



west midlands
police and crime
commissioner



Agenda Item 9

JOINT AUDIT COMMITTEE

8th June 2017

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 former Police Authority and subsequently PCC and Force Insurance arrangements for Public and Employees Liability (known by us as Combined Liability and Motor have been arranged on a “self insurance basis” with catastrophe cover from the Insurance market to limit the cost to the force of an individual claim (the excess level) and the total cost of claims in any one year (the aggregate).

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. With no more than 4 major insurers ever having been a dominant force in this area. This year has seen the exit/reluctance of two of these original public sector insurers and the introduction of 2 new entrants to the market with newly formed insurers. (Maven and Protector)

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.

We have now arrived at the point where the initial period of 3 years under the LTA is set to expire at renewal in November 2017.

As we confirmed renewal terms for the November 2016 renewal, premium rates remained as per the previous year in the sum of £483,707 (excluding Insurance Premium Tax at 10%)

The rates for the motor insurance policy were maintained as per last year, albeit there was a slight increase in premium to reflect the fact the number of vehicles on the fleet have increased. The premium charged amounting to £287,280 (excluding Insurance Premium Tax at 10%)

4. PROPERTY

Cover is arranged in collaboration with five other Midlands Forces. The renewal terms and rates offered by insurers remained either charged or slightly reduced from last year.

The basic property insurance policy renewal this year amounted to £66,836.15. There has been a deletion of certain property in line with the force estate rationalisation programme, alongside the addition of the new custody blocks and increase in sum insured for Lloyd House following the refurbishment,

5. MISCELLANEOUS POLICIES

Insurance cover for a range of other risks has generally been renewed on either existing terms with no increase in rates or premium, or marginally lower premiums.

Additional miscellaneous policies, include property cover for the peril of terrorism, computers, aviation liability (drones) travel and engineering results in premiums totaling £133,709.75.

6. INSURANCE BROKING

The expiry date for the insurance broking contract was 1 May 2016. The annual charge remained as last year in the sum of £5,555.

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 been a 2% increase in claims handling charges. Total charges £69,202 (ex VAT)

8. TOTAL INSURANCE OUTLAY

The final outlay for insurance premium, broking fees and claims handling costs amounted to £1,083,809 (ex IPT & VAT). This represents an increase of £24,114.

It should also be noted, that as a result of a change in the Government Budget, Insurance Premium Tax (IPT) was increased from 9.5% to 10% resulting in payment of IPT in the amount of £101,460.

9. 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.

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 an initial levy of 15% was imposed to repay 15% of all claims payments made on our behalf. In this respect a payment in the sum of £762,213 was made in 2014.

As a result of a further deteriorating financial position, the levy was increased to 25% meaning further repayment of 10% of all claims payments was required. A further payment of £511,761 was made in April 2016 bringing the total force contribution to £1,273,974.

In terms of outstanding exposure to MMI Claims – there are currently open files with reserves in the sum of £117,000 meaning in the event such claims are settled at this amount, the force would be required to reimburse 25% of all such payments.

The position around the levy imposed at 25% continues to be monitored with the potential for a further increase.

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.

Employers' Liability and Public Liability Claims

Appendix 1 details the incurred cost (paid and reserved) of Employers and Public liability 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 74% of anticipated liabilities at year end. This level of reserves is slightly below the 80% level which is considered to be prudent. However the balance to be funded value represents a scenario in which the maximum settlement value of all claims is made and thus represents a worst case scenario. The position of the fund will continue to be kept under close review to determine if additional funds need to be committed to reserves to return them to a more prudent level in the future.

Motor Third party and Own damage Claims

Motor insurance claims are traditionally settled more quickly than liability claims and the earliest active motor claims year is 2005-2006. Appendix 1 also details the incurred cost of all third party motor claims within the excess up to the current year.

10. FINANCIAL IMPLICATIONS

The total annual cost of insurance premiums, claims handling and insurance broking charges, paid is £1,083,809 (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.

11. 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.

12. 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.

13. RECOMMENDATIONS

The Committee is recommended to:

- a) Note the action taken in the renewal of Insurance cover with effect from 1st November 2016
- b) Note the current balance on the Insurance Fund, which is regularly reviewed.

CONTACT OFFICER

Name: Neil Chamberlain
Title: Director of Commercial Services

Name: Mark Kenyon
Title: Chief Finance Officer (PCC)

BACKGROUND DOCUMENTS

None

Appendix 1 Insurance Payments and Reserves as at 31 March 2017

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	2014-15	2015-16	2016-17		
Year	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	121,902	0	0	0	0	0	0	
Public Liability	Development											0	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	-1,380,763	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	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	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	-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	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	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	
Reserves	Liability Z14/Z15	1,024,927	-52,144	-147,198	97,566	627,926	821,137	1,340,446	1,138,443	26,437	45,452	-219,498	283,523	-1,266,284	-8,840	525,660	354,682	1,101,252	1,210,056	753,086	
	Motor Z17/Z29	206,866	0	0	0	388,376	465,653	331,826	622,395	-112,283	320,230	-885,544	-1,297,490	-1,021,597	-856,683	2,639,513	-212,170	-266,588	2,499,425		
		1,231,793	-52,144	-147,198	97,566	627,926	1,209,513	1,806,099	1,470,269	648,832	-66,831	100,732	-602,021	-2,563,774	-1,030,437	-331,023	2,994,195	889,082	943,468	3,252,511	10,478,558

outstanding liability

Balance of Reserves

74% Fund Status