribution.

The scheme has increased the insurance limits to \$600 million for each public/products liability claim (up from \$500 million) and \$600 million for professional indemnity claims (up from \$500 million). This action follows the recommendations of the independent limits review conducted by KPMG and consultations with members. The increase in coverage will ensure that members are protected against current and future catastrophic risks. It is the view of MAV-LMI Insurance that we continue to move into what is predicted to be a hardening insurance market, therefore the increases in insurance limits provides MAV Insurance with confidence that the scheme can continue to provide members with a "fit-for-purpose" product at the lowest long term price. The scheme self-insures a portion (currently 25%) of the first \$1 million of each claim payable from a pool of member funds, and arranges re-insurance from a panel of secure 'A Grade' commercial insurers for the balance up to the \$600 million limits.

These reinsurers know local government liability insurance and have a history of honouring claims. This 'co-insurance' approach reduces any potential financial and reputational consequences stemming from an 'insurance failure' (an insurer leaving the market or being unable to honour a claim).

Members of MAV Insurance's LMI scheme have access to;

- Free legal advice on potential liability risks
- Targeted appraisals and risk management assessments to help reduce and manage risks
- Claim management support for all over excess claims from a team of specialists with extensive experience in local government claims
- An underwriting help desk to assist members with coverage queries relating to Council business activities
- An opportunity to network, learn and improve risk management practices through best practice forums, MAV Insurance conferences and seminars.

### ***DISCUSSION***

The LMI Renewal resulted in an overall Scheme contribution increase for Victorian Councils of 5%. Although a 3% increase was expected, negotiations with re-insurers proved challenging in a hardened insurance market which is causing an upwards pressure on pricing. MAV Insurance has taken substantial action over the previous five years to stabilise the financial position of the scheme in response to a significant and sustained increase in claims and considerable declines in investment returns resulting from depressed economic conditions.

The annual premium and renewal terms for all member councils are based on an actuarial assessment of member claims to determine the overall potential liability of the scheme and its administrative costs, including reinsurance.

The claims performance of the sector overall is relatively stable and the long-term financial position for members of the mutual are positive. The concluding year has seen claims remain steady across the sector with the traditional claims of tree root, personal injury and planning matters still accounting for vast majority of the schemes claims. The claims performance of Monash City Council over the past year has slightly improved. Those Councils' with worsening claims performance will attract a greater increase than 5%. Monash City Council has received the average contribution increase.

The deductible will remain at \$20,000 which is the minimum amount across the sector.

The 2018-2019 premium is \$586,882.00 (GST exclusive) which represents a 5% increase on the 2017-2018 premium of \$558,935.00 (GST exclusive).

### ***FINANCIAL***

The premium costs provided can be met from the 2018/2019 Budget.

***CONCLUSION***

Renewal of the policy with MAV Insurance, Liability Mutual Insurance scheme for 2018/2019 is recommended.