

London Borough Tower Hamlets Insurance Strategy 2019 to 2022

Summary

This document details the Council's strategy for financial risk transfer via the purchase of insurance and self-funding of risk.

Background

The council purchased its insurance cover from Municipal Mutual Insurance (MMI) from formation in 1965 until MMI ceased trading in 1992. MMI's local authority risks were taken over by Zurich Municipal (ZM) in 1992 and the council retained ZM as its insurer.

MMI previously insured local authorities with low or nil deductibles until the last year or so of trading. At that stage large deductibles were introduced. The Council's Insurance Fund (provision and reserve) were introduced at this time to finance these deductibles.

Following the move to ZM, there were minimal changes to the Council's insurance programme from 1992 to 2008.

Tower Hamlets was one of the ten local authorities who formed the London Authorities Mutual (LAML) in 2007 and the Council's main insurance programme was transferred to LAML in 2008.

Following the Court of Appeal's decision that LAML was ultra vires, the Council joined seven of the LAML authorities in forming a consortium of London Borough's for the purchase of insurance and working together to improve risk management.

Programme Design

For a number of years, the council maintained deductibles of £250k on its main property and liability risks with a number of other policies being insured from the ground up.

Following the formation of the Insurance London Consortium (ILC), the main insurance programme was procured for 1 January 2010. At the most recent procurement exercise for policies commencing 1 April 2017, a decision was taken to increase deductibles from £250k to £500k. The rationale was that inflation had eroded, over time, the value of the deductible, and that savings could be made on insurance premiums by managing risks better.

The insured perils on the main property covers including general properties, tenanted housing properties, and schools was harmonised with the other consortium members. All risks cover was purchased for all three property classes above the £500k deductible.

This all risks cover has also been provided below the £500k deductible for general properties and schools and underwritten via the insurance fund. All risks cover below the £500k deductible has not been provided for tenanted housing stock due to poor condition of Council's housing stock.

Deductibles have increased for several covers that were previously insured from the ground up. These include All Risks, Money, and Computer from 1 April 2011. All have been incorporated into the main property programme with a £500k deductible.

Procurement

Following the Council's joining of the insurance consortium in 2009, the main insurance programme was procured via the consortium from 1 January 2010 with a contract period of 27 months until March 2012.

The council entered into a procurement exercise in 2016 on all insurance covers and policies commenced from 1 April 2017 for a maximum period of 5 years (3-years with an option to extend for 2-years). Currently the main Property (Buildings) and Casualty (Public/Employers) policies have been extended for the 2-year option after favourable premium adjustments were negotiated with the insurer. Included within the 2016 exercise was the Right to Buy leaseholders buildings policy contract. The former insurer (Ocaso) had experienced a higher volume of claims during the previous 2-years, resulting in payments of claims exceeding the premiums received. The procurement exercise was conducted under OJEU (Official Journal of the European Union) and the lowest quotation received led to a near doubling in premium figures. The Insurance Section is working with the housing maintenance department (Tower hamlets Homes) and the leasehold insurer (Zurich Municipal) in an effort to reduce claims experience, particularly with water damage claims (rook leak/burst pipe/back-surge) which account for a high percentage of claims. The policy is scheduled for re-procurement commencing a new policy from 1 April 2022, by which time an improvement in claims history is anticipated.

The motor vehicle policy commenced on the 1 April 2017 for Third Party cover only over a 5-year term. Claims are dealt with by the Council's Transport Department. In order to obtain a quotation for comprehensive cover at the next procurement exercise, the Transport Department have commenced recording all own damage claims and cost implications. This will enable a comparison between the Third-Party premium and a potential Comprehensive premium, so that the most cost efficient policy can be entered into.

Way Forward

The Insurance Section is looking at developing a risk profile and working with departments to make the Council's portfolio a more attractive consideration for insurers, at the same time achieve lower premiums.