

Report No.	20-167
Information Only - No Decision Required	

INSURANCE STRATEGY

1. PURPOSE

- 1.1. The purpose of this paper is to introduce the Audit, Risk & Investment Committee to the current insurance environment, strategy, and impact on premiums. This will help assist governance in regards to future decision making and risk management.

2. EXECUTIVE SUMMARY

- 2.1. Our insurance broker (Aon) have prepared a detailed Market Summary and Strategy for consideration which is enclosed as an Annex. A power-point presentation will also be provided by Aon. This will help inform governance and also shape thinking for future decision making.

3. RECOMMENDATION

That the Committee recommends that Council:

- a. receives the information contained in Report No. 20-167 and Annex.

4. FINANCIAL IMPACT

- 4.1. As detailed in the attached report – a hardening market and increase in Horizons valuations figures has resulted in a financial impact on premiums. Dependent on future decisions, this in turn may impact rates.

5. COMMUNITY ENGAGEMENT

- 5.1. Nil community engagement is required.

6. SIGNIFICANT BUSINESS RISK IMPACT

- 6.1. Insurance cover forms part of a wider risk management and asset management strategy. Any potential reduction or cancelation of insurance cover may pose a significant business risk regarding management of our strategic assets, and would require an informed decision made by governance.

7. CLIMATE IMPACT STATEMENT

- 7.1. Insurance cover does not directly impact on climate change.

8. BACKGROUND

- 8.1. With Horizons and MW LASS adopting a more strategic approach to managing risk, assets, and insurance, Council have now established an internal (Horizons) Insurance Advisory Group that will report to the Audit, Risk & Investment Committee as required. This

meeting is the first structured report on insurance to the Audit, Risk & Investment Committee this year.

9. DISCUSSION

- 9.1. Given a hardening insurance market, increase in valuations, and subsequent impact on premiums (and rates), a financial friction point is emerging in regards to managing risk and strategic assets, while also attempting to reduce cost to the rate payer.
- 9.2. Much of Horizons risk exposure rests in the river management area (Infrastructure – below ground assets) with the pressure on premiums being driven by increases in valuations, in turn driven by a range of factors not least being a move to replacement valuations.
- 9.3. An important factor regarding Infrastructure Insurance is the figures are listed in 100% terms but assume the Government will fund 60% of the claim. Therefore our premiums only pay for the insured 40%.
- 9.4. There are essentially four options for Council; accept the premium increase as set by AON, look to increase the deductible amount identified in the policy, take a fresh look at the mix of assets we insure and don't insure, and /or reassess whether we have the right amount of insurance.
- 9.5. Clearly premium increases would suggest that accepting the premium increase at face value isn't appropriate. Addressing the issue by increasing the deductible needs a commensurate increase in scheme reserves (and infrastructure reserves) to avoid creating a gap in our approach to natural disaster cover. It is also important to note that only a substantial increase in deductible would equate to any real premium saving. Further, in 100% terms we are also assuming the government will fund the remaining 60% of the insurance claim, in turn creating more risk.
- 9.6. A third option is reviewing the mix of assets we choose to insure – having a greater portion uninsured. Taking that option in isolation without any offsets (increasing reserves) generates obvious / inevitable limitations – in the event of a major disaster we end up with insufficient cover.
- 9.7. At present staff are focussing on the fourth option – looking at whether we have the right amount of cover. As noted previously, much of the cover requirement is dictated by so-called flood loss curves – relationships between flood size and flood damage costs based on historical information.
- 9.8. Those curves have a number of approximations to them related to the small number of data points and the vagaries around just what the damage cost was for a given historical event. The most substantive matter is one relating to the investment Horizons has made in what is by far the largest chunk of the insurance bill – the **Lower Manawatu Scheme (LMS)**.
- 9.9. Considerable investment has been made since 2004 in raising / strengthening LMS and Rangitikei stopbanks, a large part of the over risk exposure, meaning that the increase in asset value will be offset to some degree by a reduced level of vulnerability; shovel ready investment will add to that increased level of resilience. Although that work is at an early stage staff are confident that a reassessment of those curves will result in more modest premium increases.

10. TIMELINE / NEXT STEPS

- 10.1. Following the presentation by Aon on 24 November, the Audit, Risk & Investment Committee will have the opportunity to make recommendations on 'next steps', based on the information received at this meeting.

24 November 2020

11. SIGNIFICANCE

- 11.1. Should governance decide to reduce levels of insurance cover on council assets, this may pose a significant decision according to the Council's Policy on Significance and Engagement.

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ANNEXES

- A Horizons Insurance Market Summary and Strategy