Auckland Council Group - Insurance Strategic Objectives and Work Plan 2018-2020

Introduction

The council group insurance programme is evolving. Post amalgamation in 2010 and up until 2016, the council parent and council controlled organisations (CCO's) held individual insurance policies. With the exception of Watercare, the council parent and substantive CCO's moved to using a single insurance broker as well as purchasing on a group basis. In 2017, for the first time, the council group (including all its CCO's and affiliated entities) moved to a single broker and purchased insurances policies as a group.

Through its assets, and the services they provide, the council group has a responsibility to the community to provide a specified service level in a cost effective manner. This is undertaken through appropriately planning constructing maintaining and insuring these assets.

Post the Christchurch and Kaikoura earthquakes, the council group together with other local authorities, are taking lessons learnt to ensure that adequate insurance arrangement are in place to be able to fully respond to events so that the council group remains in a position to deliver services to business and community.

Without financial protection for the assets, the group risks create a significant burden for its customers and ratepayers. If the assets are damaged resulting in the council group being unable to provide services to the community, any fees derived from these services or investments would also be lost for the duration for which the asset is out of operation. It is therefore prudent to have financial protection against this risk.

The council group insurance strategy is integrated into the council group Insurance Policy, the Treasury Management Policy and Risk Framework. It will ensure an understanding of the risks that council group is managing and mechanisms used to establish an optimal balance between externally procured insurance, self -insurance and uninsured risk retention.

Other policies are procured by the council group where it is considered prudent and efficient to transfer risk away from council parent and where it is deemed unacceptable for the council group to carry the risk.

The council group position has evolved over the last 6 years and it is now appropriate to focus on a group insurance strategy and work plan for the next 3 years.

Objectives

The group insurance strategic objectives is to ensure that council has the financial resources to recover from catastrophic and other events and fund unforeseen losses to assets and service operations ensuring continuity of services to the community, while ensuring that any risk transfer is carried out in a cost effective and prudent manner.

Key components of the work plan to deliver on objectives:

1. **Place a fit for purpose insurance programme** responding to council group's insurable risks;

2. **Develop clear financial risk tolerance and appetite guidelines** to ensure retained risk is within the financial capability of the council group;

3. **Ensure council affiliated entities have appropriate insurance cover** optimised through the council group programme;

4. **Ensuring claims and recoveries are well managed** and cost efficient; and

5. **Develop a governance group** to report, monitor and review the strategy and account for its implementation.

To deliver on the Objectives, the council group will:

1. Undertake periodic reviews of policies purchased, including limits and deductibles to ensure optimal balance between external insurance and self-insurance

- Generally the council group will only place insurance with the external insurance market where:

  a. the assessment of risk exceeds council's risk appetite; and/ or
  b. there is a contractual or legal requirement to hold insurance; and/or
  c. the cost of insurance is clearly less than the expected benefits (including the consideration of administration costs).

- Examine the likely impact on premiums by adjusting limit levels.

2. Leverage Government funding support

- Where possible, continue to leverage and include in the council's risk management assumptions the expected funding support from NZTA and central government. This funding contributes to any loss to the council roading network and underground assets. This will be reflected in the level of insurance purchased.

3. Set risk retention levels and financial risk appetites

- Understanding and refining financial risk appetites for CCO's, council parent and council group. This is carried out in conjunction with the council group Treasury Management Policy.
- For any unacceptable risk, where no other risk mitigation strategy can be effectively implemented, insurance cover will be considered.
- The actual level of risk retained would also reflect the premium/risk retained trade-off.
- CCO's are likely to have materially lower risk appetite than the council group.
- In the event that a CCO's retention levels (i.e. preferred insurance deductible level) is lower than the group's then:

  a. Options for required sub-limits under relevant policies will be assessed;
  b. Current loss histories will be reviewed to inform consideration of cost versus potential exposure; and
  c. Where cost effective deductible sub-limits are not practical, council parent will fund the difference or provide other solutions to address CCO's individual risk appetites. These arrangements will be clearly documented.

- Set retention levels (deductibles) to levels that are financially sustainable ensuring that insurances are purchased for risks that the council can prudently retain and fund. The levels set will be reviewed regularly to ensure their validity and having regard to improvements in managing risks and insurance market price and coverage conditions.
- Over time consider various options to fund any losses including the formation of a captive- type arrangement.

4. Review property data to ensure integrity of information

- Property information including values (above and below ground) declared for insurance will be reviewed to ensure they appropriately reflect cost required to replace assets.
- This will eliminate any risk of underinsurance and ensure right values are used in the loss modelling and limits of cover purchased.

5. Analyse claims trends and settlements

- Proactively manage and investigate trends from below and above excess claims and settlements to understand and improve overall risk management to reduce or eliminate future losses.

6. Further modelling

- Undertaking regular and new modelling tools to assess council group's potential losses for above and below ground including for earthquake, tsunami or volcano risks. This will assist in understanding the performance of the key assets in a major loss event and will be used to make informed decisions on the limits of cover purchased.

7. Benchmarking against other similar organisations

- The reviews, expected no less than annually, will also include benchmarking against what other councils in New Zealand or comparable Australian local authorities or other organisations (for example Te Papa museum for fine arts policy) typically purchase.
- For liability policies, benchmarking will include what comparable local authorities and government agencies are purchasing, including the limits and deductibles.

8. Maintain good relationships

- Maintaining good relationships with insurers, both local and international and ensure that wherever possible, risk information is conveyed and ongoing risk mitigation strategies are undertaken to protect loss to council group. Site visits throughout the year are encouraged and offered.
- Establish claims protocols with Insurers as appropriate.

9. Claims management

- Centralise claims management across the group as there is presently a risk of a different approach being taken to accepting claims (including below deductible claims) across the group.
- Consideration will be given to: (1) centralising claims management; and/or (2) outsourcing claims management.

10. Optimal portfolio diversification

- Objective of diversifying insurance placement (where practicable) across different insurers and insurance markets.
- Continue to pursue this objective, bearing in mind the premium trade-off that may be required.

11. Council funded and affiliated organisations

- A large number of entities receiving council operational funding are not presently included in group insurance arrangements. These include smaller (non-substantial) CCO’s, various trusts and other affiliated entities.
- Some participate in council’s community assets insurance programme. However, a large number choose to arrange insurance independently.
- A review of the community assets programme will be undertaken to ensure participation by appropriate entities on the basis that:

    a. The cost of the premiums offered by the programme will be less expensive due to economies of scale;
    b. There will be consistency in terms of the insurance coverage wording for similar groups of community assets; and
    c. Council group will have oversight of the quality of the insurers utilised and the deductibles and limits applicable.

- The review will extend to cover for liability as well as property.

12. Establishment of a Council wide Insurance governance group

- A council wide governance group comprising representatives from key CCO's and council will be formed and meet regularly to discuss, agree, review, report and monitor the strategy and account for its implementation.
- The group will own the strategy and take responsibility for delivery of the programme plan and for reporting to the respective CCO Boards or council committees.

Work Plan

2016/17

- Council group (including Watercare) moved to a single Insurance broker in April 2017
- Council group (Including Watercare) purchased group policies
- Below ground cover now extended to Watercare

2017 / 18

- Develop and adopt group insurance policy, strategy and work plan
- Review property and valuation information
- Develop clear financial risk tolerance and appetite guidelines
- Develop a governance group to report monitor and review the strategy
- Review claims management process
- Review policy for Community Assets insurance programme
- Review detailed risk modelling
- Develop claims protocols with Insuers

2018 / 19

- Develop and implement policy for Community asset programme
- Consider alternative options to fund losses (eg Captive type arrangement)
- Review policies purchased including financial risk appetites
- Review progress of strategic objectives and work plan

2019 / 20

- Review Progress of Strategic Objectives and work plan
- Develop Plan for 2021-2023
- Bring forward insurance renewal period 31 May 2019- 30 May 2020
- Procurement of Insurance brokerage services by 31 March 2020