



Agenda Item 10

JOINT AUDIT COMMITTEE
28th June 2018

INSURANCE ARRANGEMENTS

Report of the PCC and Chief Constable and respective CFO's

1. PURPOSE OF THE REPORT

To provide assurance to the Audit Committee that Insurance arrangements are robust and appropriate, and to give details of recent claims experience.

2. BACKGROUND

For over twenty years the insurance arrangements for the former Police Authority and subsequently PCC, in respect of liability insurances, (including public liability, employers liability and motor third party) have been arranged with a substantial level of policy excess, which in effect means we are self-insured save for large losses which exceed the policy excess. For such cases, we purchase 'catastrophe' cover from the Insurance market. This provides a cap on the maximum exposure the force has to any one incident, and further to limit the total cost of claims within any one policy year - (known as the *policy aggregate stop*).

The catastrophe cover is procured, following a competitive tendering arrangements on the basis of a long term agreement (LTA)-typically for a three or five year period, although these agreements inevitably provide for the Insurer to terminate before the expiry, depending on claims experience.

3 COMBINED LIABILITY AND MOTOR INSURANCE

In recent years, the Insurance market has taken a particularly risk averse approach to providing cover to the public sector, with an even greater reluctance to provide cover for the Police Sector.

Traditionally the number of insurers in the marketplace who would offer cover to the public sector has always been fairly limited. The last full competitive tender exercise

around this programme of insurance took place in 2014 in readiness for the renewal date of 1 November 2014. Only one quotation was forthcoming from the existing insurer albeit with a different insurer partner – QBE.

As such, the renewal was negotiated with the current provider on the basis of the same level of excess £250,000 with an aggregate limit of £7.3m. The contract was agreed on the basis of an LTA lasting 3 years with the option to extend +1 & +1 (so a maximum of 5 years) with the option to alter or adjust the level of excess mid- term if required.

On approach to the renewal in November 2017, the insurance industry faced significant challenges as a result of changes announced by the Lord Chancellors Department. In simple terms, historically, on large loss claims settlements, a discount of 2.5% was allowed for the fact the damages were received in a lump sum and so were capable of an investment return. This was altered to adjust the settlement and introduce an uplift on damages by applying a discount of **-.75%**. In cases of large losses this has had a significant impact. As a consequence, all insurers undertook to review their existing reserves and consider their pricing strategy to ensure claims going forward were adequately funded.

RMP/QBE – the force insurer, and the insurer of the majority of police forces, adopted a “strategic and transparent view”, and introduced a flat increase across all clients dependent on the level of self-insurance.

In respect of our programme, this meant a flat increase of 20% in respect of Employers and Public Liability and an increase of 35% in respect of Motor Fleet.

To further complicate matters, RMP/QBE advised in their view, they do not consider this a break in the LTA since the changes in premium rates is directly attributable to matters outside their control.

It is a corporate policy of RMP/QBE not to quote or engage in any tender process where there is an existing LTA in existence. As such, they advised in the event we considered the increase in renewal terms a break in the LTA, and looked to seek alternative quotations then they would not engage in this process, nor offer renewal terms.

This left us in the delicate position of deciding whether to go out to market. After careful consideration, we decided not pursue this course of action, and this provided us with a guarantee of renewal terms, albeit with a significant premium increase. The alternative was going out to market and not having any insurer offer terms leaving us with no catastrophe cover at all.

We examined a number of variables in an exercise to evaluate and mitigate the financial consequences of these rate increases, mainly involving the adjustment in the level of self-insurance, as well as adjustments to the level of stop loss insurance limits. In essence, we had 3 options;-

1. Leave the Self Insured Risk (SIR) at £250,000 and accept a premium increase of £184,792
- 2. Adjust the SIR to £300,000 and accept a premium increase of £95,420**
3. Adjust the SIR to £350,000 and £400,000 (motor) and the premium charged remains unchanged to last year.

It was decided to accept the blended alternative. The premium cost of £889,728. The level of aggregate stop was increased to £8m.

Further, the level of Insurance Premium Tax previously held at 10% was increased to 12% on all insurance premiums, which resulted in a further increase of 2% on all premium costs.

4 PROPERTY

Cover is arranged in collaboration with five other Midlands Forces. The renewal terms and rates offered by insurers remained unchanged. The current LTA expires this October - we are currently preparing documents to facilitate a market tender exercise.

The basic property insurance policy renewal this year amounted to £66,836.

5 MISCELLANEOUS POLICIES

Insurance cover for a range of other risks has generally been renewed on existing terms with the exception of a 10% uplift for the computer policy

Additional miscellaneous policies, include property cover for the peril of terrorism, computers, aviation liability (drones) travel and engineering results in premiums totaling £145,629. It should be noted, the aviation liability policy continues to be extended to cover increasing number of UAV's and pilots with various additional premiums falling to be paid as and when cover extended.

6 INSURANCE BROKING

The expiry date for the insurance broking contract was 1 May 2016. This contract has been extended through to 2020 in line with the framework. The annual charge increased to £5,755.

7 INSURANCE CLAIMS HANDLING

Employers Liability and motor third party claims are handled externally by the insurer claims handling partner, Gallagher Bassett who charge per claim. There has be a slight increase of less than 3% in the claims handling charges, although a reduction in the number of claims expected to be handled. The total claims handling costs being charged in the amount of £58,522.

8 MMI INSURANCE

The Force held liability insurance with the Municipal Mutual Insurance Company from the inception of West Midlands Police in 1974 through to 1991. This Insurer is now subject to a Scheme of Arrangement due to financial distress. As a consequence a levy was imposed to repay 25% of all claims payments made on our behalf. To date, the total repayment made by the force amounts to £1,273,974.

In terms of outstanding exposure to MMI Claims – there are currently 2 open files with reserves in the sum of £117,000.

One point of note is a recent dispute with MMI around the settlement of a legacy claim. This claim was settled in at a cost c.£500,000 including costs. MMI challenged the

validity of effective policy cover for this settlement – but having challenged this position, recent correspondence has been received which confirms the policy cover is in place, and the force will recover in full all monies paid out.

Since the last report, Janey Barrett the Force Risk & Insurance Manager has taken a voluntary position on the Board of Scheme Creditors within MMI. This provides us with a front facing involvement around the management and future conduct of the scheme administrators

9 TOTAL INSURANCE OUTLAY

The final outlay for insurance premium, broking fees and claims handling costs amounted to £1,166,470 (ex IPT & VAT).

It should also be noted, that as a result of a Government Budget, Insurance Premium Tax (IPT) was increased from 10% to 12%.

10 INSURANCE FUND POSITION

Insurance claims up to the value of the excess are met from the Insurance Fund, to which annual contributions are made from the Revenue Budget. The fund also “earns interest” through investment of surplus funds.

The full extent of our exposure to claims within a given period of insurance can take several years to develop and the final settlement of those claims may take place many years after the accident occurred.

EL, PL & Motor Claims

Appendix 1 details the incurred cost (paid and reserved) of Employers, Public Liability and Motor Third Party claims within the excess to the current insurance year. It should be noted that the insurance year runs from 1 November to 31 October for each given year. Separately for each year of insurance the table charts the:

- actual paid amounts
- balance yet to be funded when all existing and projected claims are finalised
- cash balance currently held in the Insurance Fund (within Balance Sheet reserves) to meet outstanding claims
- estimated shortfall/surplus in the amounts set aside

On the basis of current projections the overall level of funding represents 81% of anticipated liabilities at year end. This level of reserves is considered to be acceptable as the balance to be funded value represents a scenario in which the maximum settlement value of all claims is made.

The position will continue to be kept under close review to determine if additional funds need to be committed to reserves to maintain them at a prudent level.

Of note, the anticipated recovery of c£500,000 relating to the claim referred to in the MMI section.

11 FINANCIAL IMPLICATIONS

The total annual cost of insurance premiums, claims handling and insurance broking charges, paid is £1,166,470 (ex IPT & VAT) for which provision is made in the Revenue Budget. The cost of annual contributions to the Insurance Fund is also a charge against the Revenue Budget.

We continue to closely monitor all claim payments and reconcile expenditure and outstanding reserves against the balance on the Insurance Fund on a monthly basis. Details are included in the Financial Health Indicators which are reported to the Strategic Policing and Crime Board.

12 LEGAL IMPLICATIONS

Section 6 of the Police Act 1996 requires the Police Authority to secure the maintenance of an efficient and effective police force for its area. Section 111 of the Local Government Act 1972 enables the Authority to do anything which is calculated to facilitate or is conducive or incidental to this duty.

13 EQUALITIES IMPLICATIONS

All Insurance claims are managed and assessed in accordance with legal liability and policy cover, irrespective of the age, disability, race, religion, gender or sexual orientation of the claimants concerned.

14 RECOMMENDATIONS

The Committee is recommended to:

- a) Note the action taken in the renewal of Insurance cover with effect from 1st November 2017
- b) Note the current balance on the Insurance Fund.

CONTACT OFFICERS

Name: Neil Chamberlain
Title: Director of Commercial Services

Name: Mark Kenyon
Title: CFO to PCC

BACKGROUND DOCUMENTS

None

Appendix 1 – Insurance Payments and Reserves as at 31 March 2018

	Insurer	Historic	Chartis £100k						Travelers £100k					Chartis £250k							
			1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014				
	Year		9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	
	Year No.		9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	
Employers Liability	Development												0	0	0	207,708	0	251,195	248,927	400,000	
	Paid	225,238	403,273	1,002,687	305,282	154,811	278,572	374,442	610,333	672,618	730,018	641,906	354,022	620,527	231,092	89,313	40,138	17,589	0	0	
	O/S	75,000	0	0	0	0	0	0	0	866,384	0	0	0	0	43,329	102,979	305,890	131,216	151,073	0	
	O/S > Excess	0	0	0	0	0	0	0	0	-900,000	0	0	0	0	121,902	0	0	0	0	0	
Public Liability	Development													0	0	324,067	2,000	55,566	856,322	1,099,775	
	Paid	0	731,003	1,059,750	758,786	840,474	778,171	392,977	311,586	290,484	1,098,775	798,584	698,523	1,561,623	910,595	604,380	842,647	110,103	54,326	225	
	O/S	0	0	0	0	1,380,763	0	0	366,630	0	20,068	210,864	472,307	1,065,558	384,947	471,553	822,357	934,331	189,352	0	
	O/S > Excess	0	0	0	0	-1,381,763	0	0	-300,000	0	0	0	0	0	-100,000	0	0	0	0	0	
Motor Third Party	Development													0	0	0	0	615,845	774,039	844,488	
	Paid	0	0	0	0	0	870,487	657,647	1,014,836	942,960	1,254,176	1,065,112	1,441,776	1,332,837	1,075,628	774,323	592,830	320,024	40,829	0	
	O/S	0	0	0	0	0	0	0	1,200	0	0	0	5,500	26,839	527,938	110,815	540,271	164,132	285,131	155,512	
	O/S > Excess	0	0	0	0	0	0	0	0	0	0	0	-41,691	0	0	0	0	0	0	0	
Motor Vehicle Damage	Development													0	0	287,860	14,528	0	887,884		
	Paid	0	0	0	0	0	0	0	1,075,688	1,026,069	1,005,176	882,568	1,117,666	941,370	739,134	1,026,223	712,140	985,472	1,028,330	12,116	
Outstanding		75,000	0	0	0	0	0	0	67,830	-33,616	20,068	210,864	436,117	1,214,299	856,215	1,217,122	1,958,378	2,166,813	2,504,845	3,387,659	14,081,594
outstanding liability																					
Reserves	Liability Z14/Z15	1,024,706	-88,796	-147,198	47,271	627,926	818,842	1,328,096	1,129,644	25,200	31,124	-232,190	236,929	-1,463,200	-120,680	381,758	199,992	976,039	1,101,248	1,202,803	
	Motor Z17/Z29	206,866	0	0	0	0	388,376	465,654	331,826	622,395	-112,283	320,228	-885,544	-1,327,790	-1,043,773	-871,201	2,572,247	-262,595	-379,726	1,723,838	
		1,231,572	-88,796	-147,198	47,271	627,926	1,207,218	1,793,750	1,461,470	647,595	-81,159	88,038	-648,615	-2,790,990	-1,164,453	-489,443	2,772,239	713,444	721,522	2,926,641	11,338,032

Balance of Reserves

81% Fund Status

(80% - 120%)

	Payments made. Updated from Oracle
	Outstanding reserves on Public Liability claims handles in the main by Legal Services (some minor figures from Travelers and Chartis). Updated from LACHS reports
	Outstanding reserves on Employers Liability and Third Party Motor claims. Updated from Travelers reports
	Outstanding reserves on Employers Liability and Third Party Motor claims. Updated from Chartis/GBI reports
	Remaining Insurance Fund Reserves. Updated by Finance
	No data required