
Report To:	Policy & Resources Committee	Date:	13 November 2012
Report By:	Chief Financial Officer	Report No:	FIN/92/12/AP/JB
Contact Officer:	Jan Buchanan	Contact No:	01475 712225
Subject:	Insurance Fund Position as at 30th September 2012		

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 2012 and to highlight any relevant issues.

2.0 SUMMARY

- 2.1 The insurance claims against the Council and the Insurance Fund increased during 2011/12 mainly due to property claims arising from the severe winter weather. That aside, claims have been relatively stable on a rolling 5-year period with claims increasing by around 3.1%. 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 2012 which is an increase in year of £60,000.
- 2.3 Estimated liabilities on claims outstanding at 30th September 2012 are £2.2 million with a provision for clawback on Municipal Mutual Insurance (MMI) claims having been made of £468,000.
- 2.4 The Insurance Fund may be affected by potential Pleural Plaques cases and by MMI's deteriorating financial position. These matters will continue to be closely monitored.
- 2.5 The Council has commenced the process of tendering for a new Insurance contract which is due to commence in October 2013. Tender results will be reported to Committee in the summer of 2013.

3.0 RECOMMENDATIONS

- 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 2011/12 PERFORMANCE

- 5.1 The overall insurance picture for 2011/12 has seen an increase in the number of claims received, in part due to the severe weather during last winter. As can be seen in Appendix A, the Council have so far received 379 claims for the 12 month period which is a 21.5% increase on claims received to date for insurance year 2010/11.

Last year the report showed 1,440 claims for the previous 5 insurance years (2006/07-2010/11) whereas Appendix A shows 1,485 claims when the position is moved forward a year (for 2007/08-2011/12), showing an increase of 45 claims or 3.1%.

The Fund balance increased by £60,000 during the year to 30th September 2012 due to the level of claims chargeable against the Fund in relation to property and liability incidents being lower than in the previous year. The estimated liabilities have, however, increased from £1.45m last year to £2.2m this year.

In addition, part of the Fund has been set aside as a provision for the potential clawback of claims relating to MMI. Further background to this issue is given in paragraph 6.3.

When the estimated liabilities and the provision for the MMI clawback are taken into consideration, there is a balance of £2.3 million in the Fund for future claims as at 30th September 2012. This represents a healthy position.

- 5.2 The Fund is the subject of an actuarial review every 3 years with the last review being undertaken in November 2009 and the next review to be undertaken in the next few months. 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 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 3 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	122	43.6%	58	48	59	16	143
2010/11	155	49.7%	68	61	55	26	238
2011/12	193	50.9%	51	72	14	70	336

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 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 now increasingly likely that MMI will 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 and, in the year-end accounts for financial year 2011/12, set aside £467,779 of the Insurance Fund as a provision for claims subject to clawback.

7.0 THE YEAR AHEAD

- 7.1 The Insurance Fund will be the subject of the 3-yearly Actuarial Review in the next few months.
- 7.2 The Council's contracts for insurance (for risks not covered by the Insurance Fund) expire on 30 September 2013. The Committee gave approval in August 2012 for the issuing of tenders for these insurance services.
- 7.3 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 2012 amounts to £364,000 whilst the internal contribution to the fund was £424,000. As a result the Fund balance increased in year by £60,000.

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 2010/11 - 2011/12

	Insurance Years		
	2010/11 (1st Oct 2010 - 30th Sept 2011) £	2011/12 (1st Oct 2011 - 30th Sept 2012) £	
Fund Income in Year			
Total Contributed to the Fund	400,000.00	400,000.00	
Internal Resources Interest	22,699.63	24,568.70	
	422,699.63	424,568.70	A
Fund Expenditure in Year			
Risk Management	5,000.00	5,000.00	
Consultants Fees (Actuary)	0.00	0.00	
Computer Replacement Fund	9,000.00	6,000.00	
	14,000.00	11,000.00	
Actually Incurred Charges to the Fund in Year	391,078.63	353,310.08	
	405,078.63	364,310.08	B
Net Surplus/(Deficit) on Fund in Year	17,621.00	60,258.62	C=A-B
Fund Balance			
Balance As At Start of Year	4,896,221.24	4,913,842.24	D
Add:			
Net Surplus/(Deficit) on Fund in Year	17,621.00	60,258.62	C
Actual Fund Balance At End of Year	4,913,842.24	4,974,100.86	E=D+C
Less:			
Estimated Outstanding Charges on Fund	1,450,508.12	2,170,183.06	F
Provision for Clawback for MMI Claims	0.00	467,779.00	G
Balance for Future Years Claims At End of Year	3,463,334.12	2,336,138.80	H=E-F-G

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 £
2007/08	248	242	6	129,535.20
2008/09	266	262	4	45,006.40
2009/10	280	246	34	286,237.00
2010/11	312	251	61	568,850.93
2011/12	379	188	191	1,032,226.53
	1,485	1,189	296	2,061,856.06
Claims Pre-2007/08			7	108,327.00
TOTALS			303	2,170,183.06

Of the claims outstanding:

* 44 relate to Motor Vehicle claims which are not payable by the Insurance Fund.

* 47 relate to claims for Storm Damage on 3/1/2012 with estimated costs of £481,043.19.

Insurance Premiums/Payments By Insurers

	2012	2011/12	2011	2010/11	2010	2009/2010	2009	2008/09	2008	2007/08
	£	£	£	£	£	£	£	£	£	£
	Premium Paid To Insurer (Incl. IPT)	Payments Made By Insurer For Claims	Premium Paid To Insurer (Incl. IPT)	Payments Made By Insurer For Claims	Premium Paid To Insurer (Incl. IPT)	Payments Made By Insurer For Claims	Premium Paid To Insurer (Incl. IPT)	Payments Made By Insurer For Claims	Premium Paid To Insurer (Incl. IPT)	Payments Made By Insurer For Claims
Property Policies										
Housing Properties										
General Properties										
Education Properties	£1m	0.00	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									
Removal of Debris (First Loss)	£1m									
Money	£500									
Business Interruption-										
- Gross Revenue	£5,000									
- Additional Expenditure	£100,000									
All Risks	£10,000									
Industrial/Commercial Property	£1,000									
Museum & Fine Art	£1,000	0.00	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	0.00	182,692.06	0.00	177,836.40	0.00	174,863.85	0.00	154,789.95	0.00
Employers Liability	£50,000									
Officials Indemnity	£50,000									
Libel & Slander	Not Applicable	0.00	2,718.90	0.00	2,693.25	0.00	2,693.25	0.00	2,693.25	0.00
Professional Negligence	Various	0.00	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	8,459.38	70,447.60	19,825.30	73,983.00	47,208.37	62,601.00	43,714.66	63,735.00	41,071.74
Fidelity Guarantee	£10,000	0.00	23,320.00	0.00	23,100.00	0.00	23,100.00	0.00	23,100.00	0.00
Work In Progress (Cont. All Risks)	Various	0.00	24,784.56	0.00	25,218.90	0.00	14,034.30	0.00	14,280.00	0.00
Contractors Plant	£500	0.00	858.60	0.00	850.50	0.00	4,599.00	0.00	3,016.44	0.00
Engineering Inspection (net of VAT)	Not Applicable	0.00	12,095.65	0.00	11,766.60	0.00	11,245.00	0.00	11,245.00	0.00
Engineering Insurance	Not Applicable	0.00	3,594.27	0.00	3,600.49	0.00	3,987.90	0.00	3,987.90	0.00
Public Health Act	NIL	0.00	1,792.03	0.00	1,851.00	0.00	1,861.61	0.00	1,543.24	0.00
Computer	£5,000	0.00	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	0.00	1,361.20	0.00	2,740.50	0.00	3,222.45	0.00	1,498.27	0.00
School Journey	Various	75.45	4,186.90	338.00	4,644.36	1,550.00	3,171.21	120.00	3,140.98	4,195.00
Business Travel/ PA	Various	0.00	7,314.00	0.00	8,178.01	0.00	8,220.28	756.20	7,390.00	0.00
	528,400.87	8,534.83	540,822.92	20,163.30	553,816.28	55,780.36	516,292.56	44,592.86	505,138.03	55,110.82

Responsibility for Policy Excess

Note 1
Note 1
Note 1
Note 1
Note 1
Note 2
Note 1
Note 1
Note 1
Note 1
Note 3
Note 3
Note 3
Note 3

Note 2
Note 3
Note 1
Note 2

Note 4
Note 2
Note 2
Note 2

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.