

Agenda item:

Decision maker: Resources Committee

Subject: Insurance contracts (procurement)

Report by: Head of Audit & Performance Improvement

Wards affected: None

Key decision (over £250k): Yes

1. Purpose of report

To seek approval to finalise the procurement of insurance cover for PCC. The existing contracts expire on 29th June 2010.

2. Recommendations

- (i) That the members of the Resources Committee agree to award the insurance contracts to the three preferred insurance companies, as set out on page 24 of Appendix 1.**
- (ii) That the £300,000 cost saving in 2010/11 and the additional savings in future years be transferred into the Insurance Reserve as a first step towards building this reserve up to the minimum recommended level.**

3. Background

We are coming to the end of a 5 year long-term agreement for all of the Council's major insurance policies including liability, property, motor and engineering with inspection.

The Council, in conjunction with our broker (Marsh UK), has conducted a full EU tender process to secure new contracts for the next 5 years at the best price available.

Marsh conducted a technical evaluation of the tenders received, which is Attached, as Appendix 1.

4. Reasons for recommendations

The recommended allocation of insurance cover, split between 3 different insurers, will transfer additional risk over to the insurers whilst saving the Council approximately £300,000 in the first year in premium compared with last year's costs. Additional savings will also be achieved in years 2 to 5.

In June 2009 Marsh undertook a detailed analysis of the adequacy of the existing funding provisions, including a forecast of retained claims for the years 1999/00 to 2008/09 and a forecast for 2009/10. As a result of this review, Marsh recommended that the City Council should hold a minimum insurance reserve of £1.3m to meet unexpected claims. As at 31 March 2009, there was nothing in the Insurance Reserve and this places the City Council in a very vulnerable financial position. It is therefore proposed that the £300,000 cost saving in 2010/11 and the additional savings in future years be transferred into the Insurance Reserve as a first step towards building this Reserve up to the minimum recommended level.

5. Equality impact assessment (EIA)

Not applicable – agreed by Equalities Team, as these insurance policies cover all PCC staff and activities on an equal basis.

6. Head of legal services’ comments

There are no significant legal implications arising from this report.

7. Head of Finance’s comments

The financial impact is set out in the body of the report.

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Signed by:

Appendices:

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
2009 Insurance Tender Report	

The recommendation(s) set out above were approved/ approved as amended/ deferred/
rejected by on

.....
Signed by:



Date of Issue: 25 February 2010



2009 Insurance tender report

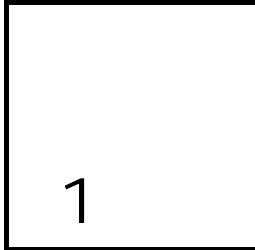
Portsmouth City Council

Prepared by :Peter Mason

Title : Vice President & Account Executive

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Introduction

The insurance programme of Portsmouth City Council is due for renewal on 30 June 2010. The current insurance arrangements are subject to Long term Agreements all of which expire on 29th June 2010. Due to the anticipated premium spend exceeding the threshold set by the Public Contracts Regulations 2006 (£101,232 from 1 January 2010) the Authority is required to undertake a competitive tender in accordance with the European Procurement Protocols. Marsh, the appointed advisors to the Authority, has assisted the Authority during the tender process. The process was initiated in November 2009 with the date for tender responses expiring on 15 February 2010.

Marsh Ltd has technically evaluated the tenders against the tender specification (see appendix to this report). Findings were then discussed with the Authority. To bring clarity to the evaluation a scoring matrix has been utilised during the evaluation. The Matrix was agreed by the Authority prior to the procurement process starting and detail of the matrix can be found on page 4 of the Market Presentation (see appendix to this report)

This report outlines the response from the market and recommends a placement strategy.

It should be noted that whilst Marsh have recommended a placement strategy it is the Authority who must be satisfied that the programme placed and the reasoning behind that placement has been based on a fair and open evaluation of bids and meets their requirements.

General Note

We held a Pre-Renewal Meeting with you on 17 September 2009 at which we discussed your current insurance arrangements together with your requirements for the period 30 June 2010 to 29 June 2011. Following this meeting we met on 5 November 2009 to discuss developments, meet prospective insurers and ensure the tender process met the requirements of the Authority

Each of your insurance policies is based upon the following description of your business activities:

Local Authority

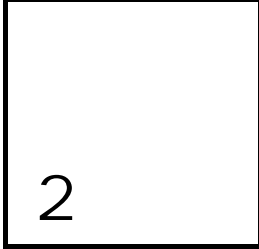
If this description is incorrect, or changes in future, you must notify us immediately so that we can negotiate continued protection for you with the respective insurers.

All quotations / renewal terms have utilised the sums insured and estimates that have been provided by you. All information provided has been incorporated into the Market presentation a copy of which is included in the appendix to this report.

Marsh & McLennan Companies Inc and its subsidiaries own equity interests and have contractual arrangements with certain insurers and wholesale brokers. Information regarding these arrangements can be provided to you in paper form upon request from any member of your service team, or is available at the following web address: <http://global.marsh.com/about/Transparency.php>.

We are committed to be fully transparent in all our business undertakings on your behalf. Where we have secured alternative insurer quotations, we have detailed the respective earnings that each potential alternative insurer would pay to Marsh in the event that their quotation was accepted. In our Letter of Engagement we have detailed both our proposed level and method of remuneration.

In line with our usual practice we would remind you about your duty of disclosure. You must disclose to your Insurers (whether renewing, or new to the risk) all facts and matters that might influence a prudent Underwriter in deciding whether to underwrite the risk and, if so, on what terms (including premium). If in doubt, you should err on the side of caution - we can advise upon/or establish with Underwriters what is regarded as material. It is vital that you notify us immediately about any changes, developments and other new information that may be material to the renewal of these insurance's. Disclosure to Insurers is very important. If you fail to disclose material information, or if any of the information provided is incorrect or misleading in any material way, then Insurers may be entitled to void the entire policy. In that event they would have no obligation to pay any claims.



Executive summary

Marsh Ltd, the Authorities appointed Insurance advisor, has been engaged by the Authority to conduct a tender for the procurement of all insurances currently purchased by the Authority. The tender process has been conducted in accordance with European Procurement Directives to ensure fair and open competition.

The evaluation of bids followed the principles demanded by public procurement and our recommendations have been made on the basis of most economically advantageous tender. A scoring mechanism has been employed to bring complete transparency to the evaluation process. Detail of the scoring matrix can be found on page 4 of the market Presentation (see appendix to this report)

It should be noted that as the contracting Authority it is the Authority who will decide the appointment of the successful bidder. The comments in this report are intended to provide the Authority with an independent, impartial view of the tender submissions on which to make an informed decision.

A negotiated notice was published in the Official Journal of European Union requesting expressions of interest from Insurers and claims handlers not preselected. There was interest from 3 Insurance markets and 1 Claims handler who were not pre selected. All markets were sent the market presentation a copy of which can be found in the Appendix of this report.

9 bids were received. All were considered compliant bids by the Authority and Marsh were authorised to evaluate.

Zurich Municipal (ZM) and Risk Management Partners (RMP) provided terms for the complete package of cover. Travelers indicated terms for the major heads of cover (Property, and Liability). Chubb, Royal & Sun Alliance, ACE and Allianz indicated terms for selected risks only. MAPS and Opus indicated terms for Motor Legal Expenses. No separate claims handling quotations were received although this is not a surprise as the Authority handles all claims within the excess.

Currently insurance cover is placed with three insurers. The insurers are Zurich Municipal (liability and Motor) Travellers (property) Allianz (Engineering). Whilst ZM have indicated the best complete package bid a more competitive package can be constructed if risks are spread between insurer. By placing cover in this way Authority have the opportunity to reduce premium spend compared to 2009/10 by 25% without any significant reduction in cover. In certain instance cover enhancements are available if recommendations are accepted (see section 4).

Marsh is recommending that cover be placed as follows:

- Property including
 - Material Damage
 - Loss of Revenue/Increased cost of working
 - Loss of rent
 - Money
 - All Risk
 - Terrorism
- : Zurich Municipal
- Liability : Chartis Insurance UK Ltd
 - Liability claims handling : Gallagher Bassett
 - Motor : Chartis Insurance UK Ltd
 - Personal Accident : Chartis Insurance UK Ltd
 - Fidelity Guarantee : Chartis Insurance UK Ltd
 - Personal Accident/School Journey and Travel : Chartis Insurance UK Ltd
 - Engineering Inspection : Allianz
 - Computers : Allianz
 - Work In Progress/Hired In plant/contractors Plant : Allianz

. The reasons for this recommendation are:-

- **Matrix Scores** : The score achieved by the package of covers shown above is 97%. The most competitive alternative from ZM has scored 91%
- **Premium** : By utilising elements of cover from a number of insurers a premium of £1,005,517 results. This is £53,261 less than the next most competitive offer from Zurich Municipal. When compared to the premium paid in of 2009/10 this represents a saving of approximately 25% on a like for like basis.

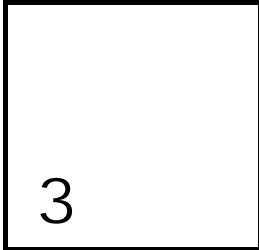
- **Cover** : The recommended programme includes all major extensions to cover requested in the tender document (some minor alteration to excess levels/aggregates). In addition there are some improved benefits under certain policies. Details can be found in section 4 of this report
- **Risk Management Support** : The Authority will receive 8 days of liability Risk management support from Risk Management Partners. This can be commuted to a premium discount or bursary of £5,699. In addition you will receive a bursary of £5,000 from ZM. This bursary must be spent with ZM

In making this recommendation Marsh would comment as follows

- To achieve the savings available under the recommended programme a 5 year long term agreement will be required on all covers.
- The Authority should consider the offer by ZM to rationalise the excesses under the Property Policy to £50,000. Currently a range of excess applies from £50,000 up to £1,000,000 for certain property types. Payment of an additional premium (see section 4) will transfer significant risk exposure to the market. This will provide the Authority with greater budget stability.
- A meeting should be held with Chartis and ZM as soon as possible after the ending of the standstill period. During this meeting claims handling can be discussed to ensure all parties are familiar with requirements before the contract starts.

Marsh are satisfied that the recommendation to place cover as outlined above will provide the Authority with an insurance programme which provides the necessary cover and at a very competitive price. Value for money will be achieved.

It should be noted that a report of this nature can not identify all policy conditions and for a definitive description of cover policy documents should be referred to at all times. Marsh would recommend that the Authority review the wording of the recommended market and ensure that they are completely satisfied that the cover, terms and condition are fully understood. Marsh would further remind the Authority that any documentation concerning policy cover should be retained safely and indefinitely for future reference. Any ambiguity in policy documents received should be referred to Marsh for immediate clarification.



Renewal negotiations

This section of the report details the outcome of the tender with details on each bid along with our recommendations to you.

Please note that unless otherwise stated:

- No wholesale broker has been used by us in securing these terms
- Marsh has no binding authorities with the markets concerned for the policy / cover proposed
- In obtaining these terms we have followed the OJEU process

Additionally, please note that:

- Marsh & McLennan Companies, Inc. and its subsidiaries own equity interests in certain insurers and have contractual arrangements with certain insurers and wholesale brokers. Information regarding such interests and contracts is available at <http://global.marsh.com/about/Transparency.php> or alternatively this information can be provided to you in paper form upon request from any member of your service team.
- Should any potential 'Conflict of Interest' be identified, it will be managed in accordance with our 'Independence Policy'; details of which have been provided in Appendix V.

Market Responses

Insurance tenders were sent to 22 Insurance companies and 4 Claims handlers

Each bidder had experience of underwriting or managing the public sector risk and has financial security acceptable to the securities department of Marsh Ltd and the FSA. All markets were, therefore, asked to submit a tender.

The Table 1 details the markets approached and the response received.

Table 1: Markets approached and responses received

Insurer	Response
Abbey Legal	No Quote
ACE	Quote
Alliaz	Quote
Aspen	No Quote
Aviva	No Quote
Capita	No Quote
Capita	No Quote
Chubb	Quote
CNA	No Quote
Dolmans	No Quote
Eccles	No Quote
Hill Dickinson	No Quote
HSBC	No Quote
Jubilee	No Quote
Maps	Quote
Mitsui	No Quote
Ocaso	Quote
Premier Recoveries	No Quote
RMP	Quote
RSA	Quote
Summit	No Quote
Teceris	No Quote
Topmark	No Quote
Travelers	Quote
ZMI	Quote

Marsh has reviewed each bid against the tender specification. Because all insurers policy wordings differ it is not possible to highlight every difference between each bid and the tender specification. Marsh have highlighted significant issues but would urge the Authority to review the documentation provided by each insurers and in particular the wording provided by the markets receiving the highest evaluation score. Copies of each bid have been retained by the Authority but if additional information is required to allow an informed view to be made by the Authority we would ask the Authority to contact us as soon as possible.

Comment regarding each bid is shown on the following pages.

Zurich Municipal (ZM)

- ZM have quoted for all covers requested on a package basis at £1,050,065 including claims handling. Liability claims handling represents £11,460 of this figure.
- The premiums quoted are subject to all covers being placed with ZM under a package. ZM have confirmed that they are prepared to allow certain items to be placed in isolation without the loss of any package discount. However if any of the major heads of cover are placed in isolation the package discount will be lost and premiums will alter for those covers being placed (additional comment in section 4)
- The premium quoted assumes a three-year or 5 year Long Term Agreement is taken. ZM have not offered additional savings for taking a straight 5 year agreement. Please note that the Long Term Agreement applies to each cover in isolation.
- A rate guarantee has been offered for the first two years of placement. This means that the rate can not rise during the 2010-11 or 2011-12 periods. After this an amount equal to the Average Earnings Index (AEI) will be added to some rates
- Motor rates and Aggregates will be increased by an amount equal to the average earnings Index annually.
- In general the cover is offered in accordance with the tender specification. The following identifies additional benefits (blue bullet) and cover restrictions (red Bullet) under the programme
 - Capital Addition limit of £10,000,000 to apply to the property policy.
 - Property policy subject to a single loss limit of £100,000,000
 - Property aggregate set at £1,200,000 sitting across all property sections. (including Work In Progress and BI)
 - Money includes unofficial school funds
 - Public Liability cover extended to include statutory clean up and remediation costs incurred under the Environmental Damage Regulations. Limit of £1,000,000 to apply
 - Combined motor/liability aggregate will be £1,000,000 based on current excess's. Currently this is £1,350,000 for liability and £150,000 for motor
 - Liability policies do not exclude exemplary /punitive damages
 - Corporate manslaughter defence cost included to £5m
 - Tender submission does not include Theft. ZM have amended this during clarification and it will be for the Authority to accept its inclusion as valid or not. In the interest of the Authority Marsh have included Theft cover in evaluation
 - Contract work subject to a contract limit of £1,000,000. Currently £2,000,000. Contracts over the limit must be reported to ZM prior to starting.
 - Money in transit subject to submission and acceptance by underwriters of the vehicles specification in situations where amount in transit exceeds £10,000
 - Fidelity Guarantee not subject to an aggregate cap.
 - Personal Accident and Travel and School Journey exclude all cover in relation to biological, chemical radioactive and nuclear agents materials and devices.
 - Motor Cover excludes use airside (market norm).

- Asbestos cover excluded from the Public Liability sections (market norm)
 - Excludes Cyber Liability (Market norm)
 - Legionella cover has been included subject to conditions on page 64 of Zurich Municipal's tender
 - Computer Business Interruption cover subject to conditions outlined on page 62 of the ZM tender response. Failure to provide the necessary evidence can result in a 50% premium loading
 - Public and Employers Liability cover limits Terrorism to £25,000,000.
 - Motor Cover restricts Terrorism in relation to Third Party cover to £5,000,000.(Market Norm)
 - Engineering insurance subject to a limit of £100,000. Tender requests a limit of £4m. ZM have amended this post tender submission to provide the cover required. The Authority must decide whether this alteration is valid as it has happened after tenders were opened.
- .
- Material Damage cover is subject to periodic survey of premises identified by ZM in the same manor as at present. The cost of any risk improvements will be the responsibility of the Authority.
 - All education fire claims within the excess to be reported to ZM within 1 week of the occurrence
 - Claims to be handled by the Authority in accordance with the protocols detailed on pages 84 to 86 of the ZM tender submission. However all payments claims to be agreed with ZM before being made
 - ZM 's claims process utilises a panel of solicitors, loss adjuster and specialist. All are contracted by ZM and are available to PCC.
 - ZM have offered risk management support. £8,000 a year is offered on placement of the entire package. Monies must be spent with ZM. If only the property is placed with ZM a £5,000 bursary will be provided
 - If the Authority wish to standardise their current property damage excess to £50,000 across the material damage section an additional premium of £65,422 + IPT will apply (to be confirmed)

Risk Management Partners (RMP)

Please note that RMP are **NOT** an insurer. They are registered as an insurance broker by the FSA but act as sole agents for the placement of Business with Chartis Insurance UK Ltd and a number of other insurers. If the Authority chooses to place any of the covers offered by RMP the contract will be between the Authority and the insurers **NOT** the Authority and RMP.

- RMP have quoted for all on a package basis at a premium of £ 1,170,948 including claims handling. Claims Handling represents £2,500 of this figure and will be provided by Gallagher Bassett
- The premiums quoted are subject to all covers being placed via RMP under a package. RMP have confirmed that placement of one major class away from the package will not reduce the available (and declared) discount of £50,000
- RMP have offered a 3 year Long Term Agreement (LTA) with the contractual ability to extend for two years if required. If full package discounts are required a 5 Year Long Term Agreement will be required. The premiums shown assume full discounts are required and therefore a 5 year agreement has been shown. The LTA will apply to each section and not the package.
- The Long Term agreement allows the aggregate stops to be increased by up to 10% per annum but only by agreement with the Authority. Rates and excess's are unable to be altered during the agreement.
- In general the cover is offered in accordance with the tender specification. The following identifies additional benefits (blue bullet) and cover restrictions (red Bullet) under the programme
 - Liability excess not subject to indexation
 - Liability Aggregate reduced to £900,000. Currently £1,325,000
 - Terrorism is included in both Employers and Public Liability sections to the full policy limits.
 - Liability cover includes Pollution Legal Liability extension to a limit of £5,000,000
 - Liability extended to cover Defence costs in relation to Corporate Manslaughter
 - Legionella cover included under Public Liability section to full policy limits
 - Liability policy is non adjustable
 - Hirers Liability extension subject to an increased limit of indemnity of £2,000,000. Currently £1,000,000.
 - Personal Accident, Travel and School Journey not subject to an end of year declaration
 - Personal Accident Benefit for Employees increased to a maximum of £1,000,000.
 - Personal Accident, Travel and School Journey have no terrorism exclusion
 - Personal Accident and School Journey benefits the same or better than current benefits
 - Fidelity Guarantee includes third party computer fraud
 - Travel benefits equal to or higher than existing.

- Property subject to a £100,000,000 single loss limit. Windstorm, and flood subject to a £30,000,000 event excess (aggregate of £60,000,000 any one year)
 - Asbestos cover excluded from the Liability sections apart from Employers Liability (market norm)
 - Excludes Cyber Liability (Market norm)
- 8 days of liability and 3 days of property risk management support .Areas of support available are the development of policy and risk management strategies, Audit and review, Training, operational and strategic risk reviews and management. If Liability support not required an amount of £5,699 can be ducted from the Liability Premium or this amount can be paid to the Authority as a bursary to be used without condition
 - Claims to be handled by the Authority. Gallagher Bassett to be contacted if a claims will or is likely to reach 50% of the deductable (or £50,000 which ever is less)
 - Additional quotations have been provided for higher excess levels. Only the property alternatives are likely to be of interest.
 - Official Indemnity Professional Indemnity and Fidelity Guarantee retro dates subject to no claims declaration prior to inception. (market norm)

Travelers

- Travelers have quoted for the Liability and property covers. The premium quoted is £1,055,176 excluding claims handling. The covers can be placed in isolation but Travelers are not prepared to write the motor in isolation.
- The premium quoted assumes a three-year Long Term Agreement is taken. This agreement offers the Authority the contractual ability to extend cover for a further two years if required. If a 5 Year agreement is taken a further discount of 2.5% can be given. Premiums quoted have assumed the 5 year agreement is taken.
- The long term agreement fixes Aggregate caps excess's and rates throughout the term of the agreement
- All covers are non adjustable
- In general the cover is offered in accordance with the tender specification. The following identifies additional benefits (blue bullet) and cover restrictions (red Bullet) under the programme
 - Legionella cover included under the Liability module
 - Terrorism cover to full policy limits is provided under the Liability module
 - Corporate manslaughter defence costs included to full policy limits
 - Liability extended to cover work on outside bodies. Cover subject to a signed "no Claims" declaration

- Airside cover included under the motor policy to a limit of £5,000,000 in respect of third party property damage
 - Cover in respect of statutory clean up costs emanating from responsibilities under the Environmental Damages Regulations available on production of additional information
 - No cover for computers
 - Asbestos cover excluded from the Liability sections apart from Employers Liability (Market Norm).
 - Cyber Liability cover excluded from liability (market norm)
- Claims handling. Authority can choose how to manage but Travelers reserve rights to audit handling procedures.
 - Travelers have offered 5 days of liability and 5 days of Property risk management support.

Allianz Cornhill

- Allianz has offered to underwrite the Engineering Inspection, Engineering Insurance, Computer and Contractors Works (includes Hired in Plant) cover. The combined premium is £120,220. Each cover stands in isolation. It should be noted that Allianz have quoted on the engineering sum insured of £19m as per current schedules. All other markets appear to have quoted on an incorrect figure of £11m as per the presentation. For comparison purposes Allianz have indicated premiums based on the same sum insured as the other bidders. On this basis the premium quoted above will fall by £6,345
- Cover is offered with a 5 year Long Term Agreement
- In general the cover is offered in accordance with the tender specification. The following identifies additional benefits (blue bullet) and cover restrictions (red Bullet) under the programme
 - Contract Works cover subject to a reduced excess of £25,000. Currently £50,000 rising to £100,000 for education risks
 - Hired in Plant excess £500
 - Engineering insurance subject to increased limits of £250,000. Currently £100,000
 - Engineering Insurance subject to a £100 excess. Currently £20,000
 - Hired in plant subject to a higher limit of £100,000. Currently £50,000
 - Computer cover on All Risks basis (including Theft). No need for cover under the main material damage policy
 - Hired in Plant police excluded damage to Scaffolding access towers, ladders and aluminum trackways. Also assumes annual hiring fees of £10,000
- Terrorism quotations have been provided for Computers. The premium is £1,540 + IPT
- No risk management support offered.

Royal & Sun Alliance (RSA)

- RSA has offered to underwrite the Engineering Inspection, Engineering Insurance and Hired in Plant cover at a premium of £106,877 including claims handling. Each cover stands in isolation
- Cover is offered with a 5 year Long Term Agreement. A 10% discount is given for accepting this agreement. Premiums above reflect the 5 year agreement
- In general the cover is offered in accordance with the tender specification. The following identifies additional benefits (blue bullet) and cover restrictions (red Bullet) under the programme
 - Policy limits significantly below those required. For example the Sudden and unforeseen limit under the RSA proposal is £500,000. The tender specification requires a limit of £4,000,000
- A Terrorism quotation has not been provided.
- No risk management support offered.

ACE Europe Ltd

- ACE has offered to underwrite the Personal Accident and Travel covers cover at a premium of £13,340.02. This figure includes claims handling and access to emergency travel assistance network.
- Cover is offered with a 5 year Long Term Agreement. Shorter agreements are available
- In general the cover is offered in accordance with the tender specification. The following identifies additional benefits (blue bullet) and cover restrictions (red Bullet) under the programme
 - Cover not subject to an end of year declaration
 - Cover have no terrorism exclusion
 - Travel benefit equal to or higher than requested
 - No School Journey cover offered
 - No cover for Temporary Partial Disablement in relation to Members.
 - Age limit of 75 to apply. Currently 85 for members
- No risk management support offered.

Chubb

- ❑ Chubb has offered to underwrite the Personal Accident Travel and School Journey covers cover at a premium of £27,965. This figure includes claims handling and access to emergency travel assistance network.
- ❑ Cover is offered without a Long Term Agreement.
- ❑ In general the cover is offered in accordance with the tender specification. The following identifies additional benefits (blue bullet) and cover restrictions (red Bullet) under the programme
 - Personal Accident, Travel and School Journey not subject to an end of year declaration
 - Personal Accident, Travel and School Journey have no terrorism exclusion
 - Travel benefit equal to or higher than requested
 - Personal Accident Benefit for Employees capped at £750,000 any one claim.
 - Age limit of 80 to apply. Currently 85 for members
 - School journey cover limits dental benefit to £500. Currently £1,000
- ❑ No risk management support offered.

MAPS Legal Assistance

- ❑ MAPS has offered to underwrite the Motor Legal Expenses and Uninsured Loss recovery at a premium of £1,006.20
- ❑ Cover is offered with a 5 year Long Term Agreement.
- ❑ Terms under the proposal are based on a limit of indemnity of £100,000

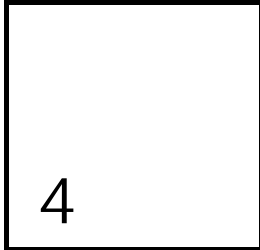
Opus Claims Solution

- ❑ Opus has offered to underwrite the Motor Legal Expenses and Uninsured Loss recovery at a premium of £831
- ❑ Cover is offered without Long Term Agreement.
- ❑ Terms under the proposal are based on a limit of indemnity of £100,000.
- ❑ Opus have provided a number of service for consideration

Liability Claims Handlers

Quotations were received from Zurich Municipal and Gallagher Bassett

The terms offered by Gallagher Bassett are linked to cover being placed with Chartis Insurance UK Ltd. Those terms offered by ZN are subject to cover being placed with ZM



Comment & Recommendation

In recent years local Authority Insurance tenders have generated competition which has resulted in reduced insurance costs across most sectors. This has been led by a wish for market share by insurers and a general softening of premium rates within the UK insurance market.

Marsh believe rates may start to rise shortly, not only because competition has driven rates to their lowest point for some years, but also as a result of the well publicised issues within financial markets globally. These issues will, at some point, impact on reinsurance and general insurance markets forcing rates up.

It was important therefore, that this tender generated maximum benefit to the Authority as the proposed contract would last for a number of years during which time Marsh anticipate rates rising.

The tender document developed jointly by Marsh and the Authority reflected the risks currently faced by the Authority. In addition items identified through a formal review process conducted by Marsh completed prior to the tender exercise were incorporated into the document. The tender document painted a positive image whilst ensuring underwriters had full material fact to underwrite the risks

Of the 26 markets approached 9 offered quotations. Zurich Municipal and Risk management Partners both offered complete package quotation where all covers requested in the tender document were quoted. ZM's quotation did have some omissions which have been addressed by them after submission. Travellers indicated terms for the Liability, Motor and Fidelity risks. The remaining markets indicated terms for select elements of the covers available.

When evaluating a tender it is important that insurers offering to underwrite a number of covers state whether their bid is on an "all or nothing" basis and, if not, which elements of their bid can be placed in isolation. Marsh can confirm that all markets are willing to allow elements of their bids to be placed in isolation and where package discounts have

been offered, each bidder has indicated how their rates will be affected if their bid is broken up.

Evaluation

Marsh has evaluated each bid against the requirements of the tender document. Whilst price should not be the governing factor in a placement strategy, this is a key consideration for the Authority at this time and the evaluation has been designed to maximise the savings available without unduly exposing the Authority to additional risk.

It should be noted that as the contracting Authority it is the Authority who will decide the appointment of the successful bidder. The comments in this report are intended to provide the Authority with an independent, impartial view of the tender submissions on which to make an informed decision.

Comments on each of the evaluation criteria are as follows:-

- **Price**

In the appendix to this report we have provide a full summary of the premiums for each bid.

Whilst ZM's package quotation is the most competitive complete bid from one insurer it is possible to construct an alternative programme to ZM's utilising the most competitively priced available elements of cover from a number of insurers. Marsh has been careful to ensure that, in constructing an alternative to ZM, all relevant covers have been included in the alternative bid. For the sake of clarity the alternative programme is referred to as the "Composite Bid "in this report.

The following table provides information on the bid price from ZM against a Composite bid price which utilises the most competitive available elements from all other insurers.

For the sake of completes and to ensure full transparency Marsh must point out that a more competitively priced bid (approximately £15,000) could be constructed by utilising alternative prices provided by ZM during the tender clarification stage. The changes to price and in certain instances cover, may constitute a change of bid after the cut of date and for this reason Marsh have discounted the alternatives from this evaluation.

It should be noted that in compiling this table Marsh have assumed the Authority wishes to maximise the savings available and have therefore indicated terms on the basis of a five year long terms agreement. This has been driven by the requirement of Chartis and ZM were maximum discounts are only available if cover is placed on a 5 year basis.

Cover	ZM	Composite Bid	Insurers
Liability	234,500.00	232,900.00	Chartis
Hirers Liability	7,571.88	Included In Liability	
Motor	Included In Liability	36,014.00	Chartis
Liability Claims Handling	11,460.00	2,500.00	Chartis
Fidelity Gurantee	28,149.97	17,525.00	Chartis
Personal Accident/Travel	20,863.11	18,295.00	Chartis
School Journey	8,000.00	Included in PA	Chartis
Property Damage	620,585.42	628,063.84	ZM
Engineering Insurance	5,123.50	16,250.00	Allianz
Engineering Inspection	107,553.75	88,895.00	Allianz
Contract works/HIP	Included In Property	2,700.00	Allianz
Computer	14,721.28	12,375.00	Allianz
Premium Package Total	1,058,528.91	1,055,517.84	
Package Discount	Included	-50000	
TOTAL DUE	1,058,528.91	1,005,517.84	

Based on the price the most economic bid is the Composite bid, which utilises a number of insurers.

- **Extent of policy coverage**

Each insurers policy wording will be different. However, all bidders responding to this tender are specialist underwriter of the public risk and have developed wordings which address the specific needs of the sector.

The price evaluation has identified the Composite bid as more competitive than any other bid. Therefore, Marsh has concentrated efforts on reviewing the cover being provided by the insurers involved in that bid. For the sake of clarity the insurers involved in the Composite bid are:-

- Property including
 - Material Damage
 - Loss of Revenue/Rent
 - Additional Expenditure
 - All risks
 - Money
 - Terrorism : Zurich Municipal
- Liability : Chartis Insurance UK Ltd
- Liability claims handling : Chartis Insurance Uk Ltd
- Motor : Chartis Insurance UK Ltd

- Personal Accident/Travel : Chartis Insurance UK Ltd
- School Journey : Chartis Insurance Uk Ltd
- Fidelity : Chartis Insurance Uk Ltd
- Computers, Hired in Plant
Contractors Works : Allianz
- Engineering Insurance : Allianz
- Engineering Inspection : Allianz

In general the cover is offered in accordance with the tender specification. The following identifies additional benefits (blue bullet) and cover restrictions (red Bullet) under the Composite programme. To help in comparison with ZM's package bid Marsh have also indicated whether the differences would put the Authority in a worse (-) or better(+) position when compared to the package bid of ZM.

The major differences are:-

- Capital Addition limit of £10,000,000 to apply to the property policy.
- Property policy subject to a single loss limit of £100,000,000
- Property aggregate set at £1,200,000 sitting across all property sections. (including Work In Progress and BI)
- Money includes unofficial school funds
- Liability excess not subject to indexation (+)
- Liability Aggregate reduced to £900,000. Currently £1,325,000 (+)
- Terrorism is included in both Employers and Public Liability sections to the full policy limits. (+)
- Liability cover includes Pollution Legal Liability extension to a limit of £5,000,000 (+)
- Liability extended to cover Defence costs in relation to Corporate Manslaughter
- Legionella cover included under Public Liability section to full policy limits
- Liability policy is non adjustable (+)
- Hirers Liability extension subject to an increased limit of indemnity of £2,000,000. Currently £1,000,000. (+)
- Personal Accident, Travel and School Journey not subject to an end of year declaration (+)
- Personal Accident Benefit for Employees increased to a maximum of £1,000,000. (+)
- Personal Accident, Travel and School Journey have no terrorism exclusion (+)
- Personal Accident and School Journey benefits the same or better than current benefits (+)
- Fidelity Guarantee includes third party computer fraud (+)
- Travel benefits equal to or higher than existing. (+)

- Contract Works cover subject to a reduced excess of £25,000. Currently £50,000 rising to £100,000 for education risks (+)
- Hired in Plant excess £500 (+)
- Hired in plant subject to a higher limit of £100,000. Currently £50,000 (+)
- Computer cover on All Risks basis (including Theft). No need for cover under the main material damage policy (+)
- Money in transit subject to submission and acceptance by underwriters of the vehicles specification in situations where amount in transit exceeds £10,000
- Asbestos cover excluded from the Liability sections apart from Employers Liability (market norm)
- Excludes Cyber Liability (Market norm)
- Hired in Plant police excluded damage to Scaffolding access towers, ladders and aluminum trackways. Also assumes annual hiring fees of £10,000 (-)

Both programmes offer benefits and drawbacks, however in the opinion of Marsh the benefits offered under the Composite bid make that programme a more robust offering for the Authority. This position is reflected in the scoring matrix.

It should also be noted that the initial bid of ZM did not include elements of essential cover. Clarification with ZM identified that certain elements were included but not specifically mentioned in their bid document. However, there were essential elements of cover (eg Theft) where ZM failed to include the cover in their package bid or choose not to offer the required limits. Whilst ZM rectified this through the clarification process the inclusion of additional cover after the tender cut off could be considered a change of bid. Marsh must only clarify bids and can not accept changes to bids without the express instruction of the Authority. The scoring matrix accounts for this position

- **Experience**

All responding markets were invited to tender due to their understanding of public sector risk and their experience of underwriting public sector portfolios. Whilst it is generally accepted that ZM have the most experience of all underwriters, by virtue of their sizable client base all bidders have significant risk exposure with the Public sector and can be considered as having a full understanding of the issue you face.

ZM's position in the market is reflected in the scoring matrix.

- **Financial security**

It is imperative that any insurer used by the Authority offer the highest possible levels of financial security. Marsh can confirm that all bidders meet the strict financial security rules laid down by the Marsh securities department and the Financial Services Authority. Marsh does not feel any of the bidders represent a poor financial risk and would be happy to recommend any responding market. The scoring matrix represents this position

- **Flexible Underwriting**

All bidders have demonstrated flexibility whilst dealing with other accounts managed by Marsh. ZM, Chartis (RMP), Travellers have all amended wordings to accommodate changes in legislations and the specific issues facing the Public Sector. This demonstrates a wish to provide cover which offers genuine protection for the Public sector risk. Issue emanating from the Members and Officers Indemnity Bill, the Corporate Manslaughter Act and more recently, the Environmental Damages Act, are all now reflected in the covers offered by Chartis, Travelers, and ZM. Other insurers have, where appropriate, amended wordings but in general the legislation driving the need for insurance coverage is liability related and does not generally affect non liability risks.

Flexibility is also demonstrated in the tender process itself. Clarification of bid issues shows a willingness of an insurer to match the requirements of the Authority. Marsh has found during this tender that all markets have been willing to clarify and where appropriate respond in a positive manor when issues regarding coverage have been raised. ZM, however, have been reluctant in certain instances to offer flexibility particularly around the wish of the Authority to maximise savings by spreading risk between insurers. Whilst Marsh recognises ZM's commercial ambitions the stance they have adopted does not demonstrate a willingness to be flexible and work in the best interest of the Authority. This is disappointing in view of the long term relationship the Authority has enjoyed with ZM.

- **Risk management:**

Travellers and RMP have offered specific risk management support by indicating the number of days they would provide for the covers placed with them. Travellers have offered 5 days of property and 5 days of Liability risk management support. This support is operational in nature and is targeted at exposure reduction. Risk Management Partners have offered 8 Days of Liability and 5 Days of Property Risk management support. RMP offer much wider support that can include strategic as well as operational risk issues. RMP have further confirmed that they can commute their support to a risk management bursary of discount from the premium. ZM have offered a bursary of £8,000 if all covers are placed with them or £5,000 if only the property is placed with them. ZM like RMP offer both operational and strategic support.

- **Claims management**

The Authority has historically handled all claims within the excess. The market presentation made this clear to bidders and Travellers and Risk Management Partners have both confirmed that they are happy for this to continue. Both reserve the right to step into large and contentious claims and require regular updates from the Authority, but both are generally happy for the current position to continue. ZM have also confirmed their agreement to continue with the current arrangements but have requested the use of a claims protocol. Part of that protocol requires the Authority to gain the agreement of ZM before a claim is settled. In effect the protocol puts conditions on the Authorities autonomy to

handle claims within the excess. If this protocol were accepted it would inevitably lead to increased cost to the Authority as the referral process would introduce additional administrative burden. The ZM protocol potentially prevents the Authorities ability to manage costs within the excess. The scoring matrix reflects this position

Bid Scoring

Because the Authority requires the placement of a complete package of covers it is not appropriate to comment on scores for individual heads of cover as these become irrelevant when having to place a complete package. Therefore, for the purpose of discussion, Marsh has chosen to comment on the scores for the two most competitive bids from ZM and the Composite bid outlined in the previous pages.

It should be noted that scores have been given to individual bids where choice was available when constructing the composite bid. Details of the scores can be found in the appendix to this report

The following table provides the score Marsh feel are reasonable based on the matrix agreed with the Authority and the information provided by each bidder. **The scores given are those of Marsh and the Authority must be satisfied that the scores are reasonable if they are to be used for deciding the placement of cover.**

Criteria	Score	Composite Bid	Zurich Municipal
Price	60%	60%	57%
Quality	40% (split as follows)	37% (split as follows)	34% (split as follows)
Extent of cover and claims service provided (Compliance with the tender specification and ability to meet claims requirements of the Council);	20%	19%	16%
Experience of underwriting similar risks in the Public Sector (provision of technical support on complex insurance issues);	5%	4%	5%
Risk Management Support	5%	5%	4%
Financial and economic standing of the tenderer;	5%	5%	5%
Flexible underwriting approach (ability to accommodate the changing risks of the public sector);	5%	4%	4%
TOTAL	100%	97%	91%

Recommendation

Based on the scores achieved in the matrix Marsh recommends that cover be placed as follows.

Cover	Composite Bid	Insurers
Liability	232,900.00	Chartis
Hirers Liability	Included In Liability	
Motor	36,014.00	Chartis
Liability Claims Handling	2,500.00	Chartis
Fidelity Guarantee	17,525.00	Chartis
Personal Accident/Travel	18,295.00	Chartis
School Journey	Included in PA	Chartis
Property Damage	628,063.84	ZM
Engineering Insurance	16,250.00	Allianz
Engineering Inspection	88,895.00	Allianz
Contract works/HIP	2,700.00	Allianz
Computer	12,375.00	Allianz
Premium Package Total	1,055,517.84	
Package Discount	-50000	
TOTAL DUE	1,005,517.84	

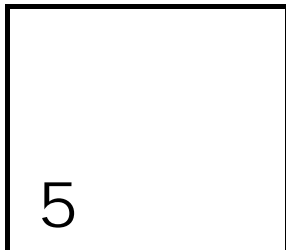
The contract should be awarded for 5 years to ensure the maximum savings are derived from the tender.

In making this recommendation Marsh would comment as follows

- A meeting should be held with ZM and Risk Management Partners as soon as possible after the ending of the standstill period. During this meeting claims handling can be discussed to ensure all parties are familiar with requirements before the contract starts.
- The Authority should consider the offer by ZM to rationalise the excesses under the Property Policy to £50,000. Currently a range of excess applies from £50,000 up to £1,000,000 for certain property types. Payment of an additional premium (see section 4) will transfer significant risk exposure to the market. This will provide the Authority with greater budget stability.

NOTE

It is imperative that the Authority fully understand the cover being offered by the recommended market. Copies of the policy wordings have been provided by the recommended market and we would urge you to review these documents to ensure you full understand the cover being offered. Whilst Marsh is satisfied that the cover does not unduly expose the Authority to significant risk it is for the Authority to consider the recommendation in light of its plans and objectives. Marsh will be happy to discuss technical aspects of the cover with you if required.



Marsh Remuneration

The basis on which we provide our services to you is detailed within our 'Terms of Engagement', a copy of which can be found in the appendix of this report.

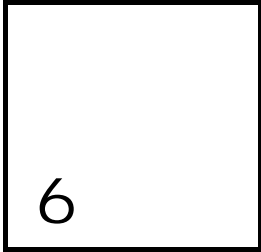
We are remunerated for the services we provide to clients in the form of fees or retention of part of the insurance contract premium (known as 'brokerage') or, by agreement, a combination of both. In addition, Marsh receives a 'market brokerage' on all placements of UK based risks, which is retained by Marsh; the rate applicable for each policy is detailed within the Placement Authorisation Form.

Marsh may secure quotations for your business with insurers whose Products are developed and delivered via Placement Plus, a specialist business unit within Marsh. Placement Plus provides product development services, distribution support and IT infrastructure for the benefit of the insurers with which it trades and Marsh is remunerated by insurers for those services it provides. Further details are available on request.

In the appendix, we have provided you with a Letter of Engagement that should be read in conjunction with our Terms of Engagement, which we would like to review and discuss with you. The principal purpose of the Letter of Engagement is to document the services that you require and can expect to receive from us, together with the basis on which we will be remunerated.

In appendix we have provided you with a Placement Authorisation Form which summarises our recommended renewal premiums and our remuneration. As part of our commitment to transparency, we require written renewal/placement instruction. You may therefore like to utilise the placement authorisation form or you can email us your instructions accordingly.

Unless you inform us in writing to the contrary, we will assume that the letter accurately reflects our Terms of Engagement, and once we have commenced any work forming part of the Services we shall be deemed to have your implied acceptance of our Terms of Engagement.



Premium payment

All premiums due for payment to Marsh are due for payment on receipt of invoice.

You will be advised if specific premium warranties apply to terms of a specific insurer.

Premiums due to Zurich Municipal are due for payment 30 days from the date of inception. Late payment will incur a 1% surcharge for every month (or part thereof) over the 30 days.

Appendix I

Market Presentation (Embedded Document)



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PM's Office 2008 onw

Appendix II Premium Summary Tables

Cover	ZM	RMP	Travellers	Chubb	RSA	Allianze	ACE	Composite Bid
Liability								
Public Liability	234,500.00	232,900.00	191,521.25	No Quote	No Quote	No Quote	No Quote	232,900.00
Employers Liability	Included	Included	Included	No Quote	No Quote	No Quote	No Quote	Included
Officials Indemnity	Included	Included	Included	No Quote	No Quote	No Quote	No Quote	Included
Professional Indemnity	Included	Included	Included	No Quote	No Quote	No Quote	No Quote	Included
Liability Extensions	500.00	Included	Included	No Quote	No Quote	No Quote	No Quote	Included
Gross Sub Total	234,500.00	232,900.00	191,521.25	No Quote	No Quote	No Quote	No Quote	232,900.00
LTA Discount	Included	Included	Included	No Quote	No Quote	No Quote	No Quote	Included
Sub Total	234,500.00	232,900.00	191,521.25	No Quote	No Quote	No Quote	No Quote	232,900.00
Motor								
Motor Vehicles	Included	36,014.00	No Quote	No Quote	No Quote	No Quote	No Quote	36,014.00
Sub Total	0.00	36,014.00	0.00	No Quote	No Quote	No Quote	No Quote	36,014.00
Property Damage								
General Property	467,944.33	682,352.25	782,327.40	No Quote	No Quote	No Quote	No Quote	477,303.22
Work In Progress	4,836.56	3,750.00	Included	No Quote	No Quote	2,700.00	No Quote	2,700.00
Gross Revenue	2,368.16	Included	Included	No Quote	No Quote	No Quote	No Quote	2,415.52
Additional Expenditure	27,231.75	Included	Included	No Quote	No Quote	No Quote	No Quote	27,776.39
Rent receivable	2,938.65	Included	Included	No Quote	No Quote	No Quote	No Quote	2,997.42
Money	2,615.02	Included	Included	No Quote	No Quote	No Quote	No Quote	2,667.32
All Risk	2,137.50	Included	Included	No Quote	No Quote	No Quote	No Quote	2,180.25
Theft	8,713.45	Included	Included	No Quote	No Quote	No Quote	No Quote	8,887.72
Terrorism	101,800.00	97,680.79	81,327.67	N/A	N/A	N/A	N/A	103,836.00
Sub Total	620,585.42	783,783.04	863,655.07	No Quote	No Quote	2,700.00	No Quote	630,763.84
Additional Covers								
Engineering Insurance	5,123.50	11,800.00	No Quote	No Quote	4,430.95	16,250.00	No Quote	16,250.00

Fidelity Guarantee	28,149.97	17,525.00	Included in PD	No Quote	No Quote	No Quote	No Quote	17,525.00
Personal Accident	20,638.11	18,295.00	No Quote	25,827.45	No Quote	No Quote	13,340.02	18,295.00
Travel	225.00	included in PA	No Quote	Included in PA	No Quote	No Quote	Included in PA	Included in PA
Computer	14,721.28	Included in PD	No Quote	No Quote	No Quote	12,375.00	No Quote	12,375.00
Sub Total	68,857.86	47,620.00	0.00	25,827.45	4,430.95	28,625.00	13,340.02	64,445.00
Stand Alone								
Contractors Plant	250.00	Included in CAR	No Quote	No Quote	No Quote	Included in CAR	No Quote	Included in CAR
Hired In Plant	Included	Included in CAR	No Quote	No Quote	500.00	Included in CAR	No Quote	Included in CAR
School Journey	8,000.00	Included In PA	No Quote	2,138.40	No Quote	No quote	No Quote	Included in PA
Hirers Liability	7,571.88	Included in PL	Included in PL	No Quote	No Quote	No quote	No Quote	Included in PL
Sub Total	15,821.88	0.00	No Quote	2,138.40	500.00	0.00	0.00	0.00
Premium Package Total	939,765.16	1,100,317.04	1,055,176.32	27,965.85	4,930.95	31,325.00	13,340.02	964,122.84
Services								
Engineering Inspection	107,553.75	118,131.75	No Quote	No Quote	113,833.00	88,895.00	No Quote	88,895.00
Liability Claims Handling	11,460.00	2,500.00	Not included	N/A	N/A	N/A	N/A	2,500.00
Sub Total	119,013.75	120,631.75	No Quote	No Quote	113,833.00	88,895.00	0.00	91,395.00
Package Discount	Included	-50,000.00	Included		-11,876.30			-50,000.00
Premium & Fee Total	1,058,778.91	1,170,948.79	1,055,176.32	27,965.85	106,887.65	120,220.00	13,340.02	1,005,517.84
VAT	20,827.41	21,110.56	N/A	N/A	19,920.78	15,556.63	N/A	15,994.13
IPT	46,988.26	55,015.85	52,758.82	1,398.29	246.55	1,566.25	667.00	48,206.14
TOTAL DUE	1,126,594.57	1,247,075.20	1,107,935.14	29,364.14	127,054.97	137,342.88	14,007.02	1,069,718.10

Appendix II

Bid Scoring for bids making up the Composite bid

Property

Criteria	Score	Zurich Municipal	Risk Management Partners
Price	60%	60%	45%
Quality	40% (split as follows)	37% (split as follows)	35% (split as follows)
Extent of cover and claims service provided (Compliance with the tender specification and ability to meet claims requirements of the Council);	20%	18%	18%
Experience of underwriting similar risks in the Public Sector (provision of technical support on complex insurance issues);	5%	5%	4%
Risk Management Support	5%	5%	4%
Financial and economic standing of the tenderer;	5%	5%	5%
Flexible underwriting approach (ability to accommodate the changing risks of the public sector);	5%	4%	4%
TOTAL	100%	97%	80%

Liability & Motor

Criteria	Score	Zurich Municipal	Risk Management Partners
Price	60%	56%	60%
Quality	40% (split as follows)	35% (split as follows)	36% (split as follows)
Extent of cover and claims service provided (Compliance with the tender specification and ability to meet claims requirements of the Council);	20%	17%	19%
Experience of underwriting similar risks in the Public Sector (provision of technical support on complex insurance issues);	5%	5%	4%
Risk Management Support	5%	4%	4%
Financial and economic standing of the tenderer;	5%	5%	5%
Flexible underwriting approach (ability to accommodate the changing risks of the public sector);	5%	4%	4%
TOTAL	100%	91%	96%

Note:

The score for RMP is based on the inclusion of the full package discount offered. This means that premium of RMP is below that of the ZM quotation

Travelers provided terms for the Liability risk. However Both ZM and RMP indicated terms for the motor and Liability on a package. To benefit from the available discounts both must be placed together. Therefore as Travelers did not indicate terms for the Motor we were unable to evaluate.

Personal Accident, Travel, School Journey

Criteria	Score	Zurich Municipal	Chubb	Risk Management Partners
Price	60%	26%	29%	60%
Quality	40% (split as follows)	34% (split as follows)	35% (split as follows)	35% (split as follows)
Extent of cover and claims service provided (Compliance with the tender specification and ability to meet claims requirements of the Council);	20%	18%	20%	20%
Experience of underwriting similar risks in the Public Sector (provision of technical support on complex insurance issues);	5%	5%	4%	4%
Risk Management Support	5%	2%	2%	2%
Financial and economic standing of the tenderer;	5%	5%	5%	5%
Flexible underwriting approach (ability to accommodate the changing risks of the public sector);	5%	4%	4%	4%
TOTAL	100%	60%	64%	95%

Note:

ACE indicated terms for the personal accident and Travel but not the School Journey. The later can not be placed in isolation therefore evaluation was conducted on a package basis

Engineering Inspection & Insurance, Contract Works, Hired In Plant and Computer

Criteria	Score	Zurich Municipal	Royal & Sun Alliance	Allianze	Risk Management Partners
Price	60%	55%	46%	60%	52%
Quality	40% (split as follows)	32% (split as follows)	23% (split as follows)	33% (split as follows)	32% (split as follows)
Extent of cover and claims service provided (Compliance with the tender specification and ability to meet claims requirements of the Council);	20%	18%	10%	20%	19%
Experience of underwriting similar risks in the Public Sector (provision of technical support on complex insurance issues);	5%	5%	4%	4%	4%
Risk Management Support	5%	0%	0%	0%	0%
Financial and economic standing of the tenderer;	5%	5%	5%	5%	5%
Flexible underwriting approach (ability to accommodate the changing risks of the public sector);	5%	4%	4%	4%	4%
TOTAL	100%	87%	69%	93%	84%

Note:

RSA have note quoted for the Contract works of Computers but have been included for the sake of completeness

Appendix IV Placement Authorisation Form

Placement authorisation form

Client Name:	Portsmouth City Council	
Client Address:		
Renewal Date:	30 June 2010	

	Policy	Insurer / Market	Cover basis Enter either As per report date [insert date], As per minutes dated [insert date] or details of other cover basis.	Premium payable before UK tax (GBP)	Commission rate (‘NIL’ if fee only)	UK brokerage rate applicable
1	Property Damage, including general property, Gross revenue, additional expenditure, rent receivable, money, All Risk, Theft, Terrorism	Zurich Municipal	As per tender report dated 25 February 2010	628,063	Nil	Nil
2	Liability(including Public, employers, Professional, Officials, Libel Slander, hirers and extensions), personal accident, travel, school Journey and Fidelity	Chartis Insurance UK Ltd	As per tender report dated 25 February 2010	304,734	Nil	2.5%
3	Engineering Inspection/Insurance, Hired in Plant, Contractors Works and Computer	Allianz	As per tender report dated 25 February 2010	120,220	Nil	2.5%
4	Liability Claims Handling	Callagher Bassett	As per tender report dated 25 February 2010	2,500	Nil	Nil

Marsh Remuneration: Annual Fee of £16,316

Note: UK Brokerage applies where indicated in the right hand column in addition to the standard Marsh Remuneration.

Where the brokerage shown is greater than 2.5%, the placement is via a facility co-developed by Marsh and the insurer(s) for the exclusive benefit of Marsh clients.

Comments / Additional Instructions:

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Signed:		Dated:	
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MARSH



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Appendix V

Letter and Terms of Engagement

Registered in England Number: 1507274, Registered Office:

Marsh Ltd, 1 Tower Place, London EC3R 5BU

Marsh Ltd is authorised and regulated by the Financial Services Authority.

Dominic Kirby
Risk Manager
Portsmouth City Council
Civic Offices,
Guildhall Square,
Portsmouth
PO1 2BJ

Dear Dominic

Engagement with Marsh Ltd: insurance Tender 2010

Marsh is pleased that Portsmouth City Council (“you” or the “Client”) has chosen Marsh Ltd (“Marsh”) to act as your insurance broker and risk advisor during this tender process. Marsh looks forward to a proactive and long-standing relationship with you.

Our goal is to provide a level of service that assures your satisfaction. The first step in realising this goal is to ensure that we share a mutual understanding of our relationship.

Terms of Engagement

This letter (the Letter of Engagement), together with the Terms of Engagement attached form the legal agreement between us (the “Engagement”), under which Marsh agrees to supply the services set out below. In the event of any difference between the Terms of Engagement and this Letter of Engagement, this Letter of Engagement shall take precedence.

1. Services

1.1 Marsh will provide you with the services set out in Appendix A (the “Services”) and any other such services (apart from the Additional Services referred to in clause 1.2 below) as may be agreed, either expressly or impliedly, between you and Marsh from time to time after the commencement of this Letter of Engagement (the “Services”).

Registered in England Number: 1507274, Registered Office:

1 Tower Place West Tower Place London EC3R 5BU

Marsh Ltd is authorised and regulated by the Financial Services Authority.

Marsh Ltd conducts its general insurance activities on terms that are set out in the document “Our Business Principles and Practices”. This may be viewed on our website <http://www.marsh.co.uk/aboutMarsh/principles.html>



1.2 Additional services may be available subject to the negotiation of a separate remuneration package. Examples of the Additional Services can be found in Appendix A. Unless otherwise agreed in writing, the provision of any Additional Services will be subject to the same terms and conditions as this Engagement (apart from those relating to remuneration).

2. Remuneration

2.1 You agree to Marsh a Fee for the Services outlined in Appendix A of this Letter of Engagement. The fee shall be £16,316 (net of all discounts) and shall apply for the following period

From : 1 April 2010
To : 31 March 2011

2.2 In addition to the above fees that you pay us, Marsh may receive a brokerage on some placements undertaken on your behalf, which is retained by Marsh. Any arrangements we have with you for the rebating of commission will not apply to this fixed brokerage. If this applies to the risks we place on your behalf this will be disclosed to you prior to placement.

2.3 We will review our remuneration arrangements annually, and agree with you in advance of any renewal of your insurance policies the amount or basis on which we will be remunerated for the following year.

2.4 You are entitled, at any time, to request information regarding any commission which we may have received as a result of placing your insurance business.

3. Term and Termination

3.1 Marsh's engagement shall commence on 1 April 2010 and shall continue thereafter unless terminated by either party giving 90 days' prior written notice to the other.

3.2 Marsh's obligation and the obligation of its Affiliates to provide the Services to you will cease upon the effective date of termination, unless otherwise agreed in writing.



Page 41

4. Authorisation

4.1 Marsh shall be authorised to represent and assist you in all discussions and transactions with insurers relating to the insurances and services listed in Appendix A, provided that Marsh shall not place any insurance on your behalf unless so authorised by you in writing in advance.

1. 5. Limitation of Liability

5.1 In the attached Terms of Engagement, we would specifically draw your attention to clause 6 headed "Limitation of Liability" which refers to the limitation of Marsh's liability which shall be capped at the amount specified in clause 6.1 of those Terms of Engagement.

We appreciate your business and we look forward to working with you. Unless you inform us in writing to the contrary, we will assume that this letter accurately reflects the terms of our engagement, and once we have commenced any work forming part of the Services we shall be deemed to have your implied acceptance of the terms of this Engagement.

Yours sincerely,

Peter Mason
Vice President and Client Executive



Appendix A

Services Schedule

The Services to be supplied by Marsh are as specified below, for the lines of insurance included in the Policy Schedule. In addition Marsh can supply Additional Services, subject to the agreement of individual terms and fees with the Client.

1. Renewal Process

Renewal planning

- Determine strategy and action plan for renewal.
- Review the risks to be insured, claims profile, potential insurers and programme options.
- Review premium payment terms and discuss premium finance options.

Data collection

- Establish format of renewal questionnaire and responsibilities for data collection.
- Agree claims information required and responsibilities for collection.
- Clarify requirements for claims analysis to assist in market placement.

Prepare and submit presentation to insurers

- Prepare/update presentations to insurers including validation by client
- Agree need for client presentations and/or meetings with insurers

Obtain and refine terms

- Obtain quotations from agreed insurers and compare cover/terms and pricing between options.
- Discuss programme options with client including premium payment terms and any finance requirements, and receive renewal instructions.

Placement

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- Place covers with insurers per renewal instructions, including agreement on allocation of premium taxes.
- Issue statutory certificates and cover notes.
- Advise broker service network of the renewal outcome
- Confirm to client that cover is placed as per instructions.

Post placement

- Finalise any outstanding renewal matters.
- Agree and produce premium allocations, as required.
- Issue invoices, collect premiums and pay insurers, as agreed.
- Issue a register of insurances.
- Check and arrange issue of policy documentation.
- Finalise claims reporting procedures with insurers specific to your requirements.

2. General advice/administration

- Provide ongoing advice on the extent of policy coverage.
- Action mid-term amendments and policy declarations.
- Review and advise on insurance clauses contained in business contracts.
- Provide general information on insurance market developments and other risk and insurance issues.

3. Claims Services

- Set up reporting procedures with your insurers which are specific to your requirements including the production of reports from insurers prior to renewal.
- Provide a claims reporting manual with contact details for Insurers, Loss Adjusters and ULR providers
- Provide Technical support if required for complex and contentious claims
- Use of claims feedback to assist in market placement



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- Monitor overall claims service provided by insurers
- Access to a 24hr helpline number for initial advice following a major loss and access to our claims consultants.

4. Risk management Support

- Discuss your risk management needs
- Facilitate the provision of specialist services (see Additional Services below)
- Work with you to maximise insurers involvement and obtain, where available, all available Risk management advice from your insurance companies.
- Share best practice

5. Additional Services

Any Additional Services which Marsh agrees to supply, to those listed above, will be subject to the agreement of individual terms and fees with the Client.

Examples of service not automatically include are:-

- Provision of quotations for, and the subsequent placement and handling of, cover in respect of any risk capable of transference to the insurance market which is identified by you after the inception of this agreement, including higher limits in respect of any of the Insurance Policies.
- Risk management services at a strategic or operational level requiring the input of any of our specialist consultants/surveyors or the provision of analytical tools
- Provision of advice and/or solutions using alternative risk financing techniques or Risk Financing reports.
- Any advice in connection with any merger, acquisition or disposal activity in which you are involved including the subsequent provision of core services in the case of an acquisition or merger
- The provision of operating guidelines or manuals or the like for your internal use



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- Investigations into past insurance history where we have not acted as your insurance broker
- Consultancy services in respect of complex or major or disputed claims
- Work in relation to PFI's/PPP or other similar large scale contractual project

This list is not exhaustive.



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Policy Schedule

- Combined Material Damage
- Combined Liability
- Personal Accident/Travel/School Journey
- Motor Fleet
- Computer
- Fidelity Guarantee
- Engineering Risks
- Terrorism
- Small Craft/Marine
- And covers as agreed from time to time

Marsh Ltd - Terms of Engagement

Introduction

Marsh Ltd ("Marsh") carries on business as independent insurance intermediaries and risk consultants offering a wide range of insurance services to clients. These Terms of Engagement, together with any Letter of Engagement, form the basis on which Marsh will provide its core service of advising on and/or arranging insurance policies to meet its client's ("you" or "your") needs, or other services to be provided by Marsh which will be set out in writing to you.

These Terms of Engagement apply to all engagements accepted by Marsh, and all work carried out is subject to these Terms of Engagement, except to the extent that changes or other terms are expressly agreed in writing. If you are unhappy with any of the terms or require further explanation, please contact your usual Marsh contact.

Marsh aims at all times to treat clients fairly. Marsh will not deliberately put itself in a position where its interests, or its duty to another party, prevent it from discharging its duty to clients. Marsh maintains internal procedures and controls to identify and manage any potential conflicts, so that at all times the interests of all Marsh's clients are reasonably protected.

Financial Services Authority (FSA)

The FSA is the independent statutory body that regulates the financial services industry. Marsh is authorised and regulated by the FSA (no. 307511). This can be checked on the FSA Register by visiting the FSA's website: www.fsa.gov.uk/register/ or by contacting the FSA on 0845 606 1234.

Complaints

Should you wish to register a complaint, please contact your regular Marsh contact. Alternatively you may write to:

Head of Compliance
Marsh Ltd
Tower Place
London EC3R 5BU

Tel: 020 7357 1984
Fax: 020 7929 2705

A copy of Marsh's complaints procedure is available on request, however, if you cannot settle your complaint with Marsh, you may be entitled to refer it to the Financial Ombudsman Service.

Financial Services Compensation Scheme (FSCS)

Marsh is covered by the FSCS. You may be entitled to compensation from the FSCS if Marsh fails to meet its obligations. This depends on factors such as the type of business and the circumstances of the claim. Insurance advising and arranging is covered for 100% of the first £2,000, and 90% of the remainder of the claim, without any upper limit. For compulsory classes of insurance, insurance advising and arranging is covered for 100% of the claim, without any upper limit. Further information about compensation scheme arrangements is available from the FSCS.

Making a claim

Most insurance policies have strict requirements about what the insured should do if they have a claim or if they know about something that might lead to a claim in the future. It is your responsibility to understand these requirements and any relevant limitation period for commencing legal proceedings or other forms of dispute resolution against insurers should the need occur.

Save as agreed in the Letter of Engagement, together where appropriate with separate remuneration, Marsh's services do not automatically include any claims handling or advisory services. Unless otherwise agreed, any claims-related services that Marsh may provide will cease if Marsh's appointment is terminated or Marsh is otherwise not retained in relation to the renewal or replacement of a policy.

Market security

Marsh only places insurance with insurers that meet its minimum financial standards, unless a client provides specific instructions to the contrary. Marsh does not guarantee the solvency or continuing solvency of any insurer and clients should note that the financial position of an insurer can change.

If an insurer ceases trading Marsh will do its best to assist its clients, but you should note that in those cases of insurer insolvency where the insurer has granted Risk Transfer to Marsh, premiums held by Marsh will be deemed to have been paid to that insolvent insurer and therefore cannot be returned to clients. Similarly, claims monies held by Marsh may be returnable to the insolvent insurers or their liquidators, rather than clients.

Useful contact details

Marsh Ltd
Tel: 020 7357 1000
Website: www.marsh.co.uk

Financial Services Authority
Tel: 0845 606 1234
Website: www.fsa.gov.uk

Financial Ombudsman Service
Tel: 0845 080 1800
Website: www.financial-ombudsman.org.uk

Financial Services Compensation Scheme
Tel: 020 7892 7300
Website: www.fscs.org.uk

1. **Products and Services**
 - 1.1 Marsh will provide the Services as defined in the Letter of Engagement accompanying these Terms of Engagement. These Terms of Engagement together with any Letter of Engagement represent the legal contract ("the Engagement") between Marsh and you, and in the event of any difference between the Terms of Engagement and the Letter of Engagement, the Letter of Engagement shall take precedence.
 - 1.2 Marsh will normally make a recommendation to you, after your needs have been assessed, for insurance policies. You will need to make your own choice about how to proceed and, on receipt of your instructions, Marsh will endeavour to arrange insurance, subject to availability, to meet your stated requirements.
 - 1.3 In some instances Marsh may only access insurance policies from a limited number of insurers, or even only a single insurer. A list of insurers Marsh intends to or has approached will be disclosed to you. Marsh is not itself an insurer of any risk.
 - 1.4 Marsh shall provide the Services either itself or, where it considers this appropriate, through one or more of its Affiliates or sub-contractors.
 - 1.5 You agree that in certain circumstances the ongoing servicing of your insurance arrangements may be transferred to an insurer or other third party.
 - 1.6 If you would like Marsh to provide additional services to those agreed in the Letter of Engagement, these will be subject to agreeing an additional fee and/or commission. In the absence of agreement over the additional fee and/or commission, you will pay Marsh a reasonable fee for the services carried out, based on Marsh's standard charge out rates for the staff involved.
 - 1.7 Marsh does not assume any liability for the effectiveness or completeness of your existing insurance programme (if any) or any insurance policies placed by you directly or by another insurance broker, or for any acts or omissions occurring prior to the date of the commencement of Marsh's Engagement.
 - 1.8 You should note that Marsh is not qualified to provide, and will not provide, accounting, regulatory or tax advice. Any information Marsh provides on insurance regulatory and tax issues would be based on publicly available information and Marsh's experience derived from involvement in such matters for other clients. In all instances, Marsh recommends that you seek your own advice on such matters from professional legal and tax advisers. Subject to 1.6 above, Marsh would be delighted to work with you and your appointed advisers to help identify regulatory and tax issues that could impact on any global insurance arrangement.
2. **Remuneration**
 - 2.1 Marsh will be remunerated for its Services in accordance with any Letter of Engagement, which shall be in one of three ways:
 - a specific fee paid by you; or
 - a percentage commission of the premium due to the insurer for your insurance policies (please note that this will be the basis for Marsh's remuneration unless otherwise agreed); or
 - a combination of fee and commission.
 - 2.2 Before Marsh accepts any remuneration from a third party (relating to insurance policies arranged for you), it will disclose to you the amount (or commission rate). You are also entitled, at any time, to request information regarding any commission which we may have received as a result of placing your insurance business.
 - 2.3 Unless specifically agreed to the contrary, Marsh shall be considered to have earned all remuneration in full at the time the policy is placed. Marsh reserves the right to retain in full all remuneration so earned even where an insurance policy is amended, terminated or otherwise cancelled. This does not affect any statutory cancellation rights. The remuneration of Marsh is not conditional on the placement of an insurance policy being made, and Marsh reserves the right to be remunerated for the work it has undertaken.
 - 2.4 Marsh reserves the right to charge reasonable expenses in relation to travel, accommodation and meals while working on your behalf away from the office, and for any excessive photocopying or telephone calls in handling your business.
 - 2.5 All fees, commissions and expenses are (unless otherwise expressly stated) exclusive of VAT, which will be added as appropriate.
 - 2.6 You will promptly pay the premium and any other charges that any insurer or Marsh invoices to you. Where the policy includes a premium payment warranty or condition, you acknowledge that failure to pay the insurer or Marsh in sufficient time may result in the insurer having the right to cancel the policy.
3. **Client money**
 - 3.1 Where Marsh acts on the client's behalf, the FSA requires that all client monies be held in a trust fund, for the purpose of protecting client money against Marsh's financial failure. If such circumstances arise, general creditors should not be able to make claims on the client monies, as they do not form part of Marsh's assets.
 - 3.2 Under certain conditions, Marsh may mix client monies with insurers' monies in the same fund, however, clients have first priority over insurers, whose rights to monies in the trust fund are subordinated to those of Marsh's clients. As a further measure of protection, Marsh has agreements with some insurers whereby premiums and claims monies received by Marsh are held on behalf, and as agent of, those insurers rather than on behalf of clients ("Risk Transfer").
 - 3.3 Marsh has elected to operate a non-statutory trust arrangement under which we are permitted to, and may, use such monies to cross-fund clients' premiums and claims. In some cases Marsh may:
 - deposit client money in bank accounts outside the United Kingdom, which are subject to different legal and regulatory conditions and may treat money differently in the event of bank failure. If you are a retail customer, you have the right to instruct Marsh not to deposit money in a particular jurisdiction.
 - pass your money to another intermediary, including those resident outside the United Kingdom who would therefore be subject to different legal and regulatory regimes, and such money may therefore be treated differently in the event of intermediary failure.
 - arrange to hold separately permitted designated investments with a value at least equivalent to the money that would otherwise have been paid into a separate client account. If Marsh does this, it will be responsible for meeting any shortfall in the client money funds, which are attributable to falls in the market value of those investments.
 - 3.4 The fact that Marsh holds money on trust gives rise to

fiduciary duties which (save in the case of Risk Transfer) are owed to clients until the client money reaches the insurer or product provider.

- 3.5 Marsh does not use client monies to pay itself commissions before premium is received from the client.
- 3.6 Marsh may earn interest or benefit from investment income or from foreign exchange differentials in the process of handling client money. Marsh reserves the right to retain all such benefits. This limits the need for additional charges that Marsh might otherwise have to make.
- 4. Client's Obligations**
- 4.1 Provision of information:**
In order to be able to arrange insurance to meet your requirements, you must:
- act at all times with utmost good faith towards your insurers and Marsh;
 - disclose to insurers both before the policy is placed, and at any other time when providing information to the insurer, all information, facts or circumstances which are, or ought to be, known to you and which are material to the risk;
 - ensure that when completing and signing any proposal form, or otherwise confirming information to insurers, the information provided is complete, accurate and provided within an agreed timescale.
- 4.2 You acknowledge that this duty is not limited to answering specific questions that may be asked by Marsh or the insurer, and further that the duty of disclosure arises again if you wish to make changes to your policy or when the policy is renewed or extended.
- 4.3 If you have any doubt whether information is material, you should disclose it to Marsh, as failure to do so might lead to your policy being avoided by insurers.
- 4.4 Marsh may communicate with its clients by electronic means (for example email), unless you specifically request that this is not done.
- 4.5 Records:**
You agree promptly to check all documentation supplied to you by Marsh or insurers to ensure there are no mistakes or misunderstandings. You will advise your usual Marsh contact or the insurer immediately of any errors or anything you believe is not in accordance with your instructions or specifications.
- 4.6 You are responsible for maintaining copies of your insurance policies, and any amendments to them, in a safe place for as long as it is possible for a claim to be made under them. New documentation may not be issued every year, and subject to any regulatory requirements, after expiry or termination (whatever the reason) of our appointment as your insurance broker, Marsh may not retain copies of policies placed by it on your behalf.
- 5. Term and Termination**
- 5.1 This Engagement shall commence on the date set out in any Letter of Engagement, failing which it shall commence on receipt of these Terms of Engagement, and shall continue thereafter until completion of the Services (or any substantial renewal thereof) or until terminated.
- 5.2 Either party may terminate this Engagement by serving not less than 90 days written notice on the other.
- 5.3 Either party may terminate this Engagement immediately, on

notice, if the other party:

- commits a material breach of any of its provisions, and in the case of a breach capable of remedy, fails to remedy it within 30 days of receipt of a notice setting out particulars of the breach;
 - becomes insolvent, or bankrupt, goes into liquidation, or makes any voluntary arrangement with its creditors, becomes subject to an administration order or has a receiver or administrative receiver appointed over its assets, or suffers a similar effect at foreign law.
- 5.4 Upon termination Marsh will assist in arranging a smooth transfer of your business, subject to the payment of all outstanding amounts due to Marsh.
- 5.5 After termination, unless otherwise agreed, Marsh will have no obligation to handle (or to continue to handle) claims relating to the policies placed by Marsh on your behalf.
- 6. Limitation of Liability**
- 6.1 The maximum aggregate liability of Marsh and its Affiliates to you, on any basis (including without limitation for damages for breach of contract or in negligence, in equity and/or for all interest, costs and expenses), arising out of or in connection with the provision of the Services or the Additional Services (including any amendments, variations or additions to those services whether expressly or impliedly agreed) shall be limited in total to the amount set out in our Letter of Engagement (or, in the absence of any such amount being specified therein, to the amount of £7,500,000).
- 6.2 Marsh and its Affiliates shall only be liable to you for any reasonably foreseeable losses, damages, costs or expenses arising directly from breach of contract, breach of duty or fault, negligence or otherwise, in connection with this Engagement. Marsh and its Affiliates shall not be liable to you in any circumstances for any special, indirect or consequential loss.
- 6.3 You accept that Marsh and its Affiliates have an interest in limiting the exposure of their directors, employees and consultants to litigation, and agree that you will not bring, or assist in bringing, any claim personally against any of Marsh's individual directors, employees or consultants, in connection with the performance of the Services under this Engagement. The provisions of this clause are intended to be for the benefit of such directors, employees and consultants who shall have the right to rely on and enforce these terms.
- 6.4 In respect of any loss suffered by you, for which Marsh and/or its Affiliates, and any other party are (on any basis) liable, the liability of Marsh and its Affiliates shall be limited so as to be proportionate to the relative contribution of Marsh and its Affiliates to the overall fault giving rise to the loss in question.
- 6.5 This clause 6 shall not apply to any liability arising as a result of fraud or wilful default on the part of Marsh (or any of Marsh's Affiliates) nor to any liability which cannot lawfully be excluded or limited, nor to the extent that the exclusion or restriction of such liability would not be permitted by virtue of the FSA's Insurance: Conduct of Business Sourcebook, nor to any client which is a "micro-enterprise" (within the meaning adopted for that term by the FSA) as at the date of this Engagement.
- 6.6 For the avoidance of doubt, this clause 6 shall be for the benefit of both Marsh and any Affiliates involved in the provision of the Services. Any such Affiliates shall be entitled to rely upon and enforce its terms.

7. Data Protection and Intellectual Property

7.1 The parties both warrant that they will observe the provisions of the Data Protection Act 1998, in relation to this Engagement.

7.2 Marsh believes that all personal data it requests is necessary to provide quotations, arrange insurance cover and for client relationship management. Personal data will only be used by Marsh for general insurance purposes including offering renewal, research and statistical analysis and crime prevention. Arranging insurance may involve certain disclosures of personal data to insurers, agents and service providers, including but not limited to consultants, market research and quality assurance companies; other Marsh Affiliates; industry regulators and Marsh's auditors. Depending on the circumstances, the disclosure of personal data to any of the above may involve a transfer outside of the European Economic Area.

7.3 Marsh shall retain all ownership, title, copyright and other intellectual property rights in all materials developed, designed or created by Marsh (or any of its Affiliates) before or during the Engagement, including systems, methodologies, software, know-how and working papers. Marsh will also retain all ownership, title, copyright and other intellectual property rights in all reports, written advice or other materials provided by Marsh to you, and Marsh grants you a perpetual and royalty free licence to use those materials, but only for the purposes for which they were created under this Engagement.

8. Confidentiality

8.1 Except as required by law, the parties undertake to:

- keep confidential all information (written or oral) concerning the business and affairs of each other and their clients, that may be obtained or received as a result of this Engagement;
- not without the other's prior written consent (such consent not to be unreasonably withheld or delayed), disclose such information in whole or in part to any other person save to employees, agents or sub-contractors involved in the provision or receipt of the Services, or in accordance with normal insurance broking practice to insurers and their agents;
- use the information solely in connection with the provision or receipt of the Services.

8.2 The provisions of clause 8.1 will not apply to the information to the extent that it is:

- already lawfully in a party's possession on the date of its disclosure;
- in the public domain other than as a result of a breach of this clause;
- required to be disclosed pursuant to legal, or regulatory requirements.

9. Entire agreement

9.1 This Engagement sets out the entire understanding of the parties in relation to the matters that it deals with and supersedes and invalidates all previous letters, agreements and understandings (oral or written) in relation to those matters.

9.2 This Engagement may only be amended or modified by written agreement duly signed by each party.

10. Notices

10.1 Notices under this Engagement must be in writing and sent to the party concerned by hand, post or facsimile, at its last known, or registered office address. For the avoidance of

doubt, notice given under this Engagement shall not be validly served if sent by email.

11. Third Party Rights

11.1 Any reports, letters, information or advice we provide you during this Engagement are not to be disclosed to any third party without our prior written consent. If we provide our consent, we may stipulate terms regarding such provision or require the third party to enter into a direct relationship with us. We disclaim all responsibility for any consequence whatsoever should a third party rely upon any such report, letter, information or advice without our first having given our written consent that such third party may do so.

11.2 A person who is not a party to this Engagement, other than Marsh's Affiliates, has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Engagement.

12. Affiliates

12.1 Unless otherwise expressly stated by us, you agree to and accept this Engagement on your own behalf and on behalf of each of your Affiliates. You will procure that each of your Affiliates will act on the basis that they are a party to and bound by this Engagement. All references in this Engagement to "you" (and derivatives of it) will mean you and each of your Affiliates.

12.2 For the purpose of this Engagement "Affiliates" means, in relation to a company, its subsidiaries and subsidiary undertakings and any holding company it may have and all other subsidiaries and subsidiary undertakings of any such holding company (as such terms are defined in the Companies Act 1985). As it applies to you, "Affiliate" shall also include your partners, co-venturers and/or other co-insureds to whom Marsh or any of its Affiliates may assume a responsibility as a consequence of the provision of the Services or any Additional Services.

13. Force Majeure

13.1 If the performance of any part of this Engagement by any party is prevented, restricted or delayed by reason of any cause beyond the reasonable control of that party (including (without limitation) fire, flood and other Act of God, industrial action including strike and lock out, riots, war, armed conflict, trade sanctions, contamination, disease and epidemic, interruption or failure of a utility service, failure of computer or other machinery, and change in law or regulatory requirements) the party so affected shall, upon giving written notice to the other party or parties, be excused from such performance to the extent of such prevention, restriction or delay, provided that the affected party shall use commercially reasonable endeavours to avoid or remove such causes of non-performance or to find an alternative manner or means of performance and shall continue performance as soon as reasonably practicable after such causes are removed. Upon such circumstances arising, the parties shall discuss what, if any, modification of the terms of this Engagement may be required in order to arrive at an equitable solution.

14. Governing Law and Jurisdiction

14.1 These Terms of Engagement, and the services provided under them, shall be governed by English law, and any dispute shall be submitted to the exclusive jurisdiction of the English Courts.

14.2 Any provision of this Engagement which is prohibited or unenforceable in any jurisdiction is ineffective as to that jurisdiction to the extent of the prohibition or unenforceability. This does not invalidate the remaining provisions of the Engagement nor does it affect the validity or enforceability of that provision in any other jurisdiction.

Appendix VI

Marsh Conflicts Policy

Conflicts of Interest

Introduction

In common with many financial institutions, we provide a range of services to a large number of clients. As insurance intermediaries we also provide certain services to insurers. Circumstances may arise in which the interest of a client may conflict with those of another client or with our own interest. Accordingly we have policies and procedures to ensure that when such circumstances are encountered during the business process, they are managed in accordance with our 'Independence Policy'.

Independence policy

We aim at all times to treat you fairly. We never deliberately put ourselves in a position where our interests, or our duty to another party prevents us from discharging our duty to you. We maintain internal procedures and controls to identify and manage any potential conflicts, so that at all times the interests of all our clients are protected. Where potential conflicts are particularly complex or difficult to manage, we will agree with you the best way to protect your interests and may ask you to confirm that you are happy for us to continue acting for you.

Conflict identification

Marsh has identified the principal potential conflicts that may be encountered within the normal course of business and employs standard mitigation techniques to deal with them.

Non-standard or ad hoc conflicts that arise are reviewed by an expert panel and mitigation techniques are developed. You will be informed of any situation where we believe there is a need to employ additional mitigating techniques and we will discuss these with you.

Conflicts between clients

We advise and arrange insurance and handle claims for a large number of clients. In many cases these services involve arranging insurance or handling claims on behalf of two different clients with the same insurer or in respect of the same risk, or both. The fact that we act for numerous clients will often be to their advantage – for example by promoting our ability to negotiate favourable terms with insurers – but it may on occasion give rise to competition or conflict between clients' interests, for example where several clients are seeking insurance against risks for which only limited cover is available in the market.

In particular situations, we may identify more direct and specific conflicts between the interests of two or more clients. For example, a conflict arises where we handle claims on behalf of two clients arising out of the same incident and each client is seeking to argue that the other was responsible for the damage. In such circumstances we generally put in place special procedures to preserve our ability to handle each client's case independently under the arrangements described below.

Conflict mitigation and management techniques

Every conflict situation is assigned to one of the following three categories, reflecting the seriousness of the conflict and the management techniques that are required to deal with it.

Category 1 conflicts

These are circumstances where our standard mitigation techniques (including our Independence Policy, business structure segregation of duties and information barriers), combined with the

disclosure notices contained in Our Terms of Engagement and/or Our Business Principles and Practices and this document, are considered sufficient to manage the potential conflict fairly without additional controls or notice to you.

We operate a system of segregating duties and teams for appropriate business processes (including appropriate information barriers (sometimes referred to as 'Chinese walls')). For example, two clients may be tendering for the same contract. Each client will be allocated an independent broking and advisory team, maintaining their own files in separate, secure locations. Where the teams are located in the same building, we endeavour to impose physical separation, but minimum standards will include keeping files in lockable cabinets and management monitoring of colleague adherence to information security principles.

Other circumstances include:

- Delegated underwriting authority (we will give specific notice that cover is being placed under such a facility prior to the actual placement).
- Negotiating non-contentious or property damage claims between two clients.

Category 2 conflicts

These are circumstances that may be managed by additional management oversight, information barriers and/or client disclosure protocols, or a combination of these.

You will be provided with specific details of the potential or actual conflict together with our proposals for mitigation and management. In some circumstances, this may involve us in seeking your consent to introduce a different Marsh team or colleague to handle a particular issue. When this is agreed, your usual Marsh contact will continue to service your other needs, and will respect the integrity of any additional information barrier that may be put in place.

Such circumstances include:

- Two or more clients propose entering into a relationship with each other.
- Competitive tendering situations between clients.
- Contentious or liability claims between two clients.
- Undertaking security work, surveys and risk consultancy on behalf of an insurer.

Category 3 conflicts

In exceptional cases we may conclude that, even with special procedures, we cannot be confident of our ability properly to serve the interests of the parties concerned. In that event we will endeavour to consult the clients concerned insofar as we can do so without compromising the confidentiality of either client. If no acceptable solution can be identified, we will cease to act for one or more of the clients concerned and refer them to another adviser.

Monitoring effectiveness

We maintain records of potential conflicts of interest and mitigation techniques proposed or put in place. Senior managers regularly review these records to ensure that the management of the conflict remains effective and



Registered in England Number: 1507274, Registered Office: 1 Tower Place West Tower Place
London EC3R 5BU

Marsh is authorised and regulated by the Financial Services Authority (FSA)

Marsh Ltd conducts its general insurance activities on terms that are set out in the document
"Our Business Principles and Practices". This may be viewed on our website
<http://www.marsh.co.uk/aboutMarsh/principles.html>

DES Document v3.2 Template updated 20/06/07

Marsh Ltd

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