



Agenda Item 10

JOINT AUDIT COMMITTEE
28th June 2019

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.

2. 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. The last full competitive tender exercise around this programme of insurance took place in 2014 this was arranged on the basis of a maximum 5 year period.

As such, we are currently preparing for a further full tender arrangement. The route to market being via OJEU as in the past year or so there have been a number of new insurers established who we are hoping to engage in the tender process with a view to ensuring a competitive outcome. The premium charged last year for all casualty policies being £1,147,756.

The tender proposal will seek to secure terms on the basis of current arrangements, i.e. £300,000 level of excess, with a limit of indemnity of £50m, but variations will be explored during this process including increase in excess to £500,000 and £75m limit of indemnity.

3. PROPERTY

Cover is arranged in collaboration with five other Midland Forces. The renewal terms and rates offered by insurers remained unchanged. The sum insured increased to reflect the new Custody Blocks. This programme of insurance was subject to a tender exercise at last renewal in November 2018 via the Bluelight Framework and the contracts awarded appropriately. The principal property insurance policy awarded with a renewal premium of £71,051.44.

4. MISCELLANEOUS POLICIES

Insurance cover for a range of other risks has generally been renewed on existing terms.

Additional miscellaneous policies, include property cover for the peril of terrorism, computers, aviation liability (drones) travel and engineering results in premiums totaling £188,006.

It should also be noted that following a review of the force Senior Officer Motor Lease scheme insurance arrangements for individual scheme members have been passed back to the officers meaning this insurance policy is no longer arranged by the force.

5. INSURANCE BROKING

The expiry date for the insurance broking contract was 1 May 2016. This contract has been extended through to 2020 in line with the framework. The annual charge increased to £5,755.

6. 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. The total claims handling costs being charged in the amount of £61,488.00. This being adjusted dependent on the actual number of claims handled.

7. TOTAL INSURANCE OUTLAY

The final outlay for insurance premium, broking fees and claims handling costs amounted to £1,403,006 (inc IPT & VAT).

8. 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 1 open files with reserves in the sum of £20,000 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.

EL, PL & Motor Claims

Appendix 1 details the incurred cost (paid and reserved) of Employers, Public Liability and Motor Third Party 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 67% of anticipated liabilities at year end. This level of reserves is considered to be acceptable as the balance to be funded value represents a scenario in which the maximum settlement value of all claims is made.

The total value of claims in the last few years has exceeded annual contributions to the fund. Therefore we are now in a position where overall funds available are slightly less than outstanding liabilities. The position will continue to be kept under close review to determine if additional funds need to be committed to reserves to maintain them at a prudent level.

Of interest around in the arena of insurance claims history, I would make reference to an employers liability claim recently settled relating to an incident which occurred in 2007. The damages in this case were agreed in the sum of £2.6m with both sides costs likely to tip the total claim costs close to £3m for this claim. The Force contribution to this claim was limited to the £100k excess applicable at the time. The insurance premium paid for this policy year was £255,000. This claim alone demonstrating the value for the force, and challenge for insurers around the premium and claims balance.

9. FINANCIAL IMPLICATIONS

The total annual cost of insurance premium, claims handling and insurance broking charges, paid is £1,397,251 (inc 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.

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

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.

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 1st November 2018.
- 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.

| CONTACT OFFICER | BACKGROUND DOCUMENTS |
|--|-----------------------------|
| Name: Neil Chamberlain Title: Director of Commercial Services Name: Mark Kenyon Title: CFO to PCC | None |



Appendix 1 – Fund Reconciliation March 2019

| Insurer | Historic | Chartis £100k | | | | | | Travelers £100k | | | | | Chartis £250k | | | | | | 2013-2014 | 2014-15 | 2015-16 | 2016-17 |
|----------------------|-------------------|------------------|-----------|-----------|-----------|------------|-----------|--------------------|-----------|-----------|-----------|-----------|------------------|------------|------------|-----------|-----------|-----------|-----------|-------------------|------------------|---------|
| | | 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 | 2015-16 | 2016-17 | | | | | |
| Year | | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | | | |
| 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 | 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 | -190,000 | 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 | 1,015,428 | -113,219 | -147,198 | 44,809 | 627,926 | 818,841 | 1,317,292 | 1,129,644 | 25,929 | 13,461 | -232,190 | 234,039 | -1,468,154 | -180,039 | 259,483 | 48,717 | 631,218 | 965,387 | 1,074,309 | | |
| | Motor Z17/Z29 | 206,866 | 0 | 0 | 0 | 388,376 | 465,654 | 331,826 | 622,395 | -112,283 | 320,062 | -886,049 | -1,335,948 | -1,064,097 | -872,280 | 2,554,813 | -268,788 | -688,588 | 1,212,608 | | | |
| | | 1,222,294 | -113,219 | -147,198 | 44,809 | 627,926 | 1,207,217 | 1,782,946 | 1,461,470 | 648,324 | -98,822 | 87,872 | -652,010 | -2,804,102 | -1,244,136 | -612,797 | 2,603,530 | 362,430 | 276,799 | 2,286,917 | 9,450,250 | |

Balance of Reserves

67% Fund Status

(80% - 120%)

| | |
|--|---|
| | Payments made. Updated from Oracle |
| | Outstanding reserves on Public Liability claims handles in the main by Legal Services (some minor figures from Travelers and Chartis). Updated from LACHS reports |
| | Outstanding reserves on Employers Liability and Third Party Motor claims. Updated from Travelers reports |
| | Outstanding reserves on Employers Liability and Third Party Motor claims. Updated from Chartis/GBI reports |
| | Remaining Insurance Fund Reserves. Updated by Finance |
| | No data required |