

Appendix 1

Summary of observations

Notice of Proposal (11th September 2023) - Entering into a Qualifying Long Term Agreement – Buildings Insurance

18 October 2023

The Council received ten observations in total, regarding the **Notice of Proposal** served for the Buildings Insurance.

One Observation – Does the premium includes management fee and what does “make a written observation” means?

Response - The insurance premium amounts indicated in the notice do not include management fees. To provide feedback on the proposal.

Four Observations – Observations were made regarding the cost increase.

Responses – The Council advised that the increase of premium costs is due to many factors including increasing claim costs, the effects of more frequent extreme weather, including as storms, floods, and fires, have also had an influence on the insurance industry nationally. Because of this, there are now fewer carriers to pick from as many insurers have left the market. Consequently, premiums and excess have increased in price, and some councils have even had trouble finding any insurance carriers at all. As a result, there are fewer providers willing to quote, and those who are willing to quote face much higher premiums and excess.

Unfortunately, the Council has no say in the matter. It is also tied to the insurance market hardening, which means that not only are costs rising, but some insurers are less willing to take on certain risks.

Three Observations - were made as to why accidental damage to sub-let properties is not covered under this policy.

Response – The Council requested quotes for accidental damage cover for all Leasehold tenure under this agreement. However, both bidders to the tender excluded accidental damage for sub-let properties in their bids.

The current market is in a hardened position, and when combined with the already limited general market availability of accidental damage, underwriting becomes extremely problematic in terms of applying terms with any accuracy, as the exposure is unclear. Because of the current market situation, insurers have less desire, and it is ultimately a seller's market, therefore coverage of additional coverage options is limited. Albeit, if and when the market shifts, there will undoubtedly be greater room to negotiate. Which we will, of course, discuss with our insurance provider.

Any accidental damage caused internally to your property is not covered under the policy and will be the responsibility of the leaseholder.

One leaseholder enquired about Rebuild cost is too low, if the premium includes VAT and if Building Cost Indexation be applied to the annual premiums and how frequently will a rebuilding cost valuation be carried out?

Response

The Council advised to arrange for the flat to be surveyed and valued for insurance purposes by a Royal Institute of Chartered Surveyors (RICS) qualified surveyor.

There is no VAT charge on insurance premium.

Annual indexation is applied to building costs, and this is reflected on your annual service charge bill. The valuation is done on an as-needed basis.

Another leaseholder enquired what does the policy cover under this agreement and how can assure value for money for leaseholders given two bids received?

Response - The insurance policy will cover the full reinstatement value against destruction or damage by fire, tempest, flood, subsidence, and other risks against which it is normal practice to insure.

The buildings insurance cover is against a range of perils that could affect the building, please see below. As mentioned previously, Accidental Damage is not covered for sub-let properties.

- Fire Smoke, lightning, explosion or earthquake
- Storm, wind or flood.
- Subsidence heave or landslip
- Escape of water or oil from fixed systems
- Riot and civil commotion
- Malicious damage
- Theft or attempted theft
- Impact
- Falling trees or aerials
- Accidental damage – Not Covered for sub-let properties
- Property Owners Liability
- Terrorism

Response to point about Value for money - The Council advised that the residential leasehold buildings insurance market for local government risks has changed dramatically in recent years. The current insurance industry is exceedingly difficult and demanding.

Local government leasehold insurance is a specialised sector with few providers. To choose a new insurance provider, the Council used an 'Open Tender' mechanism to execute a legally compliant procurement process. This means that the contract was available to as many insurance carriers as possible, with any supplier capable of providing coverage able to submit a proposal.