
Meeting of Executive Member for Corporate Services and Advisory Panel

10 June 2008

Report of the Assistant Director Audit and Risk Management

Insurance Services Outturn Report 2007/08

Summary

- 1 The purpose of this paper is to inform Members of the progress made by the Insurance service during 2007/08. It considers the teams key achievements in relation to the effective and efficient management of the insurance portfolio and in particular:
 - performance of the insurance funds;
 - efficient management of claims;
 - un-insured risk exposures.

Background

- 2 The Insurance Team play an important role in protecting the Council from unnecessary exposure to risk and minimising the costs of insurance premiums and third party insurance claims against the Council. As with the other services in the Audit & Risk Management Division (ARM), the team makes a significant contribution to ensuring good governance arrangements are put in place and maintained across all Directorates at the Council. They act as both a support service to other parts of the organisation and provide a direct claims handling and advice service to both internal and external customers; handling an caseload of approximately 1,000 claims per annum.
- 3 The service manages some 27 separate insurance policies covering various areas of potential risk and liability ranging from personal injury to professional negligence. The four principle policies held by the Council are:
 - Public Liability – personal injury & damage to property
 - Employers Liability – personal injury to employees
 - Motor Vehicle – damage to and incidents involving Council vehicles
 - Property – damage to Council property

Insurance Funds

- 4 The Council's self-insurance funds were established following local government reorganisation in 1996. The key drivers for this included the volatility of external insurance premium and the demise of the local authority insurer Municipal Mutual. This provided a catalyst for the Council to take a more strategic view of its insurance portfolio with the aim of developing an effective funding strategy underpinned by better understanding and management of its insurable risk.
- 5 Exhibit 1 below provides a summary of the current Public Liability funds position on the most recent policy years as at 31 March 2008.

Exhibit I

Policy Year	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Fund Recharged	£505,061	£587,187	£622,044	£622,044	£622,044	622,044
Excess per claim	£10,000	£25,000	£25,000	£50,000	£50,000	£50,000
Paid from fund	£219,825	£248,794	£237,983	£191,902	£69,231	£13,895
Outstanding	£0	£34,506	£71,618	£97,816	£123,750	£251,305
Total Incurred	£219,825	£283,300	£309,601	£289,718	£192,981	£265,200
Residual Fund	£285,236	£303,887	£312,443	£332,326	£429,063	£356,844

- 6 The funds (provisions) set out at Exhibit 1 above are ring-fenced and as such can only be used to pay for any claims arising during the year to which they relate. To ensure that we do not retain too high a provision in each policy year, an exercise is undertaken annually at closedown to ascertain the outstanding liabilities including any IBNR (claims where the incident has occurred but the claim has not yet been received). Any residual fund balances (as shown in exhibit 1) have been transferred to the general insurance reserve where they have provided contingency funding for unexpected prior year claims and budgeted annual insurance savings. The high level of residual fund balances reflect the Council's success in managing its insurable risk effectively.

Claims Management

- 7 A key aspect of the service provided by the insurance team relates to the efficient management of claims to ensure compliance with legal protocols (Woolf protocols) and to facilitate the effective management of the insurance funds.
- 8 Exhibit 2 below shows the number and costs of public liability claims made against the council.

Exhibit 2

Policy year	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Number of Claims	437	359	327	269	253	190
Closed	431	346	317	249	224	88
Closed at Nil payment	345	276	256	203	184	71
Open	6	13	10	20	29	102
Paid	£287,449	£260,837	£336,571	£211,775	£73,215	£14,192
Reserve	£0	£159,507	£86,618	£103,855	£119,000	£277,308
Repudiation Rate (%)	80.04	79.76	80.75	81.52	82.14	80.68

- 9 The claims information set out at exhibit 2 above clearly shows the reducing number and cost of public liability claims against the Council. The repudiation rate is the percentage of closed claims where no payment has been made to the third party (National Average 65%). There are a number of reasons as to why we are able to maintain such an high repudiation rate, not least the inspection and maintenance regime within the highways department which provides us with a legal defence to many claims. As we have trained departments across the Council with regard to the claims process and the information that is required in order to process the claims efficiently and effectively all areas are now showing improvements in their repudiation rates. All claims that are reported to the team are dealt with promptly and as at 31 March 2008 there were no claims awaiting processing.

Uninsured Risk Exposures

- 10 The current insurance portfolio represents a balance between insured risks taking into account the Councils claims history and uninsured risks which are considered remote and uneconomical to insure. This approach has been successful in ensuring that the Council has robust and economically viable insurance provision which meets most claims that arise however there are areas or residual risk that Members need to be aware of these include:
- a) **Theft from Property** - This has not been previously insured however the growing economies of the Indian sub-continent and China has increased the price and value of metals including Lead which is included in the construction of many Council school buildings. Following a spate of Lead theft from schools (£118K) during 2007 this cover has been added to our Property policy in respect of schools only with effect from 1 April 2008. It is recommended that cover is not extended to the rest of the

property portfolio at this time as there is little evidence of theft from other Council buildings.

- b) **Flood Cover for Housing Stock** - Currently, the cover in respect of the Council's HRA housing stock is limited to fire, lightening, explosion and aircraft only. This has been an economic and claims experience based decision. The lack of cover in this area has again been raised following some of the worst flooding in the UK for more than 100 years costing the insurance industry an estimated £3 billion. Insurers require considerable information as detailed below in order to obtain a quote. The information required is not easily obtainable and any quote for cover including excess can only be obtained from Zurich Municipal's parent company (Zurich) in Switzerland. As there are no historical financial losses with regard to this peril it is recommended that the risk is not insured at this time.
- i. Details of all housing stock including full postcode and whether it is a house or flat along with description such as terraced or semi detached etc.
 - ii. Details of losses in the last 5 years
 - iii. What improvements to local flood defences and drainage infrastructure are planned for the next three years.
 - iv. What contingency plans are in place to protect flood prone properties or to respond to flash flooding.
- c) **Subsidence Cover** - This is not a major issue for the Council (One claim only reported recently). The premium costs for this type of insurance are significant but with very little claims history careful consideration should be given as to whether this cover is required and if so, whether it should apply to our entire property portfolio or just to specific buildings such as schools. It is not recommended that cover is procured across the property portfolio at this time.
- d) **Terrorism Cover** - The last time the issue of terrorism cover was considered was when York hosted the ECOFIN (a major meeting of European Economics and Finance Ministers) in 1998 when the City's profile was heightened and perceived to be at a greater risk of a terrorism attack. The decision by Members at that time was not to purchase this cover but accept the risk. Due to the fragmented nature of council owned administrative accommodation, terrorism is not a substantial risk to the Authority. However, with the increasing number of domestic terrorism incidents and the move to Hungate providing a higher profile target Members as part of this report may again wish to consider whether they wish to procure this type of cover. The risk remains low at this time and any decision can be again reviewed prior to the move to Hungate.

Market Conditions

- 11 The team proactively 'horizon scan' keeping abreast of all industry developments and market conditions. This knowledge and awareness assists in negotiating the best terms with our Insurers at renewal. It also helps in determining the level and scope of our internal insurance funding structure.
- 12 As insurance is a pooling mechanism what happens in the world outside local government can have a positive or detrimental affect on the Council's external insurance premium. The self-funding programme was specifically developed to soften the impact of any external insurance premium increases however the procurement of some external premium does not allow us to escape them in full.
- 13 The renewal terms offered by Zurich for the 2008/09 policy year are favourable and below budgeted estimate. As premium is based upon declaration policies accurate figures will not be available until July however at present the saving is in the region of £5K. Taking into account the effect on the Insurance industry of the turmoil in the world money markets and the losses from last years severe weather events this is a very satisfactory result for the council. This has been achieved by efficient management of insurable risk, ensuring that accurate, robust and timely information is provided to insurers demonstrating that the Council fully understand their insurable risk profile.

Consultation

- 14 Not Applicable.

Options & analysis

- 15 Not applicable

Corporate Priorities

- 16 The effective and efficient management of the Council's external insurance portfolio will support the delivery of the Council's corporate priorities and is consistent with the purpose and intent of the direction and values statements underpinning the Corporate Strategy as a whole.

Implications

- 17 There are no financial, HR, Equalities, Legal, Crime & Disorder, IT or Property implications to note.

Risk Management

- 18 There are no risks associated with the recommendations made by this report to note.

Recommendations

- 19 Members are asked to advise the Executive Member for Corporate Services to:

- a) note the contents of this report

Reason

To advise Members of the progress made by the insurance team in delivering an effective and efficient insurance service to the Council

- b) consider & take a decision on whether insurance cover should be procured in respect of the uninsured risks set out between a) to d) at paragraph 10 of this report.

Reason

To allow Members to take an informed decision on whether to extend the Council's insurance portfolio to risks that are currently uninsured.

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Report Approved **Date** 27/05/2008

Specialist Implications Officer(s) Not applicable

Wards Affected Not applicable

All

For further information please contact the author of the report

Background Papers: None

Annexes: None