

7 Insurance

Summary

- CCC is insured by LAPP, a company that is owned by councils and provided them with insurance. LAPP did not have a lot of money itself so it was only ever going to be able to pay CCC what it received from its own reinsurers.
- CCC's insurance was arranged by a broker and the amount of its insurance was supported by valuations. CCC does not believe the terms of its insurance are what it understood but this is irrelevant now to the financial outcome because it can only claim what the policies allow.
- The TYP assumed \$1 billion would be recovered from insurance, of which \$356 million has already been received. If CCC gets less than \$1 billion in total, it will have to pay more for the rebuild than it budgeted.
- CCC's insurance position is very complicated. There are many issues that need to be resolved:
 - Some relate to the amount CCC can claim. Some assets are not insured, some are insured for too little and CCC and the insurers disagree about the amount that should be paid for some of the large assets.
 - Some relate to the amount LAPP can pay. LAPP and its reinsurers are arguing about what has to be paid under LAPP's own insurance cover.
- CCC's insurance position remains a very big financial risk for CCC.
- It is most likely CCC will receive less than the \$1 billion it estimated. It would not be sensible for us to speculate about how much CCC will be paid but all these issues need to be resolved before CCC will know how much money it has.
- Given the importance of the insurance position to the rebuild, we advised CCC that it would be sensible to appoint people with appropriate experience to take control of and oversee the insurance process. We understand this is happening.

7.1 Background

CCC is insured by the Local Authority Protection Programme Disaster Fund ('LAPP'). LAPP provided insurance to many councils. Civic Assurance administers LAPP. Civic Assurance is owned by many councils. CCC owns 12.85% of Civic Assurance.

Like other insurance companies, LAPP has its own insurance from reinsurers. We understand that LAPP itself did not have a lot of money but we have not reviewed LAPP's financial position. The amount of insurance payouts CCC can receive therefore depends on the amount LAPP collects from its reinsurers.

CCC instructed a broker to arrange its insurance. The broker (not CCC) negotiated the insurance terms with LAPP and advised CCC what they were.

The amount of CCC's insurance was based on valuations of its assets. CCC appointed a valuer to prepare those valuations and the valuer's advice was an important factor when CCC decided how much insurance it needed.

CCC does not believe that the terms of its insurance are what it understood and expected. As a result, CCC cannot claim as much as it originally thought it would be able to. CCC knew this before the TYP was issued so this is not relevant to whether it can claim the \$1 billion it estimated. It is however a key reason why it cannot claim any more. If the terms of the insurance were what CCC thought, CCC believes it would be able to claim more than \$1 billion.

7.2 TYP estimate

The TYP assumed that CCC would be paid \$1 billion from its insurance. Approximately \$356 million has been paid so far.

CCC is going to have to pay the Rebuild Costs whatever it receives from its insurer, unless it decides not to undertake all the work it originally planned. If CCC gets less than \$1 billion in total, it will have to find more money.

Alternatively, CCC will not be able to complete all the rebuild work if it gets less from its insurer and it cannot raise more money in some other way. As is noted at section 6.3.1, the Cost Sharing Agreement requires CCC to pay its share of the Anchor Projects no matter what it gets from its insurance. Unless that is renegotiated, CCC can only cut back on its own projects if it gets less from its insurance.

The amount CCC receives from its insurer is therefore a big financial risk to the completion of the rebuild. As is described below, it is uncertain how much CCC will receive.

7.3 Insurance issues

CCC's insurance position is very complicated. We cannot comment on it in too much detail because doing so might affect how much CCC receives from its insurer.

It is fair to say there are many issues with CCC's insurance that will affect the amount it receives. Some of the issues relate to the amount CCC can claim from its insurer. This includes:

- Some assets not being insured at all, by accident; and
- Some assets being insured for too little. CCC believes this resulted from valuation issues.

CCC's insurance arrangements were always going to be complicated. It has a very large number of assets and they are unusual assets to insure. The above issues highlight the importance of getting very good advice when insurance is being arranged.

There are a number of other very complicated issues that affect the amount CCC will be paid by its insurers. These include:

- Disputes about the amount the insurer should pay for some assets. Some of these disputes are for very large amounts of money.
- Disputes between LAPP and its reinsurers, about the amount the reinsurers should pay to LAPP. As we noted above, LAPP does not have any money to pay CCC other than whatever it receives from its reinsurers. CCC is not directly involved in the disputes between LAPP and its reinsurers but these disputes will determine how much CCC will receive. Ideally CCC and LAPP would agree a way for CCC to be more involved, given the outcome only really affects CCC.

Given the large amount involved, CCC's insurance position remains a very big financial risk for CCC. All these issues need to be resolved before CCC will know how much money it will receive from its insurer, and therefore how much of the Rebuild Costs it has to pay. As we noted above, it would not be sensible for us to speculate about how much CCC will be paid.

We advised CCC that it would be sensible to appoint someone with appropriate experience to take control of the insurance process, given how important it is to CCC's financial position. We also recommended that CCC establish an advisory committee to guide the resolution of all its insurance claims. We understand both are being implemented.