

DLR MEMORANDUM

FROM ~ Head of Legal – Lee Gallon-General

TO ~ Head of Finance – Una Lever

DATE ~ 18 November 2004

Insurance Tenders

The deadline for tenders was 12 noon today. Five tenders were received and the Secretary of State opened these. Two bids did not meet the criteria set out in the SAGA tender notice as they were only for specific policies and these were therefore automatically rejected. The letters and proposals from the other three companies are attached. All have included within their quotations cover for the £1.5 million stop-loss across all policies on internal claims.

I am also pleased to report that Beattie has completed the exercise analysing claims history for the last three years and the average annual results are set out below. Table A shows the average annual number and value of all claims over the period, whilst Table B details the average annual number and value of those claims that would now fall within the proposed excesses and be a charge to the Internal Insurance Fund (IIF).

TABLE A		
	Department	
	No.	£000
Liability	960	1,150
Property	200	1,040
Motor	640	660
	1,800	2,850

TABLE B		
	Department	
	No.	£000
Liability	870	330
Property	190	245
Motor	540	265
	1,600	840

I would suggest that the cost of claims in Table B, updated for the 15% inflation agreed, provides the best basis for estimating the annual value of claims chargeable to the IIF in 2005/06. The annual number of claims, however, is more difficult to predict and has been very volatile. As you can see, the average number of IIF claims over the last three years has been 1,600, but the range involved is from about 1,300 to 1,900 in different years. This is clearly relevant in terms of your Service Level Agreement charges for claims handling.

For information, I also have an analysis of these Departmental figures over Ministries, but I understand that these are not required for your current exercises. The move to an "actual" basis for allocating claims between Ministries does mean charges can vary significantly from current budgets. There will be winners and losers and budgets will need to be adjusted accordingly, but obviously the overall cost to the Department remains about the same.

Lee Gallon-General

Head of Legal

Copy - Projects Officer



DAX FINANCIAL SERVICES

EUROPA HOUSE - SWISS STREET
GILT TOWN - GL3 9ER - BARBADOS



Mr Lee Gallon-General
Head of Legal (DLR)
Cannery Wharf
Gilt Town
GL1 9NT

18 November 2004

Dear Mr Gallon-General,

Insurances

It is with great pleasure that I enclose our bound insurance proposal, together with the pro forma summary sheet, as you requested.

We were pleased to see that you decided to introduce excesses, taking these in-house, and our proposed premiums reflect these changes. We have also reflected, through our reducing premiums in 2006/07 and 2007/08, your firm intention of introducing a strong risk management approach and, as indicated previously, we would be delighted to provide you with appropriate advice and training free of charge, should we be successful in retaining your business. We are increasingly doing this for our extensive Government client base in the Stagnesia region and have recently received similar enquiries from the other two Government Departments in Barbados for whom we provide insurance cover.

As regards the possible roll-over of the contract to 2008/09 and 2009/10, we would be pleased to maintain the premiums quoted for 2007/08.

Finally, whilst we believe that the terms set out on the attached pro forma are extremely competitive, we would be willing to discuss with you and clarify any quotes that appear unreasonable or even the timing of premium payments. We have a long-standing and strong working relationship with the Department and we would want this to continue.

As you know, the vast majority of the company's earnings are generated from insurances and we do not want to lose a contract such as yours.

I look forward to a positive response.

Yours sincerely

Jacques Vert

Jacques Vert (Director)

DEPARTMENT FOR LOCAL RESOURCING

EXTERNAL INSURANCE PROPOSAL

COMPANY		DAX FINANCIAL SERVICES				
PROPOSAL						
Policy	Base	Value	Rate basis	2005/06 BPs ¹	2006/07 BPs ¹	2007/08 BPs ¹
<u>Liability</u>						
Public Liability	Payroll	£200 million	% of value	17.0	16.0	15.0
Employers' Liability	Payroll	£200 million	% of volume	17.0	16.0	15.0
Other ²	Payroll	£200 million	% of volume	3.0	3.0	3.0
<u>Property</u>						
Housing & General	Property values	£1,500 million	% of value	3.7	3.6	3.5
Education	Property values	£440 million	% of value	7.5	7.0	6.5
Loss of Revenue	Gross Revenue	£10 million	% of value	7.0	7.0	7.0
Money	Payroll	£200 million	% of value	0.2	0.2	0.2
				£	£	£
<u>Motor</u>						
Fleet	Vehicle Numbers	1,200	Per vehicle	280	270	260
LONG TERM AGREEMENT		THE ABOVE RATES WILL BE HELD SUBJECT TO THE AGREED ANNUAL ARM INFLATION INCREASE FOR THE YEARS 2006/07 AND 2007/08.				
DISCOUNTS		NO DISCOUNTS OFFERED, BUT SOME PREMIUM REDUCTIONS HAVE BEEN INCLUDED ABOVE.				
ROLLOVER AGREEMENT		YES, ON THE BASIS OF THE RATES QUOTED FOR 2007/08 (PLUS THE AGREED ANNUAL ARM INFLATION INCREASE).				

¹ BPs – Basis Points (0.01% = 1 BP)

² Some minor specialist policies subject to further discussion



**Stock Exchange Chambers
Wall Street
Gilt Town
GL3 6DS
B Barbados**

Mr Lee Gallon-General
Head of Legal (DLR)
Cannery Wharf
Gilt Town
GL1 9NT

18 November 2004

Dear Mr Gallon-General,

Insurance Proposal

Further to our telephone conversation, I enclose the completed paperwork in respect of EMI's bid to meet your external insurance needs. As set out in the supporting documentation to your advertisement in SAGA, our tender is on the basis of meeting new claims relating to the period from 1 April 2005. All retrospective claims arising will continue to be the responsibility of your existing insurers.

EMI started out many years ago as a supplier of insurance to the public sector in the US, but subsequently diversified into the private sector. We remain, however, a specialist insurance company, generating all our revenues through the insurance market, and we continue to have a considerable portfolio of public sector clients. We are very eager to grow our business and, as part of this expansion plan, recently established a base in Barbados to cover the local region and to create a public sector clientele there. The substantial discount offered to you in the first year of the contract is aimed at demonstrating our eagerness to develop such a client base in the region and our commitment to you, in particular. It is also intended to help compensate you for the disruption and costs caused by a change of insurer. This quotation is not negotiable.

Subject to the annual ARM inflation increase detailed in your specification, we would be happy to honour the substantive rates quoted on the attached proposal form, both during the formal three-year contract period and for the roll-over period (subject to a review after the first three-year period).

We are certainly eager to promote risk management and could provide you with some limited input on an advisory basis, but we do not offer risk management training. We would also provide you with access to our latest on-line insurance management system free of charge and provide your staff with comprehensive training on this.

We look forward very much to working with you and your colleagues.

Yours sincerely

Kay Mart

Executive Senior Vice President (Marketing)

DEPARTMENT FOR LOCAL RESOURCING

EXTERNAL INSURANCE PROPOSAL

COMPANY		ESSENPEA MUNICIPAL INSURANCE				
PROPOSAL						
Policy	Base	Value	Rate basis	2005/06 BPs ¹	2006/07 BPs ¹	2007/08 BPs ¹
<u>Liability</u>						
Public Liability	Payroll	£200 million	% of value	15.0	15.0	15.0
Employers' Liability	Payroll	£200 million	% of value	15.0	15.0	15.0
Other ²	Payroll	£200 million	% of value	5.0	5.0	5.0
<u>Property</u>						
Housing & General	Property values	£1,500 million	% of value	3.8	3.8	3.8
Education	Property values	£440 million	% of value	7.5	7.5	7.5
Loss of Revenue	Gross Revenue	£10 million	% of value	9.0	9.0	9.0
Money	Payroll	£200 million	% of value	0.2	0.2	0.2
				£	£	£
<u>Motor</u>						
Fleet	Vehicle Numbers	1,200	Per vehicle	300	300	300
LONG TERM AGREEMENT			THE ABOVE RATES WILL BE HELD SUBJECT TO THE AGREED ANNUAL ARM INFLATION INCREASE FOR THE YEARS 2006/07 AND 2007/08.			
DISCOUNTS			WE ARE WILLING TO OFFER AN UNCONDITIONAL DISCOUNT OF 30% ON THE TOTAL PREMIUMS PAYABLE IN THE FIRST YEAR OF THE CONTRACT, 2005/06. THEREAFTER, PREMIUMS WILL BE PAYABLE IN FULL.			
ROLLOVER AGREEMENT			YES, ON THE BASIS OF THE RATES QUOTED ABOVE, BUT SUBJECT TO A REVIEW OF CLAIMS EXPERIENCE OVER THE FIRST THREE YEARS OF THE CONTRACT AND ANNUAL ARM INFLATION INCREASE FOR THE YEARS 2008/09 AND 2009/10.			

¹ BPs – Basis Points (0.01% = 1 BP)

² Some minor specialist policies subject to further discussion



Hang Seng Banking Company

*Mr Lee Gallon-General
Head of Legal (DLR)
Cannery Wharf
Gilt Town
GL1 9NT*

18 November 2004

Dear Mr Gallon-General,

I enclose my response to your detailed questionnaire, duly completed and separately bound, and I attach your summary "External Insurance Proposal" form setting out HSBC's suggested rates for your various policies. This proposal is on the basis of only meeting new claims relating to the period from 1 April 2005.

As you may be aware, HSBC is a relatively new entrant to the insurance arena and you would be our first client in the Stagnesia region. Whilst we do not yet have an office in Bearbados, we have an established base on the neighbouring island of Bulli Hai and excellent communication facilities to ensure a first class service. Our insurance operation, all private sector at present, remains relatively small, and this may be seen as a disadvantage, but it has shown very rapid growth in the last few years. The company's smaller size, of course, ensures your importance to us and guarantees a personal service. In addition, you have the security of a very large parent company backing the insurance subsidiary.

We are very keen to grow our turnover quickly and this eagerness is, I hope, reflected in the rates quoted on your proposal form attached. Not only are our rates extremely competitive, but, as you will see, we are willing to offer a retrospective 4% discount on the formal rates quoted, subject to the introduction of a strong risk management regime and a satisfactory first two years claims experience. In addition, we would also be willing, if required, to rollover the initial three-year contract into years four and five on the same discounted basis, providing that these targets are met.

HSBC is currently developing its on-line insurance software and this should be ready in about a year's time. In the meantime, we would be willing to provide you with our existing claims management software (not on-line) and with suitable training on this for your staff, all free of charge. We would also be willing to assist with the introduction of risk management for a modest fee, dependent upon your needs.

In response to your final question, we believe that the rates quoted and the discount offered represents an extremely competitive package and we would not therefore be willing to enter into any post-tender negotiations on these rates.

Yours sincerely

B N Kew

Managing Director (Insurance)

HSBC China House Junkbond Road Bulli Hai

DEPARTMENT FOR LOCAL RESOURCING

EXTERNAL INSURANCE PROPOSAL

COMPANY		HANG SENG BANKING COMPANY				
PROPOSAL						
Policy	Base	Value	Rate basis	2005/06 BPs ¹	2006/07 BPs ¹	2007/08 BPs ¹
<u>Liability</u>						
Public Liability	Payroll	£200 million	% of value	16.0	16.0	16.0
Employers' Liability	Payroll	£200 million	% of value	15.0	15.0	15.0
Other ²	Payroll	£200 million	% of value	5.5	5.5	5.5
<u>Property</u>						
Housing & General	Property values	£1,500 million	% of value	3.7	3.7	3.7
Education	Property values	£440 million	% of value	6.5	6.5	6.5
Loss of Revenue	Gross Revenue	£10 million	% of value	8.0	8.0	8.0
Money	Payroll	£200 million	% of value	0.2	0.2	0.2
				£	£	£
<u>Motor</u> Fleet	Vehicle Numbers	1,200	Per vehicle	270	270	270
LONG TERM AGREEMENT		THE ABOVE RATES WILL BE HELD SUBJECT TO THE AGREED ANNUAL ARM INFLATION INCREASE FOR THE YEARS 2006/07 AND 2007/08.				
DISCOUNTS		A DISCOUNT OF 4% MAY BE APPLIED IN 2007/08 ON THE TOTAL PREMIUMS PAYABLE FOR THE YEARS 2005/06, 2006/07 AND 2007/08 (SEE NOTE BELOW*).				
ROLL-OVER AGREEMENT		THE ABOVE RATES LESS THE ABOVE DISCOUNT, IF JUSTIFIED (SEE NOTE BELOW*), WILL BE HELD SUBJECT TO THE AGREED ANNUAL ARM INFLATION INCREASE FOR THE YEARS 2008/09 AND 2009/10.				

* **SUBJECT TO THE INTRODUCTION OF AGREED RISK MANAGEMENT INITIATIVES AND THE ATTAINMENT OF AGREED TARGETS BY THE END OF 2006/07.**

¹ BPs – Basis Points (0.01% = 1 BP)

² Some minor specialist policies subject to further discussion

DEPARTMENT FOR LOCAL RESOURCING

internal e-mail



From: Under-Secretary (Housing & Property) – Bill Forbeattie
To: Under-Secretary (Central Support) – Will Worths
Date: 19 November 2004 16.03
Subject: Insurance & Risk Management (RM)

Will

Let me start by saying that in principle I support the Treasury's proposed initiatives and particularly the adoption of a RM approach. After all, many of the Department's aims and a number of its services are preventative, but this is not appreciated at present and major changes are required if these initiatives are to be effective. The Secretary of State and Ministers need to be on board before we start taking actions ourselves and staff need to be made aware of what we are trying to achieve. We need commitment both in the Department and in the preventative agencies outside.

The last ICI Group meeting seems to have been a shambles and largely dominated by those with negative attitudes. Why are we rejecting free assistance and training? The whole approach to insurance risk at present is unstructured. I am unclear who is responsible for doing what, who is leading and, perhaps more importantly, whether anyone is following. The ICI members, when they attend, appear to be an isolated mid-ranking administrative group caught in limbo between senior management and operational staff, without any meaningful contact with either.

In terms of RM initiatives, a key initial project must be the raising of awareness, but in terms of specifics, there are two main areas in my Ministry. Firstly vandalism is an increasing problem on many public buildings and CCTV has proved successful elsewhere, but it is expensive and some prioritisation of sites would be required. Secondly, damage to DLR-owned rented accommodation from break-ins and fires continues to be a problem. Such damage generates a good number of claims each year. The provision of alarms (burglar and smoke) is a tenant responsibility, but should it be? Again any funding of these would need to be phased and prioritised.

Finally, I recently obtained from your Head of Legal the table below, which shows quite clearly that Housing & Property has been overcharged for claims in the past.

	Education & Welfare £000	Environment £000	Housing & Property £000	Central Support £000	Total £000
Current basis	1,160	820	860	160	3,000
Actual claims	870	1,130	770	80	2,850

I trust that I will now be able to redirect this saving to frontline services.

Regards

Bill

DLR MEMORANDUM

FROM ~ Head of Finance – Una Lever
 TO ~ Projects Officer – Taylor Woodrow
 DATE ~ 22 November 2004

Internal Insurance Fund (IIF) and Charging

The Under-Secretary has asked for a short paper to be put to next week's Divisional Management Team on the creation of the IIF from 1 April 2005, including estimates of income and expenditure and some analysis on the SLA charges to be made for risk management (RM) administration and claims handling. I should be grateful, therefore, if you would draft a short report for me, covering the following three main areas.

1. Background

- ☐ An explanation of the main purpose and key advantages of setting up the IIF;
- ☐ A note on the operation of the IIF as regards both income and expenditure.

2. IIF Income & Expenditure Estimates – 2005/06, 2006/07 & 2007/08

- ☐ For the three years noted above, completion of IIF income and expenditure estimates for the Department as a whole on the bases suggested by Riskless, Prophet & Prosper and the assumptions set out below, together with comments upon the results of this exercise and the assumptions on which they are based.

NOTE

Show all figures at projected 2005/06 outturn prices and make the following assumptions

- On claims handling charges, 1,600 claims per annum (as per Legal analysis);
- On internal claims, a base cost of £840,000 plus 15% inflation for 2005/06, a reduction of this 2005/06 base by 3% for 2006/07 and a reduction of this 2005/06 base by 8% for 2007/08 to reflect the impact of RM initiatives;
- For the new Section, staffing based upon 1,600 claims per annum;
- Legal costs based upon 1,600 claims per annum;
- On RM improvements, a provision of £70,000 in 2005/06, £95,000 in 2006/07 and £120,000 in 2007/08, all at 2005/06 prices.

3. Sensitivity Analysis – Using 2005/06

- ☐ On the basis that the number of claims is known to be volatile, calculate the impact on relevant IIF income (SLA charges for RM administration and claims handling) and relevant expenditure (the new Insurance and RM Section and legal costs) of the actual number of claims falling somewhere in the 1,300 to 1,900 range, using 2005/06 as an example;
- ☐ Represent this graphically using a Cost Volume Profit (CVP) approach;
- ☐ Determine by calculation the breakeven points and indicate the relevant range;
- ☐ Give a simple explanation of the methodology and the technique's limitations;
- ☐ Provide a simple interpretation of the results with conclusions.

Please let me have your draft by November 24th.

Una Lever

Head of Finance

Parfit Partners

Protecting your assets

Mr. Will Worths
Department for Local Resourcing
Cannery Wharf
Gilt Town
GL1 9NT

23 November 2004

Dear Will,

It was good to hear from you again. I hope that you're well and that the portfolio is still in good shape.

My research assistant has extracted the relevant information on the three companies concerned and calculated the ratios requested (see attached). I also set out below some additional information on each company's shares that you might find useful.

	2001	2002	2003	2004
<u>Ordinary Shares Issued (Million)</u>				
DFS	50,000	50,000	50,000	50,000
EMI	25,000	25,000	25,000	25,000
HSBC	6,000	6,000	6,000	6,000
<u>Average Share Price (Pence)</u>				
DFS	70	80	110	150
EMI	120	135	115	70
HSBC	10	10	10	20

HSBC is an interesting company and has its local offices in the tax haven of Bulli Hai. You are probably aware that, when it moved into insurance, it also diversified into global custody for investments. According to reports, it has now decided that this business is no longer core to its operations and a sale is imminent to Stagnesia Street Global Assets (SSGA), the world's largest custodian.

Kind Regards

Brett

Brett Tannic

PP - Banes House - Box Road - Gilt Town - GL8 2CE - Barbados

INSURANCE COMPANIES - FINANCIALS

	2001	2002	2003	2004
<u>DAX FINANCIAL SERVICES (DFS)</u>				
Turnover (Sales) (£ million)	62,500	64,300	66,100	68,100
Pre-Tax Profit (£ million)	700	3,100	4,000	5,200
Percentages (%)				
Sales Growth	-	2.9	2.8	3.0
Profits Growth	-	342.9	29.0	30.0
Ratios				
Pre-tax Profits/Sales (%)	1.1	4.8	6.1	7.6
Pre-tax profits/Capital Employed (%)	0.7	3.4	4.5	5.1
Debtors Period (days)	9.7	10.3	10.6	11.1
Debt/Equity Gearing (%)	11.3	11.0	10.0	7.3
Debt /Capital Gearing (%)	10.2	9.9	9.1	6.8
Current Ratio	1.6	1.6	1.9	2.1
<u>ESSENPEA MUNICIPAL INSURANCE (EMI)</u>				
Turnover (Sales) (£ million)	32,500	34,600	43,700	49,500
Pre-Tax Profit (£ million)	1,800	1,900	1,600	700
Percentages (%)				
Sales Growth	-	6.5	26.3	13.3
Profits Growth	-	5.6	-15.8	-56.3
Ratios				
Pre-tax Profits/Sales (%)	5.5	5.5	3.7	1.4
Pre-tax profits/Capital Employed (%)	4.2	5.0	4.7	2.0
Debtors Period (days)	4.1	10.0	10.4	9.8
Debt/Equity Gearing (%)	13.1	15.0	17.4	26.6
Debt /Capital Gearing (%)	11.6	13.0	14.8	21.0
Current Ratio	0.8	0.7	0.6	0.5
<u>HANG SENG BANKING COMPANY (HSBC)</u>				
Turnover (Sales) (£ million)	2,400	5,900	8,200	12,500
Pre-Tax Profit (£ million)	-1,400	-900	-100	100
Percentages (%)				
Sales Growth	-	145.8	39.0	52.4
Profits Growth	-	-	-	-
Ratios				
Pre-tax Profits/Sales (%)	-58.3	-15.3	-1.2	0.8
Pre-tax profits/Capital Employed (%)	-75.7	-44.7	-5.1	4.2
Debtors Period (days)	3.1	3.3	3.8	3.4
Debt/Equity Gearing (%)	0.0	5.2	26.1	57.2
Debt /Capital Gearing (%)	0.0	5.0	20.7	36.4
Current Ratio	0.7	0.5	0.6	0.5