

ASSURING AND ENDURING

The story of an extraordinary New Zealand insurer with a unique long-term history of 'Protecting Community Assets'.

THE BIRTH OF CIVIC ASSURANCE

The story of local government in New Zealand is a fascinating one that includes many interesting tales and characters. One such venture is that of Civic Assurance.

Many in local government may not fully appreciate what has been achieved by this unique local-government-owned insurance and financial services vehicle. It began 70 years ago, in 1941, when the first insurance-agency-style local government arrangement was established in New Zealand — the Counties Cooperative Insurance Company Limited (CCIC). This book, however, is being released to mark the fiftieth anniversary since Civic Assurance's municipality predecessor, Municipalities Cooperative Insurance Company Limited (MCIC), first issued insurance on 1 April 1961.

Insurance today incorporates payment of a premium in exchange for the transfer of risk, but that was not always the case. Insurance can be traced back to the beginning of human society, when it was based simply on society help. That is, when unexpected losses were suffered by members of a community, society rallied around to help ease the loss suffered.

The forerunners of today's insurance world started to evolve after the Great Fire of London in 1666. That disaster represented an insurance milestone. Within the City of London 13,000 homes were destroyed, and the need for homeowners and small businesses to be able to buy insurance was firmly recognised. Following the disaster, Nicholas Barbon and others pioneered the first insurance company to insure brick and frame buildings. It was called the 'Insurance Office for Houses', and it opened in London in 1680.

The value of insurance to individuals, businesses, the general economy and the well-being of a nation is now well established. No one has expressed this better, perhaps, than Sir Winston Churchill, who said:

If I had my way, I would write the word 'insure' upon the door of every cottage and upon the blotting book of every public man, because I am convinced, for sacrifices so small, families and estates can be protected against catastrophes which would otherwise smash them up forever.

The ability to manage financial risk and to facilitate efficient and speedy recovery following a major loss has always been important for the local government sector. Apart from standard types of risks such as council chambers, libraries, swimming pools and the like, local government

insurance portfolios have always incorporated non-standard risks. The inconsistent and often costly approach taken by the global insurance markets to these types of exposures has played a large part in the formation of specific local government insurance and risk financing vehicles in many countries throughout the world. New Zealand is no exception.

A precedence of sorts was provided here when the government set up the State Fire Insurance Company. In their book *Town and Country*, Bryan Gilling and Alan Henderson observe: "In 1905 Premier Richard Seddon established the State Fire Insurance Office against fierce industry opposition. Its quick success in making good profits while driving down premiums inspired local authority leaders to think about establishing businesses of their own." However, nothing eventuated until CCIC was established in 1941 to provide insurances for rural-based local authorities. From 1941 to 1976 the bulk of the insurance risk was carried by the State Insurance Office acting as reinsurers and insurance managers. The State Insurance Office was replaced in 1976 by a new reinsurance and management arrangement with the Hartford (Monarch) Insurance Company.

During the 1950s, Municipality Association representatives were talking about the benefits of establishing a municipality-based insurer. Cliff Bishop, who had served as town clerk of Eastbourne, Wellington, from 1928 to 1945, mayor of Eastbourne from 1950, and Municipal Association secretary from 1953, led the move toward a municipal-based insurance company. His associates were Phil Hunt, an insurance broker, and Bob Mark, general manager of the Hartford Insurance Company, who, to quote from Bishop's autobiography *Home and Abroad* (Heretaunga Press, 1985), "supplied a good deal of information which helped in the formation of a proposal for consideration by the executive of the Municipal Association". The outcome of the work by Cliff Bishop, the insurance industry associates and the Municipal Association executive was the passing of the Municipal Insurance Act 1960.

MCIC was registered on 16 December 1960. Elected representatives, primarily mayors of municipalities and boroughs, were appointed to the board of directors, and Cliff Bishop was appointed secretary-manager, concurrent with his role as Municipal Association secretary. P.L. Hunt (a company eventually owned by the international insurance broker, JLT) was appointed as advisers and Hartford Insurance as MCIC's reinsurers and insurance managers. The share capital was originally fixed at £250,000 and it was agreed shares would be allocated on the basis of the first year's premiums paid. At first, and similarly to CCIC, the arrangement was agency based with healthy commissions being paid by Hartford Insurance to MCIC.

There was considerable opposition at the outset, but the company commenced business on 1 April 1961. By year end 141,700 shares had been taken up, resulting in paid-up capital of £70,800 (equivalent to \$2,800,000 in 2011 dollars). One of the benefits to local authorities was the provision of rebates based on premiums paid. The premium income at the end of the first year was £151,000 (equivalent to \$5,900,000 in 2011 dollars) and the company paid rebates of between 10% and 25%. The payment of rebates remained a feature of the company's operations until they were replaced by dividend payments in 1989.

The first year of operations had laid the foundation for a successful future, and interesting and diverse times lay ahead. Local government would have cause to applaud the achievements of Cliff Bishop, who presided over the conception and birth of what was to become a very successful assuring and enduring venture. Obviously the earlier work of the architects of CCIC needs to be acknowledged, since clearly those achievements provided helpful precedence, inspiration and impetus for the considerations of Bishop and his associates. (For more details of CCIC's development see chapter 7 of Bryan Gilling and Alan Henderson's book *Town and Country: The*

National Associations and Insurance Companies of Local Government in New Zealand, Local Government New Zealand, 2000.)

PROGRESS AND CONSOLIDATION — THE FIRST 30 YEARS

At the time of MCIC's establishment the Municipal Association was based in offices provided by the Wellington City Corporation. In 1963 the MCIC directors agreed to erect a building in Lambton Quay, and the Local Government Building (named Civic Assurance House in 2007) was completed in August 1967.

In his autobiography, Cliff Bishop tells some amusing anecdotes of the difficulties encountered with long-standing tenants of the previous buildings on the site before demolition could proceed and construction of the new building commence. One such anecdote refers to an uncooperative tenant who was reluctant to move from the old building, despite having agreed to do so. On the day demolition was due to commence she still had not moved. In Cliff Bishop's words:

We also owned the block next door and as this had already been vacated I advised the contractor to fire one of his big metal demolition balls at that building and see what happened. Well he swung one of those great balls at the empty building and the lady was out of her adjacent rooms faster than she had ever been seen to move before.

As well as the Municipal Association and MCIC moving into the new building in 1967, other local government entities also moved in, including the Counties Association and CCIC. The site chosen by Cliff Bishop and the directors proved extremely advantageous to local government. It has been an ideal location as a centre for local government for over 40 years and the prime location has ensured full occupancy to the present day and for the foreseeable future. There has been a steady stream of gross rental income for the company that today exceeds \$800,000 per annum. It cost just over \$1 million to construct and today is valued at nearly \$8 million. This, however, is somewhat less than inflation over this period, during which prices in general have risen sixteen-fold.

During the 1960s, 1970s and 1980s MCIC made steady progress, growing its premium income from £150,000 in its first year to \$6.4 million by the end of 1989. More importantly, it provided reliable and assured insurance facilities at market terms, and yet was able to facilitate meaningful rebates to the shareholder members who insured with the company. Again to quote Cliff Bishop:

The Company itself has been a wonderful financial success ... As an instance for the financial year ending 31 March 1983 an amount of \$2,300,000 was made available for distribution to its local body shareholders as contributions to their local government funds — a wonderful addition to local government coffers.

By 1989 a total of \$20,745,000 had been rebated to shareholder members, and for the great majority of its existence market or lower premiums applied so the rebates were very meaningful. Indeed, had these rebates been retained by the Company and invested to keep pace with the rate

of inflation, those rebates today would be worth approximately \$120 million! However, the amount rebated was paid in cash, apart from a period commencing in 1964 when the decision was made to apply profits to pay members' unpaid share capital. In 1970, members whose shares were fully paid up began to receive cash rebates again.

In addition, and because of its integrated relationship with the Municipal Association, MCIC further assisted local government by providing financial administration support to the association from 1961 to 1989. The administration fee paid was substantial and helped to keep the membership fees that local authorities paid to the Municipal Association to a minimum.

Another benefit to local government during that time was the provision initiated in the 1970s of loans to local authorities from the company's surpluses. In 1980, to quote from *Town and Country*, "MCIC created the Local Government Investment Service, a pooled investment service which enabled smaller councils especially to earn higher interest rates. Within a year members had deposited \$3.7 million, which combined with MCIC's funds attracted very favourable rates." This particular service for shareholders was continued until the local government reform process took place in 1989.

With every year the company has operated it was also providing further value to local government through meeting the numerous claims that arose, some of which were quite extraordinary. Standard property losses through fire, storms or water damage abounded, and many buildings in New Zealand have been reinstated by local government's own insurer. Examples include major fire losses to the Whakatane Borough Council Chambers, Canterbury Regional Council offices, Hutt Recreation Grandstand, and many halls, sports pavilions and grandstands throughout the country. Other extraordinary losses include major flooding to the Whangarei Borough Council, Shirley Library, and the New Plymouth District Council offices. The list continues with multimillion-dollar losses suffered in the Wither Hills of Marlborough, at the Waipori Dam, Tauranga City's Ruahihi Canal, and the collapse of a crane in Lyttelton Harbour in 1985 involving a claim payout of \$9 million. At the time this was the largest claim the company had ever suffered, although it has subsequently been dwarfed by the 2010 and 2011 Christchurch earthquakes.

MCIC's net contribution to these losses was limited, of course, through being primarily a facilitator of cover using sound and secure reinsurance support. MCIC started to take a small retention from 1980 onwards. The level of retention through the 1980s and 1990s varied from 10% to 12.5%, and in 1998 was set at 15%. The facility set up with Hartford, later to become Monarch Insurance and then CIGNA Insurance, continued until 1 April 1988, when a new reinsurance and management arrangement was agreed with NZI, who established a specific local government branch in Wellington to service the business. Geoff Mercer, later to directly play a major role with Civic Assurance, was the first manager of this branch. The deal with NZI was agreed jointly by MCIC and CCIC in an environment of merger possibilities between the two companies.

Over the years various discussions, most of them informal, had taken place about the possibility of a single local government insurer in the market. Merger discussions were quite advanced in the 1970s. MCIC's 1975 *Annual Report* included a positive reference to the merger discussions and closed with the comment: "From 1st April next it is expected that the two companies will be operating under a joint management arrangement." However, nothing was concluded at that time.

In 1986, with the changes taking place in local government, the merger issue was again on the agenda. Discussions between directors had taken place and consultants' reports were obtained,

including one, the *Leggat Report*, which was jointly commissioned late in 1986 by MCIC and CCIC. This report strongly recommended a new local government insurer replacing MCIC and CCIC, but entrenched views on the part of both companies prevailed, which prevented a speedy resolution. CCIC wanted a healthy buyout by MCIC to meet its wind-up obligations requiring distribution to its shareholders. MCIC did not believe CCIC's insurance portfolio was worth a lot and was also worried about the principle of 'robbing Peter (its local authority shareholders) to pay Paul (CCIC's local authority shareholders)', particularly given the local government reform process that was pending. It was not until September 1989 that an agreement, involving a payment of \$300,000, was reached. Compatible with the 1989 local government reform, those involved with MCIC were in a position to write a new chapter in the company's history.

THE 1990S — A DECADE OF DIVERSIFICATION

Historically, Counties Association and Municipal Association personnel had administered CCIC and MCIC respectively, with insurance management support provided by reinsurers. This was the case until 1989. Secretary-managers for CCIC had been Colonel Pow, Ted McKewen and Bernie Gresham. (In 1987, in anticipation of local government reform, CCIC moved away from the Counties Association by appointing James Young, a Wellington solicitor, as secretary - then general manager.) The first secretary-manager for MCIC was Cliff Bishop, who held the position from 1961 to 1967. When he retired the manager/secretary role was split and Leo Sullivan became general manager from 1968 to 1978, and Colin Archer from 1979 to 1989, the year of local government reform. Kevin Bryant was the company secretary from 1969 to 1993, Sarah Sellars from 1994 to 1996, and Roger Gyles from 1997 to the time of writing, although his title is now general manager finance. Additional insurance support had been provided from 1974 with the appointment of underwriting managers provided by the reinsurers. These were Laurie Nield (CIGNA) 1974 to 1976; Alec Robertson (CIGNA) 1977 to 1985; Alan Beal (CIGNA) 1986 to 1987, and Geoff Mercer (NZI) 1988 to 1990.

In 1988 the MCIC directors decided for various reasons — including the upcoming local government reform and the associated proposed merger with CCIC — that in future the company should be run by permanent staff with insurance knowledge. Bob Mark had been an advisory director since 1980 and he and a newly appointed consultant, insurance broker Warwick Davis, were given the responsibility of finding a general manager from the insurance industry. Their efforts resulted in the appointment of Rod Mead, with 27 years' industry experience, as full-time general manager in March 1989.

Initially the Municipal Association, soon to become the Local Government Association, provided office and secretarial support under contract. At the time Rod Mead took office, draft reinsurance arrangements with UK-based local government insurer Municipal Mutual were being considered by the directors. However, after assessing the proposed arrangement, and consulting with Warwick Davis, the new general manager recommended to the directors that the company should not proceed with the Municipal Mutual arrangement. (This was to prove significant three years later when Municipal Mutual collapsed.) Instead, risk-sharing and reinsurance arrangements with NZI were cemented, and these served the company well into the 1990s. Warwick Davis replaced Bob Mark as advisory director in 1990 and retained that role until he stepped down in 2005.

MCIC made some important changes in 1990. They decided rebranding was essential to reflect

the fact that historically they stood in the shoes of CCIC and MCIC. The company changed its name to NZ Local Government Insurance Corporation Ltd (LGIC). It was agreed that authorised capital should be increased to \$12 million and that a capital dividend of \$1 per share should be paid to shareholders. This payment effectively returned the shareholders' original investment in the company. It was also agreed that the rebate system, although acceptable in the past, was outdated and should be replaced by the more commercially acceptable dividend system.

Also in 1990, a working party was put together to assess the possible introduction of new services. The first of these was the Local Government Global Superannuation Scheme, marketed as Superplan, which was launched on 1 April 1991. The inspiration for this followed the closures of the Government Superannuation Scheme and the National Provident Fund to new members. Then as now it was felt that the local government sector should have its own superannuation schemes.

The new scheme was to be governed by trustees appointed from the local government sector, with investment management contracted to the private sector and administration contracted to LGIC with support from NZI Life. Initially, field service for the scheme was provided by Morrin Cooper, a former mayor of Howick (in Auckland) and director and chairman of LGIC. He was supported by NZI Life branch managers. Later, LGIC engaged two part-time regional superannuation managers, Neil Tunnicliffe and Michael Hayes, who serviced the scheme for a number of years. The scheme was slow to develop, but with new impetus provided in later years (see below) the company's superannuation funds as at August 2011 were \$95 million and are expected to top \$200 million by 2015.

Confirmation that 1990 was a positive year for LGIC came when the company exceeded the newly introduced Insurance Council solvency standards by a considerable margin. In fact, the solvency rating achieved was 40 times the industry average. The company's financial strength was again confirmed in 1995 when all insurers were required to obtain a claims paying ability rating. LGIC's rating was obtained from AM Best, the leading global insurance company rating agency. The rating allocated by AM Best to LGIC was A (Excellent) stable, AM Best's third highest rating.

The year 1992 was memorable for the collapse of Municipal Mutual, the UK-based local government insurer. A representative of the company had made a 'courtesy' call on Rod Mead a year earlier, stating that they were entering the New Zealand market, that within five years they would have all local government business in New Zealand, and could they purchase LGIC's book of business? The offer was declined. They entered the market, picked up a number of local authority accounts in the first 12 months, but then the parent company collapsed.

The likely reasons for Municipal Mutual's failure, apart from underlying financial strength limitations and possible management shortcomings, included decisions made in the UK to underwrite UK business other than local government business, and offshore business over which controls were limited. Geoff Mercer, who had earlier operated NZI's local government branch, was Municipal Mutual's general manager during its short sojourn in New Zealand, and he joined LGIC as its assistant general manager in 1992. The company was well served by Geoff until his retirement in 2007, and again in 2010/11 when he assisted with the management of claims resulting from the Christchurch earthquakes.

In 1991 the New Zealand government had promulgated a Disaster Recovery Plan setting out parameters for recovery assistance following catastrophic loss to local government owned essential infrastructure. Under the plan, central government would provide 60% of reinstatement costs for such assets as long as local government could demonstrate through

reserves, insurance or alternative risk-financing mechanisms that it could fund the other 40%. Clearly many local authorities could not do that, and following the deliberations of an LGIC-facilitated working party led by Kinsley Sampson, the decision was made to establish a mutual fund to provide for the 40% responsibility. This was considered the best risk-financing method, particularly given that the insurance industry could not be relied upon to satisfactorily cover the so-called 'generally uninsurable' exposures involved with water and sewage reticulation, stormwater drainage, and flood protection schemes.

The Local Authority Protection Programme Disaster Fund (LAPP) was launched as a charitable trust on 1 July 1993. LGIC personnel always believed that the reinsurance industry would become more willing to underwrite the risk once a substantial underlying cash layer existed to provide the first level of protection. This proved to be the case; once the fund became established competitive excess of loss reinsurance arrangements were obtained. LAPP was assisted in this by central government phasing in its 60% support down from 100% over four years.

Local authority liability exposures had always presented difficulties globally to the traditional insurance markets. There were few insurers interested in underwriting the business and the market had historically been volatile and inconsistent in the approach to liability cover and premiums. By the 1990s many local governments worldwide had turned to alternative risk-financing mechanisms such as mutual funds to provide the necessary protection.

In New Zealand, LGIC was forced to change its reinsurance facilities in 1993 when NZI advised the company it no longer wished to continue with current arrangements. A key factor was that NZI was very uncomfortable with the liability facility, particularly the professional indemnity cover that it was underwriting. A new reinsurance arrangement was put in place with State Insurance, supported by GIO Australia. Like many insurers, State was not a liability underwriter so a separate facility was arranged with specialist liability insurer CE Heath (later to become HIH Insurance Company). After assessing mutual fund facilities in Australia and in various states in the US, LGIC eventually decided a pooling arrangement represented the best and most secure form of liability protection for local authorities in New Zealand.

Insurance brokers Jardines (today trading as JLT) were working concurrently towards replicating a liability mutual fund that they ran for local government in South Australia. After various meetings between LGIC and Jardines, the two companies agreed that it would be in the interests of New Zealand local authorities to combine their respective expertise and resources to promote a local authority liability mutual fund. The outcome was the launching of Riskpool on 1 July 1997 under the governance of an LGIC-owned trust company, with LGIC as fund managers (administration and finance) and Jardines as scheme managers (claims and risk management). Heaney & Co. has been employed as the scheme solicitor throughout.

For the first phase of its history Riskpool successfully met all expectations, and it continues to be a very valuable local authority risk-financing and liability claims management vehicle. This is because the basic principles relating to Riskpool's existence are as sound today as they were in the 1990s. The collective approach to managing local government claims has worked very well for the sector. However, no one at that time could foresee the large blowout in claims, particularly unreinsured ones, that were to occur with the leaky building syndrome.

In 1999 a further financial facility was launched: the NZ Local Government Finance Corporation Ltd (LGFC). It was considered that a facility whereby local authorities, particularly the smaller ones, could use the pooling strength of the local government sector to raise finance would be beneficial. LGIC was to be the facilitator, tapping into arrangements with specific financial institutions to meet loan requirements at terms more favourable than could be obtained

directly with banks or other lending institutions. Between 1999 and 2004, 20 councils made use of LGFC's fund-raising services. However, all council borrowing at that time benefited from LGFC's existence because of increased contestability for loans. After 2004, as became apparent following the global financial crisis that began in 2007, financial institutions started lending at unsustainable levels, and that pushed LGFC out of the market. LGFC's last loan matured in February 2010.

Even though considerable effort was going into the development of pooling arrangements to provide for protection of extraordinary exposures, LGIC's traditional insurance portfolio was also developing steadily through the 1990s. A further reinsurance facility change took place before the end of the decade; a new arrangement was put in place in 1998 with a panel of local insurers: Royal Sun Alliance, HIH, Zurich, AIG, and Lumley. By 1999 the company held 80% of all local government business, and at the end of that year its premium income, which no longer included liability premiums as local authority liability protection was now Riskpool's domain, had grown to over \$6 million.

The 1999 year was an eventful one for the company. Historically the company secretary had been employed by the Local Government Association, which had contracted its financial management to LGIC. Over the years LGIC's growth meant that the company secretary's time was required more for LGIC than for the Association. Primarily for this reason, it was agreed that the position should be reversed and the company secretary should be employed by LGIC. Roger Gyles and one supporting accounts staff member were employed by LGIC from 1 April 1999, and contracts entered into with the Association for Roger and his staff to provide for its financial management. Roger has been ably supported in his accounting function by Glenn Watkin since 1999. Also in 1999, the decision was taken to rebrand the company to propel it into the twenty-first century. The trading name (but not the actual name) was changed to 'Civic Assurance' and the strapline 'Protecting Community Assets' was adopted.

In the ten years from 1990 when dividends replaced the rebate system, a total of \$4.2 million was paid to the company's shareholders in the form of dividends. In 1999, the company decided that dividends should be suspended for a period so that its reserves could be further strengthened, notwithstanding the fact that it already met solvency standards by a considerable margin. Management had recommended the building of additional reserves because they were concerned that global insurance markets were deteriorating, and to assist in keeping the company's reinsurance costs to a minimum it might become necessary to increase Civic's underlying retention.

Following consultation with shareholders, dividends were suspended from 1999 to 2004, and were reintroduced in 2005. The general manager visited the shareholders in early 2001 to confirm the dividend policy and almost without exception received support for the decision. In supporting the recommendation to retain surpluses for a finite period, these comments from shareholders reflect the general views that local authorities expressed: "It is felt that the ongoing financial strength of the company is doubly important for councils now with the demise of other industry players in New Zealand"; "We are fully conscious of the difficulties that have arisen in the past, in obtaining adequate insurance cover within our industry"; "The decision is appropriate and prudent and in the best long-term interests of shareholders and local government in general."

Unfortunately, events were about to unfold that proved conclusively how valuable that decision was to build reserves. In the ninth month, day 11, in 2001 a terrorist attack destroyed the Twin Towers of the World Trade Center in New York City. Subsequently referred to across

the world as '9/11', this event had dramatic and long-lasting effects on the insurance industry.

POSITIVE RESPONSES TO THE CHALLENGES OF THE NEW MILLENNIUM

The advent through the 1990s of increasing incidences of natural disasters affecting areas with high levels of insurance impacted considerably on a volatile global insurance market. The number of major natural disasters recorded in the 1990s was 160, compared with 30 recorded events during the 1970s. Many global insurers and reinsurers were suffering financially and the outlook for the industry was far from secure. The 2001 event of 9/11 compounded the situation dramatically, shaking the industry to the core.

The types and accumulation of losses suffered in 9/11 had not been seriously contemplated prior to the tragedy happening. Not only were the World Trade Center's Twin Towers destroyed, and four jet airliners, but some 50 other buildings were also lost. In addition, extensive business interruption losses were incurred including extensive loss of rents, there was the tragic loss of around 3000 lives, loss of jobs to some 150,000 people, loss of infrastructure and utilities, and so on. Investments held by the insurers were badly affected too. When the American stockmarkets reopened after 9/11, the Dow Jones Industrial Average Index fell by its then-largest one-week point drop in history, 1369.7 points (14.3%), wiping \$1.4 trillion in value from US stocks.

The 9/11 event caused a fundamental rethink of risk exposures, covers, maximum probable loss calculations and premium applications by everyone in the insurance industry. A few reinsurers in particular were put under intense financial strain and some eventually ceased operating.

Like everywhere else, the impact on insurance rates in New Zealand was quickly felt as reinsurers globally imposed substantial increases in their rates at the first opportunity. This fed through to the policyholders, with many insurers taking the opportunity to readjust any rates that actuarially were considered incommensurate with exposures. Driven by its reinsurers, Civic's premiums for every one of its customers increased by more than 100% in the space of two annual renewals. The increases overall would have been even higher had Civic not been in the market. The insurance industry had always been subject to the ups and downs of the underwriting cycle, but this was something different.

While Civic was continuing to endure and assure following 9/11, a local and different type of crisis was developing in New Zealand that would have considerable impact on Riskpool, the local government mutual liability fund. Just how serious and extensive the leaky building problem would eventually become, no one predicted. At 30 June 2011, of the \$152 million in paid and projected claims for Riskpool from the 14 years it had operated since its inception in 1997, \$124 million (82%) were leaky building claims.

Most commentators identify the leaky building problem as systemic, arising largely as a result of an inadequate legislative and regulatory environment. Recognising early on the potential impact on homeowners, Riskpool and local government attempted from 2003 to negotiate remedial and risk-financing solutions with the government of the day. A joint approach could have resolved homeowners' situations, leaving subrogation rights to be pursued against other responsible parties such as architects, builders and subcontractors, on a case by case basis. Sadly at the time the government did not see the benefit of such an approach. Better late than never, a 'Financial Assistance Package' for owners of leaky homes was offered in 2011.

In 2004 Rod Mead decided that it was time for him to step down as general manager of Civic after 15 years in the role. The new chief executive appointed by the directors was Tim Sole. This was Tim's fourth chief executive position, the others being with Royal & Sun Alliance Life, State Insurance and the Public Trust.

DEVELOPMENT FROM SOLID FOUNDATIONS – 2005 TO 2010

Shortly after Tim Sole joined Civic in October 2004, the then Labour government began giving strong hints that it was looking to reintroduce incentives for workplace superannuation schemes. This, combined with the fact that Civic's new chief executive was an actuary, made it timely to revisit the design of Superplan, which Civic had launched as a superannuation scheme for local government staff in 1991 when the National Provident Fund was closed to new members. By 2004 Superplan had reached a plateau of 800 members and was still not generating enough fees to cover its running costs. Something needed to change. Ian Brown was appointed as Civic's Superannuation Manager in December 2004 and SuperEasy was launched on 1 June 2005.

SuperEasy, as its name suggests, was superannuation made easy. Built on the Superplan platform, administration and compliance requirements were simplified, investment choice was made easier by the introduction of a unique 'Automatic Fund' based on the use of low-cost index funds using competitively priced external fund managers, and scheme rules and member balances were available on the Internet. Member charges were closer to wholesale than retail, not least because the scheme does not pay commission to salespeople or provide fat profits to avaricious shareholders.

Later than expected, but well received when delivered in July 2007, was central government's KiwiSaver Scheme. Civic's KiwiSaver product, called SuperEasy KiwiSaver, has been a popular choice with councils. Of the 70 councils that have a preferred provider for KiwiSaver, 64 have chosen Civic, and 71 from a total of 78 councils have superannuation arrangements with Civic. Unsurprisingly, councils that have taken 'independent advice' on superannuation arrangements for their staff have often ended up with schemes that pay the adviser a commission, which inevitably will be paid for from the members' superannuation savings.

Those responsible for the SuperEasy back office in August 2011 were Caroline Bedford, Wendy Riley and Sarah Burtonwood, with IT systems support through the actuarial firm of Melville Jessup Weaver.

To mitigate exposures to Riskpool, limitations on leaky building cover were imposed from year to year (these steps are summarised in the 2009 Riskpool *Annual Report*), but the steps taken have not prevented a considerable increase in projected claim settlements in recent years. The 2009 Chairman's Report observes that: "On a random sample of 20 cases taken in June 2009, the average settlement per leaky home unit had almost tripled in just two years from \$79,000 to \$234,000." The report identifies several reasons for this, including the increased frequency with which the council is the 'last man standing'. Reinsurance will meet around \$55 million of Riskpool's claims, but for those for which reinsurance was not available, this will require calls on the members of Riskpool in those claims years of perhaps a total of \$45 million.

Following the global financial crisis in 2007–2008, Civic lobbied central government to provide support for the reopening of a collective vehicle for local government borrowing using the already established LGFC or similar. Civic offered \$5 million start-up capital and ways of

obtaining additional capital from the collective vehicle's users as Civic itself had done with its users when it first started. Potential savings for the sector through the lower costs of borrowing associated with such a vehicle were estimated at \$25 million per year - a substantial amount. The New Zealand Local Government Funding Agency with its own Board and establishing legislation should be up and running before the end of 2011.

On the insurance side, the company's no-dividend policy for the years 1999 to 2004 meant that in 2005 Civic had the capital to comfortably increase its retention, so it did just that. Between 2005 and 2008, Civic's retention doubled from 15% to 30% with reluctant support from its local reinsurers, who as a consequence had to give up profitable market share.

In 2008, with the LAPP trust deed needing to be updated for registration under the 2005 Charities Act, it became apparent that LAPP could retain its charitable status and cover local authority 'above-ground' assets (being community owned) in the same way as it protected local authority 'below-ground' assets. This enabled Civic in 2009, supported by LAPP, to effectively move to 60% retention and in 2010 to 67.5% retention. The remaining 32.5% was placed with Chartis (formerly AIG) in a mutually beneficial arrangement whereby Chartis has the technical support and resources to support Civic's business and Civic provides Chartis with premium income from a widespread asset base for a modest level of exchange commission.

Civic's increase in retention gave the company more control over its pricing, claims management, and how it managed the ups and downs of the insurance cycle. Unfortunately for Civic and its reinsurers, the larger retention coincided with the 2010 and 2011 Christchurch earthquakes. In 2010, claims management was brought in-house, so that includes the payment of the 2010 and 2011 earthquake claims, which before reinsurance recoveries are likely to be, for LAPP and Civic combined, in the order of \$850 million.

When Geoff Mercer retired in 2007, Christopher Munden took his place. Christopher had been claims manager for AIG for ten years and prior to that had held a number of roles with CIGNA, including working with MCIC on local government business. Christopher works with Ron Haward, who joined the company as administration and underwriting manager in 1999, and Daphne Hodder, claims manager. Daphne's recruitment in 2010 took Civic's staff number to 11.

THE NEXT 50 YEARS — ASSURING AND ENDURING INTO THE FUTURE

The local government ownership aspect remains vital for the sector. While insurance expertise has been provided through skilled insurance staff, advisory or insurance specialist directors, and market partnerships such as those involved with reinsurance programmes, the governance role has always been fulfilled by local government directors or trustees. Since 1960 the chairmen of Civic and its predecessors have been mayors, councillors or local authority chief executives. These include A. Adamson, A. Linton, P. Tait, C. Bishop, E. Kemp, J. Thorn, B. Elwood, M. Fowler, C. Skeggs, M. Cooper, I. Lawrence, K. Sampson and B. Taylor. The directors of LGST and Riskpool and the trustees of LAPP have similarly primarily come from the local government sector. This is another factor assuring the ongoing dedication of these entities to operating in the best interests of local government shareholders and the local government sector in general. Given the ownership rollercoaster ride that private sector insurers have undergone over the years, retained local government ownership is the only way to ensure Civic's independence with

respect to the important roles it fulfils for local government.

Ownership has also provided some healthy financial rewards for local authority shareholders. Although there may have been isolated incidences in the company's history when its premium levels were higher than market rates, market or lower premium rates have applied in the main. So rather than any surpluses disappearing into private insurers' coffers, local authorities have benefited through rebates and payment of dividends. A total in today's dollars estimated at well over \$200 million in distributions has been made to the shareholders of CCIC and MCIC/LGIC/Civic, not including various sponsorships and subsidies to local government bodies such as Local Government New Zealand (LGNZ), its predecessors, and NZ Society of Local Government Managers (SOLGM). This represents another key benefit to local government in general.

Civic has always argued that its presence in the local authority market keeps the other insurance companies honest. Competition was improved not just because Civic's presence meant an additional insurer in a relatively small market, but also because the other insurers knew that Civic (until 30 June 2011 - see next paragraph) was able to offer an alternative quote. Civic's presence also made the other companies work harder because Civic has an expense ratio that is approximately half of the industry average, it sets the standard with regard to having council-friendly policy wordings and consistently (a key word) has a positive attitude to paying claims. To this end therefore, Civic is determined to be back in the local authority property insurance market for 2012.

Because Civic was unable from 30 June 2011 to secure new reinsurance for its property exposures it was unable to continue offering councils meaningful property insurance. This meant that policies for property insurance with Civic due for renewal on 1 July 2011 could not be renewed and the property insurance policies held by Civic that went past this date had to be canceled. Thus at the time of writing, August 2011, Civic is only offering motor insurance and minor lines such as fidelity insurance, forest and rural fire costs reimbursement and civil defence costs. The reasons that Civic could not obtain new property reinsurance from 30 June 2011 is a story in itself.

This story begins with Civic's reinsurance program for 2010-11, which with uncapped cover with unlimited free reinstatements was as good as they get. However, for a premium received of about \$5 million, Civic's reinsurers as a result of the Christchurch earthquakes now face claims of about \$650 million. It is not surprising therefore that Civic could not renew this reinsurance program, even at significantly higher rates, when it expired on 30 June 2011.

Civic could not obtain reinsurance from any other source either. The first reason was that reinsurers in general had suffered heavy losses, they now felt over-exposed to New Zealand for the size of the premium pool, and they were not looking for new clients. These losses were not just from the Christchurch earthquakes. Losses in the region included four events in Australia in the previous 16 months where claims exceeded \$1 billion (hail storms in Melbourne and Perth, the Queensland floods and Cyclone Yasi), the February 2010 Chile earthquake and claims from the March 2011 Japanese Tohoku tsunami.

The second reason was the paucity of data for risk assessment available in the councils' asset schedules. With reinsurers relying heavily on their catastrophe models, particularly after the Christchurch earthquakes, it was no longer enough to list a street address and a sum insured. Reinsurers also wanted to know for each and every building its age, its construction, full details of earthquake strengthening, its heritage status, the number of stories and what it was used for. Between the 13 June 2011 Christchurch earthquake after which reinsurance availability really

tightened up and the 30 June 2011 renewal date there simply was insufficient time for Civic to collect the information the reinsurance market now required.

A key part to getting Civic back into the property insurance market for 2012 will be securing suitable long term reinsurance arrangements. There will also need to be a capital raising from Civic's shareholders, which for local government will be money well invested.

Civic has been tested by time and disaster and has passed with flying colours. With the support of the sector, Civic will continue to fulfil a valuable role in meeting the risk-financing needs of local government, while recognising that changes will be necessary to meet the new challenges and opportunities that inevitably will arise. We can do no better than conclude by quoting again from Bryan Gilling and Alan Henderson in *Town and Country*:

Civic Assurance and its predecessors have never been just conventional insurance companies, but also benchmarks, guaranteeing local bodies the best possible deal and making sure that other insurers offered good sustainable protection. Involvement with LAPP and Riskpool was a further departure from tradition. However, in all its guises, Civic Assurance has remained a strong and effective specialist provider of risk cover, protecting community assets.

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