
Report To:	Policy & Resources Committee	Date:	26 March 2013
Report By:	Chief Financial Officer	Report No:	FIN/24/13/AP/KJ
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	INSURANCE FUND – RESULT OF ACTUARIAL REVIEW		

1.0 PURPOSE

- 1.1 The purpose of this report is to advise Committee of the results of the recent Actuarial Review of the Council's Insurance Fund and to seek Committee approval to increase internal contributions to the Fund.

2.0 SUMMARY

- 2.1 As at 30/9/2012 the Insurance Fund balance was £4.97m. The Actuary views that this balance would be sufficient, leaving a small surplus, to cover claims currently outstanding and estimated claims still to be notified for prior years.
- 2.2 The Actuary has, however, recommended that the level of annual contributions made into the Fund be increased due to expected increases in climate related and liability claims.
- 2.3 There are implications for this and many other Councils arising from the financial difficulties of MMI who provided insurance to predecessor local authorities and public bodies up to 1992. The full implications for this Council are still unclear but the Actuary's view of the Insurance Fund balance includes his assessment of the impact of the MMI position.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee notes the outcome of the Actuarial Review and the issues raised by the Actuary and the Council's response to the recommendations contained in Appendix 2.
- 3.2 It is recommended that the Committee approves the increase in contributions to the Insurance Fund by £100,000 per year from October 2012 onwards with the increase being funded from the Inflation Contingency.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The Council's Insurance strategy has 2 main elements:
- Insurance obtained from insurance companies (with large policy excesses on that insurance)
 - Self insurance by the Council (to fund any claims falling within the insurance policy excesses).
- 4.2 The self insurance by the Council is achieved by maintaining an Insurance Fund into which annual contributions are made by Services' Revenue budgets.
- 4.3 It is important that the Council ensures that the Insurance Fund is maintained at an appropriate level to cover any claims that may arise and so the Fund is reviewed every 3 years by an external Actuary.
- 4.4 This triennial Actuarial Review was undertaken by John Birkenhead of HJC Actuarial Consulting Ltd and has been funded from the Insurance Fund.

5.0 ACTUARIAL REVIEW

Fund Balance

- 5.1 As at 30/9/2012 the Insurance Fund balance was £4.97m.
- 5.2 The Actuary views that this balance would be sufficient, leaving a small surplus, to cover claims currently outstanding and estimated claims still to be notified for prior years (including those for MMI as explained below) as follows:

£m	As At 30/9/2012	As At 30/9/2009	As At 31/3/2006	
Fund Balances	5.0	5.4	3.1	Property/Liability combined
Fund Claims	(1.4)	(1.2)	(1.2)	Estimated Future Payments (1996/97 policy years onwards)
Pre-Fund Claims	(0.3)	(0.3)	Not Incl In Review	Recommended MMI Clawback Provision (including share of SRC)
	(2.0)	(2.0)	Not Incl In Review	Estimated Future Inverclyde Claims (uninsured/partly insured by MMI) (reasonably pessimistic basis)
	(1.0)	(1.0)	Not Incl In Review	Inverclyde Share (3.65%) of Estimated Future SRC Claims (reasonably pessimistic basis)
Estimated Fund Surplus	+0.3	+0.9	+1.9	

Contribution Levels

- 5.3 The Actuary has, however, recommended that the level of annual contributions made into the Fund be increased due to expected increases in climate related and liability claims.
- 5.4 It is proposed to increase contributions by £100,000 per year from October 2012 onwards with this increase being funded from the Inflation Contingency. Appendix 1 shows the impact of this proposal over the next 8 years.
- 5.5 At the moment, any property claims paid to Services from the Insurance Fund are the subject of an internal excess so that a Service bears the first £1,000 of any claim. This excess is currently calculated per claim but it is proposed that, for incidents on or after 1 April 2013, the excess will be calculated per event. This means that a storm would be regarded as an event and so there would be one excess for that storm rather than one excess per claim arising from the storm. This is viewed as being fairer to Services but will add further costs to the Insurance Fund.

MMI

- 5.6 Municipal Mutual Insurance Ltd (“MMI”) was a provider of insurance to local authorities and public bodies which suffered substantial losses between 1990 and 1992 and stopped providing new insurance in September 1992.
- 5.7 MMI remains liable for insured claims relating to the period during which it operated but it announced in November 2012 that, due to financial difficulties, it proposed to trigger a Scheme of Arrangement that was put in place in 1994.
- 5.8 The effect of the Scheme of Arrangement, if it is triggered, would be to require those previously insured with MMI and their successor Councils (including Inverclyde and many others in Scotland and throughout the UK) to:
- Make a clawback payment within 4 weeks of that amount being determined.
 - Pay a proportion of future claims that previously would have been wholly met by MMI.
- 5.9 The clawback payment will be a percentage of claims previously paid. The actual percentage to be applied has not yet been advised by MMI but the Actuary has suggested that 75% would be a prudent allowance. This level would mean a clawback payment by Inverclyde Council of up to £300,000 and which would come from the Insurance Fund.
- 5.10 The proportion of future MMI claims to be borne by the Council would be as per the clawback i.e. if MMI clawback 75% of previous claims then they will have funded 25% of those claims and so will fund 25% of future claims.
- 5.11 There remains uncertainty over the MMI position. The triggering of the Scheme of Arrangement may be challenged by some of those affected and MMI themselves have given no indication of the level of any possible clawback.

6.0 INSURANCE TENDER

- 6.1 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 and the process for preparing and issuing tenders is currently ongoing.
- 6.2 The recommendations from the Actuary's report on the Insurance Fund are summarised in Appendix 2 and include issues being taken into consideration in the tender process.

7.0 IMPLICATIONS

7.1 Finance – One Off Costs

Cost Centre	Budget Heading	Budget Year	Proposed Spend This Report	Virement From	Other Comments
Insurance Fund	MMI Clawback	2013/14	Up to £300,000	---	Subject to the Scheme of Arrangement being triggered and a 75% clawback determined by MMI

7.2 Finance – Annually Recurring Costs / (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From	Other Comments
Inflation Contingency	Insurance Fund Contributions	2012/13	£100,000		Will be contained in overall Inflation Contingency

7.3 Legal: None.

7.4 Human Resources: None.

7.5 Equalities: None.

INSURANCE FUND – PROJECTIONS

Insurance Year	2013	2014	2015	2016	2017	2018	2019	2020
	£000	£000	£000	£000	£000	£000	£000	£000
Fund B/F	4,974	4,719	4,676	4,538	4,343	4,088	3,915	3,760
<u>Past Policy Years</u> <u>(1996/97-2011/12)</u>								
EL Claims	(110)	(131)	(160)	(120)	(98)	(11)	0	0
PL Claims	(100)	(104)	(121)	(116)	(95)	(54)	(24)	0
PR Claims	(64)	(52)	0	0	0	0	0	0
<u>Future Policy Years</u> <u>(2012/13 Onwards)</u>								
Contributions	600	600	600	600	600	600	600	600
Claims	(155)	(229)	(330)	(431)	(533)	(578)	(600)	(600)
<u>Pre-Fund Exposures</u> <u>(Pre-1996/97 Claims)</u>								
Clawback	(300)	0	0	0	0	0	0	0
Pre-Fund Claims	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Interest on Fund Balance	24	23	23	22	21	20	19	18
Net Cash Flow	(255)	(43)	(138)	(195)	(255)	(173)	(155)	(132)
Fund C/F	4,719	4,676	4,538	4,343	4,088	3,915	3,760	3,628

ACTUARIAL REVIEW – SUMMARY OF RECOMMENDATIONS, WITH OFFICERS’ COMMENTS

No.	Item	Issues Raised by Actuary	Officers’ Comments
1	Annual In-House Data Collation/Collection/ Review	Summary data in actuarial report to be updated at least annually to enable Fund position to be monitored more easily.	Agreed.
2	Frequent Actuarial Reviews	Recommend a full actuarial review at least every 3 years.	The Council already complies with this recommendation.
3	Insurance Cover Requirements and Financial Strength of Insurers	Council currently requests some unlimited levels of insurance cover – recommend reviewing this position to make Council more attractive to potential insurers/tenderers and in light of new financial rules on insurers making unlimited policies more expensive.	This recommendation will be taken into consideration when finalising requirements in insurance tender.
4	Insurance Archaeology	Possible difficulties in locating old (pre-Fund) insurance policies in the event of a claim. Could appoint an insurance archaeology firm to discover policy documents from industry registers, etc.	Recommendation noted. The Council will seek assistance on this issue should the need arise.