



Report 08.833  
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Committee Finance, Evaluation & Risk  
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## Insurance review

### 1. Purpose

To consider Greater Wellington's responses to the independent insurance review.

### 2. Significance of the decision

The matters for decision in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

### 3. Background

A report by Sloan Risk Management on Greater Wellington's insurance was tabled at the Committee meeting on 21 October 2008. The Committee requested that a follow up report be presented to advise of management's comments.

### 4. Management responses

The recommendations have been extracted from his report with management's comments recorded in *italics*.

#### General

#### 4.1 Review the \$5 million cover on business interruption (BI) and the 12 months indemnity period.

*This was reviewed in 2007 in terms of the limit. To increase the limit to \$10 million would double the premium cost and it was decided not to proceed with the increased level. We will review this limit but currently agree with our assessment of \$5 million.*

4.2 The provision of claims printouts from your broker should be introduced.

*This has been put in place.*

4.3 Greater Wellington should continue to stay out of the LAPP system.

*Agreed.*

4.4 Greater Wellington needs to firm up a decision on the premium quotations to insure its infrastructural assets.

*Agreed. The self insured assets in water are now insured.*

4.5 Greater Wellington needs to decide if it should remain insured with AIG for certain policies such as:

- Crime damages
- Their involvement as a reinsurer.

At the time of writing this report AIG have been rescued from bankruptcy by American federal authorities.

*We have taken advice from our broker and have been advised to stay with them in the interim. Aon will obtain alternative quotes at renewal in 2009.*

4.6 Ask Greater Wellington's broker if they can cap the earthquake claims deductible, rather than be exposed to a 5% site deductible.

*We have explored this in the past and are at the mercy of the market due to Wellington being in one of the worst places in the world for earthquakes. This will be raised again with Civic on renewal. Aon have been asked if they can make any changes, but none are expected.*

4.7 Retain your current liability insurance's limit of liability.

*Noted.*

## **5. Property Insurance**

5.1 Confirm replacement value insurance to remain the primary basis of coverage.

*There are some items on the property schedule that are insured for indemnity value. Peter O'Brien, our property consultant, reviews this annually to determine whether replacement cost, indemnity or demolition value is appropriate.*

- 5.2 Review all special limits in the policy to ensure their continued adequacy.

*This will be considered again at renewal time.*

- 5.3 Confirm the 'on the water' limit of \$100,000 per item, and the all-up limit of \$500,000, are adequate.

*This is considered adequate and will be reviewed again at renewal time.*

- 5.4 Confirm the forestry coverage remains adequate.

*This is considered adequate and will be reviewed again at renewal time.*

## **6. Infrastructure Assets**

### **6.1 Self-insurance fund**

It would be possible for Greater Wellington to continue placing 'premiums' into its own self-insurance fund, but it would take quite some time for them to build up to a level of the insurance cover provided by the quoted coverage options obtained from the Lloyd's market.

*Noted.*

#### **Recommendation**

Review these options and the premium costs involved.

*This is covered under the insurance of the water infrastructure assets.*

### **6.2 Computer Risks**

1. Confirm wider breakdown cover is not needed.

*We believe our programme of computer maintenance and regular replacement of hardware provides a degree of protection against a computer breakdown.*

2. Review this uninsured risk (i.e. no electronic breakdown cover with Kiwibank).

*As above, we decided not to have electronic breakdown insurance on the basis our computers are well maintained and kept up to date.*

### **6.3 Business Interruption (BI)**

1. Reconfirm that loss of revenue is to continue to be self-insured.

*We note that loss of rents is not separately insured for, however, it is part of the current \$5 million BI cover.*

2. Review the current increased costs of working cover of \$5 million as to whether it should be increased for earthquake damage in particular.

*Refer to previous comment.*

3. Review the indemnity period of 12 months, which is a minimum for fire damage but likely to be inadequate for a major earthquake loss.

*We will reconsider this as part of the BI review.*

4. Recognise this and compensation of insuring of electronic breakdown is not insured – only accidental damage to machinery, plant, equipment, EDP and IT equipment.

*The equipment is covered for fire, earthquake flood or any external force. This is only to cover an internal fault/breakdown. However, given our maintenance and replacement schedules it has been decided not to put this cover in place.*

5. Ask Aon if the contingency limit of \$500,000 could be increased for no extra premium on renewal. If Greater Wellington increases its overall cover to, say, \$10 million then these limits would double.

*We will address this at renewal but do not anticipate any issues.*

#### 6.4 Personal Accident

These insurances are in order but you should recognise:

1. The policy does not insure any Councillors or employees over the age of 65. It is presumed that does not currently apply to your Council.

*Noted.*

2. The policy limit for unscheduled flying.

*Cover is in place for unscheduled flights. Initially the insurer issued the schedule to Sloan Risk Management in error, omitting this cover detail. We have subsequently received an updated schedule.*

3. Illness is not insured.

*Noted, we are aware of this and have decided not to insure against this, however, 8 senior executives have income protection insurance which includes illness, but this is to the benefit of the individuals not the Council.*

4. The key person risk is not insured.

*Noted we have decided against it.*

## 6.5 Liability Risks

1. Continue current limit of cover.

*Noted, but will continue to review and take out additional cover if we have a claim.*

2. Retain present insurers rather than switch to the mutual risk pool.

*Agreed.*

3. Reconfirm the \$5 million limit for wreck removal is adequate considering the risk.

*Reviewed at annual renewal, and when a claim is made.*

## 7. Communication

No communications are necessary at this stage.

## 8. Recommendations

*That the Committee:*

1. ***Receives the report.***
2. ***Notes the content of the report.***

Report prepared by:

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