CENTRAL BEDFORDSHIRE COUNCIL

INSURANCE REVIEW

2009

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Heath Lambert Group

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Heath Lambert Group

INTRODUCTION

We are pleased to present our review on the Tenders received in respect of the renewal of the Authority's Insurance Program due to be effected at 1st April 2009.

The process was conducted under the Negotiated Procedure and appropriate notices placed in OJEU.

Six quotations for all or parts of the program were received from the following Insurers:-

Supplier 4
Supplier 5
Supplier 6
Supplier 1
Supplier 3
Supplier 2

Supplier 7 and Supplier 8 declined to offer quotations

The above insurers have all quoted in slightly different formats so we have attempted to standardise the quotations within this report to enable easier comparison. All insurers have extensive public sector experience and meet our financial criteria (Standard & Poors rating A or above). References can be provided if required.

With the combination of three Councils the previous Insurers have included a combination of all Insurers who have offered quotations. Our recommendation going forward is that this situation is unlikely to change and how we have arrived at this conclusion is fully detailed in the Report.

We are also including a commentary on the insurance market in general for your information.

We look forward to discussing the contents of this report with you in due course.

M. J. Knowles / S Knight
February 2009

INSURANCE MARKET COMMENTARY 2008 QUARTER 3

Market Overview

Rates have continued to reduce for most classes of insurance during 2008. The reason is simple – an absence of large claims. This continued profitability has inevitably forced the price of insurance lower although in some markets the rate of decline has begun to ease, but in other areas we have continued to secure reductions for our clients particularly for well run accounts.

Clients with good claims records have also benefited in the year to date from lower prices and in many cases wider cover too. This has been particularly true for property, casualty, motor fleet and transportation.

Even in markets where rates were beginning to level off, such as professional indemnity, clients could still wring benefits other than lower rates from underwriters eager for business. For example, in many cases, we could negotiate wider cover or lower deductibles. For this reason we have been able to recommend taking advantage of the long term agreements available to lock in current low prices.

Broadly speaking, we would have expected that the trends which have defined 2008 would remain in place for the remainder of the year and into 2009. However, the events that took place in the second half of September involving AIG could prove to be a seminal movement in dictating the shape and direction of the insurance market. Whilst the bail-out of AIG by the Federal Bank of New York has eased AIG's predicament we are monitoring developments closely and will be issuing an updated commentary later in October.

Property

Generally in 2008 we have seen a continuation of the accommodating stance being taken by insurers, with many clients continuing to obtain savings. In the majority of cases the anticipated realignment of rates by Insurers following the 2007 summer floods did not materialise. Similarly, we do not expect this year's flood losses to adversely effect rates, but those clients who suffered losses in 2007 and 2008 could see some restrictions in cover or deductible level.

Despite savings being obtained we have seen signs of a slow down in rate reductions. In particular, we have seen a hardening of insurers' stance towards the food industry, with reduced capacity, rating increases and reviews of applicable deductibles becoming the norm.

For the larger corporate and global placements insurers are continuing to offer two year agreements, although three year agreements are generally no longer available.

Terrorism has remained a general exclusion with the opportunities to buy back cover, via local Pool arrangements, still being available. Alternatives are available outside of Pool arrangements if a more bespoke solution has been required and competitive terms have been readily available.

A review of Pool Re costs and conditions is not envisaged in the immediate future.

Business Interruption

As with Property Damage insurance good information is at the heart of arranging appropriate business interruption (BI) cover, since the needs of a retailer, for example, will differ greatly from those of a manufacturer or hotel operator. The more a broker knows about a client's business, the better they can advise them on tailoring the correct BI package to meet their individual needs. Those can range from replacing key equipment and reinstating buildings, to obtaining planning permission for replacement premises.

The 2005 Buncefield oil storage depot fire showed that business interruption risks are not always very obvious. A number of nearby companies suffered no physical damage but were forced into receivership simply because they could not access their premises for several weeks.

The first step a business should take is to identify the true exposures their business faces. Employing the services of a risk management team to conduct a strategic risk management assessment can be valuable in identifying the scale of any exposures. Armed with this knowledge, a business can work with its broker to put the right risk management solutions in place and ensure the purchase of an appropriate BI programme. This can cost less than expected, since organisations sometimes buy more insurance than they need, giving the broker the opportunity to make savings by removing unnecessary cover.

Clients will benefit from having a fully documented Disaster Recovery Plan that has been tested to prove its worth.

Package products

In the UK, we have seen another common trend during soft markets, namely an increase in the availability of package products covering, for example, a combination of property, casualty and motor risks. (Please see the Casualty report for our views on package products). These programmes are often property-led and take advantage of spare capacity in other classes of business such as motor. The additional classes generally benefit from rate reductions.

Challenges

One sector facing a harder challenge is the food industry. The food processing industry suffered several big losses during 2007 and in early 2008. These included two losses near to £50 million each which were followed by a major fire in a Scottish meat processing plant in the first quarter of this year of at least £20 million. The number of insurers willing to write this sector is already limited, with insurers demanding very high standards of risk management. Before providing cover, insurers will examine in detail the premises and their construction, the manufacturing processes, the risk management regime and the health and safety record. Insurer findings will dictate involvement, rating and capacity on offer, but we expect a tightening of underwriting criteria with the potential for increases in premium and deductible sooner rather than later.

Any sectors with above average loss records, as well as individual organisations in a similar situation, can expect to come under pressure to improve their risk management. As usual, therefore, we urge all clients to follow best practice when it comes to risk mitigation. Even in a soft market, evidence that an organisation takes risk seriously will make a difference to the price it pays for insurance.

Overseas risks

Correct programme design is also becoming more important because of the growing reliance of many UK businesses on overseas suppliers. Sourcing components from abroad often generates cost savings, but it also adds to the potential vulnerability of the supply chain. In these situations, BI exposures are becoming more complex and so require more careful preparation.

Casualty

Capacity and rates

The first nine months of 2008 has seen further reductions available maintaining the trend from 2007.

Market competition has continued to be driven by an over-supply of capacity and insurers' drive for market share.

Those Clients with a focused approach to risk retention backed by sound risk management strategies have, in particular, continued to see reductions in pricing.

In certain business sectors and for clients with challenging loss experiences, we have seen a reduced number of insurers competing for "unprofitable" business. This approach began to emerge in the Employers' Liability market and clients are like to see a move by Insurers to increase pricing reflecting the increase in claims costs.

Pollution cover

"Bartoline" cover is now widely available from most insurers.

Corporate Manslaughter

Following the Corporate Manslaughter and Corporate Homicide Act coming into force on 6th April 2008, cover for defence costs is now widely available from most insurers.

Employers' liability

As stated above, any Clients with a challenging loss experience will see a reduction in insurers competing for unprofitable business. This is the first sign of a shift in the market cycle.

Insurers are now focusing on risk management services providing rehabilitation to injured Employees enabling a quicker return to work for the claimant.

Long Term Agreements

We have seen many clients purchasing long term policies to deliver clarity and certainty of pricing, however, we anticipate that there will be a reduction in both the number and duration of long term deals available.

Package products

In 2008 property insurers drove competition further in the soft market by promoting package products (see also Property report) which offer clients combined property and casualty covers. We have seen package concepts with premiums as high as £1,000,000 and more, and these have often offered the most cost-effective placing solution for clients in the SME and mid-market sectors.

Motor Fleet

Rates and capacity

There have been signs of insurers wanting to move rates upwards in recent months. Notwithstanding, competition remains strong. For a standard private car or goods vehicle fleet, there are 22 front-line insurers, with new starters expected.

We have seen composite insurers trying to correct rating on those accounts that are losing money with some insurers seeking increases of up to 70% in the last month as their "walk away" price. However, Lloyds remain very competitive on "distressed" type accounts as the motor syndicates experience reduced volumes of business arising from wholesale brokers.

In anticipation of a change in the market climate, a number of insurers are developing risk based products which are designed to give added value to the client. These include GPS, on line claims tracking, web-based risk management tools and cameras to record incidents.

Two year deals linked to loss ratio not exceeding 70% are being offered at level terms but three year deals are not currently being offered.

Directors' and officers' liability (D&O)

Directors' and officers' (D&O) liability has echoed the soft experience of most classes of business, with rate reductions achieved on most risks during 2007.

Due to changing market conditions in 2008, average reductions of around 10% have been seen during the year to date. Several factors are behind this gradual change of direction. Firstly, the absence of any new entrants eager to build books of business meant that the market was less fiercely competitive than it has been. Secondly, D&O is one of the first classes of insurance to have been affected by the US sub-prime mortgage crisis and the ensuing credit crunch.

Financial institutions buy very large D&O programmes and are likely to be vulnerable to claims from shareholders looking for compensation for falling share prices. Big claims will inevitably halt and could then reverse the downward pressure on rates, especially as the market touched a low-point in terms of risk pricing in mid-2007. Linked to the sub-prime problems are fears of an economic slowdown; an event which raises the spectre of yet more D&O claims.

These claims continue to be very slow moving and will pressurise the market through time. The problems currently affecting AIG, the largest underwriter of one D&O liability insurance, can only exacerbate the situation.

Legislation

In the UK, most polices already take account of the changes introduced by the new Companies Act, but clients should take note of two developments in particular. Firstly, groups other than shareholders can now bring derivative actions. D&O policy wordings should reflect this change and no longer be limited only to shareholders when referring to derivative actions. Secondly, policies should take account of the fact that directors are now personally liable for proposed acts under the definition of wrongful acts.

Overall, legislation in the UK remains business friendly compared with US law which tends to be more shareholder friendly. However, the new Companies Act does make it cheaper, easier and quicker for a wider range of people to sue UK directors through the company. Consequently, we expect to see an increase in legal actions over the next 12 months from the current low base.

The Corporate Manslaughter and Corporate Homicide Bill came into effect on 6 April 2008 and will require changes to D&O policies. Under the new legislation it became easier to investigate and sue large companies.

Cover

We are seeking to broaden the cover provided by D& O policies for the costs of investigation. This remains a major concern for all companies, since an investigation by an official body can be very expensive to defend.

Take-up of non-rescindable difference in conditions policies continues to grow among large companies. These policies were originally devised in Bermuda for the big pollution risks faced by oil majors. Several insurers have adapted the policy to cover other large companies in the event of innocent, negligent or wilful non-disclosure. The policies differ in how well they protect the underlying insurance, and Heath Lambert can advise on the most suitable one for individual clients.

Long term agreements

Although rates are unlikely to go lower, we see some opportunities for clients to lock into current low prices through long term agreements. These are currently limited by the insurance conditions imposed on D&O and restrictions on directors receiving benefits in kind. As a result, deals above eighteen months are rare and then usually for limits of no more than £75 million.

Clients can also take steps to minimise likely rate increases over the next year or two by reviewing their risk management processes and differentiating themselves from their peer group in the eyes of insurers. Focusing on effective corporate governance and ensuring that appropriate controls, checks and balances are in place at board level, will give underwriters considerable comfort.

As well as adhering to the correct processes, companies should also be able to justify all board level decisions with a reasonable business argument. If there is any doubt about corporate governance issues, our advice, in all cases, is to contact your outside counsel.

Professional Indemnity

Capacity & rates

The rate reductions enjoyed by the majority of professional indemnity (PI) clients in 2007 continued well into 2008 thanks largely to the increased competition provided by new capacity from Aspen and Sagicor and a greater appetite for PI business from AIG, Zurich, Mitsui and DUAL. For many professions rates have reached an unprecedentedly low level and this abundant capacity has resulted in a very soft PI market.

The third quarter of 2008 appears to have brought a change in Underwriting philosophy which has been driven by some large potential claims. It has also become apparent that some of the new entrants to the market previously mentioned have reached their underwriting targets for the year earlier than expected. The solicitors' renewal season has recently passed and rates seem to have levelled out for this business in general with some areas, particularly conveyancing, seeing key insurers withdrawing leading to significant rate increases as a result.

Generally speaking, rates in the PI market are now showing signs of levelling out and Underwriters are definitely being more selective. However, a large amount of capacity remains and Heath Lambert is continuing to test the market to identify changing appetites.

Cover

The improved coverage and additional benefits enjoyed in 2007, such as No Claims Bonuses and Long Term Agreements, continued to be available in to 2008. However, since September this year we have seen underwriters become very selective as to what they will underwrite and, whilst we have carried any Long Term Agreements for our larger clients into 2009, availability of these kinds of arrangements appears to be at an end.

This apparent "hardening" of the market is in the very early stages and we are monitoring closely whether the relaxation on exclusions that we saw in 2007 will continue.

We recognise the importance of continued dialogue with individual insurers about their rates and their appetite since certain professions, for which there has previously been healthy capacity and appetite (such as surveyors with high percentages of survey and valuation activities, environmental engineers and any kind of PI exposure relating to finance and the property market), may become increasingly difficult to place.

Concerns

With the recent uncertainty surrounding the strength of AIG and the turmoil in the banking industry our clients are showing an increasing interest in the reputation and security rating of insurers. As a result we are closely monitoring all insurers that we use as well as any changes introduced by the rating agencies.

BASIS OF RENEWAL QUOTATIONS

Customer's Needs

We have established/you have stated that your need is to protect:-

Property Damage

The assets of your business (buildings, machinery, plant equipment and stock) against physical loss or damage. You wanted to insure those assts for reinstatement or replacement cost with a reasonable level of self-insured excess.

Business Interruption

Against loss of Insurable Gross Revenue and/or Increased Cost of Working following loss or damage as insured under the Property Damage Cover.

Money

Against loss of or damage to business Money from the premises, employees homes or whilst in transit including personal assault benefits.

Employers' Liability

Against legal liability to pay damages, legal costs and expenses to employees for death, injury or disease arising out of and in the course of employment.

Public/Products Liability

Against legal liability for accidental bodily injury or disease (fatal or non fatal) to third parties or loss or damage to third party property arising out of business activities including goods or products sold, supplied or distributed by the insured.

Officials Indemnity

Members, Directors, Officers or Employees of the Authority against loss arising from any claim or claims made against them by reason of any wrongful act in the capacity of Member Officer or Employee of the Company

Motor

The authorities vehicles against accidental damage and third party liability.

Contract Works

The permanent works and the temporary works executed in performance of a contract against physical loss or damage.

Fidelity Guarantee

Against direct pecuniary losses sustained as a result of acts of Fraud or Dishonesty by your employees.

Personal Accident & Travel

Death and Disablement following accidental bodily injury to employees, members & pupils. Medical expenses, loss or damage to personal property, personal liability, cancellation, legal expenses and travel assistance in connection with overseas trips.

Computer

Computer and ancillary equipment against physical loss or damage.
Including Reinstatement of Computer Records and/or Increased Cost of Working arising from an insured event.

Engineering Inspection

Your legal obligation for statutory inspection of plant and issue of reports.

Information Forming the Basis of Renewal

Our understanding of your insurance requirements in relation to this renewal of your existing cover is based upon the information that you have provided to us as follows:-

Source	**Dated**
Renewal Information	Various dates October 2008
Underwriting Presentation	November 2008

and information provided during the Tender process by telephone conversation, email, letter and at meetings.

We have not taken account of any relevant existing insurances that you may have elsewhere.

Heath Lambert acts as an Insurance Broker, and provides consultancy services to our clients. We also act as a service provider to Insurers and other parties (such as reinsurers). In addition to client fees and/or brokerage payments we may receive remuneration by way of administrative fees or commissions for services provided to such parties. On request we will disclose our earnings.

YOUR DUTY OF DISCLOSURE

Your Insurers have assessed and accepted your risks on the basis of the information given to us by you. Should this information be inaccurate, incomplete or change you should inform us immediately so that Insurers may be advised. In addition, any alteration to your business description, activity(ies) or indeed of any aspect which may change the original risk as described by you should be advised to us immediately so that Insurers may in turn be advised of the alterations to enable policy terms to be altered in accordance with their requirements. If the foregoing are not advised to Insurers this could result in your being uninsured. This is more fully explained in the following paragraphs which outline your duty regarding the disclosure and accuracy of facts.

Insurance contracts in general are effected and renewed in accordance with the doctrine of utmost good faith. As such you are not only under the normal obligations for **material facts** disclosed to be true to the best of your knowledge but also an obligation to disclose all facts which are or ought to be within your knowledge which would influence an Insurer's judgement in accepting or declining your risk or in fixing the premium or terms and conditions of contract. These obligations arise independently of any specific request made by your Insurers or ourselves.

A breach of either of these obligations can result in the policy being avoided from inception or Insurers avoiding liability for an individual claim. In addition if any non-disclosure or misrepresentation is fraudulent Insurers may sue for damages as well as the policy being voided from inception. Virtually all policies now require that there should be full disclosure of changes in circumstances during currency of the policy and Insurers reserve the right to decline to insure in respect of those changed circumstances. It is essential therefore that any changed circumstances occurring after your acceptance of the quotation should be notified to us immediately to enable us to obtain Insurer's agreement to continue the policy. Equally if there are any changes which you contemplate making you should advise us accordingly.

If you are in doubt as to whether any matter should be advised as a **material fact** then you should inform us immediately.

TECHNICAL REVIEW

The main quotations have been provided by Supplier 1, Supplier 2, and Supplier 3 who have all quoted on a broadly similar basis including a Long Term Agreement of 3 years with an option to extend for a further two.

A combination of Insurers offers the most competitive option but this may not be clear at first glance.

In evaluating the quotations we have used the following criteria:-

Criteria	Score	Basis
Compliance	15	Ability to comply with the tender specification
Quality	30	Ability to provide quality of service and added value as is outlined in the tender-representing value for money
Price	30	Including premium, deductibles, aggregate and limit of indemnity
Financial	5	Standard and Poors Rating
Specific Knowledge	10	Insurer has insurance knowledge of the public sector market
Technical Capacity	5	Ability and Authority to write public sector classes of insurance
Other Services	5	Ability to provide additional services such as Risk Management, online claims handling

Under Financial the Standard & Poors ratings are:-

Supplier 1	A+
Supplier 2	AA-
Supplier 3	AA-

MATERIAL DAMAGE / BUSINESS INTERRUPTION

We have included Money, All Risks and Computer in this Category but not Contract Works.

The difficulty here is that the original quotations from the Main Insurers were all using differing Sums Insured. We have therefore asked all three Insurers to re quote using the following values:-

Housing	£452,591,412
General	£264,596,686
Education	£647,780,306
Commercial / Industrial	£ 32,575,831
Farms	£ Nil
All Risks	£ 5,419,864
Computer	£ 5,305,405

This has produced the following revised quotations:-

Supplier 1	£ 350,808
Supplier 2	£ 324,125
Supplier 3	£ 630,511

In addition there will be an Additional Premium for "Terrorism" which we have estimated at £75,000.

Clearly Supplier 3 are uncompetitive in this class so we can exclude them from further analysis.

As regards Supplier 1 and Supplier 2 whilst the premiums are broadly similar there are differences in cover which we would summarise as follows:-

Perils: Both Insurers have quoted for the full range of perils as per the Tender Document but have not at this stage provided an additional quotation to include subsidence as requested.

Loss Limits: Supplier 2 have a limit of £100m per building whereas Supplier 1 limit is per event. In addition Supplier 1 water damage cover is restricted as detailed in the Cover Summary.

Deductible: The amount requested was £100,000 increasing to £250,000 for Education Properties and Supplier 1 have quoted on this basis. Both Supplier 1 and Supplier 2 have offered to reduce the Education Deductible to £100,000.

Aggregate:	These are as follows:-	
	Supplier 1	£1,000,000 (originally £1,350,000. Also will reduce to £850,000 with £100,000 deductible)
	Supplier 2	£ 750,000
Risk Management:	Supplier 1	- 3 Loss Control Days.
	Supplier 2	- Annual Fund of £25,000 + Assistance with School Risk Ranking, Sponsorship, Software, Property Valuation + £200,000 following Education losses in excess of £1m

The Contract Works Cover should be placed with the Main Property Insurance therefore we have no comment at this stage.

Supplier 1 are the incumbent insurer here for BCC but Supplier 3 currently hold SBDC and Supplier 2 MBDC. Supplier 3 can be excluded as mentioned above leaving Supplier 1 and Supplier 2.

Both Insurers have offered credible quotations worthy of consideration. Supplier 2 is the most competitive being approximately £25,000 less than Supplier 1.

Both Insurers are offering Risk Management support with Supplier 2 being somewhat more extensive in this regard. Full details of their services have been given to you so they are not repeated here.

All Insurers have Loss Limits. Supplier 2 is per building but Supplier 1 and Supplier 3 are per event. Supplier 1 is further restricted in respect of water perils but none of this makes any real difference to the cover offered.

On balance we consider that Supplier 2 have the edge here.

LIABILITY

Supplier 2 had originally indicated an aggregate of £275,000 which was clearly incorrect. We have been back to them and they have revised the aggregate to £1,800,000 and also advised that the premium will increase to £230,000.

One of the key points with which you are concerned is claims handling and it is interesting to note that Supplier 2 are prepared to consider continuing using your existing Claims Handlers as would Supplier 3. Supplier 1, however, would insist on utilising their own services and if you were to proceed with them then you would have to change claims handlers.

Whilst your current handlers have provided details of their rates it is very difficult to provide a comparison as they will also charge for Disbursements which are an unknown quantity although they have indicated an hourly rate of £90 for site visits and investigations.

Using the following claim numbers we have arrived at the below figures:-

CLASS	NO.	Supplier 1	Existing	Supplier 3
PL (I)	110	£27,720	£21,450	
PL (D)	170	£19,550	£32,300	£54,990
OI / PI	2	£ 1,322	£ 750	
EL	9	£ 5,949	£ 3,375	£ 3,825
TOTAL		**£54,541**	**£57,875**	**£58,815**

Supplier 2 have also provide a quotation of £47,750 but have not advised how this is calculated.

Whilst Supplier 2 are offering the most competitive charge, we acknowledge the relationship with the existing handlers and taking into account the additional cost of change at this time remaining with the current arrangement is a reasonable decision.

Turning to cover there are a number of issues to take into account:-

1. Supplier 1 are offering 10 Loss Control Days which is equivalent to £11,398 and Supplier 3 5 Days. Supplier 2 have not allocated Risk Management over Property & Casualty but their proposals as highlighted under the Property Section and are quite extensive.
2. Supplier 2 cover in respect of Terrorism is limited whereas both Supplier 1 and Supplier 3 provide cover to the full Limit of Indemnity. Subsequently Supplier 2 have advised that they can provide up to £25,000,000 without additional premium.
3. Supplier 1 have included Pollution Legal Liability (Bartoline) up to £5,000,000 and Supplier 2 up to £1,000,000 which Supplier 3 are not doing at present.
4. Supplier 1, Supplier 2 and Supplier 3 include cover for Legionella (subject to survey).
5. Supplier 1 do not have a retro date on O1 or PI policies. Supplier 2 PI quotation is a separate policy with different deductibles and we need to discuss the implication of this with you.
6. We have not identified VA Schools at present but are aware that Supplier 2 normally make an additional charge for this.
7. Supplier 3 are offering a Low Claims Rebate.
8. Supplier 2 and Supplier 3 have confirmed that they have no difficulty with any of the medical procedures in the Tender subject to risk management provisos whereas Supplier 1 will have restrictions in cover.

There is no doubt that Supplier 1 provide the most comprehensive Casualty Program in the market at present. However Supplier 3 have the experience of dealing with both Bedfordshire County Council and South Bedfordshire Council.

Two of your main concerns are Medical Malpractice cover and continuity of claims handling. Both Supplier 2 and Supplier 3 are prepared to continue with your existing Claims Handlers although both have provided quotations for their own services. Taking into account the cost of change we understand that it is your preference to maintain the existing relationship which rules out Supplier 1 going forward as they will insist on using their own services.

Turning to Medical Malpractice Supplier 2 appear to be offering carte blanche cover. We have now queried this twice with Supplier 2 and must accept that they have no problems in providing this cover. Supplier 3 have stated that they will continue with a flexible approach and that cover will be provided in respect of all treatment procedures. However they have asked for reassurance that you have an embedded care policy effective across all areas of exposure and that this is being implemented. Also they would expect you to have an understanding of the invasive procedures carried by both the professional and non professional employees. To be fair, although they have not been quite so specific it is reasonable to expect that Supplier 2 will require something similar.

In comparing the premiums there are differences which can mostly be explained by the attitude to Terrorism as summarised below:-

	Supplier 1	**Supplier 3**	**Supplier 2**
Terrorism to Full Limit	£241,500	£224,446	N/Q
Terrorism to £25m			£234,813
Terrorism EL £5m, PL £24m	£226,000 *		
Terrorism to £5m		£197,409	£234,813

NB: All Supplier 3 quotes and Supplier 1 asterisked quote exclude Pollution (Bartoline)

Supplier 3 are including Hirers Liability at a £250 excess

Supplier 2 Professional Indemnity cover will be a separate policy with lower deductibles at a premium of £4,813 included in above.

Aggregates for all three Insurers are now below £2m as follows:-

Supplier 1 £1,950,000

Supplier 3 £1,840,000

Supplier 2 £1,800,000

Whichever way you look at this Supplier 3 is the most competitive option for the Council particularly in view of continuity and Low Claims Rebate.

Supplier 1 and Supplier 3 have concentrated Risk management Support on Liability whereas Supplier 2 are concentrating on Property.

MOTOR

Again all three Insurers have used different vehicle numbers. According to our records 271 is the current correct figure which means that Supplier 1 have provided the most accurate quotation. Unfortunately it is significantly more expensive than Supplier 2 and Supplier 3.

We have reassessed all quotations and the revised premiums are as follows:-

Supplier 1	£207,000
Supplier 2	£132,995
Supplier 3	£136,200

We would point out that none of these Insurers would be prepared to write the Motor Policy in isolation.

FIDELITY

The most competitive quotation is from Supplier 3 but we can advise that Supplier 1 offer the widest wording and cover compared to Supplier 2 and Supplier 3 particularly as it includes Third Party Computer Fraud. Supplier 2 premium has now reduced to £27,598.55 following clarification of the payroll but this does not alter the result. All Insurers will require a completed Proposal Form and again will probably not write this cover in isolation.

PERSONAL ACCIDENT / TRAVEL

Supplier 3 do not write this class of business but a quotation has been supplied by Supplier 4 who are the current Insurers for BCC and SBDC. Supplier 2 premium has now reduced to £12,841.49 following clarification of the payroll but whilst this makes their premium slightly more competitive our recommendation would be to remain with Supplier 4 as their cover is much wider and Supplier 2 travel premium is only a deposit. Also Supplier 4 provide the School Journey Insurance which has not been included in this exercise.

ENGINEERING

The most competitive option is from Supplier 5. However we are concerned at the disparity between the quotations for the insurance aspect although it appears that Supplier 5 are probably correct as we understand that BCC do not purchase this cover at present. We have therefore queried why Supplier 1 and Supplier 2 premiums are so high. Supplier 2 have realised an error in their calculations and reduced their price accordingly to that of Supplier 5 and agreed to undertake a full plant audit.

As Supplier 2 are the current provider for all three Authorities we consider the cost of change too great at this time and therefore recommend continuance with them.

PACKAGE

All Insurers have quoted on the basis that they will be appointed on all policies although in reality this applies only to Property and Casualty. Supplier 1 have offered a further £30,000 discount if they are appointed across the board but this would be unlikely as their premiums overall are too high for this to make a difference.

CONTRACT CERTAINTY

Under FSA Regulations we are obliged to ensure that all parties to the insurance “Contract” are “Certain” of the Terms and Conditions pertaining thereto prior to inception of the cover.

This report concentrates primarily on pricing and major conditions and does not imply contract certainty with any of the Insurers referred to.

Once we have received your instructions we will work with the selected Insurers to ensure that Contract Certainty is achieved by renewal date.

SUMMARY

Having taken into account all of the comments above we consider that you have three realistic options as follows:-

	Option 1 (Optimum)	**Option 2 (existing Insurers)**	**Option 3 (Supplier 2)**
Property	£324,125 (Supplier 2)	£350,808 (Supplier 1)	£324,125 (Supplier 2)
Contractors All Risks	£ 7,002 (Supplier 2)	£ 9,267 (Supplier 1)	£ 7,002 (Supplier 2)
Terrorism	£ 75,000 (Supplier 2)	£ 75,000 (Estimate)	£ 75,000
Liability	£197,409 (Supplier 3)	£197,409 (Supplier 3)	£234,813 (Supplier 2)
Claims Handling	£ 57,875	£ 57,875	£ 57,875
Motor	£132,995 (Supplier 2)	£136,200 (Supplier 3)	£132,995 (Supplier 2)
Fidelity	£ 15,904 (Supplier 3)	£ 15,904 (Supplier 3)	£ 27,598 (Supplier 2)
Personal Accident / Travel	£ 13,265 (Supplier 4)	£ 13,265 (Supplier 4)	£ 13,265 (Supplier 4)
Engineering	£ 31,305 (Supplier 2)	£ 31,305 (Supplier 2)	£ 31,305 (Supplier 2)
TOTAL	**£854,880**	**£887,033**	**£903,978**
+ Insurance premium Tax at 5%	£ 38,285	£ 39,893	£ 40,740
	£893,165	**£926,926**	**£944,718**

Whilst any one of the above options are credible we recommend Option 1 as this combines continuity on the Liability and Engineering programs where there will be a cost of change and significant support for Risk Management under the property program

We have used the lowest premium on liability provided by Supplier 3 pending your instructions but even if Supplier 3 highest premium is used it would not change the result.

We have asked each Insurer of the effect on the premium if they are only awarded a proportion of the contract and those in Option 1 have now confirmed that their premiums will stand as quoted.

We need to discuss this with you further in order to assist you in arriving at a decision. You need also to remember that there are other policies to be considered which were not part of the Tender so the above figures are not the final total premiums. In addition there may be changes to values which may alter premiums as the extent of Central Bedfordshire Council becomes clearer.