

3.1 **INSURANCE PORTFOLIO RENEWAL 2021/22** (ST/RG: F21-7922)

Responsible Senior Officer: Danny Wain, Chief Financial Officer

RECOMMENDATION

That Council note this report.

INTRODUCTION

This report provides advice on the placement of Council's insurance portfolio for 2021/22.

BACKGROUND

Monash City Council's insurance portfolio is one of the essential tools for managing the consequences of unexpected risks that prevent, or delay, the delivery of services as expected by our community. The insurance portfolio reflects the risks faced by Council and provides financial protection against losses and assistance with business recovery. Individual policies mitigate the severity of the loss and the Internal Audit program provides assurance to management that the preventative actions to manage risk are working as expected. The program is assessed annually against the strategic risk profile of Council.

Council delegated 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 on 25 June 2019. This came about as negotiations with reinsurers regularly continue into mid to late June making it difficult for Council to meaningfully approve the procurement of the policies at each June Council meeting. To maintain transparency and good governance, officers committed to report to Council on the outcome of the insurance renewal program each year.

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 are placed directly with MAV Insurance.

DISCUSSION**Market conditions**

In its renewal report, JLT Public Sector advise the global insurance industry continues to experience significant challenges, responding to the demands of the COVID Pandemic, global weather events and evolving cyber exposure.

The impact on the insurance industry has resulted in insurers taking a more conservative approach by placing a higher scrutiny on risks, increasing rates and deductibles and offering restrictive levels of cover, while other insurers have just walked away from risks that are perceived to be “high-hazard” in an effort to mitigate their exposures.

These market conditions, uncertainty about the catastrophe exposure, and lack of profitability means the support for tendering on standalone Council insurance placements continues to be severely restricted.

During this ‘hard market’ the strategy adopted by JLT Public Sector is to focus on strengthening relationships with current insurers to ensure coverage.

Property Insurance

The property market has been in a distressed state for several years. The impact of claims, particularly earthquake, storms, floods and bushfire continue to push the pricing cycle upwards. The commercial insurance market continues to experience significant volatility and little ability to withstand increases. Victorian Councils who are not members of the Jmapp Mutual Scheme are reporting increases between 11 and 76%. Some Councils are reporting unexpected large premium increases in the final years of long term contracts (3-4 years) with commercial insurers.

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 \$6,730,000 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. 64 of the 79 Victorian Councils, and 19 of the 29 Tasmanian Councils, are members of the Jmapp scheme for 2021/22. 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. Reinsurance provides the remainder of cover for the aggregate of claims exceeding the primary level. Excess of loss insurers include Vero, Zurich, Chubb, XL & AIG.

Should claims experience be less than that of the aggregate limit in any given year, the remaining amount is returned proportionately to members. Claims arising during 2020/21 against the scheme exceeded the aggregate fund of \$6,510,000, therefore no surplus was available for members. JLT Public Sector are of the opinion that ‘rather than excess of loss insurers viewing this as a weakness within the government sector, it demonstrates the mutual can absorb over 90% of the losses’ which is attractive to insurers. To provide further confidence to the excess of loss insurers, Councils in this renewal were asked to provide COPE (Construction, Occupation, Protection, and Exposure) information to enable insurers to track their natural catastrophe exposures.

The pricing structure is influenced by the following factors: market forces, ongoing claims, asset values and COPE information and catastrophe pricing. Components of the contributions are the aggregate contribution, administration contribution, excess of loss insurance cover and fees and charges. The average increase across the sector for this renewal is 9%. Monash property assets were re-valued in 2020 with increase to property, contents, artworks and unregistered plant & equipment resulting in an 11.7% increase on premium.

Public Liability & Professional Indemnity

The Liability Mutual Insurance 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 2021/22.

MAV Insurance have advised the Liability Mutual Scheme has incurred an on average 10 percent increase based on the following factors:

- The general hardening of the insurance market
- Internal cost structures to strengthen the schemes assurance and risk functions
- Strengthening the capital position to ensure it is financially robust and prudently managed.

MAV Insurance has introduced a new pricing model in response to the Victorian Auditor General’s Office (VAGO) July 2018 audit on Council’s management of insurable risks. The review was conducted by Taylor Fry actuaries and feedback was sought through the Member Reference Group on the preferred objectives of a pricing model. Monash City Council was a member of this reference group. Fairness and Transparency were the two

most strongly supported objectives. The changes to the pricing model include:

- Moved from calculating premiums based on a claim's insurance year (i.e when the incident occurred) to when the claim is received by LMI Insurance
- Reduced the number of years of claims data that will be incorporated into the model from nine to eight years
- Increased the credibility weighting that is applied to the model, to shift a portion the premium away from revenue towards claims experience
- Introducing a direct contribution where a member has a claim of above \$1m. This contribution will be spread over at least five years and in total will be no more than 50 per cent of the claim cost
- Separate costs will be calculated for different member cohorts, primarily metropolitan and rural members. The allocation of costs between these cohorts will be determined by the historical claims performance of each cohort. This model has been selected to provide a stronger linkage between the costs for claims above \$1m and the historical experience of members, which should be reflective of risk.

The scheme continues to provide limits of insurance and acceptable deductibles to provide protection for catastrophic risks including bush fire and exposures to non-compliant cladding, personal injury claims, 3rd party property damage claims and professional indemnity claims.

MAV Insurance have advised they are unable to continue to provide coverage for COVID losses and a new exclusion will be introduced into the policy at renewal for this risk. This is due to a worldwide movement to exclude COVID from reinsurance and retrocession policies. MAV did investigate purchasing COVID-specific coverage to provide some protection for members, however, the terms and conditions of coverage available in the market could not be considered acceptable and would not have provided coverage to a standard considered desirable to members.

Monash City Council is a 'solid contributor' to the scheme, which is not unusual for metropolitan Councils. The impact of claims received is reflected in the 6.5% increase in premium.

Placement of policies

The table below summarises the renewed policies:

2021/22 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 XL Catlin
Councillor & Officers Liability	XL Insurance Zurich Insurance Australia
Personal Accident Insurance	Chubb Insurance
Corporate Travel	Chubb Insurance
Plumbers Liability	Zurich Insurance Australia

COMPLIANCE IMPLICATION

Public Liability & Professional Indemnity Insurance:

On 30 June 2021, 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 2021 until 30 June 2022 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 following organisations submitted a tender and were able to demonstrate compliance with the requirements of the tender.

- Jmapp (Industrial Special Risks)
- Vero Insurance (Motor)

The following insurers were contacted but did not submit:

- Allianz
- CGU
- HDI
- Liberty
- Zurich
- QBE
- AIG
- AXA XL
- Chubb
- Swiss Re
- Berkshire Hathaway
- Brooklyn

One non-conforming tender was submitted in the allocated time frame.

It is recognised 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)
- Kyla Sullivan, Baw Baw Shire Council
- Gavin Dyche, Yarra City Council

Probity manager:

- Mark Hayes, Maddocks Lawyers

Administration assistant:

- Alissa Roberts, JLT Public Sector

The non-conforming tender was submitted by JLT (Municipal Asset Protection Plan) Discretionary Trust Arrangement (JMAPP) due to no pricing being included. This was caused by the market conditions and delays in receiving information from Councils in the ordinary course of renewing the Jmapp scheme. At the time of the tender submission, Jmapp was confident in securing terms however were unable to secure firm terms for consideration from the insurance market and therefore per-member pricing could be adequately calculated.

The Tender Panel recommendation was to continue discussion with the appointed account manager to ensure terms and appropriate coverage could be secured prior to renewal.

FINANCIAL IMPLICATIONS

The 2021/22 budget allowed for the increase in insurance premiums. The program has delivered a 9.7% increase this year, down from the 15% increase in the previous year.

CONCLUSION

It is requested Council notes this report.