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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>18 November 2014</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/66/14/KJ/JB</b>
<b>Contact Officer:</b>	<b>Jan Buchanan</b>	<b>Contact No:</b>	<b>01475 712225</b>
<b>Subject:</b>	<b>Insurance Fund Position as at 30<sup>th</sup> September 2014</b>		

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## 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 30<sup>th</sup> September 2014 and to highlight any relevant issues.

## 2.0 SUMMARY

- 2.1 The insurance claims against the Council and the Insurance Fund for 2013/14 were lower than for 2012/13 mainly due to a lower numbers of public liability claims. Claims have been relatively stable on a rolling 5-year period with claims increasing by around 2.7% although much of this increase is due to the severe 2011/12 winter weather. This remains encouraging given the reported "claims culture" and continual advertising by claims advisers.
- 2.2 The Insurance Fund had a balance of £4.6 million at 30<sup>th</sup> September 2014 with a decrease in year of £64,600.
- 2.3 Estimated liabilities on claims outstanding at 30<sup>th</sup> September 2014 are £1.8 million with a provision for clawback on Municipal Mutual Insurance (MMI) claims having been made of £345,159.
- 2.4 As in previous years, the Insurance Fund may be affected by potential Pleural Plaques cases and by MMI's financial position. These matters will continue to be closely monitored.

## 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.

## **5.0 2013/14 PERFORMANCE**

- 5.1 The overall insurance picture for 2013/14 has, so far, seen a decrease in the number of claims received compared to 2012/13. As can be seen in Appendix A, the Council have so far received 280 claims for the 12 month period which is a 17.6% decrease on claims received to date for insurance year 2012/13.

Last year the report showed 1,575 claims for the previous 5 insurance years (2008/09-2012/13) whereas Appendix A shows 1,618 claims when the position is moved forward a year (for 2009/10-2013/14), showing an increase of 43 claims or 2.7% on the 5 year rolling basis. This increase over the 5 years is due to the effect of the severe winter weather in 2011/12.

The Fund balance decreased by £64,600 during the year to 30<sup>th</sup> September 2014 due to claims payments and the first payment for the clawback on MMI claims. The estimated liabilities have also decreased slightly, from £1.78m last year to £1.75m this year.

In addition, part of the Fund has been set aside as a provision for the potential future clawback of claims relating to MMI.

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 30<sup>th</sup> September 2014. 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 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.

- 5.3 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 affordable.
- 5.4 Appendix B shows that payments made by the Council's External Insurers continue to be significantly less than the premium paid although there are estimated outstanding liabilities to be borne by the Insurers of over £407,000 relating to ongoing claims and it can be seen that payments made by insurers in 2013/14 were higher than previous years. Factors affecting the premiums charged and the claims payments by Insurers include:
- (a) For Property Insurance the 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 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 (Latest, Subject To Revision)
					£000		£000
2011/12	223	55.5%	122	82	64	19	250
2012/13	216	63.5%	140	50	8	26	281
2013/14	171	61.1%	70	29	5	72	411

## 6.0 OTHER ISSUES

- 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).

MMI do not have sufficient funds to meet the cost of any new claims so, from 1<sup>st</sup> January 2014, they are only paying 85% of the cost of claims and any claims paid prior to that date under the Scheme of Arrangement are subject to clawback (there being no underwriting or reinsurance to cover this situation). The remaining 15% of the cost of claims and the amount of the clawback are impacting on Inverclyde and on a large number of other local authorities throughout the UK who are part of the Scheme of

Arrangement.

As part of the last Actuarial Review, the Council included an allowance for the above eventuality and continues to monitor and revise that allowance using the latest information from MMI, whilst taking a prudent approach.

## **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 30<sup>th</sup> September 2014 amounts to £507,500 whilst the internal contribution to the fund was £442,900. As a result the Fund balance decreased in year by £64,600.

8.3 Human Resources  
None.

8.4 Equalities  
None.

8.5 Repopulation  
None

## **9.0 CONSULTATIONS**

9.1 None.

## **10.0 LIST OF BACKGROUND PAPERS**

10.1 None.

**Appendix A****Insurance Fund Financial Summary - Insurance Years 2012/13 - 2013/14**

	Insurance Years		
	2012/2013 (1st Oct 2012 - 30th Sept 2013) £	2013/2014 (1st Oct 2013 - 30th Sept 2014) £	
<b>Fund Income in Year</b>			
Total Contributed to the Fund	500,000.00	425,000.00	
Internal Resources Interest	16,418.31	17,937.32	
	<u>516,418.31</u>	<u>442,937.32</u>	A
<b>Fund Expenditure in Year</b>			
Risk Management	5,000.00	5,000.00	
Consultants/Other Fees	9,450.00	3,400.00	
Computer Replacement Fund	3,000.00	0.00	
	<u>17,450.00</u>	<u>8,400.00</u>	
Actually Incurred Charges to the Fund in Year	771,454.39	499,140.83	
	<u>788,904.39</u>	<u>507,540.83</u>	B
Net Surplus/(Deficit) on Fund in Year	<u>(272,486.08)</u>	<u>(64,603.51)</u>	C=A-B
<b>Fund Balance</b>			
Balance As At Start of Year	4,974,100.86	4,701,614.78	D
Add:			
Net Surplus/(Deficit) on Fund in Year	(272,486.08)	(64,603.51)	C
Actual Fund Balance At End of Year	<u>4,701,614.78</u>	<u>4,637,011.27</u>	E=D+C
Less:			
Estimated Outstanding Charges on Fund	1,784,458.91	1,754,877.85	F
Provision for Clawback for MMI Claims	402,557.00	345,159.00	G
Balance for Future Years Claims At End of Year	<u>2,514,598.87</u>	<u>2,536,974.42</u>	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 £
2009/10	281	260	10	154,546.50
2010/11	315	305	10	169,908.79
2011/12	402	371	31	427,955.56
2012/13	340	279	61	551,161.28
2013/14	280	152	128	398,432.72
	<u>1,618</u>	<u>1,367</u>	<u>240</u>	<u>1,702,004.85</u>
Claims Pre-2009/10			7	52,873.00
TOTALS			<u>247</u>	<u>1,754,877.85</u>

Of the claims outstanding 34 relate to Motor Vehicle claims, none of which are payable by the Insurance Fund.

## Insurance Premiums/Payments By Insurers

				2013/2014	2013	2012/2013	2012	2011/2012	2011	2010/2011	2010	2009/2010	2009
	<b>Insurer</b>	<b>Policy Excess</b>	<b>Responsibility for Policy Excess</b>	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	Premium Paid To Insurer (Incl. IPT)
				£	£	£	£	£	£	£	£	£	£
<b>Property Policies (Incl Claims Handling)</b>													
General Properties	Zurich Municipal	£1m	Note 1										
Education Properties	Zurich Municipal	£1m	Note 1										
Professional Fees (First Loss)	Zurich Municipal	£1m	Note 1										
Removal of Debris (First Loss)	Zurich Municipal	£1m	Note 1	162,918.80	124,699.98	0.00	146,288.78	0.00	150,494.88	0.00	163,931.66	0.00	152,937.74
Money	Zurich Municipal	£500	Note 2										
Business Interruption:-													
- Gross Revenue	Zurich Municipal		Note 1										
- Additional Expenditure	Zurich Municipal		Note 1										
All Risks	Zurich Municipal	Various	Note 1										
Industrial/Commercial Property	Zurich Municipal	£250/ £1,000 for subsidence	Note 2										
Museum & Fine Art	Zurich Municipal	£1,000	Note 3	0.00	10,662.02	0.00	34,729.15	0.00	34,729.15	0.00	34,827.96	0.00	34,678.81
<b>Casualty Policies</b>													
Public Liability	Zurich Municipal	£50,000	Note 3										
Employers Liability	Zurich Municipal	£50,000	Note 3	9,507.65	190,526.41	0.00	185,975.94	0.00	182,692.06	11,272.77	177,836.40	0.00	174,863.85
Officials Indemnity	Zurich Municipal	£50,000	Note 3										
Libel & Slander	Zurich Municipal	---	Note 3	0.00	2,038.56	0.00	2,767.66	0.00	2,718.90	0.00	2,693.25	0.00	2,693.25
Professional Negligence	Zurich Municipal	Various	---	0.00	6,545.50	0.00	848.00	0.00	6,784.00	0.00	6,195.00	0.00	2,677.50
<b>Other Policies</b>													
Motor (Incl Claims Handling)	RMP/QBE	£50,000	Note 4	18,588.63	101,038.80	8,844.98	69,232.84	11,929.21	70,447.60	27,035.51	73,983.00	50,637.80	62,601.00
Fidelity Guarantee	RMP/QBE	£10,000	Note 3	0.00	23,687.82	0.00	23,320.00	0.00	23,320.00	0.00	23,100.00	0.00	23,100.00
Work In Progress (Cont. All Risks)	Zurich Municipal	£1m	Note 1	18,532.40	14,875.45	0.00	21,322.73	0.00	24,784.56	0.00	25,218.90	0.00	14,034.30
Contractors Plant	Zurich Municipal	£500	Note 2	0.00	9,695.85	0.00	858.60	0.00	858.60	0.00	850.50	0.00	4,599.00
Engineering Insurance	RMP/ HSB	---	---	0.00	2,713.60	0.00	3,512.91	0.00	3,594.27	0.00	3,600.49	0.00	3,987.90
Public Health Act	Zurich Municipal	---	---	0.00	1,205.57	0.00	1,720.27	0.00	1,792.03	0.00	1,851.00	0.00	1,861.61
Computer	RMP/HSB	£5,000	Note 5	0.00	6,974.80	0.00	13,649.12	0.00	13,649.12	0.00	12,398.65	7,021.99	12,398.66
Hirers Liability	Zurich Municipal	£100	Note 2	0.00	251.75	0.00	997.19	0.00	1,361.20	0.00	2,740.50	0.00	3,222.45
School Journey	Zurich Municipal	Various	Note 2	14,304.03	5,995.47	485.00	4,642.57	75.45	4,186.90	338.00	4,644.36	1,550.00	3,171.21
Business Travel/PA	Zurich Municipal	Various	Note 2	0.00	5,532.88	0.00	6,865.62	0.00	7,314.00	0.00	8,178.01	0.00	8,220.28
				<b>223,851.51</b>	<b>506,444.46</b>	<b>9,329.98</b>	<b>516,731.38</b>	<b>12,004.66</b>	<b>528,727.27</b>	<b>38,646.28</b>	<b>542,049.68</b>	<b>59,209.79</b>	<b>505,047.56</b>

Estimated Outstanding Insurers' Liabilities for Current Claims:  
£ 407,725.47

### 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 (except for first £2.5k which is met by Service).

Note 5 - Insurance Fund pre-1/10/08. Education Service pays excess of £1k from 1/10/08.