

Benefits of Shared Procurement

13 November 2025

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Overview

This paper is designed to give an overview of the benefits available to member Councils from shared insurance programme purchases. Whilst there are direct cost benefits, there are also several other benefits.

Aon, as Risk Advisor and Insurance Broker to over 70 New Zealand Councils, acknowledge the need for Councils to recognise the change in how risk is recognised within their organisations.

The past few years in the insurance market have seen continually hardening terms and conditions, with the cost to insure increasing, and availability of capacity reducing, the change in how insurance is purchased has shifted.

However, in late 2024 we saw the market starting to soften, and in 2025 we have seen a significant change in market conditions, whereby capacity and competitive edge from local and global markets has increased, even for some previously difficult to insure risks, where markets are wishing to diversify their portfolios.

Cost-effective risk retention and transfer within a robust governance framework are critical in the public sector, and we recognise this.

We understand the pressures in a highly regulated and complex environment, and the increasing demand for government services is offset by decreasing budgets and strained resource.

The following policies represent the largest portion of the Councils' insurance programme premium spend. The benefits of collective purchasing are most evident in these areas:

- Infrastructure Cover
- Material Damage and Business Interruption
- Commercial Motor
- Liability

For each of these policies, we will illustrate how a collective approach has influenced marketing and procurement outcomes.

General Market Condition

Over the past seven years, the insurance market has experienced a 'hard' cycle. Contributing factors include:

- Economic downturn following Covid-19
- Restrictions on available market capacity
- Increased frequency and severity of natural catastrophes
- Social inflation (rising insurance costs, increased litigation, more plaintiff-friendly decisions, and larger compensatory awards)
- Historically low or lower interest yields

During a hard market cycle, the collective approach allows Aon to minimise the impacts of this market and continue to secure capacity in global markets. Conversely, during the current soft market cycle the collective Co-Lab approach allows Aon to maximise the savings for Councils.

As we have now entered a “soft” market cycle the previous comments around collective purchasing equally apply. The ability to go to the market with a collective placement with greater declared values and spread of risk helps attract new markets to the placements, which further increases the competitive tension in a “soft” market

Advantages of Utilising a LASS Arrangement

There are several benefits to be had by utilising a collective approach as a marketing tool and the shared procurement arrangement.

- Benefits from Economies of Scale
- Access to additional markets both domestically and offshore
- Greater ability to negotiate specialist covers / policy enhancements
- Mitigation of claims impacts on pricing

The following will highlight how these advantages have been used.

- **Infrastructure Insurance**
(Economies of Scale and Access to Offshore Markets)

One of the largest policies purchased by Co-Lab Councils is the infrastructure large scale natural disaster programme. Historically, this type of insurance has not been available to councils. Infrastructure risk transfer was not available to individual Councils on a stand-alone basis.

By approaching the markets as a LASS, we were able to gain traction in the markets because of the collective values being declared. Individually, each Council's asset base, would not have been sufficiently large enough to attract interest from offshore markets. Even if it would have been possible to place a stand-alone cover for an individual council, the placement would have been subject to minimum premiums being imposed and make risk transfer unaffordable.

Additionally, pooling Councils in geographic regions allows individual Councils to share the insurance and the cost of similar Councils with similar risk profiles.

This shared procurement approach will also provide benefits to the Councils if Central Government reduces its current 60% participation in the future.

Whilst this approach was able to mitigate the impacts of the previous hard market cycle, it also has positive impacts during the "soft" market cycle as new markets can be brought into the placement, which increases the competitive tension in the overall market. This means if incumbent insurers wish to retain their position on the placement they have to meet the market conditions.

To highlight this point if we look at the expiring placement the total declared values for 2024 and the renewal premium were,

- 2024 – TDV \$8,205,831,501
- 2024 - Total Premium \$2,447,474

This gives an effective rate for the group of 0.0298%

For 2025 the Total Declared Values and Premium are,

- 2025 TDV \$10,836,981,756
- 2025 Premium \$2,419,000

This gives an effective rate of 0.0223%

This is an effective rating decrease of **~25%**

This level of rating decrease has been generated because of the competitive tension that Aon was able to introduce to the market by approaching markets in London, New Zealand, Singapore and Australia. The involvement of some of these markets would not be possible if it were not for the shared procurement approach.

- **Material Damage and Business Interruption Cover
(Economies of Scale and access to offshore markets)**

Shared procurement in a soft market has historically produced significant premium savings and enhancements to cover. In a soft market, having a larger property programme to place, allows for reductions in premiums to be maximised and increased policy sublimits to be negotiated.

This also avoids the minimum premium issues that are often experienced by entities in a soft market, where an insurer will have a minimum amount they are prepared to charge.

One of the previous barriers to using offshore markets for the Material Damage and Business Interruption placement has been the high level of deductibles that the offshore markets have wanted compared to local markets.

Because of the collective approach and the softening of the markets we have been able to negotiate lower levels of deductibles with offshore markets, which means they have been able to provide capacity for this placement. Again this then introduces more competitive tension into the placement which in turn means that we can replace the more expensive capacity on the programmes to maximise the premium savings available.

The 2024 Total Declared Value and Premium were,

- Total Declared Value \$4,795,227,697
- Premium \$5,946,082

This is an effective rate of 0.124%

The 2025 Total Declared Values and Premium are,

- Total Declared Values \$5,946,082
- Total Premium \$4,720,400

This is an effective rate of 0.0950%

Which is an effective rating reduction of 23%. This initial market indications prior to renewal were of a 20% rating reduction, but by utilising the offshore markets we were able to increase this to the 23% figure

As stated previously by placing the risk on a LASS basis the wide geographic spread of risk and higher combined total declared values the risk is more attractive to markets, and we are able to fill the required capacity by using multiple insurers each only having a small percentage of the overall exposure

- **Commercial Motor Insurance
(Economies of Scale and Mitigation of Claims impact)**

Commercial Motor placements are largely rated on their claims performance (Loss Ratio), total value of the fleet of vehicles and total number of units in the fleet. Again, by utilising the collective approach Co-Lab member Councils gain advantages through economies of scale.

Insurers look at the overall Loss Ratio, and in simplistic terms this is the total claims incurred divided by the total premium paid. This ratio is used as part of the premium calculation process. By pooling all the Co-Lab Group of Councils members together, the impact of high value claims is mitigated across the whole group.

If a Council had a stand-alone policy and suffered a bad claims year, because the total of the claims incurred would only be compared to their premium, the Loss Ratio would be very high and there would be a significant premium increase. By purchasing as a group, the volatility is taken out of the premium costs.

As such, the rating achieved is normally ahead of the market for accounts that have performed, from a claims perspective, in a similar fashion.

Insurers look to price an account based on a loss ratio of 70%, anything over this is costing them money, as they not only have to consider the direct cost of the claim, but also the indirect costs of handling the claim (staffing costs etc. If there were a couple of councils in a period who had particularly bad claims experience, the impact of these bad years would be “smoothed” across the whole group, thus reducing the volatility of pricing that can be experienced in the motor market due to poor claims histories.

The 2024 Total Declared Fleet Value and Premiums were

- Total Fleet Value of \$49,266,902
- Premium \$679,883.

This is an effective rate of 1.380%

The 2025 Total Declared Fleet Value and Premiums are

- Total Fleet Value \$52,799,324
- Premium \$661,991.

This is an effective rate of 1.254%

Which equates to an effective rating reduction of ~9%.

- **Liability Insurance**
(Economies of Scale and Access to Offshore Markets)

Liability insurance remains challenging for local government. While each council is rated based on its own claims history, insurer appetite for this class is limited. However, by approaching the market on a 'portfolio' basis, we are able to keep insurers engaged and access additional offshore capacity, including markets in London and Australia.

Summary

As detailed in this paper there are many benefits to the member councils by taking the shared procurement approach to the purchase of insurance. The principal benefits are:

- **Benefits from Economies of Scale**

Pricing for policies purchased collectively produces results that are better than standard market pricing.

- **Access to additional markets both domestically and offshore**
- **Greater ability to negotiate specialist covers / policy enhancements**

Numerous examples of enhanced policy sublimits are available only due to the collective approach.

- **Smoothing of claims impact**

This benefit could be seen across all classes of cover provided, but is most evident in the Motor placement.

Conclusion

The collective approach to marketing through the Co-Lab Group of Councils can only bring benefits to the members.

It can allow for markets to be accessed and capacity in these markets secured, that would not have been available to individual councils.

It can allow for competitive tension to be introduced in the market during soft market cycles which can maximise premium savings, and conversely in hard market cycles, because of the value of premiums being placed, can allow for the impact of these increases to be minimised.

Through the collective buying power of a Co-Lab Group of Councils, and Aon's position as the pre-eminent broker to Councils, policy enhancements have been achieved.

By mitigating the impacts of claims across all the member councils, can lead to less volatility in pricing allowing for more accurate budgeting to be provided.

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Local Government Insurance and Risk Management

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