

Meeting of the Executive Member for Corporate Services and Advisory Panel 30 October 2007

Report of the Assistant Director Audit and Risk Management

Insurance Services Mid Term - Monitoring 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;
 - Employers Liability trends.

Background

- 2 The Insurance Team play an important (albeit very low profile) 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 The team have worked hard to develop the Council's funding strategy for insurances since then to ensure the optimum balance between external premium and internal funding. This strategy has proved extremely successful in recent years and at the end of 2006/07 the insurance funds totalled some 2.9m with 1.6m being held in the insurance reserve to protect the Council against unexpected prior year claims. The balance of the funds (£1.3m) sits in the provisions to meet claims of which the Council is aware.
- 6 In addition, the successful deployment of insurance strategy has generated £100K in external interest annually. This allows the service to contribute on-going savings of £105k in the form of insurance premium savings to directorates. The function has also provided significant one-off savings in previous years to support the Council's overall Budget with £500k being made available from the insurance reserve in 2004/05 and a further saving of £250k achieved on the last renewal of the external Insurance contract at the beginning of 2006/07.
- 7 Exhibit 1 below provides a summary of the current Public Liability funds position on the most recent policy years.

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	£183,490	£188,565	£125,706	£39,631	£30
Outstanding	£719	£85,903	£84,864	£166,854	£197,183	£74,931
Total Incurred	£220,544	£269,393	£273,429	£292,560	£236,814	£74,961

Residual Fund £284,517 £317,794 £348,615 £329,484 £385,230 £547,083

- 8 Whilst the figures in Exhibit 1 above are favourable it must be borne in mind that insurance is a dynamic environment and incurred costs will fluctuate depending on the maturity of the policy year. In simple terms the 2002/03 figures are likely to change very little going forward while in the medium term incurred costs for 2007/08 are likely to rise as new claims are reported. A review of the insurance funding level will be undertaken as apart of the forthcoming budget.

Claims Handling

- 9 The effective and efficient management of insurance claims is a critical element in underpinning the overall insurance strategy. The regular analysis of claims patterns allows the organisation to react to any new or emerging risk. This not only protects the Council's premiums and insurance funds but can also protect the public and employees from risk of injury.
- 10 The most recent examples of this is the monitoring of employees for any signs of industrial disease such as Vibration White Finger (VWF) and proactive highway inspections to ensure the safety of the Council's highway and footway infrastructure.
- 11 The team ensure that information in relation to claims trends are communicated to all directorates in a quarterly digest. This also provides headline information with regard to future insurance premium costs. The effective in-house management of claims allied to the detailed analysis of cost and cause of claim were the primary reasons why we were able to negotiate savings of £250k on the renewal of the Council's contract for external insurances in 2006/07.
- 12 The number of claims reported is monitored on a quarterly basis with 150 reported at the end of the June 2007 quarter. This compares favourably with numbers reported in previous years, which have been in excess of 250 in each quarter. No claims were outstanding to be processed by the team at 30 June 2007 and the repudiation rate on the policy years 2002/03 to date remains above 80% (National average 65%).
- 13 The reputation of the Council as an example of 'best practice' for management of its insurance portfolio has seen other Authorities including Trafford MDC and Hull CC visiting the team in recent years.

Employers Liability

- 14 A particular focus of the insurance team over the last twelve months has been in relation to Employers Liability. The number claims

received on an annual basis is usually quite low (22) however numbers have increased in the last 2 years: 29 in 2006/07 and 32 in 2005/06.

- 15 While these numbers may seem low the average cost of a claim is in the region of £9K and there are currently two claims with a collective value of £500K on the books (and experience suggest there will always be extraordinary or exceptional claims of this kind at any time). However, these aside the trends evident from our analysis highlight two areas of key concern: VWF as discussed at paragraph 10 and manual handling injuries from the Social Services area.
- 16 The increase in claim numbers will put pressure on the insurance premium for employer's liability at renewal next year. However the team will ensure that our insurers are made aware of the pro-active actions being taken to mitigate the risks by the in-house team and local managers including the monitoring of staff for any indication of industrial disease in endeavouring to negotiate favourable renewal terms.

Market Conditions

- 17 The team are active in keeping abreast of all industry developments and their knowledge and awareness helps to in negotiating the best terms with our Insurers at renewal. Information on market conditions is communicated across the Council through the team's quarterly digest to all Directorates.
- 18 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 insurance premium. The self-funding programme helps to soften the impact of any external insurance premium increases but does not allow us to escape them in full.
- 19 The insurance industry is a truly global one and therefore the Council's premium can be affected by natural and man-made catastrophes across the world. The recent issues in the world money markets may have some negative influence on premiums at renewal next year. In addition to this the UK has seen some of the worst flooding for more than 100 years and this has cost the insurance industry an estimated £3 billion. Indications are that premium for householders may rise in the region of 10% and whilst this is not likely to affect the Council in the same way per se, there are indications from the Council's insurers Zurich Municipal that it may have some affect on the 2008/09 insurance renewals overall in off-setting generally increased costs within the industry at large.
- 20 The insurance outturn report will inform Members of any change in insurance premium as a result of these or any other issues that may effect the insurance premiums for 2008/09.

Consultation

21 Not applicable.

Options & analysis

22 Not applicable

Corporate Priorities

23 The effective and efficient management of the Councils internal insurance funds and 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

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

Risk Management

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

Recommendations

26 EMAP Members are asked to advise the Executive Member for Corporate Services to:

- a) note the contents of this report and the progress and significant contribution made by the service to VFM at the Council .

Reason

- b) *To advise Members of the insurance issues affecting the Council and the success of the insurance self-funding programme.*

Contact Details

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Report Approved

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Date 18 October 2007

Specialist Implications Officer(s) Not applicable

Wards Affected Not applicable

All

For further information please contact the author of the report

Background Papers

None