



Agenda Item 11

**JOINT AUDIT COMMITTEE**  
**2 July 2020**

**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 (aggregate stop).

The catastrophe cover is procured, following a competitive tendering arrangement on the basis of a long term agreement (LTA)-typically for a three or five year period, although these agreements inevitably provide for either us or 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. As reported in July 2019 the Force engaged in a full competitive tender exercise in readiness for the renewal in November 2019.

We received 2 responses to our invitation to quote. This was pleasing given the previous tender only elicited one.

## **COMBINED LIABILITY INSURANCE POLICY**

This policy covers employer liability, public liability and motor risks.

We explored two alternative basis of cover:-

	QUOTE
• £300,000 policy excess (as existing)	= £901,180 pa
• £500,000 policy excess	= £638,456 pa

In addition, casualty policies including Personal Accident & Travel, Fidelity Guarantee and Claims Handling and Uninsured Loss Recovery were procured at a total cost of £116,504 on the same basis and rate as previous years.

## **OUTCOME OF TENDER PROCESS**

**It was decided to renew on the basis of a £500,000 policy excess. This achieved a saving of £262,724 per annum - £1.3m over the course of the 5 year contract term.**

The decision to increase the policy excess level to £500,000 is taken in recognition of the confirmed financial savings which can be achieved. There is a further consideration in so far as since the last tender in 2014, the percentage of claims being paid has reduced from 87% to 51%. We will continue to seek to improve on this statistic with robust investigation and defence of claims where appropriate.

It is fully accepted that this presents an element of increased financial exposure so far as catastrophic claims are concerned and so in recognition of this, the intention will be to deposit a significant amount of the premium savings into the insurance fund deposit to meet current and future liabilities.

**TOTAL PREMIUM FOR COMBINED LIABILITY AND CASUALTY POLICIES - £754,960**

## **4. PROPERTY & ASSETS**

Cover is arranged in collaboration with five other Midland Forces. The policy was subject to a competitive tender exercise in 2018 – the outcome of which being that the existing insurer, Tokio Marine Kilne was successful.

However, less than 6 months into the 5 year contract, Tokio Marine decided to withdraw from the entire UK market. This effectively left us with no renewal terms.

In partnership with our Brokers, Aon we were able to secure cover, with some enhancement and the same premium rates, with the same insurers on risk for the casualty programme, QBE. The principal property insurance policy awarded with a renewal premium of **£71,100**.

## **5. MISCELLANEOUS POLICIES**

Additional miscellaneous policies, include property cover for the peril of terrorism, computers, aviation liability (drones) and engineering results in premiums totaling **£103,534**.

Insurance cover for these risks has generally been renewed on existing terms, but with appropriate premium increases to allow for an uplift in the sums insured. The exception being an increase in the premium rate charged on the Computer policy which reflected a poor claims experience throughout the collaboration.

## 6. INSURANCE BROKING

This contract has been extended through to 2022 in line with the framework. The annual charge being £5,745.

## 7. TOTAL INSURANCE OUTLAY

The final outlay for insurance premium, broking fees and claims handling costs amounted to **£935,339**(inc IPT & VAT).

**This is a reduction on last year spend on insurance policies in the sum of £384,559**

## 8. INSURANCE FUND POSITION

Liability 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.

The current reserves held against notified liability (EL,PL,OI & Motor TP)

EL	=	£618,000
PL	=	£6.2m
OI	=	£250,000
Motor	=	£1.3m
<b>TOTAL</b>		<b>£8.4m</b>

The current balance of the Insurance Fund stands at £8.8m. As such, we have a provision to meet known potential liabilities plus a balance of £400,000 for claims which may increase in value alongside claims not yet presented (IBNR)

In addition a further £2.5m has been allocated for the financial year 20/21 to address claims received during the year. This then presents a total fund value of £11.3m.

In considering the reserves levels from last financial year, which stood at a total potential exposure of £14m, a number of potentially high value claims have been successfully defended entirely, or robust settlement negotiations have brought the claim in at well under the reserve held. This has reduced the level of reserves by in the region of £4m.

## 9. FINANCIAL IMPLICATIONS

A provision is made in the Revenue Budget to meet the total annual costs of insurance premiums, claims handling and insurance broking charges. In addition, the costs and reserves for known claims along with a predicted amount for future claims (IBNR) is also provided for by way of an annual contribution to the Insurance Fund which is also charged 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.

## 10. LEGAL IMPLICATIONS

The Police and Crime Commissioner is required in accordance with Section 1 (6) of the Police Reform and Social Responsibility Act (the Act) to secure the maintenance of the police force and ensure the police force is efficient and effective. In accordance with Paragraph 14 Schedule 1 of the Act the Police and Crime Commissioner may do anything which is calculated to facilitate, or is conducive or incidental to the exercise of the functions of the commissioner.

## 11. 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.

## 12. RECOMMENDATIONS

The Committee is recommended to:

- a) Note the action taken in the renewal of Insurance cover with effect from 1<sup>st</sup> November 2019
- b) Note the current balance on the Insurance Fund, which is regularly reviewed, and consider a future transfer to this reserve to ensure that the insurance reserve has sufficient funds going forward to meet its liabilities.

<b>CONTACT OFFICER</b>	<b>BACKGROUND DOCUMENTS</b>
Name: Neil Chamberlain Title: Director of Commercial Services  Name: Mark Kenyon Title: CFO to PCC	None