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Insurance Renewal 2023/24

For decision: For noting:

Reason for inclusion in closed board meeting session	
1. Please state why this report is being considered in the closed board meeting as opposed to the open board meeting. Please refer to the 'reasons for confidentiality' and provide a direct reference to one of these reasons.	To protect confidentiality
2. Please provide an estimated date for release of this report.	30 July 2023

Te tūtohunga / Recommendation

That the Auckland Transport Board (board):

- a) Approve the insurance renewal at existing loss limits and deductible levels with the exception of:
 - i. The Above Ground Material Damage and Rolling Stock policies where the deductible is proposed to be increased from the current \$1 million to \$2.5 million.
- b) Delegate approval of final placement of insurance policies to the Chief Executive on the basis that final pricing is no more than 10% greater than Aon's high level pricing estimate of \$3,259,000.

Te whakarāpopototanga matua / Executive summary

1. The insurance programme is renewed annually on 30 June of each year. Auckland Transport (AT) is working with the Auckland Council Group (AC Group) to deliver the 2023/24 renewal process.
2. As a result of a number of impacts in both the local and overseas markets the insurers have not been able to provide indicative pricing as of yet. Firm pricing will be received from insurers in late June.
3. Aon's initial discussions with the market suggest the anticipated AT insurance premiums at the time of writing this report will be circa \$3,259,000 (excluding premium savings from proposed Rolling Stock policy changes), an increase of \$701,680 (27%) from last year.

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4. As part of the insurance renewal we are proposing to maintain existing loss limits and deductible levels with the exception of the Above Ground Material Damage and Rolling Stock policies where we are proposing to increase the deductible from the current \$1 million to \$2.5 million. The history of Claims supports the higher deductible with no material claims to date.
- Aon and the Auckland Council Self Insurance Fund (SIF) have indicated the proposed change in the Above Ground Material Damage policy deductible would result in circa \$41,000 (3.4% on a like for like basis) lower premium cost to AT for which will be confirmed when we receive firm pricing from the market.
 - We are still awaiting the expected premium savings on the Rolling Stock policy and will provide a verbal update at the board meeting.

Ngā tuhinga ō mua / Previous deliberations

Date	Report Title	Key Outcomes
9 May 2023 Finance & Assurance Committee (committee)	Insurance Renewal 2023/24	An update on the insurance renewal process and insurance market with high level pricing and potential actions indications was provided to the committee.

Te horopaki me te tīaroaro rautaki / Context and strategic alignment

- AT holds a variety of insurance policies to manage financial exposures relating to damage or loss of assets and liabilities arising from third party claims and breaches of statutory obligations.
- AT's insurance policies, apart from rolling stock, cyber and Directors & Officers (which are specific to AT) are part of the wider AC Group policies.
- Most assessments in determining an insurance position are therefore completed for the AC Group rather than an AT specific level. Levels of cover can therefore be described as conservative from AT's perspective for single site events. It is important however, that the levels of cover are sufficient for scenarios that could impact multiple sites.

Ngā matapakinga me ngā tātaritanga / Discussion and analysis**Background**

- The insurance programme is renewed annually on 30 June of each year. AT is working with the AC Group to deliver the 2023/24 renewal process.

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9. Last year Auckland Council (AC) established a SIF which steps in as insurer or the first layer of insurance on relevant policies up to the first \$10 million with the external insurance market covering any loss above this where relevant.
10. AT can elect to keep their current levels of deductibles paying a 'market premium' for this to the SIF or look to increase the levels of their deductibles to higher levels, achieving premium savings, up to a maximum level of \$10 million being the SIF level of cover.
11. The following policies are not part of the SIF:
 - a) Travel.
 - b) Motor Vehicle.
 - c) Director & Officers Liability.
 - d) Contract Works.

Insurance Market Update

12. The convergence of geopolitical and macroeconomic shocks – war in Europe, fractured energy markets, 40-year high inflation, interest rate hikes, depleted capital, as well as the second most expensive natural disaster ever (Hurricane Ian), has introduced significant volatility into the insurance market and premiums have increased significantly.
13. The local market is also hardening with reduced capacity following increased reinsurance costs and inflation pressures. As a result of this and increased claims costs, AIG have indicated that they will be looking for a significant increase in the premium for the Above Ground Material Damage policy placement while Zurich has confirmed that they will be withdrawing from the AC Group's above ground coverage.
14. With reduced capacity within the local markets, alternative cover will have to be obtained from overseas markets such as London, which are historically more expensive but less volatile over time.
15. The two recent significant weather-related events that impacted Auckland caused significant damage to AC Group assets. In terms of insured assets there was minimal impact on AT, with most of the damage being to roads etc which are not insured. But other Council Controlled Organisations (CCOs) had significant damage to insured assets. It is expected there will be a significant insurance claim under the AC Group insurance policies that will impact the 2023/24 insurance renewal negotiations and premium levels.
16. The AC Group currently enjoys extremely low property rates in the context of New Zealand and other markets so the increases discussed above will be to a very low starting premium level.
17. Cyber (especially ransomware) is also a key focus of insurers and is currently one of the most strained class of insurance business.

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18. AT has \$26.7 billion of fixed assets. Insurance coverage is currently placed for property damage and business interruption to our public transport, parking, and miscellaneous assets (\$2.6 billion). However, the majority of our asset base (\$23.8 billion) is infrastructure assets of roads, footpaths, cycleways, and land that these infrastructure assets are built on.

Above Ground Material Damage and Business Interruption Insurance

19. The major groups of assets covered under the current AC Group's property damage and business interruption policy include:

- a) Train stations and depots, bus stations, interchanges, and wharf structures.
- b) Off-street carparks and associated plant and contents.
- c) Lease hold improvements, fixtures & fittings, and office equipment.

20. The current property damage and business interruption policy insures the assets at replacement cost, it has an AC Group wide loss limit of \$1 billion, \$450 million for fire and \$20 million for terrorism. The current deductible is \$1 million.

21. The first \$10 million of risk is covered by the AC's SIF with the external insurance market covering any losses above this up to the loss limits.

22. We are proposing to maintain our existing loss limits but increase the deductible to \$2.5 million. Claims history and previous loss modelling undertaken for the AC Group support the higher deductible. Aon and the SIF have indicated this move would result in circa \$41,000 (3.4% on like for like basis) lower premium cost to AT which will be confirmed when we receive firm pricing from the market.

23. The business interruption element of the policy provides cover for loss of revenue, additional costs of operations and claim preparation costs up to declared values for Britomart Station rail access, ferry activity revenue and car parking building revenue.

Rolling Stock

24. AT has a rolling stock insurance policy that covers the 72 Electrical Multiple Units (EMUs) and the remaining Diesel Multiple Units providing train services in Auckland. The policy currently has a loss limit of \$50 million with a deductible of \$1 million.

25. As part of this renewal we are proposing to increase the deductible to \$2.5 million. Claims history and previous loss modelling undertaken for the AC Group support the higher deductible. We are still awaiting Aon and the SIF's estimated premium savings and will provide a verbal update at the board meeting.

26. The first \$10 million of risk is covered by the AC's SIF with the external insurance market covering any losses above this up to the loss limits.

27. The Wiri Depot has the greatest concentration of rolling stock with up to 31 EMUs stabled overnight or in the depot for maintenance, Aon have completed a number of loss assessments on the Wiri site for natural disasters and impact by aircraft. The impact of an aircraft produced the largest financial exposure but it is a very remote probability with a \$50 million event occurring at a frequency less than 1 in 1.3 million years. The fire

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exposure at the most extreme event is approximately \$30 million. With the additional tranche of EMUs currently under production AT will need to review proposed stabling arrangements and any impacts on potential maximum probable loss as part of the 2024/25 renewal process.

Other Asset Based Cover

28. AT also has an umbrella contract works insurance policy for projects under \$25 million and a motor vehicle insurance policy that covers the five low emission buses AT owns (noting that fleet motor vehicles are managed and covered by AC).
29. We are proposing to maintain the existing loss limits and deductibles.
30. These policies will continue to be wholly placed with an external insurer.

Current Liability Insurance Coverage

31. AT currently has a number of liability based insurance policies in place, the two major policies being:
 - a) Public Liability & Professional Indemnity.
 - b) Directors & Officers Liability.

Public Liability & Professional Indemnity

32. This insurance is part of the wider AC Group policy and is made up of professional indemnity and public liability insurances which cover third party financial loss arising from professional services and third party property damage/injury arising from AT's business activities.
33. There is a \$200 million loss limit with a current deductible of \$1 million.
34. The first \$10 million of risk is covered by AC's SIF with the external insurance market covering any losses above this up to the loss limits.

Directors & Officers Liability Insurance

35. AT has its own Directors & Officers liability insurance policy which provides indemnity for Directors and Officers of AT for claims of a 'wrongful act' and reimburses costs for indemnity legally extended by AT to its Directors and Officers.
36. The policy has a loss limit of \$50 million for any one loss and in aggregate and \$10 million in respect of Section 9 defence costs. It has no deductible for Directors & Officers liability and a \$5,000 deductible for defence costs.
37. The policy has a standard 'Shareholders Exclusion' clause meaning the policy will not cover any action brought by AC against AT or its Directors.
38. We are proposing to maintain the existing loss limits and deductibles.
39. This policy is not part of AC's SIF with all cover externally sourced.

CONFIDENTIAL**Other Liability Based Cover**

40. AT has a number of smaller liability based insurance policies as part of the wider AC Group cover. These include employers' liability, environmental liability, statutory liability, Marine Liability (harbour master), airport operators and travel.
41. AT also has an AT specific cyber policy covering cost associated with responding to and recovering from a cyber-intrusion.
42. We are proposing to maintain the existing loss limits and deductibles for these policies.
43. Most of these policies will be managed within the SIF and will maintain maximum loss limits of between \$5 million to \$10 million.
44. The Marine Liability policy will maintain its \$50 million maximum loss limit and AC will utilise the SIF to cover losses up to \$10 million with the external insurers covering the exposure above this.
45. The travel policy will continue to be wholly placed with an external insurer.

Indicative Renewal Pricing

46. At this stage in the insurance renewal process insurers have often been able to provide indicative pricing which we have incorporated into the board paper. However, a number of impacts this year in both the local and overseas markets have meant the insurers have not yet been able to provide indicative pricing. Firm pricing will be received from insurers late June 2023.
47. Aon's initial discussions with the market suggest the anticipated AT insurance premiums at the time of writing this report will be circa \$3,259,000, an increase of \$701,680 (27%) from last year. This excludes premium savings from proposed Rolling Stock policy changes which were not available at the time of writing. A verbal update will be provided at the board meeting. The increase is attributable to:
 - a) Higher premium rates particularly for Above Ground Property Material Damage and Contract works premiums.
 - b) Increased asset values both in terms of revaluations of existing assets and new assets brought into operation.
48. Attachment 1 has more details on the individual insurance policies, their coverage, the actual 2022/23 premium and Aon's estimated 2023/24 premium levels.

Ngā tūraru matua / Key risks and mitigations

49. The insurance strategy and associated annual insurance renewal is linked with AT's wider risk management. There is a possible risk of either under or over insurance due to the continuously evolving operating environment.
50. High level market indications received have highlighted a risk around the level of 2023/24 budgeted premiums and any increase will need to be minimised as part of the renewal process and negotiations.

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51. There are risks associated with the creation of a SIF. However, these have been carefully examined by AC treasury, tax and technical teams to understand their respective implications, including, legal, financial, regulatory, tax and audit.

Ngā ritenga-ā-pūtea me ngā rauemi / Financial and resource impacts

52. The placement of the annual insurance programme has a financial cost to AT. In preparing the draft 2023/24 budget we allowed \$2.9 million for premiums and associated levies. The market has since hardened considerably and if the signalled levels of increase crystallise the final 2023/24 premiums could be up to \$0.4 million higher on a like for like basis.

53. We have sought to mitigate this higher cost by increasing the deductible, within acceptable risk tolerances, on the two major policies (Above Ground Property and Rolling Stock) from the current level of \$1 million to \$2.5 million. We believe a \$2.5m deductible on these policies is commensurate with an entity of AT's size and past claims history.

Ngā whaiwhakaaro ō te taiao me te panonitanga o te āhuarangi / Environment and climate change considerations

54. There are no direct climate change implications arising from this report. However, insurers are continuing to reassess the risks associated with climate change which may have impacts on future cover.

Ngā whakaaweawe me ngā whakaaro / Impacts and perspectives**Mana whenua**

55. The insurance strategy and on-going placement of insurance for the AC Group is a region wide issue. There has been no consultation undertaken directly with external stakeholders.

Ngā mema pōti / Elected members

56. Councillors have endorsed the AC Group's insurance strategy including the establishment a SIF for the material insurance policies.

Ngā rōpū kei raro i te Kaunihera / CCOs

57. AT are members of the AC Insurance Leadership Group and Insurance Management Steering Group, which collaboratively manage the AC Group's insurance programme and renewal processes.

Ngā kiritaki / Customers

58. There has been no consultation undertaken directly with customers.

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Ngā whaiwhakaaro haumarū me ngā whaiwhakaaro hauora / Health, safety and wellbeing considerations

59. Nothing directly relevant to this paper.

Ā muri ake nei / Next steps

60. Final pricing is expected to be received from insurers in late June 2023.

61. Once final pricing is received, the final insurance placement will be approved by the Chief Executive subject to board approved delegation.

Ngā whakapiringa / Attachments

Attachment number	Description
1	Details of Insurance Policies and Coverage

Te pou whenua tuhinga / Document ownership

Submitted by	Grant Smith Financial Planning & Performance Manager	
	David Bardsley Group Manager, Finance	
Recommended by	Mark Laing Executive General Manager, Finance	
Approved for submission	Mark Laing Acting Chief Executive	

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ATTACHMENT 1

Details of Insurance Policies and Coverage

Benchmark – Other Local Authority and Corporates	AT Policy Commentary	AT 2023/24 Insurance Coverage & Deductibles	Actual Premium 2022 / 2023	Aon Estimate Premium 2023 / 2024En3	Increase / (Decrease)
Property Damage and Business Interruption					
Key policy within insurance portfolio of organisations as it provides financial security over assets. Generally, the policy is structured to reflect loss expectancy and organisation's financial ability to tolerance risk.	Insurance is part of the wider Council Group policy covering its above ground point assets likes of buildings, shelters, stations, car park, wharf structures etc. and contents including resultant loss of revenue and additional cost to maintain operations. Policy excludes roads, culverts, bridges (unless specifically insured) Loss of revenue is covered for Ferry operations, car parking, Train Services (loss limit) & at Britomart. Noting claims up to \$10m will be covered by the SIF.	Limit Loss Limit: \$1b Fire Limit: \$455m Terrorism Limit: \$20m Deductible \$2.5m any one event (\$1.0m in 2022/23)	\$781,262 FSL: \$78,794	\$1,160,000 FSL: \$84,359	\$378,738 FSL: \$5,565
Rolling Stock					
Asset protection is high priority for Councils with continual pressure to minimise rate increases. Whilst probability of loss is low, the financial consequence of an event is generally high	This is an AT specific policy covering loss or damage to trains and associated equipment. The policy is designed with a loss limit (based on accumulative risk) and large deductible to manage premiums, thereby covering catastrophic risk. Noting claims up to \$10m will be covered by the SIF	Loss Limit \$50m Deductible \$2.5m any one event (\$1.0m in 2022/23). <i>Estimated savings to be confirmed.</i>	\$892,859 FSL: \$53,000	\$1,032,000 FSL: \$53,000	\$139,141
Motor Vehicle					
This insurance is generally a dollar swap between the Insured and Insurer. Premiums paid are reflective of claims cost plus % for Insurer's admin and profit margin. Large organisations tend to either carry the maximum deductible for own damage i.e. \$10,000 (in order to remain within the 'knock for knock' arrangement) or self-insure this risk, with arrangements to either manage losses in-house or outsource in an effort to reduce overall cost. Investment in fleet risk mitigation and driver safety management systems play a vital role in reducing the number of incidents which in turn reflects on premium reduction.	Insurance is part of the wider Council Group policy covering own damage and third-party liability. Policy provides cover for the five declared buses.	Limits Market Value of the Insured Vehicle Third Party Liability Property Damage: \$20m Deductible \$10,000 own damage Nil for Third party	\$40,629 FSL: \$1,310	46,200 FSL: \$1,310	\$5,570
Annual Contract Works					
Infrastructural organisations with core business activity of continual upgrades and network expansion, choose to place Principal arranged Contract Works insurance to manage cost, cover consistency & certainty across its projects for claims management control. This practice is widely acceptable to the construction industry.	Insurance is part of a wider Council Group policy which provides joint cover for its contractors and subcontractors for damage to works. Cover attaches to all AT projects which are less than \$25m including larger projects which have separable portions less than \$25m.	Project limit \$25m Deductible Earthquake – for projects up to \$6.5m: 1% of completed works per site at time of loss, minimum of \$10,000 whichever is greater. For projects greater than \$6.5m: 1% of completed works per site at time of loss, minimum of \$25,000 whichever is greater. In respect of other losses: For projects up to \$10m - \$10,000 For projects greater than \$10m - \$25,000	\$270,727 FSL: \$10,331	\$393,000 FSL: \$12,331	\$122,273 FSL: \$2,000
Public Liability (PL) & Professional Indemnity (PI)					
These are key insurances organisations hold to protect themselves from potential third-party claims arising from business activities. Levels of cover are primarily dependent on the occupation, territorial authority and levels of professional advice/service provided, along with consideration of how risk is transferred / managed within business contracts.	This insurance is part of the wider Council Group policy and is made up of Professional Indemnity and Public Liability insurances which covers third party financial loss arising from professional services and third-party property damage /injury arising from AT's business activities respectively. The limits are comparable to levels of cover carried by Australian Local Government. Noting claims up to \$10m will be covered by the SIF.	Limit of cover \$200m any one claim /occurrence aggregated in respect to Products and PI. (combination of Primary and excess Layer policies) \$15m Defence Costs cover Deductible \$1.0m any one occurrence/ claim	\$108,312	\$123,000	\$14,688



AT Board Meeting 30 May 2023 | Closed Session - Insurance Renewal

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Benchmark – Other Local Authority and Corporates	AT Policy Commentary	AT 2023/24 Insurance Coverage & Deductibles	Actual Premium 2022 / 2023	Aon Estimate Premium 2023 / 2024En3	Increase / (Decrease)
Overseas Travel					
Common policy across organisations particularly as provides level of security for organisation and individuals when on travel with access to international providers in case of emergency.	Insurance is part of the wider Council Group policy covering additional cost associated with a number of contingencies i.e. medical, personal accident, transportation delay/cancellation, loss of baggage, personal liability, and unforeseen events etc.	Various Limits of cover for different contingencies Deductibles range from 0-\$250	\$525	\$1,800	\$1,275
Employers Liability					
This policy is unique to the NZ environment due to the ACC setup. Whilst most organisations in NZ carry a small limit of cover, the small premium structure is evident of the low claims frequency experienced against this policy.	This insurance is part of the wider Council Group policy and covers AT's legal liability arising from employee's sustaining personal injury (which extends to mental stress) in the course of work that is not covered by the Accident Rehabilitation and Compensation Insurance Act 1992 (ACC). The very nature of the ACC setup in NZ has meant that cases of such claims against employers is very remote due to the broad scope of benefits within ACC. 100% to be covered by the SIF	Limit of Liability \$5m, with \$5m Section 9 Defence Costs Deductible \$10,000 any one claim	\$2,072	\$2,200	\$128
Environmental Liability					
Despite comprehensive risk management, events may still occur that result in pollution/contamination. It is estimated that 350 councils across New Zealand and Australia purchase this policy. Often, they insure only a portion of their risk, such as only their landfills. There are a number of pollution case studies within the government sector with large cost of clean-up and claims from third parties.	This insurance is part of the wider Council Group policy (except Watercare) covering first and third-party pollution clean-up and liability. Benchmarked against other Australian utilities the current \$10m is comparable. 100% to be covered by the SIF	Limit of Liability \$2m any one loss and in the aggregate Deductible \$100,000 any one claim	\$28,212	\$31,000	\$2,789
Statutory Liability					
Due to the high-level of regulatory compliance in NZ, all large corporates maintain this insurance within their portfolio. Limits of cover generally range from \$2m - \$5m, dictated by potential cost of defence rather than cost of penalty.	This insurance is part of the wider Council Group policy covering legal liability for fines/penalties and reparation payable due to breach of Statutes. With increasing regulatory compliance and greater enforcement of fines and penalties, it is evident that the AT needs to retain this insurance. 100% to be covered by the SIF	Limit of Liability \$5m for loss any one claim and in the aggregate \$5m for Defence Cost- any one claim and in the aggregate Deductible \$500,000 any one claim	\$4,992	\$5,500	\$508
Cyber					
Cyber purchased last year and remains rated as a top five global risk facing organisations.	This is an AT specific policy covering cost associated with responding to and recovering from a cyber-intrusion. 100% to be covered by the SIF	Limit of Liability \$5m any one loss and in the aggregate Deductible \$1m any one claim	\$146,000	\$164,000	\$18,000
Directors & Officers Liability					
An important policy for board members thus carried by all entities that are required to provide indemnity to their directors. Limits of cover vary dependent on industry segment.	This is a specific policy for AT's board as it provides indemnity for Directors & Officers of AT and reimburses for indemnity legally extended by AT to its Directors & Officers, as a consequence of a claim made against any of them alleging 'wrongful act'. The policy provides two forms of protection – a) indemnity to directors & officers for claims of a 'wrongful act', this section has 'nil' excess; b) it reimburses AT where the organisation is legally entitled to give an indemnity to its directors and officers for their 'wrongful acts'. Having given the indemnity to the director or officer, the organisation looks to this policy for reimbursement of amount paid. This reimbursement section is subject to the policy excess.	Limit of Liability \$50m any one loss and in the aggregate \$10m in respect to Section 9 Defence Costs Deductible \$nil any one claim – D&O \$5,000 any one claim – Defence Costs	115,464	\$128,000	\$12,537



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Benchmark – Other Local Authority and Corporates	AT Policy Commentary	AT 2023/24 Insurance Coverage & Deductibles	Actual Premium 2022 / 2023	Aon Estimate Premium 2023 / 2024En3	Increase / (Decrease)
Marine Hull & Protection					
Policy maintained by Hull owners particularly due to the third-party risk.	This insurance is part of the wider Council Group policy covering damage to hulls and third-party liability. 100% to be covered by the SIF	Cover limits Declared Values: Deductible \$1,000	\$18,022	\$16,000	(\$2,023)
Marine Liabilities Harbourmaster					
Group of policies that are specifically tailored to the property ownership / activities of AT and authority delegated to the harbour master.	Covers legal liability for property damage and bodily injury to third parties including cost associated with removal of wreck posing hazard to navigation. Noting claims up to \$10m will be covered by the SIF	Limit of Liability \$50m Deductible \$100,000 per claim	\$4,808	\$5,300	\$492
SUB-TOTAL			\$2,413,885	\$3,108,000	\$694,115
Fire Service Levy			\$143,435	\$151,000	\$7,565
TOTAL PREMIUMS (EXC GST)			\$2,557,320	\$3,259,000	\$701,680

