

**Decision Maker:** RESOURCES, COMMISSIONING & CONTRACTS  
MANAGEMENT PORTFOLIO HOLDER

**Date:** For pre-decision scrutiny by the Executive, Resources & Contracts PDS  
Committee on Wednesday 9<sup>th</sup> October 2019

**Decision Type:** Non-Urgent Executive Non-Key

**Title:** INSURANCE FUND - ANNUAL REPORT 2018/19

**Contact Officer:** Viknesh Gill, Insurance & Risk Manager  
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**Chief Officer:** Director of Finance

**Ward:** (All Wards);

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**1. Reason for report**

- 1.1 This report advises Members of the position of the Insurance Fund as at 31<sup>st</sup> March 2019 and presents statistics relating to insurance claims for the last two years. In 2018/19, the total Fund value increased slightly from £3.7m to £4.0m. A mid-year review of the Fund has also been carried out and, at this stage, it is estimated that the final Fund value as at 31<sup>st</sup> March 2020 will remain approximately the same. The position will continue to be monitored throughout the year.
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**2. RECOMMENDATION(S)**

- 2.1 The Resources, Commissioning and Contracts Management Portfolio Holder is requested to note the contents of the report.

## Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A
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## Corporate Policy

1. Policy Status: Existing policy. To maintain appropriate levels of insurance cover to ensure adequate cover for Council properties, assets and services.
  2. BBB Priority: Excellent Council.
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## Financial

1. Cost of proposal: N/A
  2. Ongoing costs: N/A
  3. Budget head/performance centre: Insurance Fund
  4. Total current budget for this head: £3,984k (Fund balance as at 31/03/2019)
  5. Source of funding: Insurance Fund – contributions from revenue, interest earned on balance
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## Personnel

1. Number of staff (current and additional): 1 current Insurance & Risk Manager
  2. If from existing staff resources, number of staff hours: Insurance claims are handled under a shared services arrangement with the Royal Borough of Greenwich
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## Legal

1. Legal Requirement: No statutory requirement or Government guidance :
  2. Call-in: Applicable:
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## Procurement

1. Summary of Procurement Implications: N/A
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approx. 450 claims are received each year across all insurance covers
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## Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A - Council wide

### **3. COMMENTARY**

#### **3.1 Background**

- 3.1.1 Like most organisations, ensuring adequate insurance cover is in place is one of the ways that the Council manages risk. It is the responsibility of the Council to determine the best balance between the level of premiums paid to external insurers and internal self-insurance arrangements paid from the Insurance Fund earmarked reserve.
- 3.1.2 The Council has a number of separate insurance policies, and these policies are subject to excess and stop-loss arrangements so that claims are only chargeable to the insurers if the cost of an individual claim is greater than the excess and/or if the aggregate of all claims exceeds the relevant stop-loss. The aggregate stop-loss is designed so that the Insurance Fund is protected in the event of a significant claim or a large number of successful claims.
- 3.1.3 The Fund balance remained fairly stable at around £3m until 2016/17 when it began to increase slightly and the trend in recent years has been a gradual increase in the Fund, as illustrated in the table in paragraph 6.1. The balance (to cover new claims notified after 31<sup>st</sup> March 2019) stood at £4.0m at 31<sup>st</sup> March 2019.
- 3.1.4 Very little guidance is given on a prudent level of reserves for insurance claims, but the Financial Conduct Authority generally supports the principal that it should be based on a realistic assessment of the value of known unsettled claims. Accordingly, in addition to the Fund balance, the Council carries a provision on its Balance Sheet for the estimated proportion of claims received that will be settled. As at 31<sup>st</sup> March 2019, the provision stands at £1.4m.
- 3.1.5 In the Insurance Annual Report for 2017/18, Members were informed that, at that stage, it was estimated that the Fund balance would remain at around £3.7m for 2018/19. The level and value of claims for the rest of the year was lower than the projections, and the remaining balance at year end was £4.0m. The increase in fund value was mainly due to claims settled during the year being lower than the total of interest accrued to the fund, the annual contribution from the revenue budget and the movement in the estimated value of unsettled claims. As at 31<sup>st</sup> March 2019, there were 309 open claims.
- 3.1.6 The position of the Fund has been reviewed as at 5<sup>th</sup> September 2019 and, based on the estimated value of claims received to that date, it is anticipated that the Fund balance will remain at around £4.0m at the end of 2019/20. As at 5<sup>th</sup> September 2019, there were 331 open claims. The position will continue to be monitored throughout the year.

#### **3.2 Insurance Arrangements**

- 3.2.1 The Council has historically handled self-insured claims in-house (with the exception of own fault or disputed motor claims involving a third-party), as well as managing more serious/complex claims in liaison with the insurer. This service has been performed by the Royal Borough of Greenwich (RBG) under a shared service arrangement since January 2014 which is due to expire on 31<sup>st</sup> March 2020. The Council is currently in the process of making arrangements with another London Borough local authority to handle the self-insured claims. The Gateway report relating to this proposed change is also included in the agenda for this Committee meeting.
- 3.2.2 The client function at Bromley is now undertaken by the Insurance and Risk Manager who was appointed in March 2019. The Council's Insurance function remains in the Finance Department but now sits within the Audit and Assurance team. The Insurance and Risk Manager is responsible for the management of the overall service including the authorisation

of all claim payments, meeting with insurers and broker, annual reviews of insurance cover and performance monitoring in line with the terms of the service specification that has been drawn up and agreed with RBG. Monthly client monitoring meetings are held between the Insurance and Risk Manager and RBG's Insurance Manager. Quarterly meetings are held between the Insurance & Risk Manager, broker and insurance providers.

### 3.2.3 The Council's insurance is categorised across the following 'business classes':-

- Employer's Liability – all employers are required to insure their staff during the course of their employment, both for their actions and against injury.
- Public Liability – This covers a wide range of risks for injury and damage that the public may be exposed to as a result of Council actions or omissions.
- Motor Vehicle – this includes the Council's vehicles and minibuses, and staff leased cars.
- Property – this is for the property issues for Council assets such as subsidence, fire, storm and floods.
- Terrorism – this covers physical loss or damage to property, loss of rental income and increased cost of working (business interruption) on a first loss basis, for any act of terrorism or sabotage. This was a new policy from 1<sup>st</sup> August 2016.
- Other – these are minor policies such as travel, school journey insurance and fidelity guarantee.

## 3.3 Insurance Policy Procurement

3.3.1 At its meeting on 21st May 2018, the Executive agreed that an OJEU tender exercise be carried out for the Council's insurance policies.

3.3.2 The Council completed an OJEU tender exercise earlier this year for new insurance policies to commence on 1st May 2019 to 30th April 2024, with an option to extend for a further period of three years. The outcome of this tender exercise was outlined in the 'Contract Award: Insurance policies' report (FSD190) that was presented to Executive in March 2019. The Council's Insurance Policies and providers from before and after the tender exercise are listed in the table below:

<b>Insurance Policy</b>	<b>Insurer prior to 1<sup>st</sup> May 2019</b>	<b>Insurer as of 1<sup>st</sup> May 2019</b>
Casualty (Public & Employers Liability, Professional & Officials Indemnity)	Zurich Municipal	Maven Public Sector
Motor	Zurich Municipal	Zurich Municipal
Property	Zurich Municipal	Travelers Insurance Co
Terrorism	Thistle	Atrium Underwriting Ltd
School Journey	Chubb	Risk Management Partners
Personal Accident & Travel	Chubb	Risk Management Partners
Fidelity Guarantee	Zurich Municipal	Risk Management Partners

### 3.4 Reviews of the Insurance Service

3.4.1 As part of the tender exercise, the Council commissioned an actuarial review of insurance claims through the insurance broker JLT Speciality Ltd. This review included statistical modelling on the total cost of claims based on various levels of excesses. The purpose of this review was to analyse the combined costs of insurance claims and policy costs, and to then feed into the option recommendation taking into account the cost of the bids received. This enabled the Council to determine appropriate excess level options for some of the different classes of insurance.

3.4.2 The total payments and stop losses of casualty claims going back to 2009 are outlined in the table below:

Insurer	Policy Year	Start Date	Stop loss	Total Payments	Outstanding Estimate	Total Claims	Under Stop Loss
			£'000	£'000	£'000	£'000	£'000
Travelers	2009/10	01/05/2009	1,250	830	89	920	330
Travelers	2010/11	01/05/2010	1,275	884	16	899	376
Travelers	2011/12	01/05/2011	1,275	945	0	945	330
Travelers	2012/13	01/05/2012	1,326	589	0	589	737
Travelers	2013/14	01/05/2013	1,353	515	6	521	833
Travelers	2014	01/05/14 - 17/06/14	1,531	128	24	151	1,380
Zurich Municipal	2014/15	17/06/14 - 1/5/15	1,965	455	64	519	1,446
Zurich Municipal	2015/16	01/05/2015	1,965	169	110	278	1,687
Zurich Municipal	2016/17	01/05/2016	1,965	137	250	387	1,578
Zurich Municipal	2017/18	01/05/2017	2,500	125	280	406	2,094
Zurich Municipal	2018/19	01/05/2018	2,500	63	812	875	1,625

Although there was a downward trend in the estimated total claims costs from 2012/13, the Council made the decision to increase the stop loss in 2017/18. This decision was made to help balance the increase in insurance premiums due to a significant reduction in the Ogden discount rate for personal injury claims (used to calculate how much accident victims should be given as a lump sum). The reduction in the rate meant that insurers had to pay a higher amount as a lump sum for personal injury claims. The increase in the Council's stop loss not only helped balance the increase of insurance premium but reduced the likelihood that the stop loss will be breached.

3.4.3 As part of the actuarial review, the historical payments of previous policy years were analysed in order to set the appropriate excess and stop loss figures for the new policies that commenced on 1st May 2019. The policy excess and stop loss figures for the major insurance policies from before and after the tender exercise are outlined in the table below:

	2018/2019			2019/2020		
Policy	Excess (£'000)		Aggregate Stop Loss (£'000)	Excess (£'000)		Aggregate Stop Loss (£'000)
<b>Property</b>						
General	100	}	500	125	}	750
Education	250			250		
Storm/Flood	50			125		
<b>Casualty</b>	125		2,500	125		1,750
<b>Motor</b>	50		250	50		250

3.4.4 In light of the historical claims data and the bids received from insurers with different levels of excess, the decision was taken to set the property insurance stop loss at £750k and Casualty stop loss at £1.75m. This decision was taken in order to balance the level of insurance premium with an appropriate level of stop loss that is unlikely to be breached. From the table in 3.4.2. the highest total payment of casualty claims since 2009 was £945k in 2011/12, which is well below the current stop loss of £1.75m.

3.4.5 Internal recharges are made to the revenue budget for both the insurance premiums and the contribution to the Insurance Fund to cover the cost of claims met by the Council. The recharge basis takes account of claims records and premium charges for individual service areas. The cost of claims is met directly from the Fund until the stop-loss is reached.

### 3.5 Insurance Claims

3.5.1 Claims statistics for the main categories of insurance cover for 2017/18, 2018/19 and 2019/20 to date are detailed in the following table. These show claims submitted up to 5th September 2019 in respect of incidents/accidents taking place, but not necessarily reaching settlement, in these financial years. The table also shows the total number of outstanding claims for all years and the estimated value.

	2017/18		2018/19		2019/20 to date		Total Outstanding	
	No	£	No	£	No	£	No	£
<b>Policies subject to excess / stop loss</b>								
Commercial All Risk - Fire & Perils							4	1,575
- All Risks	8	16,889	9	89,317	2	3,500	15	91,889
Public Liability	306	364,353	327	856,708	58	192,964	248	1,771,268
Employers Liability	5	1,330	1	0			1	12,659
<b>Total</b>	<b>319</b>	<b>382,572</b>	<b>337</b>	<b>946,025</b>	<b>60</b>	<b>196,464</b>	<b>264</b>	<b>1,875,816</b>
<b>Vehicle Policies</b>								
Leased Car Fleet	50	130,488	47	98,398	13	25,147	62	176,267
Motor Fleet	3	0					5	16,505
<b>Total</b>	<b>53</b>	<b>130,488</b>	<b>47</b>	<b>98,398</b>	<b>13</b>	<b>25,147</b>	<b>67</b>	<b>192,772</b>

- 3.5.2 Although the number of claims relating to 2017/18 have increased when compared with the figures included in last year's annual report, reflecting the fact that claims are often received some time after the occurrence of an incident, the total amount outstanding has remained at a similar level as claims have been repudiated or settled at a lower value than initially estimated.
- 3.5.3 The figures above reflect claims received up to 5th September 2019 and will likely increase as further claims are made. The deadlines for submitting claims are as follows: injuries can be notified up to 3 years after the incident occurred (or up to the age of 21 for minors at the time), property claims up to 6 years, and without limit for historic mesothelioma, abuse, noise related or repetitive injury claims. Courts can also waive limitation periods e.g. when the claimant has mental health issues.
- 3.5.4 It should be noted that although the total value of outstanding claims is just over £2m, this is unlikely to be the actual cost to the Council of these claims. The Council will settle the claim if it believes that it is liable or it does not have a defence in law. If not, the claim will be repudiated. Following the repudiation there will be a period of some uncertainty before the claim is closed as the claim may be challenged through the legal process.
- 3.5.5 The table below provides a summary of the claims received by year showing those that are still in progress, referred to a contractor, repudiated or settled.

<b>Incident Year</b>	<b>No of Claims</b>	<b>In Progress</b>	<b>Referred To Contractor</b>	<b>Repudiated / Closed</b>	<b>Settled</b>
2009	498	0.6%	3.6%	37.6%	58.2%
2010	540	0.2%	5.7%	35.2%	58.9%
2011	471	0.4%	5.7%	37.6%	56.3%
2012	423	0.5%	5.0%	33.1%	61.5%
2013	458	0.4%	4.8%	45.4%	49.3%
2014	468	1.3%	4.5%	57.9%	36.3%
2015	338	3.8%	2.7%	67.8%	25.7%
2016	369	6.0%	3.3%	62.1%	28.7%
2017	312	10.3%	1.6%	64.7%	23.4%
2018	423	25.3%	2.6%	45.6%	26.5%
2019 (to date)	170	85.3%	2.4%	7.1%	5.3%

- 3.5.6 From a review of the claims received, it is evident that there has been a significant increase in claims for 2018 with 25% of these claims still in progress. The increase in claims for 2018 has been for public liability claims made against the Council which are broken down into highways, trees and other claims shown in the first chart of Appendix 2.
- 3.5.7 The significant increase in public liability claims has been due to the receipt of highways claims and could be attributed to the cold spell in early 2018. However, it should be noted that these figures are still likely to change as claims in progress are concluded and new claims are submitted relating to previous years (as detailed in paragraph 3.5.4).
- 3.5.8 The Charts in Appendix 1 show the number and total value of claims by the year the incident occurred. As indicated in paragraph 3.5.4, and highlighted by the repudiation rate in the table in paragraph 3.5.5, a significant proportion of the claims currently shown as outstanding will ultimately not be paid.
- 3.5.9 Of the claims received, around 60% of the total number or 70% of the total value relate to Public Liability claims. These are shown in the charts in Appendix 2.

#### 4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

N/A

#### 5. POLICY IMPLICATIONS

- 5.1 To maintain appropriate levels of insurance cover to ensure adequate cover for Council properties, assets and services.

#### 6. FINANCIAL IMPLICATIONS

- 6.1 The table below shows movements into and out of the Insurance Fund in recent years and gives an indication of the volatility and unpredictability of the value of claims settled and outstanding each year. An estimate of the position for 2019/20 is also included in the table.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 (est)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fund balance b/f	3,159	2,965	3,022	2,981	2,888	3,099	3,373	3,717	3,984
Revenue contribution to Fund	1,000	605	1,300	800	800	800	800	800	800
Interest	72	57	35	65	73	81	75	78	80
Claims (actual and estimated)	-1,266	-605	-1,376	-958	-662	-607	-531	-611	-850
Fund balance c/f	<b>2,965</b>	<b>3,022</b>	<b>2,981</b>	<b>2,888</b>	<b>3,099</b>	<b>3,373</b>	<b>3,717</b>	<b>3,984</b>	<b>4,014</b>

- 6.2 In 2011/12 the total value of claims (actual settlements and outstanding) was higher than in previous years (£1.3m in total) and, even with a further top-up of £0.5m, the Fund balance reduced from £3.2m to just below £3.0m. This was generally due to a high volume of claims, particularly in the last few months of the year, and included one very large tree root claim (£145k).
- 6.3 During 2012/13, the Fund balance remained at around £3.0m, but, in 2013/14, following a detailed data cleansing exercise and a complete review of all outstanding claims, the estimated value of outstanding claims increased significantly again (to £1.4m), which resulted in a further top-up of £0.5m at the end of 2013/14.
- 6.4 The Fund balance remained broadly stable at £2.9m in 2014/15 and £3.1m in 2015/16, and has since increased to £3.4m, £3.7m and £4.0m over the three years to 2018/19. This is mainly due to a reduction in the level of claims paid during these years and amounts outstanding at the year ends.
- 6.5 Although the Fund balance is projected to increase slightly during 2019/20, due to the unpredictability of insurance claims, officers are not recommending any change to the level of revenue contribution to the Fund at this point. The position will be kept under review and any future proposals to change the contribution will be reported to Members as part of the annual budget process.
- 6.6 In addition, some authorities are concerned about the risk of potentially significant increases to their insurance premiums, and although this hasn't been reflected in the Council's most recent premiums following the tender exercise outlined in section 3.3, this may become a pressure in future years.

## 7. PERSONNEL IMPLICATIONS

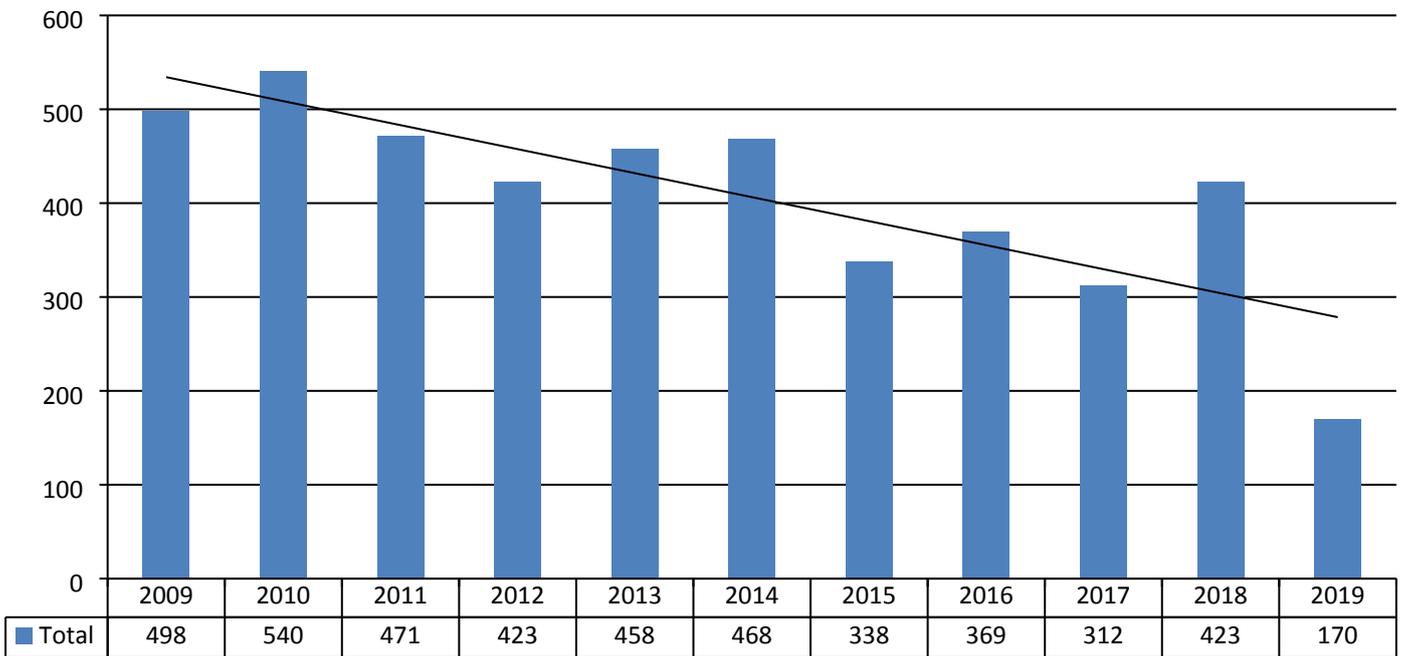
- 7.1 An insurance claims handling service is provided by staff from the Royal Borough of Greenwich under a shared services arrangement.

## 8. PROCUREMENT IMPLICATIONS

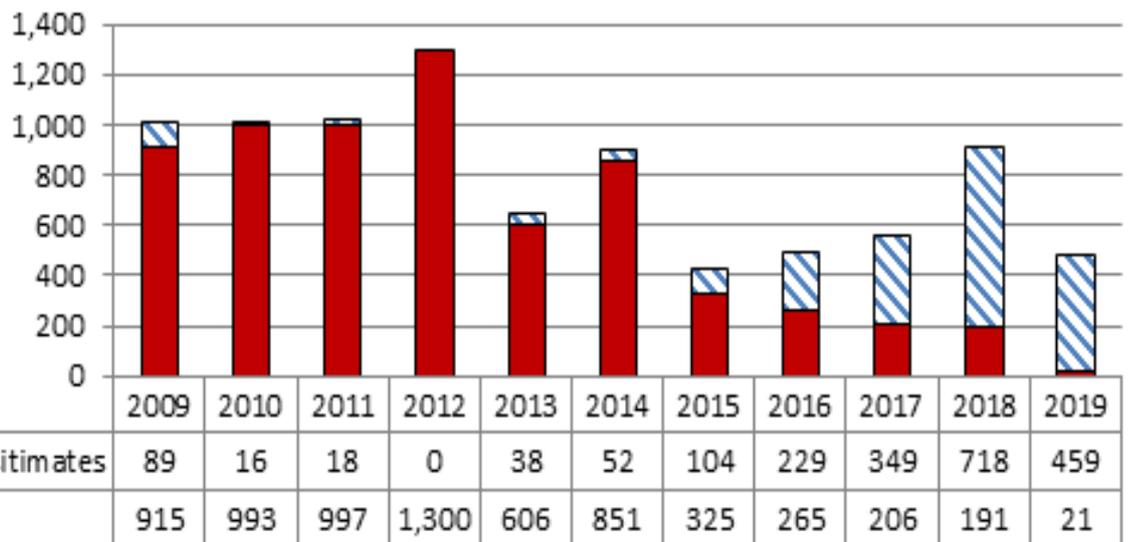
N/A

<b>Non-Applicable Sections:</b>	Impact on Vulnerable Adults and Children Procurement Implications
Background Documents: (Access via Contact Officer)	Insurance Fund – Annual Report 2017/18, Executive and Resources PDS Committee, 11 <sup>th</sup> October 2018 Contract Award: Insurance Policies, Executive 27 <sup>th</sup> March 2019

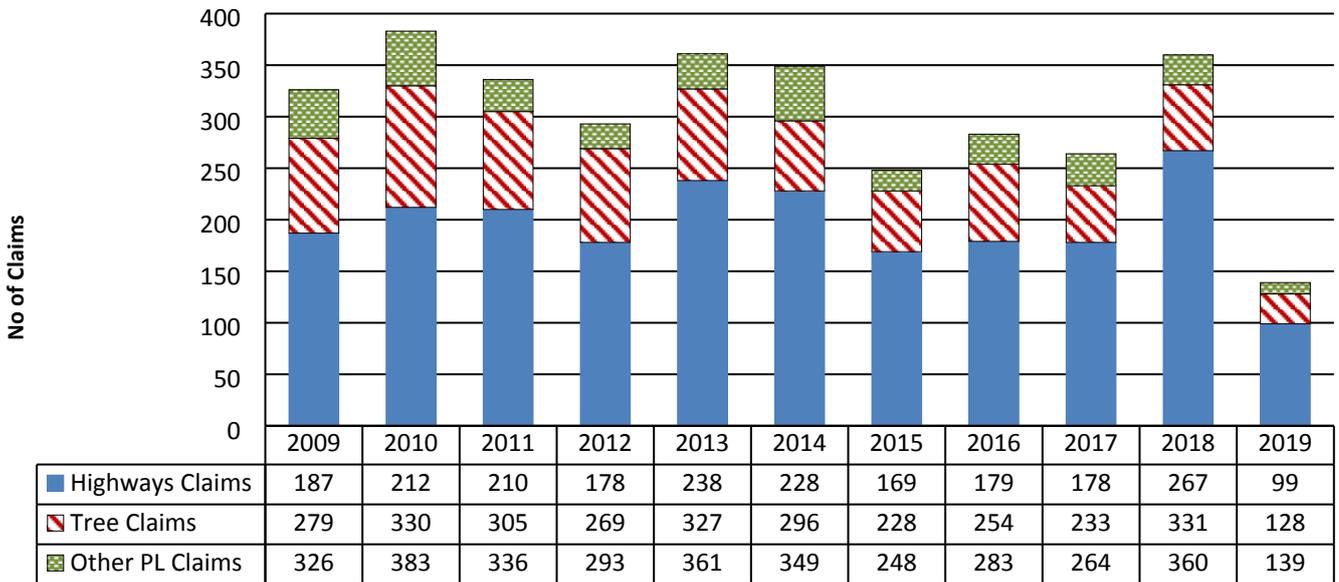
**Number of Insurance Claims**



**Cost of Insurance Claims**



### Public Liability Claim Numbers



### Public Liability Claim Costs

