

TRAFFORD COUNCIL

Report to: Accounts & Audit Committee
Date: 27 June 2013
Report for: Information
Report of: Director of Finance

Report Title

Insurance Performance Report 2012/13

Summary

This report provides a summary of insurance performance for 2012/13.

The cost of non-schools insurance in 2012/13 was £1.3m, including premium costs of £0.4m and provision for claims of £0.9m. The cumulative provision was £2.9m representing a reduction of £0.157m due to an updated assessment in respect of claims from previous years.

A premium reduction of £0.121m had been negotiated for 2012/13 as part of a 2 year extension of the insurance programme. The Insurers maintained the agreed pricing for 2013/14, which in itself is an achievement for the Council, given in a number of cases Insurers have amended these arrangements and applied increases of 10% or more. A premium rebate of £30,700 will be made to reflect good claims performance.

Overall liability claim numbers increased in 2012/13 with 427 new claims compared to 333 in 2011/12. Most of the increase is highways claims with a significant influx in January and February 2013, largely down to adverse weather over the winter period.

Repudiation rates on liability claims are slightly down on 2011/12; highways repudiation levels are 74% compared to 76% in 2011/12. The total cost of claims settled in 2012/13 was £1.324m with an average claim cost of £10,940 compared to a total cost of £0.671m and average of £9,334 in 2011/12. This was due to the final settlement of 2 large claims totalling £0.550m. Both claims occurred 10 years ago with payments having been made over a number of years and finally settled in 2012/13. These skew the overall cost.

A number of initiatives were progressed in 2012/13 with further planned for 2013/14.

Recommendation(s)

That the report be noted.

Contact person for access to background papers and further information:

Name: Graeme Bentley
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Background Papers – None

Background

1. This report deals with the insurance arrangements for the Council in 2012/13 for all non-school activity. Attached at Annex 1 is key policy information, detailing policies, excesses and limits of indemnity.
2. The provision of appropriate insurance cover and support for schools account for a significant amount of insurance activity and budget. The service operates under a service level agreement with schools which aims to recover charges equivalent to the cost of the function provided. Since 2010/11 a dividend has been included in the charges to recognise the good claims experience and this approach acts as an incentive for schools to adopt positive risk management practices. At present the Council continues to insure all primary schools with the exception of three which have assumed academy status. The Council cannot insure academy schools as it does not have an insurable interest in the school. The majority of secondary schools arrange their insurances independently reflecting the high level of foundation/academy schools in the Borough.

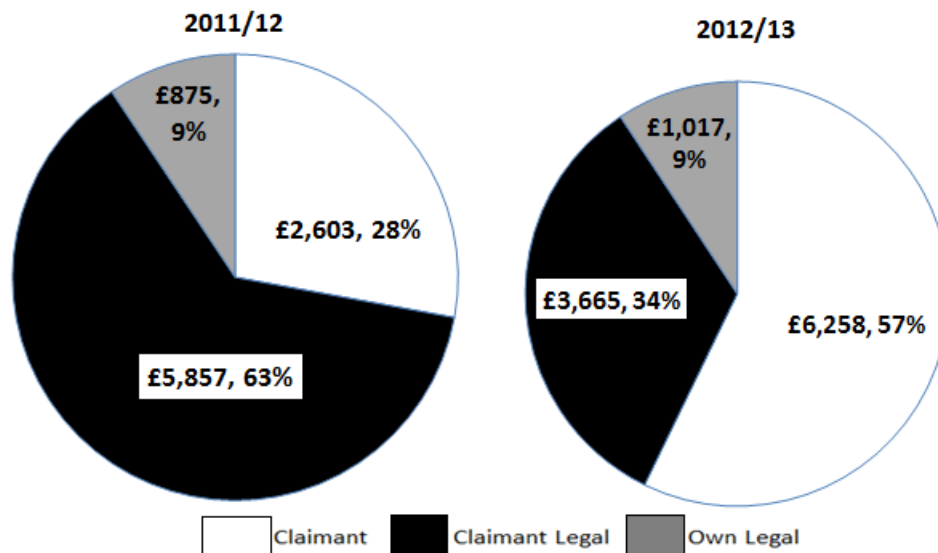
Performance Update

3. This section provides details on insurance activity and Annex 2A provides information on the level of activity in 2012/3 compared to 2011/12 across the major insurance areas. It also provides information on the cost of claims settled in the year regardless of policy year. Annex 2B is different in that it shows claims relating to policy years. A summary of claims activity on liability claims in 2012/13 is summarised in the table below.

	2012/13		2011/12	
	Workload (No Claims Rec'd)	Cost of Settled Claims £000	Workload (No Claims Rec'd)	Cost of Settled Claims £000
Highway Liability	342	589	252	356
Public Liability	67	274	70	54
Employer's Liability	18	461	11	261
Total	427	1,324	333	671

4. Primarily due to the adverse weather conditions of January and February causing increased damage to roads and footways, highway claims for the year rose by 35%, circa 100 claims, increasing overall public liability claims by 27%. Many of these increased claims were for minor vehicle damage which were of low value (£100-£500). The average cost of liability claims settled increased by 17% over the period to £10,940, largely this was due to the final settlement of 2 claims which were up to ten years old in the sum of £550k. Excluding these claims, the comparative figures would be £6,395 a decrease of 31%.
5. Third party solicitor costs are challenged, and over the last three years costs of approximately one third, or £223,000, have been avoided. Ministry of Justice (MOJ) reforms to be implemented in 2013 will streamline and potentially reduce third party solicitor costs.

Breakdown of Average Claim Costs of Settled Claims



6. Annex 2B shows the claims activity by **policy year** for the last five years which shows the trend in claims costs over that period together with details of claim numbers related to those policy years and repudiation rates. The following paragraphs provide a commentary for the major insurance classes.

Public Liability – Highway Claims

7. Highway related claims continue to account for the majority of liability claims in terms of both numbers and cost. Over the five year period to 2012/13 the average annual cost of claims was £536,000. In 2009/10 and 2010/11 the cost of these claims had shown a significant reduction. This reflects an increase in repudiation rates which is partly down to the positive approach in defending claims by our insurers and better and more effective internal claims handling processes. The level of claims for 2012/13, shown in Annex 2B, is artificially high due to the lack of maturity of claims for that year and reflects the high reserves on claims still to be settled. It is expected final claim costs to be lower than this figure as the majority of these claims will be repudiated.
8. Claim settlements are monitored closely by both the insurance and highways inspection teams to identify any trends that may be of concern. A revised Highway Inspection policy was approved by the Executive on 29 October 2012. This policy sets the standards for the identification of defects on the carriageway and footway and also the inspection frequencies. This revision was made due to the proactive approach to risk management adopted by the Highways and Insurance teams working closely together and is anticipated to reduce the levels of missed defects and inspections and brings us in line with most other AGMA districts. It is too soon after the change to quantify financial benefits.

Public Liability – Other Claims

9. Other Public Liability claims, for example accidents in parks or within Social Services are of relatively low volume in comparison with Highways but can be of significant value. In 2012/13, these claims made up around 15% of all liability claims reported, with an estimated cost of claims in 2012/13 of £156,000. The number of claims is consistent over recent years as is shown in Annex 2B.

Employer Liability Claims

10. Employers Liability claims are again of low volume but high value. They account for around 2% of all claims with an estimated cost in 2012/13 of £78,000. The trend on costs has seen a reduction in recent years as shown in Annex 2B. This reflects the profile of the Council workforce being more office based than in years past.
11. A protocol for handling Employers Liability claims is being developed and is referred to under 'Future Plans'.

Motor Vehicle Claims

12. Motor claims have seen a decrease in volume of 50% since 2010/11 commensurate with the decrease in the size of the fleet and are down to 20 claims in policy year 2012/13, however the cost of these claims has increased and the estimated cost of claims for 2012/13 is £112,000. This is based on claims arising within these policy years as illustrated in Annex 2B. A major reason for this is the cost of courtesy/(credit hire) cars which has fuelled the cost of insurance claims. The Association of British Insurers and the National Association of Credit Hire Organisations have implemented a General Terms of Agreement but despite this credit hire will continue to have a negative influence on motor insurance premiums across the industry.
13. This is the one area of the Council's insurances where a rate increase has been applied. This was 15%. In the current climate with Insurers concerned over motor claims costs no viable alternatives existed. The level of increase was quite moderate for the experience and can be viewed positively.

Insurance Budget

14. In 2012/13 the cost of insurance was £1.3m. This was made up of premiums of £0.4m, and an increase to the provision for the cost of liability claims arising in 2012/13 of £0.9m. The cumulative provision for all liability claims, which is actuarially assessed every year, is £2.9m. The table below compares actual cost for the year with the original estimate.

	2011/12 Actual £000	2012/13 Estimate £000	2012/13 Actual £000	Estimate/Actual Variance £000
Premiums:-	513	405	392	(13)
Casualty	219	193	179	(14)
Property	160	78	79	1
Fleet	125	126	125	(1)
Money, Fraud	9	8	9	1
Provision:-	1,426	856	1,203	347
Liability Highway	918	573	633	60
Liability Other	508	283	151	(132)
MMI Provision			419	419
Gross Expenditure:-	1,939	1,261	1,595	334
Less Income	(239)	(239)	(239)	0
Planned transfer to/(from) Reserves	(952)	(325)	(659)	(334)
Rebates		(50)	(50)	0
Net Expenditure	748	647	647	0

15. In 2011/12 the cost of non-schools insurance was £1.9m. This included a one-off increase to the insurance provision of £0.7m in respect of the cost of previous years' claims. Insurance costs in 2012/13 were £1.6m representing a year on year increase, excluding the £0.7m adjustment, of £0.4m which has been met from fire reserve. This is explained by:

- Premium Savings £(0.1)m,
- New provision for MMI Scheme of Delegation trigger £0.4m (see para 19).
- Increase in Provision for cost of claims in 2012/13 £0.1m.

16. Since the last tender in 2008 premium costs have been actively contract managed and a reduction of 33% to their current level of £392,000 achieved. This is due to:

- A move to greater self-insurance, including the cancellation of a number of policies with the Council covering insurance costs directly. This followed a risk assessment by the insurance team of a number of policies, for example balance of risk and commercial asset policies and this has delivered premium savings. It was concluded that these savings would outweigh any additional risks.
- A successful negotiation of premium levels at renewal in 2012 with a further significant reduction of £121,000 achieved as a result of a good claims experience and insurer confidence in the Council's approach to its insurances. This represented a rating reduction of 10.7% on the main insurance classes.

- After submitting an analysis of the claims experience in 2012/13 a rebate of £50,000 was successfully obtained on the property and casualty policies. Due to continued good claims experience a further rebate of £30,700 was confirmed in early 2013 and payable in 2013/14. These refund clauses were incorporated into the insurance contracts at a previous renewal to reflect these trends but it is necessary for a proactive approach to be adopted to negotiate the settlements.
17. The Broker contract with Aon was renegotiated during 2012/13 and extended to 1st May 2014. Inflationary increases were waived by agreement. Aon will therefore work with the Council on the tender for the 2014 renewal (See Future Issues and Plan below). A success was negotiating a tender fee of £2,500 which compares favourably with the cost of £8,500 for the 2009 fee.
 18. One of the successes of the renewal negotiation carried out in the year was Travelers agreeing to provide 15 days of free risk management support; the basic cost of this would be approximately £11,000 excluding the long term benefit of risk reduction. This is being utilised in key services, for example highways, over 2 years and will contribute to the Council's overall risk management programme.
 19. On 13 November 2012, the directors of MMI, a former insurer of the Council, triggered a scheme of arrangement as a consequence of the Company being unable to finance outstanding claims. The Scheme Administrator has set an initial levy, to be applied to the value of claims paid out on the Council's behalf in previous years, of 15%. The total value of claims paid out is £1.9m, equating to a cost to Trafford of £0.283m. The Council is also responsible for a share of the former GMC claims with a corresponding liability of £0.136m, thus a total provision of £0.419m has been made in the accounts. This is an initial levy and in the event that claim cost estimates increase beyond those currently forecast by the MMI financial advisors, then further provision will need to be made in future years. This would be financed from the insurance reserve. The insurance team are actively monitoring developments.

Future Issues and Plan

20. There are a number of projects being undertaken which will reach conclusion by the end of the year:-
 - During 2013 a strategy will be developed for the approach to tender for the Council's insurances in the run up to renewal in 2014. This will involve extensive work over an eight month period. It is imperative that this is done thoroughly in order to present a strong profile to the market. The limited number of insurers in the local authority sector and increasing pricing levels throughout the market generally, presents a challenge in terms of avoiding large premium increases. The need to work closely with our Brokers, Aon, in an attempt to manage premium costs by providing detailed information on Council activities and risk management is very important.

- Major events such as hurricane Sandy and increased adverse weather conditions globally, will drive premium levels up over the next few years across the market as a whole. This is because Insurers need to cover these claim costs and fund for future claims. The problem Trafford faces is that few insurers are willing to write local authority business which means limited choice and competition. This makes it all the more vital that a good claims experience is maintained in order to present a strong proposition to the market. It is acknowledged that the level of premiums the Council pays is competitive given the reductions secured at the last tender and subsequent renewal.
- Another factor driving premium levels up is the fact that Insurers have seen investment returns at a low level for a number of years. This has to be offset by greater returns on underwriting results which is the difference between premiums received and claims. This creates the pressure for increased premium levels.
- The long awaited Ministry of Justice Reforms, will finally be implemented during 2013. This marks a period of procedural change in claims handling. At that stage a portal system for solicitors to initiate claims directly with the Insurer will be implemented. The process will enable claims to be handled quicker and should reduce third party solicitor costs by the introduction of fixed fees. Claimant awards will increase but there should be a net saving to the Council. In order to benefit from cost savings it is imperative that the Council adheres to the shorter reporting timescales required by the new legislation. All departments involved in reporting claims will be affected. Failure to meet these timescales would mean that a claim would be handled under the previous protocol and the savings in legal costs would not apply to the same extent. As part of the development of a more streamlined claims process, an initiative will be taken to gain involvement in employer's liability claims very early in the process. The objective will be to control a claim from the outset and ensure a fair settlement without the claimant feeling the need to involve solicitors, therefore controlling costs.
- At a time of significant organisational change it is important to maintain a robust approach to risk management. This is key to managing claims experience and is a major factor in the pricing of the Council's insurance premiums. Close liaison will take place with risk management specialists at the Council's Insurer. Support is being utilised and initial priorities will include highways.
- Resolution of the Carrington waste fraud claim; progress has been made regarding the compilation of very detailed statistical information and the claim is entering the negotiation stage. There is a significant difference of opinion between the Council and the Insurer's Loss Adjuster and therefore specialist assistance from Aon is being utilised to drive the process to settlement.

Details of Insurance Policies

Category	Policy	Limit of Indemnity	Excess
Casualty	Employers' Liability	£ 50,000,000	£ 275,000
	Public Liability	£ 50,000,000	£ 275,000
	Public Liability (Lettings)	£ 5,000,000	Nil
	Officials Indemnity/Professional Negligence	£ 2,000,000	£ 275,000
	Personal Accident	Various	Nil
	Educational Visits	Various	£ 15
Property	Fire, Related Perils and Works in Progress	Sums Insured	£ 250,000 (Policy) £ 2,000 (Service)
	Computer	Sums Insured	£ 250
	All Risks (Civic Regalia)	Sums Insured	£ 100
	Schools Balance of Risks (Contents)	Like for like basis	£ 200
Money / Fraud	Fidelity Guarantee	£ 2,500,000 unspecified £ 5,000,000 specified	£10,000
	Money (Cash)	£ 1,000	£ 250
Fleet	Motor	Comprehensive	£ 5,000 (Policy) £ 1,000 (Service) £ 250 (Minibus)

**Annex 2A
Claims Statistics**

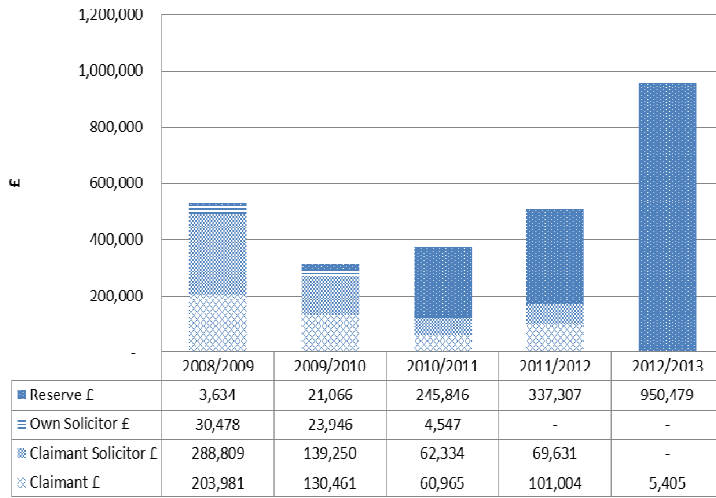
Claims Activity Report

	2012/13						2011/12					
	Highway	PL	EL	Liability Total	Motor	Total	Highway	PL	EL	Liability Total	Motor	Total
<u>Claim Numbers</u>												
Live Claim b/f	253	87	34	374	110	484	194	61	43	298	81	379
New Claims Received	342	67	18	427	32	459	252	70	11	333	34	367
Settled Claims	269	79	23	371	89	460	193	44	20	257	5	262
Claims c/f	326	75	29	430	53	483	253	87	34	374	110	484
Net Change in Claim Numbers	73	(12)	(5)	56	(57)	(1)	59	26	(9)	76	29	105
<u>Cost of Settled Claims</u>	£000	£000	£000	£000			£000	£000	£000	£000		
Claimant Costs £	370	90	297	757			113	13	61	187		
Claimant Solicitor Costs £	171	174	98	444			204	37	180	421		
Own Solicitor Costs £	48	9	66	123			39	4	20	63		
Total £	589	274	461	1,324			356	54	261	671		
No of Claims Settled at Nil	200	43	7	250.00			146	30	9	185.00		
Repudiation Rate of Settled Claims	74%	54%	30%	67%			76%	68%	45%	72%		
Average Cost of Settled Claims	8,531.77	7,602.57	28,837.89	10,940.42			7,587.14	3,866.38	23,758.38	9,334.27		

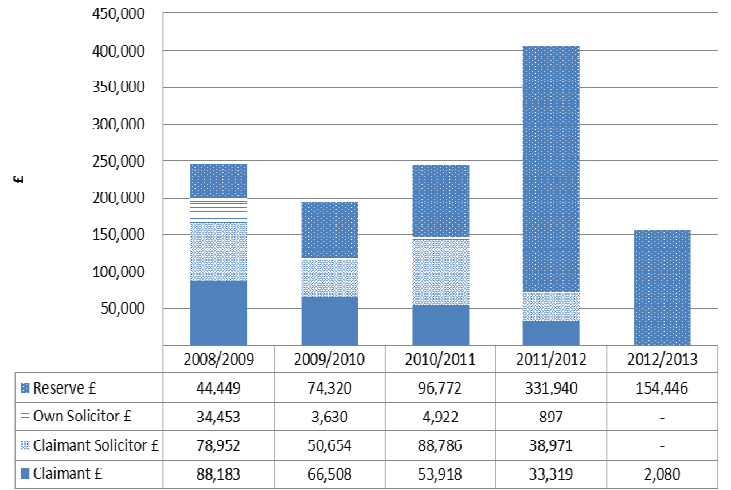
- This represents the on-going claims activity carried out within the year, irrespective of when the claim occurred.
- The costs and key statistics relate only to claims settled within the relevant financial year.
- Does not include for a small number of property and other claims.

Claims Activity Report by Policy Year

Highway Claims



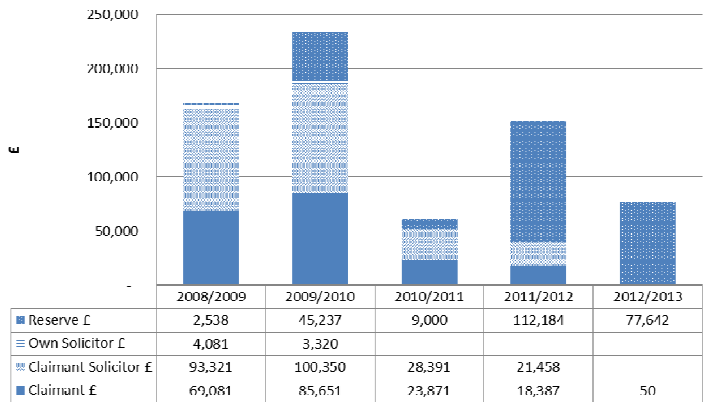
Public Liability Claims



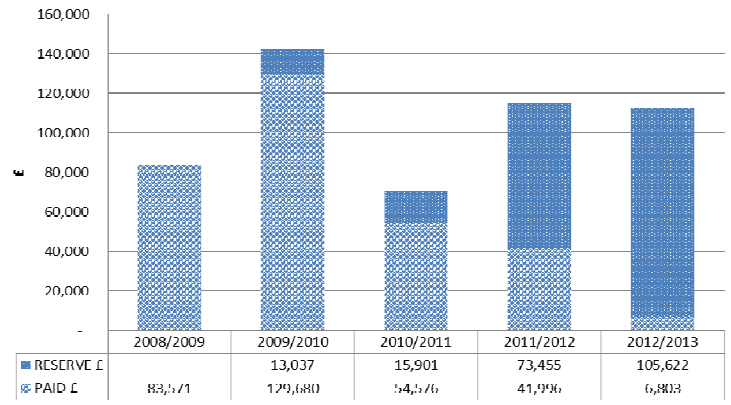
Policy Year	No of Claims	Open	Closed	No settled at nil	No of claims paid	Repudiation Rate
2008/2009	202	3	199	132	67	66%
2009/2010	220	2	218	181	37	83%
2010/2011	211	20	191	156	35	82%
2011/2012	240	34	206	156	50	76%
2012/2013	314	242	72	62	10	86%

Policy	No of Claims	Open	Closed	No settled at nil	No of claims paid	Repudiation Rate
2008/2009	54	3	51	25	26	49%
2009/2010	78	5	73	45	28	62%
2010/2011	65	7	58	31	27	53%
2011/2012	65	10	55	37	18	67%
2012/2013	55	36	19	15	4	79%

Employers' Liability Claims



Motor Claims



Policy Year	No of Claims	Open	Closed	No settled at nil	No of claims paid	Repudiation Rate
2008/2009	17	2	15	7	8	47%
2009/2010	19	3	16	6	10	38%
2010/2011	10	1	9	3	6	33%
2011/2012	15	9	6	3	3	50%
2012/2013	7	5	2	2	-	100%

Policy Year	No of Claims	Paid £	Reserve £	Total Incurred £
2008/2009	64	83,571	-	83,571
2009/2010	45	129,680	13,037	142,717
2010/2011	41	54,576	15,901	70,477
2011/2012	30	41,996	73,455	115,451
2012/2013	20	6,803	105,622	112,425