

Audit, Finance & Risk Committee

5 December 2024

Report for Agenda Item | Rīpoata moto e Rāraki take [2]

Department: Assurance, Finance & Risk

Title | Taitara: Insurance Update December 2024

Purpose of the Report | Te Take mō te Pūroko

The purpose of this report is to brief the Audit, Finance & Risk (AFR) Committee on the insurance market, and progress on the review of Queenstown Lakes District Council's (QLDC) insurance policies and strategies.

Executive Summary | Whakarāpopototaka Matua

Queenstown Lakes District Council (QLDC) reappointed Aon as its insurance broker following an open market tender process. The contract, effective from 1 July 2024 and lasting up to five years, was finalised after reviewing three submissions to an open tender released on 17 April 2024.

QLDC has employed a Senior Insurance Advisor for six months from September 2024 to work alongside Aon, reviewing all aspects of QLDC Insurance Strategy and policies, providing strategic and operational recommendations. The Senior insurance Advisor will also effectively manage the performance of QLDC's insurance broker Aon to ensure it performs its outlined duties within the agreement.

During the reporting period, several insurance policies were due for renewal, including the South Island Infrastructure collective policy (catastrophic events), Employers liability, General & Public liability, Professional indemnity, Statutory liability and Crime insurance.

Loss modelling for QLDC's infrastructure policy has not been conducted since 2018 due to COVID-19 and the uncertainty regarding 'Three Waters reform'. Other councils in the collective policy are in the same position. This year QLDC directed Aon to seek an increased sub-limit on the infrastructure policy (from \$197M to \$240M) to enhance coverage for catastrophic events. QLDC, with other members of the collective policy, are also considering raising the overall programme limit from \$300M to \$500M, pending further discussions. With the insurance market softening broadly in response to increased capacity in the market, QLDC aims to increase its limits without significantly raising premiums.

Additionally, there have been several changes to QLDC's liability policies for the November 2024 renewals. At the time of writing, QLDC are still awaiting finalised policy terms and premiums.

Policy Type	Increase %	Premium
Infrastructure Policy (SICC) - Premium as per last year. *Awaiting price for increased Sublimit and Programme Limit	↓ -3.31%*	NZD 1,049,392.34
Primary Layer	↑ 6.5%	NZD 63,230.45
Excess Layer	↑ 20%	NZD 57,723.83
Professional Indemnity	↑ 8.5%	NZD 435,549.26
Statutory Liability	↑ 10%	NZD 14,663.43
Employers Liability	0%	NZD 2,929.05
Crime	0%	NZD 35,523.50

Recommendation | Kā Tūtohuka

That the Audit, Finance & Risk Committee:

1. **Note** the contents of this report.

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7 November 2024

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7 November 2024

Context | Horopaki

1. This report seeks to support the governance role of the Audit, Finance & Risk Committee by providing updates on the following topics:
 - Insurance Market Update
 - Insurance Broker Tender Decision
 - Employment of A Senior Insurance Advisor
 - CDEM Act, Plan & Financial provisions – implications for insurance strategy
 - Infrastructure Policy & Loss Modelling
 - Professional Indemnity Insurance
 - Primary Layer- Combined General and Products Liability
 - Excess Layer General, Public & Professional Indemnity Insurance
 - Employers, Statutory & Crime Insurance
 - Future programme

Analysis and Advice | Tatāritaka me kā Tohutohu

Insurance Market Update:

2. After five years of pricing pressure, insurers are now experiencing a positive shift in insurance market conditions. Currently, market conditions are stabilising and softening providing much-needed relief to buyers, this has led to smaller premium increases and even reductions on some policies. QLDC, like others, has benefitted from increased capacity for this renewal, principally from the Singapore market (although QLDC's policies are not placed in that market).

Insurance Broker Tender Decision:

3. As of June 2024, QLDC has reappointed Aon as its insurance broker, with the contract now in effect following its commencement on 1 July 2024 and run for up to five years.
4. The procurement process was by open tender released on 17 April 2024, closing on 16 May 2024. The procurement process was conducted in accordance with QLDC's policies, and the services include both brokerage and insurance costs. Three tenders were received and evaluated by a team overseen an independent Chair. The procurement process considered both the cost of brokerage services and the anticipated insurance costs for the term.
5. The Council delegated authority to the Chief Executive on 27 June 2023 to enter into a contract with Aon for five years. The terms of the agreement with Aon have been negotiated and reviewed by relevant personnel to ensure they meet the Council's requirements. This agreement is intended to support QLDC in managing its insurance needs effectively.

Employment of a Senior Insurance Advisor:

6. A Senior Insurance Advisor, with experience in the London insurance markets, has been employed to review all aspects of QLDC's insurance strategy, policy and cover, to provide strategic and operational recommendations and risk modelling to ensure QLDC is best positioned to leverage insurance as an appropriate risk transfer option, as part of its broader risk management framework.
7. The Senior Insurance Advisor, Climate and Resilience, and Strategic Asset Management Teams are work together to review the organisation's infrastructure insurance policies (principally catastrophic event cover), supported by loss modelling, asset management systems and processes. Loss modelling assumptions have not been revisited since 2018, primarily due to the impacts of COVID-19 and uncertainty regarding 3 Waters reforms. Other members of the collective catastrophic event policy are in the same position, and the Senior Insurance Advisor will work with those other councils to obtain a good understanding of the collective needs of the Policy.

CDEM Act, Plan & Financial provisions – implications for insurance strategy:

8. The Civil Defence Emergency Management (CDEM) Act 2002 established the legal framework for civil defence and emergency management in New Zealand, outlining principles and objectives that both national and local CDEM plans must adhere to.

9. The National CDEM Plan provides overarching guidelines and principles for emergency management across the country, with each local council developing its own CDEM Plan to address the unique needs, risks, and resources of its community.
10. CDEM is tasked with preparing for, responding to, and recovering from emergencies and disasters in New Zealand. This framework involves collaboration among local councils, government agencies, and community organisations to enhance resilience and ensure effective responses during emergencies such as natural disasters, pandemics, or other significant incidents. Following an emergency, subject to Cabinet approval, the Government funds 60% of eligible costs (above the local authority's threshold) to rebuild or repair damaged essential infrastructure, river management systems, and community assets, in accordance with Section 33 of the Guide to the National CDEM Plan.
11. The balance, QLDC's 40% insurance coverage, is crucial, as it typically forms the basis of funding for rebuilding or repairing assets after damage. This coverage ensures that any insurance settlement significantly contributes to the costs, with the local authority responsible for covering any shortfall. If the insurance settlement exceeds 40% of the total cost, government support is limited to covering the shortfall up to 60%.

Infrastructure Policy & Loss Modelling:

12. As outlined in section 6, QLDC hasn't conducted loss modelling since 2018. For this year's renewal, given current market conditions, QLDC's sought an additional sub-limit, which was based on a 3% year-on-year increase in the cost of replacing assets. This was determined based on the addition of assets to QLDCs network, average inflation rates of 6% per year, offset by increased asset resilience. As a result, QLDC sought and increased sublimit of \$240M (a 21.8% increase) from \$197M (existing cover). While insurance has currently been bound based on the existing sub-limit, QLDC is still waiting for confirmation that the London market has accepted this change and the associated implications for the final premium.
13. The collective infrastructure policy (8 councils) is also considering increasing the program limit from \$300M to \$500M. This is still in the discussion stage. Due to the current insurance market cycle and increased capacity from the Singapore market, the collective is taking the opportunity to consider increasing its limit without significantly affecting premiums, while the market is softening and favourable.
14. Going forward, the Senior Insurance Advisor and the Strategic Asset Management team will work together to gain a better understanding of QLDC's potential asset losses in the event of a catastrophe (based on loss modelling), which will form the basis of QLDC's strategy for the November 2025 renewal (in collaboration with other members of the collective policy).

Professional Indemnity Insurance:

15. In June 2024, 19 councils were unable to obtain insurance through existing collective cover (via an alternative broker). Aon therefore arranged liability coverage for these councils; however, a limitation regarding claims associated with the Building Act was imposed on the policy.

16. This limitation is now being applied to QLDC's primary layer and all 36 councils subject to that policy now have an annual aggregate cap of \$45M for losses related to the Building Act. Aon is currently developing a reporting methodology to track any potential erosion of the aggregate limit. The intention at this stage is to provide quarterly reports, along with exception reports in the event of significant claims.

17. Outside of the annual aggregated cap relating to the Building Act, QLDC's limit and excess remain the same as last year, but the premium has increased by 8.5%.

18. There are two key changes this year:

- **Building Act Exclusion:** A \$45M aggregated annual cap between 36 councils. The limit for the policy is not shared with other councils, with the exception of the \$45M Building Act aggregate.
- **PFAS Exclusion (Perfluoroalkyl and Polyfluoroalkyl Substances):** This has also been added to the policy. Perfluoroalkyl and Polyfluoroalkyl Substances are synthetic chemicals found in many products, such as clothing, carpets, fabrics for furniture, adhesives, paper packaging for food, and heat-resistant/non-stick cookware. QLDC'S Building Consent Team Lead has advised that QLDC has minimal liability exposure to health-related substances; therefore, the risk to QLDC of PFAS being excluded from cover is low.

Primary Layer- Combined General and Products Liability:

19. QLDC's limit and excess remains as per last year, renewal terms have been provided with no changes from last year, premium has increased by 6.5%.

Excess Layer General, Public & Professional Indemnity Insurance:

20. QLDC's limit, which is shared with 36 councils and excess remains as per last year, renewal terms have been provided with no changes from last year, premium has increased by 20%.

Employers, Statutory & Crime Insurance:

21. Statutory Liability insurance, renewal terms have been provided with no changes from last year, premium has increased by 10%. Employers Liability insurance renewal terms have been provided and the only change is the deductible has reduced to \$1,000 from \$2,000.

Crime Insurance:

22. Crime insurance renewal terms has been provided with no cover changes from last year. Crime Insurance protects QLDC against financial losses resulting from criminal acts, such as theft, fraud, or employee dishonesty.

Future programme:

23. In addition to the review of QLDC's catastrophic event cover (refer to Sections 12-14 of this report). The Senior Insurance Advisor will undertake a comprehensive review of the April 2025 insurance renewals, encompassing material damage, business travel insurance, hall hirers, drone insurance, and commercial motor vehicle policies. This evaluation will contribute to the development of QLDC's insurance strategy. The Senior Insurance Advisor will provide further reports to the AFRC at the appropriate time.

24. Options have not been presented as this report is for noting purposes only.

Consultation Process | Hātepe Matapaki

Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka

25. This matter is of low significance, as determined by reference to the Council's Significance and Engagement Policy 2024 because it will not:

- significantly impact on the environment, culture, and people of the district
- significantly affect individuals, organisations, groups, and sectors in the community
- be inconsistent with existing policy and strategy
- significantly impact the objectives set out in the Financial Strategy, Long Term Plan and Annual Plan.

Māori Consultation | Iwi Rūnaka

26. This matter is of low significance and consultation is neither required nor necessary.

Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka

27. This matter relates to the Financial risk category. It is associated with RISK10013 Unexpected change in cost or funding within the QLDC Risk Register. This risk has been assessed as having a very high residual risk rating.

28. The approval of the recommended option will allow Council to transfer the risk. This will be achieved by obtain effective insurance cover.

Financial Implications | Kā Riteka ā-Pūtea

29. Sections 14-22 of this report provide details of the increase in cost of insurance on renewal. Overall, the cost of cover is within the approved budget for insurance.

Council Effects and Views | Kā Whakaaweawe me kā Tirohaka a te Kaunihera

30. The following Council policies, strategies and bylaws were considered:

- Our Vision and Mission - QLDC – considered during risk identification, analysis, evaluation and treatment planning.
- QLDC Risk Management Policy
- Climate Biodiversity and Action Plan
- QLDC Long Term Plan
- QLDC Spatial Plan
- 30 Year Infrastructure Strategy

31. The recommended option is consistent with the principles set out in the Risk Management Policy.
32. This matter supports the Long Term/Annual Plans through ensuring that effective mitigations are in place that support risks that could impact plan objectives.

Local Government Act 2002 Purpose Provisions | Te Whakatureture 2002 o te Kāwanataka ā-Kiaka

33. Section 10 of the Local Government Act 2002 states the purpose of local government is (a) to enable democratic local decision-making and action by, and on behalf of, communities; and (b) to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future, by providing a Risk Management Framework that supports QLDC in achieving its strategic and operational objectives. As such, the recommendation in this report is appropriate and within the ambit of Section 10 of the Act.
34. The recommended option:
- Can be implemented through current funding under the 2024-2034 Long-Term Plan;
 - Is consistent with the Council's plans and policies; and
 - Would not significantly alter the intended level of service provision for any significant activity undertaken by or on behalf of the Council or transfer the ownership or control of a strategic asset to or from the Council.

Attachments | Kā Tāpirihaka

No attachments