
Report To:	Policy & Resources Committee	Date:	19 November 2013
Report By:	Acting Corporate Director, Environment, Regeneration & Resources	Report No:	FIN/87/13/JB/KJ
Contact Officer:	Jan Buchanan	Contact No:	01475 712225
Subject:	Insurance Fund Position as at 30th September 2013		

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 2013 and to highlight any relevant issues.

2.0 SUMMARY

- 2.1 The insurance claims against the Council and the Insurance Fund for 2012/13 was lower than for 2011/12 mainly due to a lower numbers of property claims (there having been severe winter storms in 2011/12). Claims have been relatively stable on a rolling 5-year period with claims increasing by around 6.1% (but 2.7% if adjusted for the severe 2011/12 winter weather). This is encouraging given the reported "claims culture" and continual advertising by claims advisers.
- 2.2 The Insurance Fund had a balance of £4.7 million at 30th September 2013 with a decrease in year of £272,500.
- 2.3 Estimated liabilities on claims outstanding at 30th September 2013 are £1.8 million with a provision for clawback on Municipal Mutual Insurance (MMI) claims having been made of £403,000.
- 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 by Council Officers and via the triennial Actuarial review.
- 2.5 The Council tendered for new insurance contracts which commenced on 1st October 2013, the results of which have been reported to Committee.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee note the contents of this report and the continued strong position of the Insurance Fund.

Jan Buchanan
Head of Finance

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.

5.0 2012/13 PERFORMANCE

- 5.1 The overall insurance picture for 2012/13 has seen a decrease in the number of claims received compared to 2011/12 (which was a high year due to the severe storms during the winter). As can be seen in Appendix A, the Council have so far received 313 claims for the 12 month period which is a 21.9% decrease on claims received to date for insurance year 2011/12.
- 5.2 Last year the report showed 1,485 claims for the previous 5 insurance years (2007/08-2011/12) whereas Appendix A shows 1,575 claims when the position is moved forward a year (for 2008/09-2012/13), showing an increase of 90 claims or 6.1%. If the severe weather in 2011/12 is excluded, the increase in claims would have been around 40 claims or 2.7%.
- 5.3 The Fund balance decreased by £272,000 during the year to 30th September 2013 due largely to payments for property claims for the Storm Damage on 3rd January 2012. The estimated liabilities have also decreased, from £2.2m last year to £1.8m this year, largely due to the settlement of the Storm Damage claims.
- 5.4 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 £2.5 million in the Fund for future claims as at 30th September 2013. This represents a healthy position.
- 5.5 In an Audit Scotland analysis of the 2012/13 unaudited accounts for Scottish Local Authorities, Inverclyde had the second highest insurance fund value when compared to net revenue expenditure which again represents a healthy position.
- 5.6 The Fund is the subject of an actuarial review every 3 years with the last review being undertaken in November 2012. 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. Continued low interest rates mean that the annual interest earned on the Fund balance remains low.
- 5.7 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 shows that the self-insurance position remains encouraging.

- 5.8 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:
- 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.
 - 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.
- 5.9 High volume, low value claims for public liability continue to be dealt with in-house, whilst the Insurers deal with all other claims.
- 5.10 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
2010/11	157	50.0%	80	65	82	12	80
2011/12	211	52.6%	89	78	19	44	428
2012/13	204	65.2%	74	43	6	87	408

6.0 ONGOING 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.
- 6.4 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.
- 6.5 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).
- 6.6 As was anticipated, during the year MMI advised that they will not have sufficient funds to meet the cost of any new claims so they will only pay a percentage of any future

claims and any claims paid to date under the Scheme of Arrangement will be subject to clawback (there being no underwriting or reinsurance to cover this situation). This will impact on Inverclyde and on a large number of other local authorities throughout the UK who are part of the Scheme of Arrangement.

- 6.7 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. On advice from the Actuary who undertook the last Insurance Fund Actuarial Review and using the latest information from MMI, the provision was reduced to £402,557 which is a level considered by the Actuary to be "prudent".

7.0 THE YEAR AHEAD

- 7.1 The Council's contracts for insurance (for risks not covered by the Insurance Fund) expired on 30th September 2013. The Council tendered for new contracts which commenced on 1st October 2013, the results of which have been reported to Committee.
- 7.2 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 2013 amounts to £788,900 whilst the internal contribution to the fund was £516,400. As a result the Fund balance decreased in year by £272,500.

- 8.3 Human Resources
None.

- 8.4 Equalities
None.

9.0 CONSULTATIONS

- 9.1 None.

10.0 LIST OF BACKGROUND PAPERS

- 10.1 Audit Scotland - 2012/13 Analytical review database - unaudited (local authorities) Initial overview analysis WSFOF 22 August 2013.

Appendix A

Insurance Fund Financial Summary - Insurance Years 2011/12 - 2012/13

	Insurance Years		
	2011/2012	2012/2013	
	(1st Oct 2011 - 30th Sept 2012)	(1st Oct 2012 - 30th Sept 2013)	
	£	£	
Fund Income in Year			
Total Contributed to the Fund	400,000.00	500,000.00	
Internal Resources Interest	24,568.70	16,418.31	
	424,568.70	516,418.31	A
Fund Expenditure in Year			
Risk Management	5,000.00	5,000.00	
Consultants Fees (Actuary)	0.00	9,450.00	
Computer Replacement Fund	6,000.00	3,000.00	
	11,000.00	17,450.00	
Actually Incurred Charges to the Fund in Year	353,310.08	771,454.39	
	364,310.08	788,904.39	B
Net Surplus/(Deficit) on Fund in Year	60,258.62	(272,486.08)	C=A-B
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Fund Balance			
	£	£	
Balance As At Start of Year	4,913,842.24	4,974,100.86	D
Add:			
Net Surplus/(Deficit) on Fund in Year	60,258.62	(272,486.08)	C
Actual Fund Balance At End of Year	4,974,100.86	4,701,614.78	E=D+C
Less:			
Estimated Outstanding Charges on Fund	2,170,183.06	1,784,458.91	F
Provision for Clawback for MMI Claims	467,779.00	402,557.00	G
Balance for Future Years Claims At End of Year	2,336,138.80	2,514,598.87	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 £
2008/09	266	263	3	25,353.00
2009/10	281	260	21	102,897.00
2010/11	314	283	31	229,141.00
2011/12	401	317	84	772,691.31
2012/13	313	159	154	593,713.60
	1,575	1,282	293	1,723,795.91
Claims Pre-2008/09			7	60,663.00
TOTALS			300	1,784,458.91

Of the claims outstanding:

- * 46 relate to Motor Vehicle claims which are not payable by the Insurance Fund.
- * 8 relate to claims for Storm Damage on 3/1/2012 with estimated costs of £147,161.25 (Last year there were 47 claims outstanding with estimated costs of £481,043.19).

Appendix B

Insurance Premiums/Payments By Insurers

	2012/2013	2012	2011/2012	2011	2010/2011	2010	2009/2010	2009	
	£	£	£	£	£	£	£	£	
Property Policies									
Housing Properties									
General Properties									
Education Properties									
Professional Fees (First Loss)									
Removal of Debris (First Loss)									
Money									
Business Interruption:-									
- Gross Revenue									
- Additional Expenditure									
All Risks									
Industrial/Commercial Property									
Museum & Fine Art									
Casualty Policies									
Public Liability									
Employers Liability									
Officials Indemnity									
Libel & Slander									
Professional Negligence									
Other Policies									
Motor									
Fidelity Guarantee									
Work In Progress (Cont. All Risks)									
Contractors Plant									
Engineering Insurance (net of VAT)									
Engineering Insurance									
Public Health Act									
Computer									
Hirers Liability									
School Journey									
Business Travel/ PA									
	9,329.98	528,400.87	12,004.66	540,822.92	38,646.28	553,816.28	59,209.79	516,292.56	

Responsibility
for
Policy Excess

£1m	Note 1
£1m	Note 1
£1m	Note 1
£1m	Note 1
£1m	Note 1
£500	Note 2
£5,000	Note 1
£100,000	Note 1
£10,000	Note 1
£1,000	Note 1
£1,000	Note 3
£50,000	Note 3
£50,000	Note 3
£50,000	Note 3
Not Applicable	---
Various	---
£2,500	Note 2
£10,000	Note 3
Various	Note 1
£500	Note 2
Not Applicable	---
Not Applicable	---
NIL	---
£5,000	Note 4
£100	Note 2
Various	Note 2
Various	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.