

TRAFFORD COUNCIL

Report to: Accounts & Audit Committee
Date: 6 September 2017
Report of: Chief Finance Officer

Report Title

Insurance Performance Report 2016/17

Summary

This report provides a summary of insurance performance for 2016/17.

The gross cost of the insurance activity for 2016/17 was £0.819m; comprising £0.546m of premium costs and £0.273m provision for liability claims.

The provision for outstanding liability claims was £3.439m as at 31 March 2017, compared to £3.968m as at 31 March 2016.

There was a small decrease in claim numbers for 2016/17 with 306 new claims compared to 315 in 2015/16; the number of liability claims paid saw an increase with 104 claims paid in 2016/17 compared to 93 in 2015/16.

Recommendations

That the report be noted.

Contact person for access to background papers and further information:

Name: Graeme Bentley
Extension: 4336
Background Papers: None

1. Introduction

1.1 This report updates the Committee on the Council's insurance activities for 2016/17 and the purpose is to update Members on:

Section 2 Cost of Insurance

Section 3 Claims

Section 4 Achievements

Section 5 Outlook

1.2 The Council's insurance programme covers a number of areas including property, public and employer's liability, for a detailed summary of policies and providers please refer to **Annex 1**.

1.3 The Insurance Team exert financial control in managing and monitoring risk and in handling and defending claims made against the Council.

2. Cost of Insurance

2.1 The cost of insurance in 2016/17 is £0.819m, compared to a revised budget of £1.505m, comprising premiums of £0.546m and provision for the cost of claims of £0.273m. The decrease in insurance costs compared to budget of (£0.686m), transferred to the Insurance Reserve, is explained by:

- Net decrease in provision for claims (£0.625m). The reduction represents savings on the assessed cost of claims relating to previous policy years including a large value claim that was successfully defended (see **Section 3.3** for details). This in-year saving has been transferred to the insurance reserve.
- Premium savings of (£0.061m) is a result of a review of the level of property values which we insure.

	Budget £000	Actual £000	Variance £000
Premiums	607	546	(61)
Provisions	898	273	(625)
Total	1,505	819	(686)

2.2 The Council maintains both an insurance provision to cover the cost of outstanding liability claims and an insurance reserve.

Provision	£000:	Insurance Reserve	£000:
Balance as at 01/04/2016	(3,968)	Balance as at 01/04/2016	(2,415)
Additional Contribution from Revenue	(898)	Contribution to Budget Support Reserve	1,000
Less Claims Paid	783	Contribution from revenue/provision	(724)*
Reassessed Provision	644		
Balance as at 31/03/2017	(3,439)		(2,139)

(*) Includes other budgeted contributions

- Insurance Reserve: the reserve is maintained in the event of a catastrophe where the Council is required to cover the first £250,000 on any building claim. It is also used to balance any fluctuation that might be required in the overall provision level or for additional costs associated with historic Municipal Mutual Insurance claims and serve as a buffer in case the volatile insurance market were to move against us.

3. Claims

- 3.1 **Claims Activity.** In 2016/17 the Council received 306 new liability claims compared to 315 in 2015/16, a decrease of 3%. See **Annex 2** for a detailed breakdown of claims activity.

	2016/17	2015/16
Live Claims as at 1 April	388	376
New Claims Received in Year	306	315
Claims Settled in Year	307	303
Live Claims as at 31 March	387	388

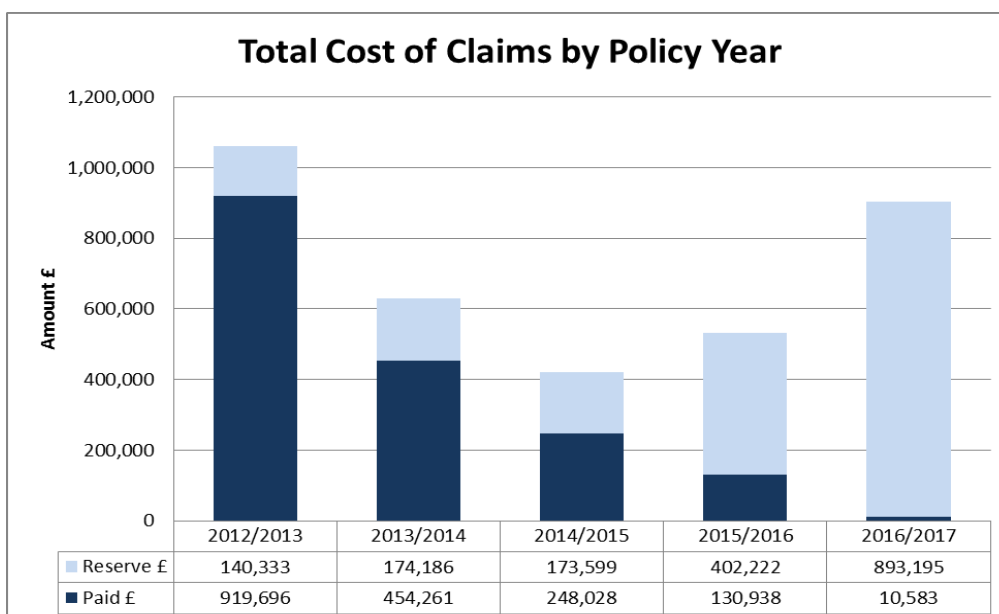
- 3.2 The average cost of settled claims in 2016/17 is £7,058, compared to £5,925 in 2015/16. The increase is due to one large claim from 2010/11 being settled in 2016/17 for £222,653 (a tripping incident on Council owned land). Without this claim the average cost of settled claims would reduce to £4,923.

- 3.3 **High value claims** are defined as claims that carry a reserve of £50,000 and above. A number of these claims were defended in 2016/17 including a tripping claim with a reserve of £500,000. As at 31 March 2016 the Council had 8 high value claims with an estimated value of £701,116, this is reflected within the current insurance provision. This compares favourably to last year where there were 12 outstanding high value claims with an estimated value of £1,305,897. The claims range across a number of policy years and are managed by specialist claim handlers and solicitors and monitored by the Insurance team.

- 3.4 The table below shows claims numbers and repudiation rates over the last five policy years for Employer's and Public liability claims.

Policy Year	No of Claims	Open	Closed	No Settled	No Repudiated	Rep Rate
2012/2013	434	6	428	104	324	76%
2013/2014	305	11	294	98	196	67%
2014/2015	306	27	279	62	217	78%
2015/2016	292	60	232	66	166	72%
2016/2017	238	201	37	24	13	35%
Total	1,575	305	1,270	354	916	72%

- 3.5 The following chart shows the total cost of Employer's and Public liability claims for the same period. It shows the amount paid for claims in the policy year; and levels of reserve amount for outstanding claims. As 2016/17 is still an immature year the reserve amount will decrease as the majority of the outstanding claims will be repudiated.



3.6 With the dynamic of the Council's workforce now being predominately office based Employer's liability claims have reduced to negligible levels and make up only 2% of the above claims. However they account for 14% of the amounts paid in the last five years, a single Employer's liability claim can cost a significant amount. Other observations include:

- Highway injury claims present the largest financial insurance risk to the Council and great focus is placed on defending these claims, the repudiation rate for Highway injury claims stands at 83%.
- Highway injury claims make up 34% of all claims received; however they make the largest financial impact with 61% of all claim payments.
- Highway property claims such as vehicle damage and tree root claims account for the largest number, 48% of all claims but only account for 7% of the costs.
- Non highway Public liability claims make up 16% of the claims received and 18% of the claims paid.

3.7 The table below shows the reasons why Highway injury claims were settled in 2016/17 compared to 2015/16.

Reason for Settlement	2016/17	2015/16
Defect not picked up in carriageway	3	3
Defect not picked up in footway	5	8
Failure to repair carriageway	2	3
Failure to repair footway	0	6
No inspection carriageway	8	1
No inspection footway	8	1

3.8 With Highways being a contracted-out service, the Insurance team actively monitor the performance of the contract and have built strong relationships to ensure that the performance issues experienced during 2016/17 and reflected in the table above are mitigated.

4. Achievements

4.1 The following achievements were made:

- **Renewal 2017/18.** Insurers were seeking premium increases of between 30% and 40% but in negotiations the Insurance Team highlighted the Council's positive historical claims experience and risk management initiatives that prove the Council continues to be a good risk from an Underwriters perspective. A premium saving of £31,000 was achieved with the additional benefit of a new 1+1 LTA arrangement with ZM.
- **Corporate Fraud Initiatives.** The Insurance team established a reporting method with the Counter Fraud and Enforcement team in relation to potentially spurious insurance claims. As well as the financial achievements, this work serves as a further form of defence for the Council against those who are set on deceit and a burden on public funds.
- **The Highway Damage Claim Form.** This was introduced in 2013 and continues to serve as a defence against potential claims. The form seeks full documentation in support of a claim and sets out the claims procedures and legal duty in maintaining the highway under the Highways Act 1980. In 2016/17, 216 forms were sent out and only 126 were returned. This represents a "drop-out" rate of 42%.

5. Outlook

- 5.1 **Insurance Guide for Managers.** The Insurance team are currently working on refreshing the Insurance Guide for Managers to reflect the changes to the Insurance Act which came into effect in August 2016. Senior management need to be aware of the changes brought about in the Act and of their responsibilities to disclose changes to material circumstances which may have a bearing on the validity of our insurance contracts and cover.
- **Discount Rate.** The net rate of return on a lump sum which applies to serious long term injury claims or fatalities is set by the Ministry of Justice and as of the 20th March 2017 was set at -0.75% from 2.5%. This means that award levels are set to increase, having a major effect on insurer's loss reserves and balance sheets and is something to be aware of at future renewals.
 - **Cyber Insurance.** Due to the most recent Ransomware attack on the NHS, Nissan and others, it is recommended by our Brokers that consideration be given to purchasing a Cyber policy which provides wider protection in the event of data theft and offers support by way of Breach Response Services.
 - **Claims System.** As the old system was no longer being developed or invested in, the Council have purchased a bespoke claims system. This system will provide facilities to deliver report writing and improved financial information to assist with risk management issues and monitoring of the insurance fund going forward.

Trafford Council Current Insurance Programme

Limit of Indemnity	Sum Insured			Unlimited TP Injury £20m TP Damage	Accidental bodily injury, death, disablement or the incurring of Medical Expenses	Various Physical loss of money	£5m Financial loss sustained as a result of a criminal act	£5m
	BI Max Indemnity Period 36 months	£50m EL	£50m PL					
Policy	Property Damage / Business Interruption	Employers' Liability / Officials Indemnity	Public Liability	Motor	Personal Accident	Money	Crime / Fidelity Guarantee	Professional Negligence
Insurer	Zurich Municipal	Zurich Municipal	Zurich Municipal	Amlin	Zurich Municipal	Zurich Municipal	Zurich Municipal	Zurich Municipal
Deductibles	£250,000	£275,000	£275,000	£1,000	Nil	£250	£10,000	£100,000
Stop Loss	Aggregate £1M	Aggregate £2M	Aggregate £2M					

Claims Activity Report

	2016/2017				2015/2016			
	Highway	PL	EL	Liability Total	Highway	PL	EL	Liability Total
<u>Claim Numbers</u>								
Live Claims b/f	278	71	39	388	270	64	42	376
New Claims Received	270	29	7	306	245	59	11	315
Settled Claims	245	45	17	307	237	52	14	303
Claims c/f	303	55	29	387	278	71	39	388
Net Change in Claim Numbers	25	(16)	(10)	(1)	8	7	(3)	12
<u>Cost of Settled Claims</u>	£000	£000	£000	£000	£000	£000	£000	£000
Claimant Costs £	200	233	60	493	247	27	50	324
Claimant Solicitor Costs £	49	90	50	189	135	11	55	201
Own Solicitor Costs £	26	18	8	52	15	7	4	26
Total £	275	341	118	734	397	45	109	551
No of Claims Settled at Nil	166	26	11	203	167	35	8	210
Repudiation Rate of Settled Claims	68%	58%	65%	66%	70%	67%	57%	69%
Average Cost of Settled Claims	3,481.01	17,947.37	19,666.67	7,057.69	5,671.43	2,647.06	18,166.67	5,924.73

