Risk financing in local government

A guide prepared by David Middleton ONZM, Kestrel Group

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Foreword

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Having identified hazards and decided what can be avoided, retained, mitigated or contracted out, and having set up a system for the administration of retained risks, a local authority can consider the transfer of any residual risk. Traditional insurance is the obvious means, but other means have been developed over the past few decades and some of them incorporate advantages for the coverage of disaster events.

This guide will deal principally with the management of retained risks and with insurance, including some notes on risk appetite and tolerance. It will cover alternative risk transfer mechanisms only briefly because they lend themselves more to large insurance entities, consortia or central government than to individual local authorities.

The risk to some assets has to be retained because insurance is not available. Such assets may include land and landfill, transport infrastructure and underground assets. Risk management of these assets has to be undertaken in ways that are outside the scope of this guide, but insurance brokers may be able to assist with advice or even alternative risk transfer options.

This guide was prepared for LGNZ during the development of the business case for a Local Government Risk Agency.

This guide has been prepared for the assistance of local authorities. It contains comment that is particular to the local government sector and not necessarily applicable to other organisations. Effort has been taken to summarise information accurately and any opinions expressed are the writer's own. The writer does not accept liability for losses arising from use of, or gaps in, the information the guide contains.

David Middleton ONZM has over forty years' experience in the insurance market in New Zealand. He has worked as an underwriting manager, claims manager, client services officer, manager of a life insurance company, insurance broker and reinsurance broker. David was the Chief Executive of the Earthquake Commission for seventeen years. During that time, EQC developed its own computerised earthquake hazard and dynamic systems models, placed one of the largest catastrophe reinsurance programmes in the world and contracted with GNS Science to build, operate and service a national hazard monitoring network and place its output in the public domain through the GeoNet website.

David was a Chartered Insurer, having qualified as a Fellow of the Chartered Insurance Institute, specialising in reinsurance. David is also a Fellow of the Australian and New Zealand Institute of Insurance and Finance, and has an MBA with distinction from Victoria University, Wellington.

On stepping down from EQC in 2010, David was made an Officer of the New Zealand Order of Merit.

1

Introduction

Introduction

In this guide, the insurance industry's usage of the word "risk" is followed. It has more than one connotation. Simply put, "risk" is the chance of financial loss, but it may also refer to the subject matter of insurance (so a motor vehicle, building or key person may be called "the risk").

This guide will try to avoid the latter use and also avoid the use of risk as the synonym for "hazard" (a condition that may create or increase the chance of loss) or "peril" (a contingency that may cause a loss).

Another set of expressions used by insurance companies is to refer to themselves as the "Insurer" and their policyholder as the "Insured". This terminology will be used in this guide. The terms "cover" and "coverage" are also used as synonyms for "insurance" and "insured amount".

2

Risk appetite and risk tolerance

Risk appetite and risk tolerance

There is no universal acceptance of the difference – if any – between the terms “risk appetite” and “risk tolerance” but the following may help to understand the concepts. Much has been written on the subject including these widely consulted references:

- COSO (Commission of Sponsoring Organisations of the Treadway Commission), “Enterprise Risk Management – Understanding and Communicating Risk Appetite” 2012 (http://coso.org/documents/ERM-Understanding%20%20Communicating%20Risk%20Appetite-WEB_FINAL_r9.pdf)

- KPMG “Understanding and Articulating Risk Appetite”, 2008 (https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/documents/Risk-appetite-O-200806.pdf)

- Harrow Council Statement of Risk Appetite 2012-13, (https://www.harrow.gov.uk/www2/documents/s97217/Risk%20Appetite%20Statement.pdf)

The ISO 31000 risk management standard refers to risk appetite as the “Amount and type of risk that an organization is prepared to pursue, retain or take”. It is a strategic decision concerned with the trade-off between risk and added value. **Risk appetite is a matter for corporate governance because it influences the organisation’s attitude to risk**. Government at local and national levels is notably conservative in their attitude to risk, i.e. they have a low risk appetite.a

Risk tolerance is the degree of uncertainty that an organisation can accommodate with regard to negative outcomes (“downside” risk). **Risk tolerance is tactical and operational, being the application of an organisation’s risk appetite to specific objectives. Levels of tolerance for the risk of such aspects as damaging reputation, non-compliance with legislation or interrupting essential services etc. can be set but insurance is concerned with downside financial risk.**

There are two elements of uncertainty in the risks that may be considered for transfer, the likelihood of occurrence and the size of the ensuing loss. Generally the degree of risk aversion displayed by an organisation (or an individual for that matter) increases with the potential size of the loss. Some loss potentials are sufficiently small for an organisation to be prepared to accept the risk and assume any loss that does occur. Beyond a certain size the residual risk (after avoidance, mitigation and contracting out have been practised) becomes unacceptable and ways will be sought to transfer it.

Thresholds for risk transfer are not clear-cut for two reasons:

- **The time element** - the size of loss that could be absorbed by, say, one year’s surplus could not be tolerated within a single month’s operating budget.

- **Alternatives** - there may be advantages in borrowing or raising additional capital rather than insuring, for example when the insurance premium is deemed too high relative to the risk being transferred. The 2013 Controller and Auditor General’s discussion paper on insuring government assets reported that cost of insurance exceeding assessed risk and capacity to borrow were the main reasons why local authorities or council controlled organisations did not insure assets.

Examples of defined boundaries expressing risk tolerance are that the financial loss arising from an unplanned event:

- must not necessitate more than a stated percentage increase in rates if it were to be recovered within a set time;

- must not cause the council’s borrowing level to exceed a stated percentage of the actual debt to planned debt ratio;

- must not cause the council’s borrowing level to exceed a stated percentage of the planned net borrowing to revenue or equity ratio;

- must not cause the budgeted expenditure to revenue ratio to be worse by more than a stated percentage; and

- must not exceed a stated percentage of operating or capital expenditure of a council, one of its departments or a council-controlled entity.

The first three criteria above may be considered in relation to disaster events such as floods or earthquakes, and the last two in relation to fires, misappropriation, motor vehicle or equipment damage, etc.

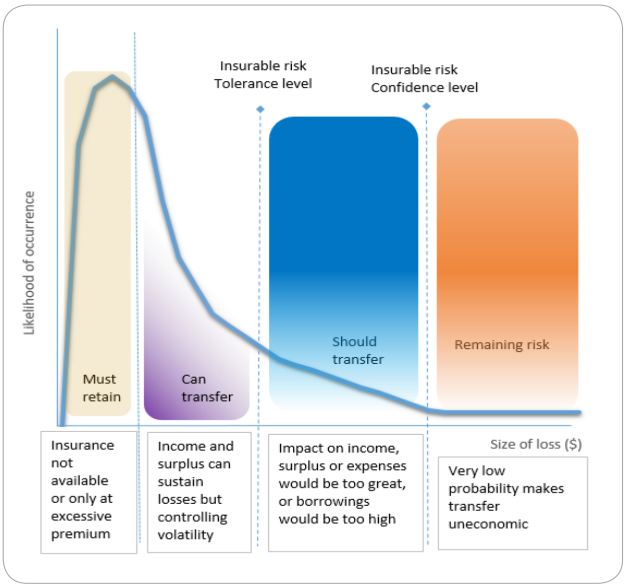
3

Risk retention and risk transfer

Risk retention and risk transfer

The diagram illustrates the risk transfer options on axes of the two elements – likelihood and size of loss. There is a higher likelihood of small losses than of larger ones, and catastrophic losses have a very low probability.

Insurance of small losses is not possible if insurance companies insist on an excess (nowadays called a deductible) to avoid the expense of handling small claims (and to leave their Insured with an interest in controlling losses). Even if claims exceed the deductible, if they are regular annual events, then Insured and Insurer engage in “dollar swapping”, when the premium charged equals the costs of claims plus overheads. Such losses are best self-insured within a properly administered framework described later in this guide.



At the level at which insurance is a viable risk management option, consideration needs to be given to the benefits of exchanging a reasonably stable (or at least predictable) expenditure item – the insurance premium – for a volatile and unpredictable expense – the cost of repairing damage, replacing assets unexpectedly or meeting third party claims for liability issues. A comparison of past losses and quoted insurance premiums will assist in this decision.

Consideration of whether to transfer risk could include convenience. Uninsured damage not only has to be paid for, its repair has to be managed. Insurance companies can remove some of the inconvenience of an accidental occurrence by taking over repairs or legal aspects, or pursuing recovery against a liable third party. Conversely, a council with a motor repair or building maintenance facility may prefer to manage its own minor accidental damage cases.

At the risk tolerance border discussed in the previous section, risk transfer, probably by way of insurance, is necessary to maintain the financial integrity of the council.

The amount of insurance to purchase then becomes a consideration. A point is reached where the insurance premium is more a factor of the insurance company’s cost of capital, than of the chance and uncertainty of incurring losses. From the Insured’s perspective, this makes the insurance uneconomic.

In the diagram this border is labelled the confidence level, on the basis that this is the point at which a council can be reasonably sure that losses will be so rare as to be discounted as far as risk transfer is concerned, but still needing planning to cope with should the “unthinkable” happen.

A recent survey of local authority senior executives indicated that a confidence level at 1 in 200 chance of occurrence (ie 0.5 per cent probability in any year) sat comfortably.

The Reserve Bank’s rules under the Insurance (Prudential Supervision) Act of 2010 require an insurance company to show it has the capital to cope with a 1 in 250 year catastrophe event, or a large earthquake in Wellington, whichever is greater.

4

Administering self insurance

Administering self insurance

The portion of risk not transferred to the insurance market should not be ignored (this is non-insurance) but managed as a budgeted expense item. This means any damage or loss should be investigated, costed and set against the budget in much the same way that an insurance company would process claims.

Administration of a self-insurance programme should include identification and separate accounting treatment of opportunistic upgrading – taking advantage of an accident to make improvements – so that a proper record of self-insured damage costs can be maintained. If such losses are allowed to disappear among other operating costs, various inefficiencies will creep into risk handling programmes and continuing review of whether to retain or transfer risks will be compromised.

The cost of risks can be carried as a charge against operating budgets if they are small to medium losses that are an inevitable, regular expense. Provided such losses can be identified and quantified, then their costs can be budgeted; they may range from accidental damage to vehicles to pilfering or damage to office equipment.

The internal administration of minor damage occurrences could extend to setting up a contingency fund, with contributions from different departments in accordance with their loss records, as a form of incentive. If the year ends with a fund balance, then the reward of lower contribution in the succeeding year is possible. An internal contingency fund could be insured against the possibility of exhaustion, as described below.

It is safe to handle risks by absorption into a budget item if not only expected losses can be accommodated, but also possible variation in both size of individual losses and the aggregate losses over a year.

The risk of a self-insurance arrangement's incurring excessive expenses, or a contingency fund's being exhausted, can be mitigated by private sector insurance. The simplest self-insurance scheme is the acceptance of an excess or deductible on claims under an insurance policy. Even these deductibles may exceed budgeted figures to an uncomfortable degree if there are more claims than expected; another form of insurance is based on the exceedance of an annual total of claims. This is sometimes referred to as "Stop loss" or annual aggregate deductible insurance. Thus, for example, a council may have a material damage self-insurance arrangement for all claims under $5,000 with an annual aggregate deductible of $50,000. Once the total claims expense in a year (with each claim no more than $5,000) exceeds $50,000 then all further claims will be paid by the insurance company.

Internal record keeping of damage is necessary when a self-insurance scheme has external insurance protection and for audit and review purposes. Examples of information collected at the time of reporting damage are:

Motor Vehicle:

- Make, model, fleet number and registration number
- Driver details (or those of person in charge of vehicle if there was no driver)
- Details of any passengers
- Date, time and place of damage, also a note of any injuries
- Description of accident
- Description of damage
- Where vehicle is currently and whether roadworthy
- Details of any other vehicle(s) involved – make, model registration number driver's name, owner's name, any passengers, damage and insurance details
- Owner of any animal involved and their insurance details
- Names and contact details of any witnesses
- Photographs of damage and area of accident
- Note of whether Police have been involved

Material Damage:

- Date of damage
- What has been damaged, including serial number or other identifying detail of asset
- Cause of damage and how it occurred
- Details of any staff, employees or other people involved, including owner if this is not the council
- Any third party financial interest
- Involvement of other parties such as fire service, security services or Police
- Photographs

An estimate of the cost of the damage to repair, and any associated costs, should be included in the initial information, no matter the degree of guesswork involved. This is so that the amount of paid and outstanding claims can be deduced at any time, such as the end of the financial year. On payment of any invoice or receipt of any report, or for annual accounts purposes, the cost of repair still outstanding should be revised. As repairs progress, other information and supporting documents such as receipts, valuations, photographs and progress reports can be added to the file.

Outside assistance can be sought for managing a self-insurance arrangement. Loss adjusters (or assessors) handle claims on behalf of insurance companies, including supervision of repairs and negotiations with the insured claimant. They could be employed by a council to handle individual cases of damage falling under a self-insurance scheme where there are complicating circumstances such as another party involved, or they could be appointed to handle all claims and keep the necessary records on behalf of a council. The latter could be beneficial where a self-insurance scheme has external insurance protection, to give the insurance company confidence that all cases that could eventually cause a claim under their policy have been handled in accordance with policy terms and conditions.

The same service could be performed by an insurance broker. Some firms have a special self-insurance claims recording and settlement service, which, like the loss adjusters, they provide for a set fee, either an annual charge or a charge per claim handled. Loss adjusters are generally recognised by insurance companies as a more neutral party than brokers where brokers are providing an additional service to a client whose overall insurance interests they look after but, because the claims handling service is just one part of a business relationship, brokers additional fees may not be as high as those of loss adjusters.

Some external matters are relevant when deciding on self-insurance:

- **The Fire Service Levy.** If setting up an internal arrangement that includes the self-insurance of fire damage, a council may be liable for the payment of the fire service levy. Details can be found at http://www.fire.org.nz/About-Us/NZFS-levy/Pages/NZFS%20Levy.html
- **The Knock-for-knock Agreement.** This is an agreement among insurance companies whereby each pays out for motor vehicle damage sustained by its own policyholder in an accident involving a policyholder of another company. If motor vehicle damage is self-insured, then the council will be outside the knock-for-knock agreement; it would have to pursue cost recovery against drivers of vehicles responsible for accidents when the council driver was not to blame, and meet claims for damage to other vehicles for which the council's driver was responsible. A council could avoid this either by taking out insurance against third party property damage (first party is council, second party insurance company, third party is anybody else) or by insuring their vehicles under a comprehensive (own damage and third party liability) policy with an excess the council selects to agree with its self-insurance limit. Then the process would be:
    - Council driver at fault – council pays excess under own-damage section of policy, and loses its no-claims bonus
    - Other driver at fault – insurance company attempts recovery of council excess and reimburses this to council if successful. No-claims bonus intact.
- **EQC insurance.** EQC (the Earthquake Commission) insures residential property against natural disaster damage if that property has private sector insurance including damage by fire. Unlike the fire service levy situation, self-insured residential property does not attract the EQC premium, and it will not have EQC's insurance cover. EQC can provide its cover direct on residential property that is not insured against fire. Specific application to the Commission has to be made and they are entitled to charge for administration of the cover.

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Essential features and principles of insurance

Essential features and principles of insurance

Insurance can cater for risks only when the following features are present. It is helpful for councils to be aware of these so they can recognise when insurance is a realistic option and how to present risks to insurers in the best light.

Homogeneity. There must be a sufficient number of subjects for insurance of a similar class to produce a reliable average of loss experience. This is the law of large numbers at work: the average of results obtained from a large number of calculations comes closer to the actual outcome the more calculations are performed. A council asset that fits into an insurance company portfolio of similar assets will be assessed more favourably than an unusual asset. So finding an insurance company specialising in the particular unusual asset under consideration for insurance could be an advantage, as could joining with other Insureds (councils) with similar assets to provide an insurance company with a ready-made portfolio.

Calculability. It must be possible to calculate the chance of loss, either mathematically or through past experience. The greater the uncertainty surrounding the probability of loss occurrence, the higher the premium loading for this factor. Providing as much information as possible to enable the chance of loss to be calculated confidently will minimise the uncertainty loading on a premium.

Fortuity. Although it is known that losses will occur and that the frequency can be measured, a specific loss must be unforeseen. A loss that is intentionally brought about or which is expected to happen is not suitable for insurance. Not disclosing an expected loss to an insurance company when applying for cover is known as "selecting against the insurer" and will result in non-payment of a claim because of breach of the duty of utmost good faith (q.v.)

Insurable Interest. A financial interest in the subject matter of insurance is what differentiates insurance from gambling. A wager creates the risk of gain or loss; insurance provides security against the consequences of a loss. Insurance is designed to preserve the financial interest of the insured party and if that party cannot show such an interest (and therefore potential loss), then insurance cannot be obtained.

Principles of insurance for councils to be aware of

Utmost Good Faith. This is in contrast to the "buyer beware" basis of contracting, under which the parties have the right not to disclose what they are not asked about but must answer any queries honestly. When contracting for insurance, each side must disclose all material facts whether inquired after or not. Although legislation and court decisions nowadays require an allegation of breach of the duty of utmost good faith to be supported by evidence that the breach was material to the decision to accept insurance, it is strongly advisable for councils to volunteer all the information they have about a risk in order to avoid the possibility of claims being declined or policies annulled. The duty of full disclosure applies to each policy renewal, not just when the policy is first taken out.

Reasonable Care. Insurers are entitled to expect their policyholders to exercise the care of their property, person, liability or other subject of insurance that they would if it were not insured. Lack of reasonable care is a ground for refusal of a claim. Liability policies carry a detailed condition of the care and precautions expected of the policyholder after a claim has been made against them. Involvement of Police whenever appropriate is regarded as a prerequisite of taking reasonable care.

Indemnity. Insurance was designed to place an Insured back in the financial position they were in before the loss. The principle of indemnity disallows "betterment", which is the improvement of the asset insured to a higher standard or condition than before the damage occurred. Modern replacement value ("new for old") policies have severely blurred this principle but it remains a cornerstone of insurance that an Insured should not be permitted to benefit from a loss.

Subrogation. Having indemnified an Insured by way of claim payment, an Insurer is allowed by law to take over any common law remedies that were available to their claimant. Thus they pursue at-fault drivers after paying motor vehicle claims. A policy condition may give Insurers the right to subrogation before a claim has been paid. For some insurance contracts, for example fidelity guarantee insurance protecting against employee misappropriation or business interruption insurance for a claim following damage caused by a staff member, councils may have reservations about Insurers' subrogation rights and should discuss a waiver when negotiating the policy.

Contribution. Where more than one policy insures the same interest for the same peril and the same subject matter, then only one claim can be made and each policy should contribute in proportion to its amount insured. Policy wordings often have a contribution clause that attempts to relieve them of making any payment if there is any other policy in force. A problem arises if all relevant polices have a contribution clause that limits their participation in some way. Duplicating insurance is an unnecessary expense that could also place a council in a worse position than having a single cover. The utmost good faith principle requires disclosure to all Insurers of all contributing insurances in force.

6

The amount insured and basis of settlement

The amount insured and basis of settlement

The sum insured on the policy usually is the maximum entitlement on a claim, not the amount automatically paid out for a total loss. The financial loss to the Insured will still be calculated and the claim payout will be the lesser of that figure and the sum insured. The exception is agreed value or set amount policies for which the amount of the payout in the event of loss is in the policy wording. An example is motor vehicle policies where the amount to be paid in the event of total loss of the vehicle is agreed at the outset and not subject to a pre-accident valuation after the event.

Material damage policies are most often on a replacement value basis so that age and condition of the damaged item is not taken into account (as it is with indemnity value polices) and repairs or replacement take place on a "new for old" basis. This is usually the most suitable and convenient claims settlement for an Insured. However, there is a strong presumption in the policy wording that identical replacement will take place. Should a council prefer cash in lieu of repairs or replacement because a different asset, model or location is planned, then a replacement policy is required to settle only on an indemnity basis (some replacement policies do allow for a different location to be chosen). Replacement value policies therefore may restrict a council's options after a loss has occurred.

If a council can foresee the decommissioning of an obsolescent asset after significant damage to it, then it would be economical to arrange insurance on an indemnity basis and not the more expensive and option-limiting replacement basis.

Another basis of settlement for assets reaching the end of their useful life is "Total Loss Only" (TLO). A claim will be paid only if the asset is completely destroyed or the cost of repairs would exceed the sum insured. TLO policies may be on an agreed value basis, giving some certainty on the payout should the asset be destroyed.

There are also "Partial Loss/Total Loss" policies, under which repairs costing above an agreed figure trigger a total loss payout. These policies are not common and their premium reflects the added risk of a claim for the full sum insured.

Material damage policies on a single asset such as one building, or on a small number of assets, generally have a sum insured of the value of that asset or the largest asset in the group. Where the insurance is on all property of the Insured or some similar general description, the sum insured is based on the maximum foreseeable loss, i.e. the worst damage that could be visualised for any property. A simple approach to take is to assume the highest value asset could be a total loss – and make sure insurers know that every other asset insured has a lower value.

Insurance against natural disaster presupposes damage to many assets caused by the same event. Rather than accept the risk of multiple claims based on the sum insured on each asset, insurance companies these days place an upper limit on their total liability from single events (which then have to be defined in terms of all damage from the same peril arising within a set time frame such as 72 hours). Thus a material damage policy may have a sum insured of $x on any single building (or set sums insured on particular buildings) but a larger amount for any one event.

In order to set the event limit for natural disaster damage, a council needs to obtain an estimate of its "probable maximum loss" from a natural disaster. This is the reasonably foreseeable amount of damage that the worst natural disaster could inflict on a council's assets, including business interruption caused by the damage. Examples are a one in fifty year flood or a one in a hundred year earthquake.

External advice is probably necessary to identify the probable maximum loss event and quantify its impact. Computerised hazard modelling is used for these purposes. GNS Science and NIWA have developed the RiskScape model and have supporting damage quantification models that can assist local authorities to understand their natural disaster vulnerability.

Liability policies have sums insured based upon the highest foreseeable damages awards. Brokers, insurance companies and other councils can give guidance on common sums insured applied to public liability, professional indemnity and directors and officers liability policies.

7

Valuations for insurance purposes

Valuations for insurance purposes

Valuations of assets and buildings help to arrive at a realistic sum insured and will be useful evidence in support of a claim. These advantages will be enhanced if the valuations are done by an independent valuer with qualifications relevant to the assets being valued.

Valuations for insurance purposes are not necessarily the same as those for accounting purposes. The basis of the insurance – replacement or indemnity – should be relayed to the valuer so that the valuation reflects this.

In arriving at an insurance valuation, some additional potential expenses need to be included, such as:

- Value of any expected capital additions during the year
- Costs of temporary repairs, especially to secure a site and make it safe
- Architects', surveyors' and engineers' fees
- Costs of investigation to determine the extent of damage and suitable repairs (these may be borne by the insurance company as part of their claims costs but their findings may not be shared with the council)
- An allowance for cost escalation during the year and in particular following a large natural disaster
- Additional cost of express-freighting and overtime labour where a case for urgency can be made
- Costs of removing asbestos to the extent included in the insurance policy
- Costs of demolition and removal of debris, which are included in insurance policies
- Costs of destruction of sound property necessary to effect restoration or reinstatement
- Removal of undamaged foundations if rendered unsuitable or unusable by the event
- Additional costs to meet upgrades of building codes and other regulations
- Costs of inspection and obtaining building consents
- Costs of compiling the claim, including employee wages

Some of these items will have their own sub-limit in the policy, for example there may be a special allowance to cover the cost of compiling a claim, or a limit on capital additions.

For some of these items, only a general estimate will be possible. Increasing a sum insured to cope with extra expenses will not be costly – a 20% increase in the sum insured may involve only a 1% or 2% increase in premium because the liability of the Insurer is increasing only at the upper end of the risk scale. The sum insured is the maximum the Insurer is liable to pay out so it is important that it be adequate to avoid under-insurance, the cost of over-insurance being only slight.

8

Dealing with the insurance market

Dealing with the Insurance Market

The common approach to the insurance market is through a broker, who is an intermediary acting on behalf of the client and (unlike an insurance agent) is independent of any insurance company. Brokers may be sole practices with domestic and SME clients, medium-sized national businesses with branches in large towns, or multinationals with offices in the main centres and large towns. The nationals and multinationals will have good connections with overseas insurance markets, especially the recognised centres of London, Singapore, Sydney and Bermuda.

The Insurance Brokers Association of New Zealand (IBANZ) admits corporate and individual members who meet the professional criteria. IBANZ has a code of conduct for brokers, a professional development programme and a complaints procedure. Their website is http://ibanz.co.nz/.

Traditionally brokers have been paid by insurance companies through commission, called brokerage. Nowadays, to counter any suspicion of conflict of interest (operating on behalf of an Insured but being paid by the Insurer) and to cover the additional services they now offer, brokers frequently charge a fee and pass any brokerage they earn to the client by way of reduced premium charges.

As well as advising on insurance matters, assisting with insurance presentation material, canvassing the market for quotations, assisting with decisions on quotations, placing the insurance and providing documents, brokers may now offer claims assistance, hazard modelling, wider risk management, insurance audit, access to international markets and fire engineering services.

For all services undertaken, the client is entitled to expect a high standard of professional skill and conduct from the broker, who may be liable in damages for losses caused by a failure to maintain such a standard. It is important for councils to ascertain what professional indemnity insurance their broker has in place. The Financial Services Provider Register (http://www.fspr.govt.nz) can be accessed for the broking firm and individual brokers involved in the council's insurance service.

When selecting a broker, information can be sought and judgements can be based on:

- Familiarity with local government sector and the council's business
- Assistance offered with risk management decisions such as avoidance or mitigation
- Assistance offered with preliminary decisions about self-insurance, levels of deductible, amount of cover and types of insurance to purchase
- Design, marketing, quotation and placement of the insurance policies
- Access to international markets
- Premium indications, if insurers have been approached (but selection of a broker may precede approaches to the insurance market).
- Administration of the insurances including all documents
- Assessment of counter-party risk (i.e. the financial strength of insurance companies)
- Assistance offered with claims
- Provision of regular market information
- Technical advice offered, such as fire engineering
- Hazard modelling
- Other services offered, with fees (if separate)
- Basis of remuneration (brokerage, or fee structure, including confirmation that any brokerage will be credited to the council)
- Personnel to be involved, with experience and qualifications
- Confirmation of membership of IBANZ by the organisation and individuals
- Some referees who may be consulted

An Agreement should be signed with the broker, detailing the terms and conditions, including fees and performance measures, which should include timely placement of insurance, delivery of insurance documents and response to queries, plus measures particular to any additional services to be provided. Agreements are usually for a term of three to five years, when they are retendered.

On appointment, the broker should become familiar with the insurance requirements of the council, review and advise on their sufficiency and work with the council on how to present its proposals for insurance to the market. The broker should make recommendations about which companies to approach and whether to involve off-shore insurers such as Lloyds of London. Insurance companies should be licensed under the Insurance (Prudential Supervision) Act (2010) which is administered by the Reserve Bank. Licensed insurers must notify a current financial strength rating, have a fit and proper policy for directors and officers and comply with minimum solvency requirements.

Insurance companies themselves utilise the reinsurance market to pass on some part of their liabilities arising from the policies they issue. A reinsurance treaty between a reinsurer and an insurance company is a separate contract and has no connection with the insurance contract between that insurance company and their insureds. So the failure of reinsurance arrangements is not a legal reason for refusing to meet claims by policyholders. Inadequate reinsurance backing may create an inability to meet claims (as happened in the case of AMI Insurance after the Canterbury earthquakes) so an insurance company's clients do have an interest in the reinsurance backing that company has negotiated. The Reserve Bank's solvency requirements include consideration of reinsurance coverage.

In theory, insurance companies set their own premiums but when a high proportion of an insurer's liability is laid off to reinsurance companies, as with natural disaster insurance, then reinsurers can exert a heavy influence on premiums.

Thus after the Canterbury earthquakes, reinsurers would provide natural disaster cover only at set terms and conditions, and since insurance companies wished to retain only a small portion of their liability, the coverage terms provided by the insurance companies to their clients were based on this dictation from the reinsurance market.

The information provided to the insurance market will vary with the type of insurance. For example, a material damage/business interruption information pack may cover the following;

- An overview of the council and the territory it covers, including population, main centres, main industries in the area, socio-economic information, finances of the council and its main areas of activity, and any special features
- Response date for insurance quotations
- The quotation slip, containing formal name of the Insured, policy type, sum insured and other limits, cover extensions sought, deductible, basis of claims settlement, period of insurance and other details
- Information about the use, location, insurable value and construction of all buildings to be insured
- Council's claims history
- Buildings with fire protection such as sprinklers, security such as ctv or patrols, and other risk mitigation measures
- Information about major perils – assets susceptible to being flooded and the region's seismicity and vulnerability to other natural hazards - this could include hazard modelling
- Major equipment valuations
- Any accumulations of value, for example a building housing valuable equipment
- For overseas markets, a brief overview of the New Zealand geographical, geological and economic environment
- Description of any risk management programmes or staff training including evacuation plans or alternative premises, duplicated services or built-in redundancies
- Plans for new buildings or equipment purchases
- Any recent building or engineering surveys
- Any other information that casts the council risk in a good light or is needed to disclose under utmost good faith

These market presentations can be in booklet form to be delivered by the broker, made into PowerPoint presentations for meetings with insurance companies or simple memoranda or reports. Brokers should take care of, and advise on, these presentational aspects.

9

Deductibles and policy layering

Deductibles and Policy Layering

A deductible, or excess, is the first amount of a claim that must be borne by the Insured. It may be applied by the insurance company in order to avoid the administrative overhead of handling many small claims and to give the Insured an interest in minimising the risk. A deductible amount may also be selected by the Insured to reduce premium costs (or the opposite – to buy out a deductible applied by the insurance company) or to fit the limits of a self-insurance arrangement.

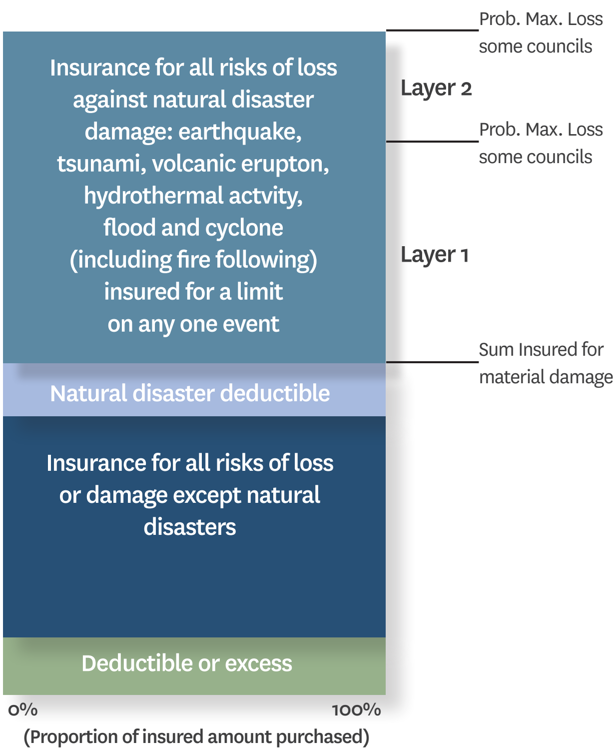
Deductibles may apply to each and every claim and, for natural disaster insurance, there may be an additional deductible for any one event.

A deductible may be a simple dollar amount, a percentage of a claim or of the value of the asset that is the subject of the claim, or a percentage of the total value insured on any one site (in which case, it is important that the "site" be defined).

Some forms of insurance may be subject to an annual aggregate deductible, possibly in addition to a per-claim deductible. A record of all potential claims would have to be kept and they may need to be formally adjusted and settled as if the Insurer were meeting them. The Insured must bear the cost of these claims until they add up to the annual aggregate deductible, at which time the Insurer will reimburse the claim less any per-claim deductible. This arrangement is suitable for self-insurance arrangements, as noted above.

Deductibles lead to the concept of layering insurance coverage. The sum insured limit of a lower layer is the deductible of the next higher layer. This is a way of combining material damage and natural disaster insurance and for having different Insureds at different layers (for example a collective of several councils could be the Insured for some layers, leaving individual councils to meet their specific needs by arranging their own independent layers). There may also be premium cost advantages in having different insurers on the layers, for example a particular insurer may offer good terms for natural disaster cover at a high level but not be so competitive for asset-based material damage insurance.

The diagram suggests another possible segregation of coverage, along the x axis. A full 100 per cent of the sum insured need not be placed with insurers. A council may choose to participate in its own insurance by taking a co-insurance of some proportion, and this may differ with various layers. Reasons for co-insuring include premium savings, preferring as an alternative to a deductible (so a high proportion of every claim is paid by insurers) and having an alternative risk transfer mechanism. An example of this last reason would be a captive insurance arrangement that is gradually taking on more risk as its financial assets grow, by increasing its co-insurance proportion each year. Insuring through a captive is a major step and is touched on briefly later in this guide.



10

Making a claim

Making a Claim

Insurers have the right to view damage and damage sites and can assert prejudice if this is denied them. That can affect a claim to the point of refusal, if all evidence of damage has been eliminated by, for example, completing repairs. On the other hand, Insureds must take all reasonable steps to minimise damage and enable continued operation and this could include temporary or urgent repairs or steps to make a site safe.

A first step to reconcile these approaches would be to take photographs, especially of any spillages that should be cleaned up urgently, dangerous structures that must be shored up or removed or perishable or hazardous items that have to be disposed of immediately.

The costs of reasonable steps to protect property from further damage are part of a claim. Such actions as shoring up or propping of property; safeguarding, removal or storage and return of consumables, equipment and other removable property whether damaged or undamaged (and in harm's way); urgent or temporary repairs and other measures to secure property or make it safe or suitable for continued use, and cleaning up a site and disposing of perishable or hazardous items will be part of the claim, so all expenses should be supported by detailed invoices and receipts. If internal resources are used for these tasks, the cost may still be recoverable from the Insurer, but full records of hours, materials etc. must be available to support the claim.

If criminal activity is suspected, an Insurer will expect the Police to have been notified. Not doing so could be a breach of insurance policy conditions and may be grounds to refuse a claim.

Insurers, through the council's brokers, should be notified of the circumstances immediately, even if there is doubt whether an insurance claim will eventuate. Insurers do not generally apply a time limit for claims (the policy will state if one applies) but time can be a prejudicing factor if, for example, exposure to the elements causes further deterioration of damaged property. Under the Earthquake Commission Act (1993), EQC applies a time limit for reporting claims on residential property, currently 30 days but extendable to 3 months in some circumstances.

For potentially large claims, the insurance company will appoint a loss adjustor, also called an assessor, to represent their interests and quantify the claim. Loss adjustors may be employees of the insurance company or of a specialist firm contracted to the insurance company. An important element of the loss adjustor's task is to update the estimate of outstanding costs for the insurance company every time they make a report or recommend a payment. A loss adjuster can be appointed quickly and may be on hand to observe, record and approve some of the steps a council is taking to safeguard its property and minimise its claim.

A council can involve its broker in negotiations on large claims, or may appoint its own loss adjustor to act on its behalf; a broker could recommend this course of action for complex claims.

It is particularly important that circumstances that may give rise to a claim under a liability policy are reported early to Insurers, and certainly before any legal response is made by the council. This is because, under liability policies, insurers have the right to take over the defence or settlement of claims and any action by an Insured may prejudice this right and lead to the claim's refusal.

11

Other options for transferring risk

Other options for transferring risk

Traditional insurance can be replaced or augmented by other forms of risk transfer. Most are suitable for large or complex situations and are touched on only lightly in this guide. More information, and outside expertise, is advisable in the investigation of these options.

Collectives. Local government has practised combining councils to insure assets and liabilities under one policy or arrangement. The LAPP scheme and RiskPool have been examples. Currently the Ministry of Business, Innovation and Employment (MBIE) is running an All of Government initiative for the combined purchase of insurance for government departments and some entities, such as District Health Boards, already engage in collective arrangements.

Advantages of insuring collectively include standardisation of cover for all participants, options for improved cover perhaps not available on standalone policies, access to specialised skills for risk management (if there is a central collective insurance body or broker) and efficiency in dealing with technically complex insurance types such as shipwreck removal insurance.

Premium savings may be another advantage but this should be carefully checked. The distribution of premium costs among collective members is a perennial issue and some members may find they are contributing more than what their individual premium costs would be.

As noted in the section on deductibles and layering, collective arrangements may form part of an insurance programme. For example, a council may insure its assets against material damage and business interruption but join a collective to insure against natural disaster damage.

Captives. A captive insurance arrangement is where the insured party exerts control, usually by ownership, of the insurer, thus having an influence on premiums and other terms and conditions and being able to share in the profits (and losses) arising from the risk transfer.

Ownership and operation of an insurance company can be costly, diverting and inappropriate for other reasons, and other forms of captive insurance have been devised. "Rent-a-captive" constructs remove much of the overhead of captive ownership, including the need to set aside capital, but introduce liabilities for losses from other participants. This disadvantage has been removed in some jurisdictions that changed their company law to allow protected-cell captives (PCC).

A PCC is a separate legal entity consisting of a core and any number of individual cells. Each cell is statutorily segregated so that its assets and liabilities are independent of all other cells. Third party creditors, such as claimants on other cell insurance, although entering into contracts with the legal entity of the PCC as a whole, have access to the assets of their designated cell only.

Set up and running costs vary with territories that allow this form of company but are around $250,000 for establishment and about $100,000 per year operating costs. International brokers with offices in New Zealand have expertise in establishing a PCC. Territories that allow PCCs include Vanuatu, Isle of Man, Guernsey, Malta, Bermuda, Cayman Islands and Singapore.

Benefits claimed for captives include reduced and stable insurance costs, sharing in profits, investment income from capital and reserves, direct access to the reinsurance market and specially tailored policies.

Conversely, potential drawbacks include the need to provide capital, exposure to losses, management overhead, investment and legal risk.

Captives can participate in the traditional insurance arrangements of a council or collective as illustrated in the section on deductibles and layering. Co-insurance is a way of introducing a captive over a period of years by maintaining its participation in parallel to its financial strength.

Catastrophe Bonds. Risk-linked securities were introduced in the 1990s and have been issued by several government or quasi-government entities around the world.

The issuer is the Insured which issues bonds and pays interest on them in the usual way. The rate of interest is the risk-free rate plus a spread based on the risk of default. The bonds default on the occurrence of a defined event such as an earthquake within a certain area of a certain magnitude, or a storm within a certain area of a certain strength.

Catastrophe bonds are a means of transferring risk when insurance markets fail to meet requirements or are too expensive. Unlike an insurance policy, there are expenses incurred in setting up a bond issue, including fees for lawyers, accountants, investment advisers, science experts and hazard modelling firms.

Catastrophe bonds can be useful for perils with outcomes that are difficult to define or impacts that are difficult to measure. The expense and characteristics make them suitable for major exposures and perhaps more suitable for large collectives or central government.

Risk Swaps. Part of the risk of an occurrence to one party can be swapped for the equivalent risk to another, thereby diversifying the risk for each. Risk swaps are usually associated with natural disaster risk and extensive science input and hazard modelling are a pre-requisite to ascertain risk equivalence.

Risk swaps are most often international affairs, for example there are exchanges of Japanese and California earthquake risk, and of French storm and an earthquake on the New Madrid fault in central USA. Swapping natural disaster risk with a geographically close council would of course be problematic if both areas were involved in the same natural disaster, but remoter swaps are conceivable and swaps with overseas local authorities are also. Like catastrophe bonds, the overhead of consultancy fees can be significant.

The political aspect of a risk swap arrangement needs careful consideration by councils. Councillors and ratepayers may react negatively if a significant cost falls to a council because there has been a catastrophe elsewhere that has not physically affected them.

Contingent capital is a contract or structure that gives an organisation the right but not the obligation to issue debt instruments after the occurrence of a pre-defined event at pre-loss financing terms. It is a financial “put” option.

There are some common features with catastrophe bonds and risk swaps. For example, there will be a parametric trigger that puts the option “in the money”. This trigger could be the impairment of the organisation’s capital to a pre-defined extent.

Although a simple enough concept, contingent capital options involve complex financial market engineering and pricing. They could be seen as a way of securing the capital base of a council or consortium of local authorities.

Contingent risk protection covers risks associated with the nature of insurance terms and conditions. Examples include insurance against onerous insurance deductible costs because of a heavy claims incidence in any year, incurring substantial premium increases, running out of cover by exhausting policy reinstatements (“reinstatements” here means the restoration of the sum insured after claims have been made) and “double trigger” policies. These last are activated by a damaging event followed by preconceived costs such as the re-siting of an asset or facility.

Contingent risk insurance may not be available locally but it is the speciality of some underwriters such as Lloyds of London. Such markets demonstrate that insurance is available for any identifiable risk capable of measurement that is fortuitous as far as the risk-taker is concerned.

Finite risk cover involves the setting up of a central fund, administered by the risk transferee, from which claims are paid. It could take several years of instalments to reach the fund’s limit, which is the sum insured. At the end of this period, any balance in the fund is split under terms contracted between the parties.

Finite risk insurance gives greater certainty to both Insurer and Insured but at the inconvenience of multi-year accounting arrangements. Such aspects of finite risk arrangements as future liability for payments, risk transfer (where this is a taxation issue), unrealised losses and gains, and contingent liabilities have been subjects for debates among insurers, insureds, regulators and auditors.

Appendix

Appendix - Types of insurance

The common types of insurance are covered in these tables, which provide essential details and common minimum/maximum values of each cover, including terms, conditions and exceptions. These tables are a summary only and councils should discuss insurance coverage in more detail with their broker.

Material Damage Insurance

Insurance element	Cover features
Insured	Local Authority and any associated or subsidiary organisations
Insured Property	Tangible property of every kind or description not expressly excluded, being the Insured's own or held in trust or on commission or on consignment or joint account with others or sold but not delivered or for which they are otherwise responsible, all while at the insured location.
Sum insured	The total insured value of the property insured or the maximum foreseeable loss that could arise or the probable maximum loss (for insurance against natural disaster damage)
Coverage	All risks of loss or damage not specifically excluded; catastrophe limits and conditions apply to earthquake, volcanic eruption, tsunami, hydrothermal activity, subterranean fire, natural landslip and fire following any of these.
Deductible/Excess	As negotiated, may be on "any one event" basis for catastrophe but per claim for other coverage. An event is all claims occurring within 72 hours from the same cause.
Period of insurance	One year (longer terms may be negotiated, with agreed premium adjustments)
Location	Either as per schedule of sites attached to the policy, or "anywhere in New Zealand"
Application of sub-limits	1. Curios or works of art 2. Capital additions and newly acquired property 3. Costs incurred to protect property from further damage 4. Councillors and staff effects 5. Landslip or subsidence 6. Property in transit 7. Money 8. Refrigerated or frozen goods 9. Stolen keys 10. Hazardous substance emergency charges 11. Electrical current damage
Common cover features and extensions	1. Automatic reinstatement of sum insured after a claim. 2. Demolition and removal of debris cover 3. Pollution and contamination arising from a cause not excluded 4. Replacement of computer records. 5. Sound property rendered unusable by damage to other property 6. Destruction by order of lawfully constituted authority. 7. Inadvertent breach of conditions or misdescription cover. 8. Payment of rewards 9. Payment for undamaged foundations 10. Subrogation waiver (see Section 5) for associated organisations and officers, consultants and staff

Insurance element	Cover features
Main causes excluded	1. Wear and tear, gradual deterioration, rust or corrosion 2. Normal settling, erosion, cracking, shrinkage or expansion 3. Pollution or contamination 4. Building defects and mould, dampness or fungi 5. Damage by micro-organisms, insects or vermin 6. Asbestos limited to what has been physically damaged only 7. War, nuclear, radiation and terrorism risks 8. Malicious use of biological or chemical materials 9. Breakdown of machinery 10. Unexplained disappearances or shortages 11. Theft by contract personnel or staff unless discovered within 72 hours or accompanied by violence 12. Normal shrinkage, evaporation or loss of weight 13. Gradually operating causes such as change in texture or finish 14. Exposure to weather conditions where property is not normally left in the open
Principal property exclusions	1. Property in course of installation, construction, erection or demolition 2. Money (limited covered may be provided) 3. Jewellery, precious stones, furs, precious metals or bullion 4. Motor vehicles 5. Gardens, ornamental trees or shrubs, standing timber, crops. 6. Swimming pools and their surrounds 7. Roads, asphalt, curbing, and tunnels outside the insured site. 8. Electronic data

Business interruption/increased cost of working insurance

Insurance element	Cover features
Insured	Local Authority and any associated or subsidiary organisations
Scope of Cover	Loss of anticipated gross revenue during at least the minimum indemnity period arising from an interruption or interference in the operation of the council as a result of loss or damage covered under the council's material damage policy, including physical loss or damage which would be indemnifiable but for the application of any deductible; The additional expenditure necessarily and reasonably incurred for the purpose of avoiding or reducing the loss of gross revenue of the local authority which without such expenditure would have taken place, during the indemnity period; and The costs associated with collating and quantifying a consequential loss (business interruption) claim of any kind, being "claims preparation costs".
Sum insured	An amount sufficient to cover the sums the subject of the indemnity for the minimum indemnity period with sub-limits for additional expenditure and claim preparation costs.
Deductible/Excess	Can be up to 3 months' reduction of income, but 1 month is normal
Indemnity Period	Usually 12 or 24 months' reduction of income, can be up to 36 months (can also purchase short term losses, i.e. 3 or 6 months)
Period of insurance	One year, coinciding with the material damage policy
Territorial limits	Anywhere in New Zealand.
Common cover features and extensions (may be subject to sub-limits)	1. Losses due to prevention of access (including by action of Civil Authorities). 2. Losses arising from damage to utilities. 3. Severance and redundancy payments consequent on damage. 4. Damage to suppliers' premises. 5. Automatic reinstatement of sum insured after a claim. 6. Interruption of business by fumes, gases or toxic chemicals. 7. Claim may be paid in progress payments. 8. Subrogation waiver (see Section 5) for associated organisations and officers, consultants and staff
Principal exclusions	As per the associated Material Damage Policy

Liability Insurance

Riskpool is a local authority mutual liability trust fund with New Zealand and Australian membership. Civic Assurance provide fund and scheme management services. Riskpool supplies affordable professional indemnity and public liability insurance designed especially for local authorities. More can be gleaned from www.riskpool.org.nz.

Councils wishing to negotiate their own liability insurance will need to consider public liability and professional indemnity covers. The essentials of these are noted in the following tables.

1. Public Liability

Insurance element	Cover features
Insured	Local Authority and any associated or subsidiary organisations
Indemnity	All amounts that the Council shall become legally liable to pay as compensation in respect of personal injury or property damage occurring during the period of insurance and arising from the business of the Council.
Sum insured	An amount sufficient to cover any anticipated liability.
Deductible/Excess	As negotiated with the Insurer
Period of insurance	One year (note that injury or damage must occur within this year, irrespective of when the claim is brought against the Council)
Territorial limits	New Zealand.
Jurisdiction	Claims settled in accordance with the laws of New Zealand (claims brought, or judgements made, outside New Zealand not covered)
Common cover features and extensions (may be subject to sub-limits)	1. Insurer conducts defence and meets costs within sum insured 2. Costs of investigating and settling claims 3. False of wrongful eviction regarded as personal injury 4. Invasion of privacy regarded as personal injury 5. Punitive damages for personal injury (but not fines or penalties) 6. Liability for costs under Forest and Rural Fires Act 7. Expenses incurred for first aid at the time of an occurrence
Principal exclusions (note that many of these exclusions have exceptions and details)	Liability: 1. arising from “leaky buildings” 2. to staff during the course of their employment 3. for damage to property in the Council’s care, custody or control 4. for payments under the Accident Compensation Act 5. for loss of use caused by delay or performance failure 6. for breach of professional duty 7. arising solely from a contractual obligation 8. arising from use of aircraft, watercraft or motor vehicles 9. for Injury or damage caused by acts of war or terrorism, radiation or nuclear fuel or waste 10. for gradual discharge of toxic substances, fumes, acids or the like 11. for defamatory statements 12. arising from asbestos in any way 13. arising from litigation existing at commencement of the insurance 14. arising from circumstances of which the Council was aware at the commencement of the insurance

2. Professional Indemnity

Insurance element	Cover features
Insured	Local Authority and any associated or subsidiary organisations
Indemnity	All amounts that the Council shall become legally liable to pay as damages in respect of any negligent act, error or omission by Council staff or others acting on behalf of the Council
Sum insured	An amount sufficient to cover any anticipated liability.
Deductible/Excess	As negotiated with the Insurer
Period of insurance	One year (note that claim for damages must be made within this year, but the act itself could be any time after a retro-active date noted in the policy)
Territorial limits	New Zealand.
Jurisdiction	Claims settled in accordance with the laws of New Zealand (claims brought, or judgements made, outside New Zealand not covered)
Common cover features and extensions (may be subject to sub-limits)	1. Insurer conducts defence and meets costs within sum insured (note that a separate policy covering defence costs may be advisable) 2. Cover for former staff 3. Dishonesty of staff unbeknownst to the Council 4. Losses of Council due to staff infidelity 5. Automatic reinstatement of sum insured after a claim
Principal exclusions (note that many of these exclusions have exceptions and details)	Liability: 1. Arising from "leaky buildings" 2. for defamation (can be included at Council's option) 3. for death or bodily injury 4. brought about by loss or damage to documents (can be included at Council's option) 5. arising from use of land, buildings, aircraft, watercraft or motor vehicles 6. arising solely from a contractual obligation 7. resulting from acts of war or terrorism, radiation or nuclear fuel or waste 8. arising from joint ventures or partnerships 9. for breach of copyright, trademark or patent 10. arising from litigation existing at commencement of the insurance 11. arising from circumstances of which the Council was aware at the commencement of the insurance 12. from claims brought by the spouse or child against a relative staff member 13. arising from asbestos in any way

Contract Works Insurance

Insurance element	Cover features
Insured	Local Authority and any associated organisations involved in the contract works
Scope of Cover	1. All risks of loss or damage to the insured property unless specifically excluded. 2. Legal liability in connection with a project
Sum insured	For individual projects, the value of the construction specified in the contract; For annual covers, the maximum value of projects declared for coverage by periodic returns during the year. A separate limit will apply to the liability section
Deductible/Excess	As negotiated with the Insurer, for material damage and liability sections.
Period of insurance	Either the period of the project plus an agreed maintenance period or annual for insurance on a project declaration basis
Territorial limits	New Zealand.
Jurisdiction	Claims settled in accordance with the laws of New Zealand (claims brought, or judgements made, outside New Zealand not covered)
Common cover features and extensions (may be subject to sub-limits)	1. Cover for undamaged foundations, removal of debris, expediting repair or replacement 2. Mitigations expenses and professional fees incurred for reinstatement 3. Claim preparation costs 4. Inflation protection 5. Automatic reinstatement of sum insured 6. Legal defence costs 7. Pollution liability if caused by a sudden event 8. Asbestos but only if physically damaged by named causes 9. Liability arising from use of mobile plant and equipment, including cranes and goods on crane hooks 10. Liability arising from vibration or removal of support 11. Punitive or exemplary damages 12. Liability under the Forest and Rural Fires Act 13. Waiver of Insurer's subrogation rights
Principal exclusions (note that many of these exclusions have exceptions and details)	1. Defective design 2. Consequential losses 3. Corrosion or wear and tear 4. Aircraft, waterborne craft or equipment permanently mounted thereon 5. Disappearances or shortages 6. Money 7. Transits outside New Zealand 8. Breakdown of machinery or equipment 9. Acts of war or terrorism, radiation or nuclear fuel or waste 10. Loss of electronic data 11. Costs of seismic strengthening 12. Subsidence or settlement

Insurance element	Cover features
	Liability arising: 13. In connection with "leaky buildings" 14. From asbestos in any way 15. From death or injury of any staff or employees 16. From the use of motor vehicles, aircraft or marine vessels 17. Solely from a contractual obligation 18. From events more properly covered by Professional Indemnity insurance

Motor Vehicle Insurance

Insurance element	Cover features
Insured	Local Authority and any associated or subsidiary organisations
Scope of Cover	1. Comprehensive (i.e. covering own vehicle damage and liability) or 2. Third Party Only – liability for damage to other vehicles, or 3. Third Party + fire damage to, and theft of, own vehicles
Description of use	Cover applies only while vehicle is in use in the course of the business of the council or being used privately with the council's consent
Sum insured	Either the lesser of the market value of the vehicle and its sum insured as stated in the policy, or the value agreed at the outset of the policy
Deductible/Excess	As negotiated with the Insurer, for material damage and liability sections.
Period of insurance	One year
Common cover features and extensions (may be subject to sub-limits) applicable to comprehensive cover only	1. Cover for leased vehicles 2. Cover for staff vehicles in use for council business 3. Cover for substitute vehicle while own vehicle is being repaired 4. Cover for windscreen, sunroof and other glass damage without excess 5. Automatic adjustment for additions and deletions from vehicle fleet 6. Claim preparation costs 7. Cover for goods in transit by an insured vehicle 8. Expenses incurred in a hazardous substance emergency 9. Hire of replacement vehicle following theft 10. Mechanical breakdown of hoists 11. Cover for invalid usage without consent 12. Replacement of locks and keys damaged or duplicated 13. Liability cover while using a rental vehicle 14. Cover for salvage costs and temporary repairs 15. Cover for signwriting costs 16. Cover for lost or stolen trailers 17. Cover for damage caused by the weight of load 18. Cover for accessories and parts stored elsewhere 19. Cover for liability arising from towing a disabled vehicle 20. Cover for defence costs for driving offences 21. Cover for punitive or exemplary damages arising from bodily injury 22. Loss of use (for an additional premium) 23. Burning cost adjustment of premium in line with claims experience

Insurance element	Cover features
Principal exclusions (all apply to Comprehensive cover, but only exclusions 9 onwards apply to Third Party Only cover)	Insurance on own vehicles (under Comprehensive Cover): 1. Breakdown 2. Damage to tyres by application of brakes, or punctures 3. Modifications to the vehicle not notified to the Insurer 4. Defective design of the vehicle or existing defects 5. Loss of use (unless specifically included for an extra premium) 6. Depreciation, wear and tear, any gradually operating cause 7. Theft by a prospective purchaser 8. Confiscation of the vehicle under legal authority Liability (under Comprehensive or Third Party Only cover): 9. Arising from loading or unloading a vehicle 10. For the death of the driver or person in charge of the vehicle 11. For fines and penalties 12. When vehicle is not being used as such (e.g. as plant or equipment) 13. For own property of any description 14. For damage to property (including the road) caused by the weight of the vehicle Comprehensive (own damage) and Third Party (liability) Cover: 15. Costs recoverable from ACC 16. Failure to take a breath test following the accident 17. Deliberate damage 18. In breach of legal requirements regarding driving hours 19. Unlicensed or not complying with licence conditions 20. Driver under the influence of liquor or drugs 21. Liability arising solely from a contractual obligation 22. Vehicle overloaded or unsafe 23. Acts of war or terrorism, radiation or nuclear fuel or waste 24. Loss of electronic data

Employee Fraud

Insurance element	Cover features
Insured	Local Authority and any associated or subsidiary organisations
Scope of Cover	Indemnity for loss of money or goods caused by the dishonesty of an employee
Sum insured	A limit on any one employee, with a different amount for computer or funds transfer fraud, and another limit for all claims in any year
Deductible/Excess	As negotiated with the Insurer
Indemnity Period	Dishonesty committed during the period that the cover has been in place (including renewals) and discovered up to 12 months after termination of the insurance
Period of insurance	One year
Common cover features and extensions (may be subject to sub-limits)	1. Acts of former employees covered for up to 30 days 2. Cover for temporary staff 3. Money belonging to a social club covered
Principal exclusions	1. Interest or consequential losses 2. Employees of known dishonesty 3. Losses shown only by inventory count or financial analysis 4. Improperly gained salary, fees, bonuses or commissions

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