INTEGRATED PLAN

PART E – INSURANCE & RISK STRATEGY

Contents

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 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 majority of 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 was established 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.

A further levy of 10% was imposed in April 2016.. The balance of the fund now stands at £952,881. 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 2017, outstanding Hertfordshire claims with MMI are estimated to total £938,865.

The recent Supreme Court ruling in October 2017 which effectively makes authorities strictly liable for the actions of foster carers may have an adverse impact for MMI as this may lead to a number of historic abuse claims being submitted. This could lead to a further increase in the levy.

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 began to underwrite insurance for local authorities.

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.

In February 2017, there was a proposal to reduce the Discount Rate that is applied to severe personal injury claims settlements to -0.75%. This means that insurers would have to pay substantially more in settlements to those with life changing injuries. This had an immediate impact on the liability insurance market with many insurers increasing their rates. In the autumn a further change to the Discount Rate has been proposed which improves the position for insurers. These changes have still to be agreed and ratified and this means the liability and motor insurance markets remains unsettled.

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 and 12% in June 2017. When the insurance policies renewed in 2016 the IPT was 9.5% whereas in 2017 it had increased to 12%.
It is predicted that this will eventually equal the same rate as VAT – 20%.

The management of the service cost for 17/18 is the current budget and currently includes a vacant post. The Team is to be restructured to delete the vacant post and redistribute the responsibilities within the Team allowing for career progression.

Chart 1 – Premium and salary costs

Financial Year	Premiums paid £'000	Management of the service £'000	Drawdown from reserves & provisions £'000	Total Cost* £'000
2013/14	2,257	358	459	3,074
2014/15	2,274	366	177	2,817
2015/16	1,929	319	790	3,038
2016/17	2,077	492[1]	1,230	3,799
2017/18	2,242	432[2]	tba	tba

[1]Transfer of Risk Management to Insurance of £100K
[2]Current forecast
**does not include potential outstanding liabilities*

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 conclude claims for personal injury.

Chart 2 – Total claims made against the Authority

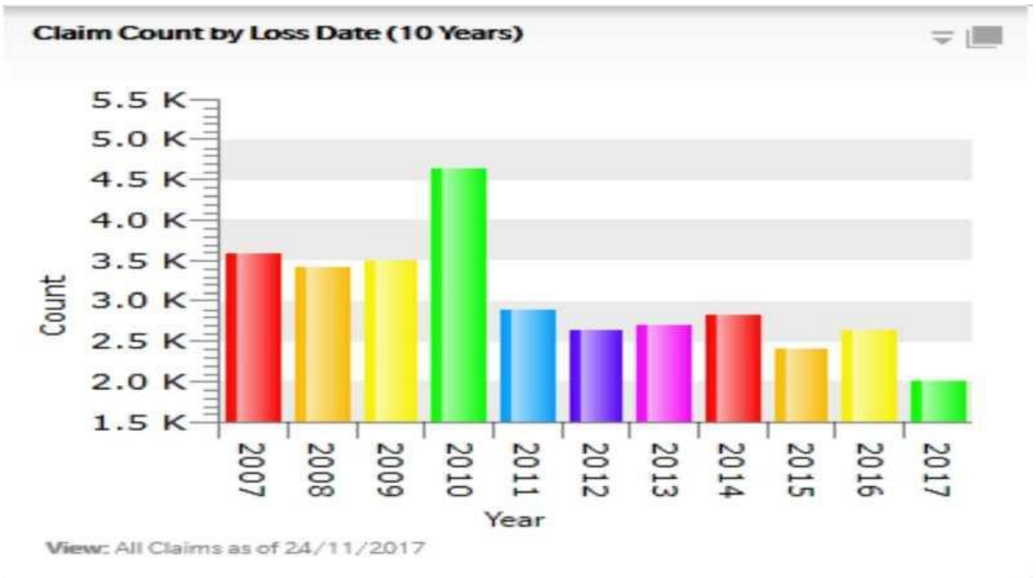
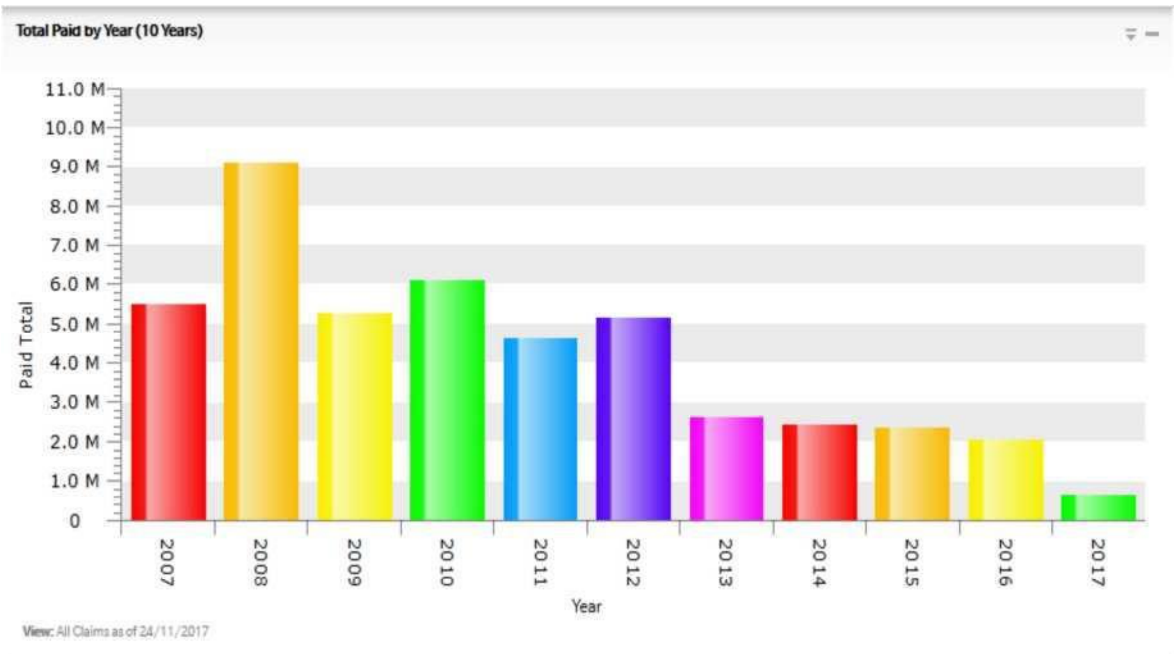


Chart 3 – Total claims paid



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. This is particularly highlighted in the 2008 and

[1] Claims data for 2017 is up to 24 November 2017.

2010 years when the winter weather led to an increase in payments for liability, motor and property claims. There will also be liability claims incurred but not yet reported which will eventually be reflected in these numbers.

The civil justice reforms that came into effect on 1 April 2013 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 below £100,000
- 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 £500 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 for schools has an aggregate of £1.5m. There is a separate stop loss for combined liability (£4,700,000) and motor (£525,000). 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 biennially 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			
	2013/14	**2014/15**	**2015/16**	**2016/17**
	£	**£**	**£**	**£**
Insurance Reserve	6,830,659.35	6,218,315.49	5,489,962.01	1,832,438.77
Provision	11,500,158.15	11,935,023.60	11,872,973.33	14,300,593.60
Total Reserve and Provision	18,330,817.50	18,153,339.09	17,362,935.34	16,133,032.37

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.

An actuarial assessment of scheme assets and liabilities was completed in February 2017. This indicated that the current reserve level (£16.13m plus £0.95m MMI reserve, as below) is on the low side; and identified that a reasonable fund for uncertain liabilities would be £18 million, with consideration being given to increasing this to £24 million (although the actuary's opinion was that no action was needed at that time to increase).

The issues raised are being reviewed, and a further actuarial assessment is taking place in 2018. It is expected that some replenishment will be required in 2018/19, the figure to be determined following the actuarial review.

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 to determine the appropriate costs needed to maintain reserves at the necessary levels has been discussed with the Schools Forum. A rate per pupil is likely to introduced for 2018/19 and this will factor in the cost of maintaining reserves

As referred to in 2.1 the Council also maintains a separate reserve of £952,881 for its MMI liability. The levy will be subject to change in future years and so the level of reserve / provision will be kept under review.

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

Long Term Agreements with the Council's insurers expired on 1 September 2017. A full Open OJEU tender for the Council's insurance portfolio was undertaken. This tender provided the opportunity to completely review the Council's current insurance arrangements including policy cover and excess/deductible levels.

Quotations were obtained to increase the Council's excess/deductibles to £1 million which was recommended in the actuarial review. However, due to the limited premium savings offered to increase the existing excesses it was agreed to maintain the excesses referred to in Section 2.5.

Although premium savings were made for the Council's property and motor insurance, the cost of liability insurance increased – largely due to the uncertainty around the Discount Rate referred to in section 2.2. The insurers for the motor and property risks changed from 1 September as a result of the tender. The following summarises the cost of these main policies against the premium paid in 2016/17:

Type of insurance	Premium £ (net of IPT) 2016	Premium £ (net of IPT) 2017	Difference £
Property	709,514	458,912	-250,602
Motor	325,514	234,457	- 91,057
Liability	584,460	811,000	+226,540

The following are no longer externally insured:

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.
Total	11,589	11,852	£4,668	

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

The contract with our insurance brokers is due for review in May 2018 and the authority will be undertaking a review and a competitive process ahead of this.

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 was subject to an independent actuarial review in February 2017 which confirmed that there are sufficient reserves to meet all incurred claims for which the Council is liable. It was however recommended that this is increased by £6 million over the course of the next ten years. Reserves are considered when insurance premiums are renewed annually and these may be adjusted 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 was reviewed following the actuarial review and results of the insurance tender. A number of options were 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 were considered 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 continues to 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 Herts Living. 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 underwriters 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 is subject to screening through a fraud check list. In September 2017, a successful prosecution was brought against a member of the public for fraudulently amending documents to support an insurance claim against the Council.

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 is being 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** –the Supreme Court in October 2017 ruled that Authorities are vicariously liable for the actions of Foster carers. This could result in the Council facing additional historic abuse claims which would be on a strict liability basis. It is possible that these would be uninsured or insured by MMI so will be subject to the Authority meeting 25% of the claims cost. This decision also puts further pressure on MMI and may result in a further increase to the levy on claims settled since 1992 and any new claims.

Insurance Premium Tax (IPT) has been increasing steadily over recent years. There is no exemption for this for Local Authorities. It has been predicted that this is set to rise from the current level of 12% to eventually reach 20%. No increase was made in the 2017 Budget but we will assume an increase to 15% in the 2018 Budget.

Insurance Fund - the actuarial review in February 2017 identified that a reasonable fund for uncertain liabilities would be £18 million, with consideration being given to increasing this to £24 million (although the actuary's opinion was that no action was needed at that time to increase). The amount in the Provision and Reserve and MMI fund totalled £17.086 million as at 31 March 2017. A further actuarial review will be commissioned during 2018 to review the actuarial assumptions and the medium term health of this reserve.

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, 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.