INTEGRATED PLAN

PART E – INSURANCE & RISK STRATEGY

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1. Introduction

This strategy sets out the Council's overall approach to risk management, financial risk retention and the management of its corporate insurance programme through relevant policies of insurance. It is intended that the strategy will be reviewed and updated on an annual basis.

This strategy supports the new combined Risk Management and Insurance team, that is part of Assurance Services, in establishing and delivering a holistic approach to insurance and risk management providing comprehensive risk identification, assessment and mitigation support, working to a jointly developed and shared vision. This strategy enhances the Council's ability to:-

- Manage an optimum balance between the risk insured in-house "self-insurance" and those externally through the procurement of external insurance.
- Protect the Council's assets, reputation, employees and the public. Maintain a sufficient insurance reserve to meet potential and contingent liabilities.
- Manage and investigate all claims made against the authority, using the appropriate legislation for the detection and prevention of fraud and claims settlements.
- Support the identification and the management of risk within the authority.

Not all financial risks can be insured such as increases in inflation and interest rates. The Authority maintains specific reserves for the risks that it self-insures. The level of self-insurance is determined by looking at premium spend over a period against claims incurred and assessing the risk appetite for those areas where the Authority is happy to manage the risk in-house. We also seek professional advice through actuarial reviews on a biennial basis to ensure that we have the right balance of reserves against risk.

2. Background

2.1. Municipal Mutual Insurance (MMI)

Between 1971 and 1992 this Authority like the majority of local authorities were insured with Municipal Mutual Insurance (MMI) for all of its corporate insurance requirements such as employers and public liability. Insurance cover during this period was 'ground up' meaning that there was no (or very minimal) policy excess with all claims incurred being paid by MMI.

In common with other authorities, all liability insurance was met on a self-insured basis prior to 1971.

This scheme of arrangement began in 1992 when MMI became no longer viable financially and was no longer in a position to provide ongoing insurance cover. This authority along with others took on responsibility for a portion of the outstanding and any future incurred claims. This Authority has set up a specific reserve for MMI claims based on a levy that the scheme administrator imposes on all local authorities following an actuarial review of the total scheme liabilities and assets. A levy of 15% was imposed on scheme creditors in January 2014 and a specific reserve of £2m was set up for MMI. The balance of the fund now stands at £815,998 following levies.

A further levy of 10% was imposed in April 2016, and the authority had to contribute a further £484,002. The levy and reserve may change depending on the outcome of future actuarial assessments of scheme assets and liabilities. In addition, the authority now has to meet the first 25% of any claims relating to the MMI policy period.

Claims that are now submitted to MMI are mainly historic abuse claims and mesothelioma claims. As at 30 September 2016, outstanding claims with MMI are estimated to total £340,019.

2.2. The insurance market today

Following the demise of MMI, this Authority was required to make alternative insurance arrangements and did this by approaching the insurance market. Insurers were prepared to quote for local authority business but as this was a new area of business for them they insisted that some of the risk was carried by the Authority and insisted on higher policy excesses. This meant that the Council had to set aside an insurance reserve in order to meet the cost of the then current and future claims falling under the insurance policy excess.

A Government Insurance Framework has been developed for both brokers and underwriters and this has attracted some specialist underwriters to the local authority market and increased the opportunity set from which authorities can arrange cover. In particular in 2016, two new insurers have started to underwrite insurance for local authorities.

There have been some concerns raised by an actuary about the financial stability of Zurich Municipal who insured the authority's liability risks in 1992 and then between 1997 and 2000. This needs to be carefully monitored and consideration may need to be given to increasing the Reserve in view of this potential risk.

The insurance market is volatile, and is influenced by global events and pressures and underwriters will react and adjust policies, premiums and levels of excess to mitigate their own risk from local authority claims and around the globe.

2.3. The key activities of the insurance service

The key activities of the insurance service are:

- Identifying and protecting the risks and assets owned or associated with HCC.
- Marketing HCC's profile to external underwriters.
- Offering advice on policy cover and levels of insurance to all departments including schools.
- Giving technical advice to all departments, on major procurements, contracts, shared services, and limited companies.
- Monitoring claim costs and commissioning a bi-annual actuarial review to determine the insurance reserve required to meet past, current and future claims.

- Managing all claims received applicable to all HCC liabilities and policies applying legislation to statutorily defend against claims that may impact on the reputation and financial responsibilities of HCC.
- Appointing appropriate external Solicitors/Barristers to represent HCC in the defence of claims.

2.4. Cost of Insurance

Chart 1 below illustrates how much the Council has paid in premiums and management of the service over the last five years. This includes Insurance Premium Tax (IPT) which has increased from 6% in 2011 to 9.5% in November 2015, then 10% in November 2016. It will increase to 12% in June 2017. It is predicted that this will eventually equal the same rate as VAT – 20%. The management of the service cost for 16/17 is the current budget and now includes the two risk management employees that transferred to the Team on 1 April 2016. The cost was lower in 15/16 due to vacancies in the Team in the year.

Chart 1 – Premium and salary costs

Financial Year	Premiums paid £'000	Management of the service £'000	Drawdown from reserves £'000	Total Cost* £'000
2012/13	3,552	308	619	4,479
2013/14	2,257	302	459	3,018
2014/15	2,274	308	177	2,759
2015/16	1,929	262	790	2,981
2016/17	2,077	316	tba	tba

**does not include potential outstanding liabilities*

Chart 1 illustrates that in 2013 there was a reduction in the premiums paid by the Council; this was as a result of an effective procurement of risk cover using a national framework agreement as well as working with departments and the Authority's insurance broker to review areas of cover and the levels of self-insurance.

In 2015/16, the aggregate stop loss deductible for school property claims was increased from £500,000 to £1,500,000 which substantially increased the authority's exposure. Section 2.6 details how the authority is managing this exposure.

Charts 2 and 3 below illustrate the total number of claims incurred by the Council over the last ten years as well as the total amount paid in settling these claims[1].

It should be noted that claims for personal injury can be made up to three years from the date of any accident and up to six years for property damage claims. In addition, it can take many years to resolve claims for personal injury.

[1] Claims data for 2016 is up to 1 December.

Chart 2 – Total claims made against the Authority

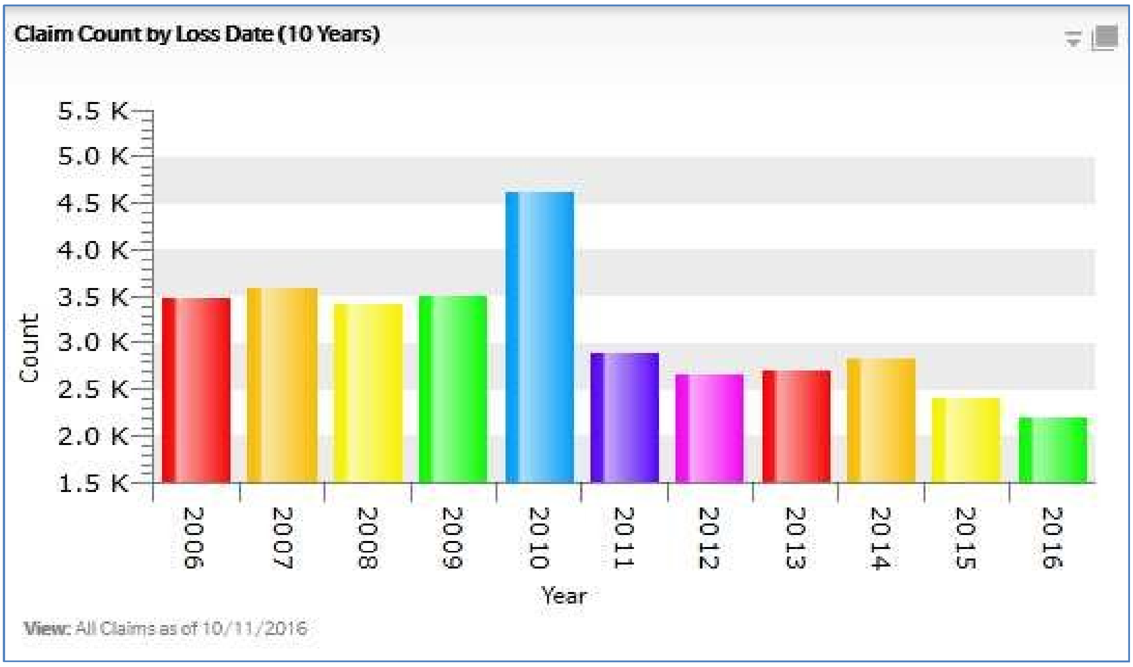
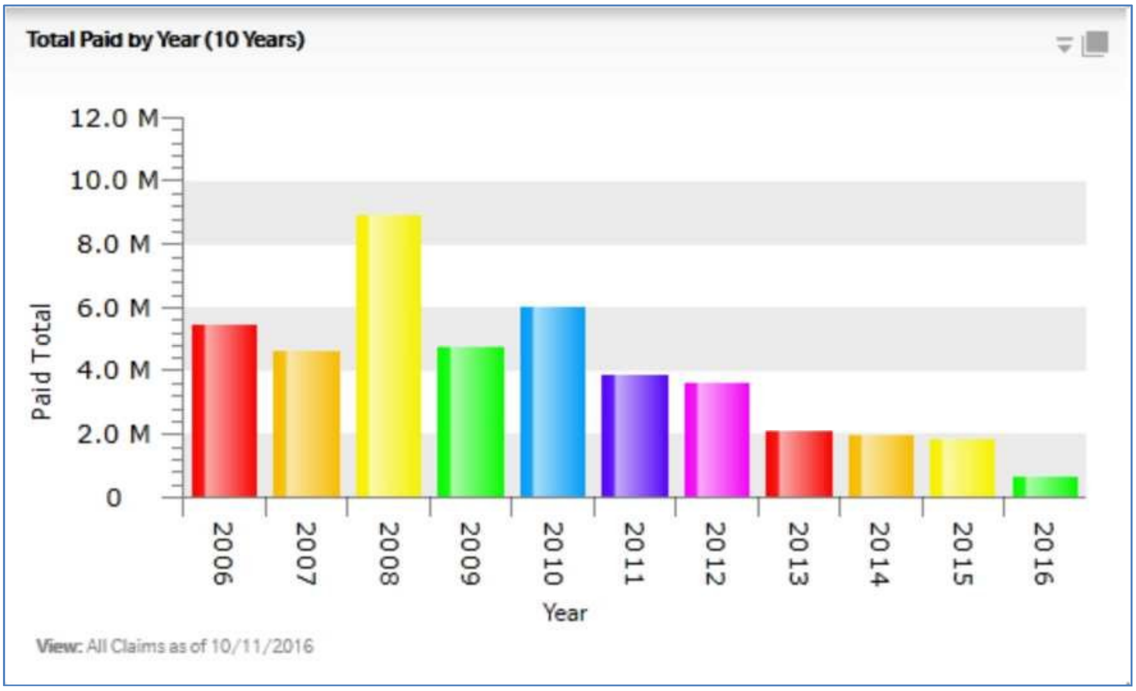


Chart 3 – Total claims paid



Charts 2 and 3 illustrates that the cost of claims and claims incurred have more or less remained stable over the last few years but certain factors such as weather will cause volatility in cost and numbers. There will also be claims incurred but not yet reported which will need to be reflected in these numbers.

A change in legislation called "The Jackson Reforms" came into effect on 1 April 2013 has reduced the legal costs associated with small liability claims. The reforms and rule changes flow from the new emphasis on balancing the needs of justice with proper management of litigations costs.

2.5. The balance between cost and risk

The fundamental role of any insurance strategy is to provide the best balance between risk and cost, to best suit the authority.

In basic terms, each insurer estimates the chances of a range of events happening and determines what they will need to charge to fund these potential risks, based on a fixed level of excess. If the authority wishes to reduce the level of excess, or in other words transfer more of the costs should an event take place, then the insurer will wish to charge more. Conversely, if an authority wishes to increase the level of excess and suffer more potential costs should an event take place, then the insurer would be expected to reduce premiums to take account of the reduced level of risk that they are expecting.

As a general rule, the more an authority decides to self-insure, the lower the costs of insurance should be; however, self-insurance requires the authority to maintain a level of resources sufficient to meet all likely claims against the organisation. This is managed through the insurance reserve.

The levels of self-insurance that the Council has are as follows:

- Property - £100,000 each and every loss (increasing to £500,000 for schools)
- Public liability - £200,000 each and every loss
- Employers liability - £200,000 each and every loss
- Motor (commercial fleet) – self-insure all own losses
- Motor (leased cars) – self-insure all own losses

In addition to these excesses or deductibles the authority has a restricted range of insured perils for general properties for damage caused by Fire, Lightning, Explosion, Aircraft and Riot & Civil Commotion only. Cover is much more extensive for education properties providing the schools with a full range of insurance cover and each school is only charged a minimal excess of £250 per claim. This leaves the Council having to fund a significant proportion of property claims in schools.

The Authority has a stop-loss/aggregate on claims below the excess for example the property cover has an aggregate of £1.5m. There is a separate stop loss for combined liability and motor, excluding property of £5.1m. The stop-loss limits the liability of the Council; any claims above the stop-loss are then fully funded by the Insurers Future premiums may be impacted by an Authority reaching its stop loss and it's important that risk is managed by working with the underwriter and broker to review those areas and introduce controls to mitigate future claims.

2.6. The Insurance Reserve

The authority maintains an insurance reserve sufficient to meet both current liabilities (known claims) and potential liabilities (estimated claims) for which it is liable; the self-insured liability. The key reason for maintaining the insurance reserve is so that the council can meet its unpaid retained insurance liabilities, i.e. the settlement costs of known and future (unknown) claims from current and past policy years The level required to meet those liabilities is set by reference to:

1) Current insurers estimates of current claims;
2) Past insurers estimates of outstanding claims; and
3) Brokers/Actuary estimates of future potential claims

The Council commissions an independent actuary to provide a consolidated view of the Council's current and potential liabilities. This review is undertaken at least biennial and the actuary will also use market knowledge to estimate the level of funds that the Council will require to keep in the insurance reserve. Insurance is inherently uncertain and any model used to estimate the required reserve can only be an approximation to reality. As such, the actual amounts required to meet future claim payments may differ from our estimates. The table below illustrates the movement in the insurance reserve over the last four financial years.

Table 4: Insurance reserve

	Financial years			
	2012/13	**2013/14**	**2014/15**	**2015/16**
	£	**£**	**£**	**£**
Insurance Reserve	4,814,885.41	6,830,659.35	6,218,315.49	5,489,962.01
Provision	13,974,634.51	11,500,158.15	11,935,023.60	11,872,973.33
Total Reserve and Provision	18,789,519.92	18,330,817.50	18,153,339.09	17,362,935.34

The self-insurance reserve is adjusted annually to reflect actual claims incurred but not paid in the year and adjustments are made to the provision to reflect increases and decreases in the claims incurred. The overall reserve, which includes the self-insurance reserve and provision, will reflect overall the insurance actuary's determination of the amount required to meet current and future claims.

The total reserves include schools, work has taken place to review the insurance premium levels for schools in order to reflect changes to the policies held by the Council and provide greater transparency of cost. The main change has been the increase on the Locally Managed Schools (LMS) aggregate property excess from £500k to £1.5m exposing the Council to greater risk. This will result in the need to maintain higher levels of reserves in order to fund claims up to £1.5m per year. Work is ongoing to determine the appropriate costs needed to maintain reserves at the necessary levels which has been discussed with the Schools Forum.

As referred to in 2.1 the Council also maintains a separate reserve of £816,000 for its MMI liability. The levy and reserve will be subject to change in future years depending on the outcome of the actuarial assessments of scheme assets and liabilities that is being completed in February 2017.

2.7. Main areas of risk

The Council will either self-insure or arrange insurance cover for a number of different liabilities. The main areas of liability that the Council is exposed to and from which it will receive the majority of claims are as follows:

- **Employers liability** – claims for personal injury/disease to members of HCC staff arising from their employment;
- **Public Liability –** claims for personal injury or damage to private property suffered by members of the public and external organisations. This can vary from vehicle damage arising from potholes in the public highway to abuse claims;
- **Officials Indemnity –** claims for financial loss made by a third party as a result of an error or omission by a Council officer
- **Motor –** claims for the Council's commercial fleet and leased cars; and
- **Property –** claims for damage to HCC premises/property.

The level of self-insurance will be determined by undertaking periodic reviews of self-insurance levels and comparing to current commercial insurance market conditions (hard/soft markets, cost of risk transfer). It will look to review the financial exposure of the Council to the cumulative effects of multiple small losses.

3. Strategic Vision

3.1. By adopting an approach to corporate insurance set out in this strategy, the Council will continue to minimise its exposure to catastrophic losses and to those risks that might affect the delivery of its corporate objectives.

3.2. The key benefits of our approach to corporate insurance will be:

- manage the cost of external insurance premium spend
- enhance the attractiveness of the council's risk profile to underwriters
- protect the council's assets (people and property)
- work with departments and schools to manage risk
- ensure the insurance fund is maintained at an appropriate level
- robust claims handling and insurance fraud detection
- greater control of costs – demonstrating value for money
- provide transparency in relation to insurance premium recharges
- maintain an appropriate balance between external insurance and internal risk retention
- protect the reputation of the Council

This corporate insurance strategy provides the framework to ensure that the council has in place an optimal balance between external insurance and self- insurance and that appropriate and robust arrangement are in place for the handling of insurance claims and the calculation and maintenance of the insurance reserve.

3.3. The key strategic elements of this strategy are set out in detail below:

Strategic Aim 1: To manage the cost of external insurance premium spend

The current Long Term Agreements with the Council's insurers are due to expire on 1 September 2017. A full Open OJEU tender for the Council's insurance portfolio will be undertaken in 2017. This tender provides the opportunity to completely review the Council's current insurance arrangements including policy cover and excess/deductible levels. The following types of insurance cover are examples of types of insurance the Council could be considering for future self-insurance:

Class	**2016 Premium £**	**2017* Premium £**	**Claims paid in past 5 years £**	**Comment**
Goods in Transit	1,129	1,154	Nil	Limit is £100,000, Excess £250
"All Risks"	8,203	8,390	4,421	Considerable resource in maintaining an up to date list of items of very low value. A £250 excess applies to each claim
Money	2,257	2,308	247	Nil excess. Very little cash now held on sites
Fidelity Guarantee	46,811	47,880	Nil	Some debate as to whether this is a Statutory insurance for authorities. Excess £100,000
Fine Art	33,411	34,173	Nil	Covers physical damage to items of Art. £250 excess applies
Computers	18,823	19,253	Nil	Covers IT equipment excluding laptops. IT equipment can be included under the property policy rather than a bespoke computer policy £10,000 excess
Airside Liability	3,772	3,858	Nil	For emergency response to Luton/ Stanstead for 3 vehicles £1,500 excess
Total	114,406	117,016	£4,668	

**2017 premium is the 2016 premium with the increased IPT of 12% that will apply from renewal date*

Strategic aim 2: To maintain an adequate insurance fund to meet potential and contingent liabilities and to support the Council's insurance programme.

The insurance reserve can be used when the council becomes legally liable to settle (compensate) a liability claim that has been made against it or its officers and elected members and for which the council is liable for the costs of settlement under the insurance policy excess. The insurance reserve will be subject to an independent actuarial review in February 2017 to ensure that there are sufficient reserves to meet all incurred claims for which the Council is liable. Officers will also review reserves when insurance premiums are renewed annually and may adjust reserves to reflect any increase in levels of self-insurance. The separate reserve for historical MMI claims will be reviewed annually following guidance from the actuary and the administrators for MMI, Ernst & Young.

Strategic aim 3: To maintain an insurance programme that provides the optimal balance between insurance and risk retention.

The balance between the levels of risk taken on by the Council through self-insurance and off set through underwriters will be reviewed following the actuarial review and results of the insurance tender. A number of options will be considered reflecting the Council's appetite for risk (self-insurance), historical claims incurred, future risks identified by the actuary and broker and the overall cost of insurance cover. The ability of this authority to self-insure and maintain a self-insurance reserve will need to be weighed against the premium cost of insurance as well set against the context of the overall general balances of the Council.

Strategic aim 4: To maintain appropriate operational policies for the handling of insurance claims, recharging to services and presentation of risks to insurers.

The insurance service will work with departments to ensure that the appropriate levels of insurance cover are in place and particularly as new risks are taken on for instance outsourcing or new activity such as the Care Act. Asset and employee data will be reviewed as part of the annual renewal process and presentation of risks to the insurance market. Officers will also work with their insurance broker and underwriter to manage developing risks as a result of changes in the regulatory and legal environment.

The cost of insurance is centrally managed and recharged annually using cost drivers such as salaries for liability and sum insured for property. On an annual basis departments and schools are re-charged for the cost of the insurance cover that they benefit from. Total cost of insurance will be recharged to services to reflect the overall cost in providing the service.

Strategic aim 5: Transparency of insurance/risk costs

The insurance service use management information from its claims handling database Enterprise to target and work with departments such as Highways to assess risks and determine whether to deal with the consequences of an event through either 'self-insurance' or obtaining insurance cover from an insurer. The restructure of the team within the Assurance Services has enabled it to develop stronger links with both the risk management and the health & safety team to improve the management of operational risk. It will also work with external partners such as the insurance broker and external lawyers to identify future risks and work with and raise awareness with departments.

Strategic aim 6: To maintain a robust approach to insurance fraud detection

Incidences of insurance fraud do take place and types of fraud committed vary from exaggerated or totally fabricated property based claims to exaggerated symptoms and falsified injuries or injury claims. The insurance team work with external claims handlers and maintain a claims handling database which enable officers to identify suspicious claims. The shared anti-fraud service has provided an opportunity to develop a more robust approach to the identification of fraudulent claims supported by work with insurers to identify trends in certain types of claims. Each individual claim will be subject to screening through a fraud check list.

4. Risks

4.1. The nature of the insurance service is that risk can never be fully avoided and some level of risk will always have to be tolerated. However, there are a number of specific risks that need to be acknowledged:

- The nature of the Council's activities is that they will change over time – as a result of legislation, and operational changes–and its impact upon the associated risks. Effective decisions on how to manage risk can only be made through the identification of risk within a service. The insurance function is reliant on accurate and timely updates from services in order to maintain insurance that is fit for purpose. This will be managed through the greater engagement between services and insurance.
- Any decision on risk could potentially have an impact on the Council's reputation as well as financially. As such it is important that the risk appetite of the Council is acknowledged at a high level and strategic decisions are made at the correct level.

4.2. Future Risks:

The risk profile of Local Authorities is such that it is not unusual for there to be exposure to what are titled long tailed claims which may have an impact on Hertfordshire's future insurance funding requirements. Examples of these long tailed claims which may have an impact on Hertfordshire's future insurance funding requirements are as follows:

- **Asbestos related claims** – asbestos related illnesses have extremely long latency periods, in some cases up to 60 years. This means that claims relating to past asbestos exposure may not be reported for many years to come.
- **Abuse** – recent publicity regarding abuse claims and the role of local authorities has raised awareness and will likely lead to new claims being submitted.

The strategic aims set out in this strategy will enable us to manage current and future risks through a combination of operational risk management by developing stronger relationships with services and working closely with the risk management, health and safety teams, and the shared anti-fraud service. It will also assess annually the balance between self-insurance and insurance cover and will work with its broker and underwriters to put in place optimum cover arrangements that look to minimise the total cost of insurance but also provides the correct level of cover to minimise loss to this Authority.