

Report To: Policy & Resources Committee **Date:** 15 November 2011
Report By: Chief Financial Officer **Report No:** FIN/107/11/AP/KJ
Contact Officer: Jan Buchanan **Contact No:** 01475 712225
Subject: Insurance Fund Position as at 30th September 2011

1.0 PURPOSE

- 1.1 The purpose of this report is to advise Committee of the position of the Council's Insurance Fund as at 30th September 2011 and to highlight any relevant issues.

2.0 SUMMARY

- 2.1 The claims experience of the Council continues to be relatively stable with the number of claims increasing at around 3% in each of the last 2 years. This is encouraging given the reported "claims culture" and continual advertising by claims advisers.
- 2.2 The Insurance Fund had a balance of £4.9 million at 30th September 2011 with an increase in year of £18,000.
- 2.3 Estimated liabilities on claims outstanding at 30th September 2011 are £1.45 million.
- 2.4 There have been recent legal developments affecting Pleural Plaques and Municipal Mutual Insurance (MMI) that may have an impact on the insurance position going forward and that will continue to be monitored.

3.0 RECOMMENDATION

- 3.1 It is recommended that the Committee note the contents of this report and the continued financial benefits the Council is achieving from the current Insurance Strategy.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 Following a review of available options by the officers of the Council and also on advice from the Council's Insurance Brokers, the September 2003 meeting of the Corporate Business Committee agreed a change in the Council's Insurance Strategy whereby there was a move to a significant level of self insurance.
- 4.2 This approach has delivered significant savings in both external premiums and internal recharges with the cost of insurance dropping by over 50% in real terms since 2003.

5.0 2010/11 PERFORMANCE

- 5.1 The overall insurance picture for 2010/11 has seen the number of claims received remain relatively stable. As can be seen in Appendix A, the Council received 282 claims for the 12 month period which is a 2.5% increase on 2009/10.

The Fund increased by £18,000 during the year to 30th September 2011 due to fund contributions being as recommended in the last actuarial review and to the level of claims chargeable against the Fund in relation to property and liability incidents being lower than in the previous year.

There are currently £1.45 million of estimated liabilities on the Fund leaving a balance of £3.5 million for future claims as at 30th September 2011.

- 5.2 The Fund is the subject of an actuarial review every 3 years with the last review being undertaken in November 2009. Fund contributions are set at a level consistent with the actuarial review but Fund performance continues to be monitored in case action needs to be taken on the level of contributions.

It should be noted that continued low interest rates mean that the interest earned on the Fund balance remains low.

- 5.3 The Committee should note that some insurance claims may appear several years after the period to which they relate and that the claims paid in a year do not relate solely to the claims arising in that year but normally also cover some claims arising for previous years. The current balance on the Fund ensures that the self-insurance position remains encouraging.
- 5.4 It can be seen from Appendix B that payments made by the Council's External Insurers continue to be significantly less than the premium paid. The factors affecting this situation are:
- (a) For Property Insurance the External Insurers are effectively providing disaster cover and it is hoped by both parties that the Insurer will never be asked to pay out against this policy.
 - (b) For Liability Insurance the External Insurers deal with the longer-tailed claims such as Employer's Liability and these claims take longer to be generated and finalised.
- 5.5 High volume, low value claims for public liability continue to be dealt with in-house, whilst the Insurers deal with all other claims.

- 5.6 One area of particular interest relates to claims arising from road or pathway defects. The claim statistics for the last 2 insurance years are as follows:

Insurance Year	No. of Claims	% of Total Claims For Year	Claims Rejected/ Dropped	Claims Paid		Claims Outstanding	
				No. of Claims	Actual Cost of Claims	No. of Claims	Estimated Cost of Claims
					£000		£000
2009/10	118	43%	48	40	34	30	250
2010/11	145	51%	27	42	11	76	346

6.0 RECENT DEVELOPMENTS

- 6.1 There are ongoing issues on 2 areas affecting the Council's insurance position:
- Pleural Plaques
 - Municipal Mutual Insurance (MMI).

6.2 Pleural Plaques

The Damages (Asbestos-related Conditions) (Scotland) Act 2009 provides that asbestos-related and certain other asymptomatic asbestos-related conditions are compensable in Scotland if it can be established that the conditions were caused by negligent asbestos exposure.

The insurance industry challenged the legal validity of the Act but failed at the Supreme Court in October 2011.

It is expected that the Act will result in additional claims and costs to be borne by insurers although the impact is unknown.

6.3 MMI

MMI is a former insurer which provided insurance primarily to local authorities. As a result of financial difficulties, MMI ceased to write new insurance business in September 1992 and "went into run-off" i.e. it continues but only to pay any claims that were outstanding or any claims that have arisen/may arise.

This "run-off" involved the establishment of a "Scheme of Arrangement" under which each local authority involved essentially assumed an element of mutual ownership of the company to manage the transition. When the Scheme was established it was believed that the company had sufficient resources to meet all existing liabilities and potentially provide a final distribution to participating local authorities of any residual surplus.

As a result of recent legal developments (including in relation to Pleural Plaques), it is expected that there will be additional claims and therefore costs to be borne by all insurers (including MMI). It is possible that MMI may not have sufficient capacity to meet the cost of any new claims in which case any shortfall would have to be met by participating local authorities and any claims paid to date under the Scheme of Arrangement may be subject to clawback.

The situation regarding MMI and the impact on local authorities remains uncertain and continues to be monitored by this Council and by the large number of local authorities throughout the UK who are part of the Scheme of Arrangement. However, as part of the last Actuarial Review, the Council included an allowance for the above eventuality.

7.0 THE YEAR AHEAD

- 7.1 Officers within Finance Services will continue to monitor the performance of the insurance strategy closely and will continue to present reports to Committee no less frequently than annually.

8.0 IMPLICATIONS

- 8.1 Legal
None.

- 8.2 Financial
The expenditure borne by the Insurance Fund in the year to 30th September 2011 amounts to £405,000 whilst the internal contribution to the fund was £423,000. As a result the Fund increased in year by £18,000.

The total cost to Council Services for insurance cover (both internal and external) for financial year 2010/11 was £1,033,000 which is £677,000 less than the budget for financial year 2003/04 (the year in which the significant change to the Council's insurance strategy was agreed).

- 8.3 Human Resources
None.

- 8.4 Equalities
None.

9.0 CONSULTATIONS

- 9.1 None.

10.0 LIST OF BACKGROUND PAPERS

- 10.1 None.

Appendix A

Insurance Fund Financial Summary - Insurance Years 2009/10 - 2010/11

	Insurance Years		
	2009/10 (1st Oct 2009 - 30th Sept 2010) £	2010/11 (1st Oct 2010 - 30th Sept 2011) £	
Fund Income in Year			
Total Contributed to the Fund	154,396.72	400,000.00	
Internal Resources Interest	21,935.56	22,699.63	
	176,332.28	422,699.63	A
Fund Expenditure in Year			
Risk Management	5,000.00	5,000.00	
Consultants Fees (Actuary)	14,200.00	0.00	
Computer Replacement Fund	12,000.00	9,000.00	
	31,200.00	14,000.00	
Actually Incurred Charges to the Fund in Year	635,043.23	391,078.63	
	666,243.23	405,078.63	B
Net Surplus/(Deficit) on Fund in Year	(489,910.95)	17,621.00	C=A-B
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Fund Balance			
Balance As At Start of Year	5,386,132.19	4,896,221.24	D
Add:			
Net Surplus/(Deficit) on Fund in Year	(489,910.95)	17,621.00	C
Actual Fund Balance At End of Year	4,896,221.24	4,913,842.24	E=D+C
Less:			
Estimated Outstanding Charges on Fund	1,218,522.91	1,450,508.12	F
Balance for Future Years Claims At End of Year	3,677,698.33	3,463,334.12	G=E-F

Claims Information For Last 5 Insurance Years

(This information is for the number of claims received analysed by the year to which the claim relates)

	No. of Claims Received For Year	No. of Claims Settled/Resolved	No. of Claims Outstanding	Estimated Outstanding Charges On Insurance Fund £
2006/07	371	361	10	104,261.00
2007/08 *	247	239	8	161,394.80
2008/09	265	247	18	158,459.50
2009/10	275	204	71	462,998.82
2010/11	282	130	152	490,771.02
	1,440	1,181	259	1,377,885.14
Claims Pre-2006/07			11	72,622.98
TOTALS			270	1,450,508.12

Of the claims outstanding, 68 relate to Motor Vehicle claims which are not payable by the Insurance Fund.

* - The reduction in claim numbers between 2006/07 and 2007/08 is explained by the transfer of Housing Services to River Clyde Homes.

Insurance Premiums/Payments By Insurers

		Responsibility for	2011	2010/11	2010	2009/2010	2009	2008/09	2008	2007/08
	Policy Excess	Policy Excess	Premium Paid To Insurer	Payments Made By Insurer For Claims	Premium Paid To Insurer	Payments Made By Insurer For Claims	Premium Paid To Insurer	Payments Made By Insurer For Claims	Premium Paid To Insurer	Payments Made By Insurer For Claims
			£	£	£	£	£	£	£	£
Property Policies										
Housing Properties	£1m	Note 1								
General Properties	£1m	Note 1								
Education Properties	£1m	Note 1	150,494.88	0.00	163,931.66	0.00	152,937.74	0.00	177,502.50	0.00
Professional Fees (First Loss)	£1m	Note 1								
Removal of Debris (First Loss)	£1m	Note 1								
Money	£500	Note 2								
Business Interruption:-										
- Gross Revenue	£5,000	Note 1								
- Additional Expenditure	£100,000	Note 1								
All Risks	£10,000	Note 1								
Industrial/Commercial Property	£1,000	Note 1								8,746.58
Museum & Fine Art	£1,000	Note 3	34,729.15	0.00	34,827.96	0.00	34,678.81	0.00	22,337.63	0.00
Casualty Policies										
Public Liability	£50,000	Note 3								
Employers Liability	£50,000	Note 3	182,692.06	0.00	177,836.40	0.00	174,863.85	0.00	154,789.95	0.00
Officials Indemnity	£50,000	Note 3								
Libel & Slander	n/a	Note 3	2,718.90	0.00	2,693.25	0.00	2,693.25	0.00	2,693.25	0.00
Professional Negligence	Various	---	6,784.00	0.00	6,195.00	0.00	2,677.50	0.00	2,677.50	0.00
Other Policies										
Motor	£2,500	Note 2	70,447.60	20,757.50	73,983.00	41,803.84	62,601.00	44,388.06	63,735.00	41,071.74
Fidelity Guarantee	£10,000	Note 3	23,320.00	0.00	23,100.00	0.00	23,100.00	0.00	23,100.00	0.00
Work In Progress (CAR)	Various	Note 1	24,784.56	0.00	25,218.90	0.00	14,034.30	0.00	14,280.00	0.00
Contractors Plant	£500	Note 2	858.60	0.00	850.50	0.00	4,599.00	0.00	3,016.44	0.00
Engineering Inspection (net of VAT)	n/a	---	12,095.65	0.00	11,766.60	0.00	11,245.00	0.00	11,245.00	0.00
Engineering Insurance	n/a	---	3,594.27	0.00	3,600.49	0.00	3,987.90	0.00	3,987.90	0.00
Public Health Act	nil	---	1,792.03	0.00	1,851.00	0.00	1,861.61	0.00	1,543.24	0.00
Computer	£5,000	Note 4	13,649.12	0.00	12,398.65	7,021.99	12,398.66	0.00	12,200.37	1,097.50
Hirers Liability	£100	Note 2	1,361.20	0.00	2,740.50	0.00	3,222.45	0.00	1,498.27	0.00
School Journey	Various	Note 2	4,186.90	0.00	4,644.36	1,550.00	3,171.21	120.00	3,140.98	4,195.00
Business Travel/ PA	Various	Note 2	7,314.00	0.00	8,178.01	0.00	8,220.28	758.20	7,390.00	0.00
	INCL OF IPT		540,822.92	20,757.50	553,816.28	50,375.83	516,292.56	45,266.26	505,138.03	55,110.82

Notes

Note 1 - Insurance Fund (except for first £1k which is met by Service).

Note 2 - Excess is met direct by Service.

Note 3 - Insurance Fund.

Note 4 - Insurance Fund pre-1/10/08. Service pays excess of £1k from 1/10/08.