
Report To:	Policy & Resources Committee	Date:	17 November 2015
Report By:	Chief Financial Officer	Report No:	FIN/113/15/JB/KJ
Contact Officer:	Jan Buchanan	Contact No:	01475 712223
Subject:	Insurance Fund Position as at 30 September 2015		

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 September 2015 and to highlight any relevant issues.

2.0 SUMMARY

- 2.1 The insurance claims against the Council and the Insurance Fund for 2014/15 is lower than for 2013/14 mainly due to a lower number of public liability claims although these claims can appear at a later date. Claims have been relatively stable on a rolling 5-year period with claims reducing by only around 3.5%. This remains encouraging given the reported "claims culture" and continual advertising by claims advisers.
- 2.2 As at 30 September 2015 the Insurance Fund had a balance of £4.307 million which is £329,800 lower than the previous year due to lower annual contributions into the Fund offset by a reduction in charges to the Fund for insurance claims.
- 2.3 Estimated liabilities on claims outstanding at 30 September 2015 are £1.8 million with a provision for clawback on Municipal Mutual Insurance (MMI) claims having been made of £378,554.
- 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 The Council's insurance strategy involves purchasing insurance for some types/levels of risks but also self-insuring for other risks by setting aside monies in an Insurance Fund.

The strategy was approved at the September 2003 meeting of the Corporate Business Committee following a review of available options by the officers of the Council and also on advice from the Council's Insurance Brokers.

- 4.2 This approach has delivered significant savings in both external premiums and internal recharges.

5.0 2014/15 PERFORMANCE

- 5.1 The overall insurance picture for 2014/15 has, so far, seen a decrease in the number of claims received compared to 2013/14. As can be seen in Appendix A, the Council has so far received 200 claims for the 12 month period which is a 32.9% decrease on claims received to date for insurance year 2013/14. It should, however, be noted that claims relating to a year can be made in future years.

Last year the report showed 1,618 claims for the previous 5 insurance years (2009/10-2013/14) whereas Appendix A shows 1,561 claims when the position is moved forward a year (for 2010/11-2014/15), showing a reduction of 57 claims or 3.5% on the 5 year rolling basis.

The Fund balance decreased by £329,800 during the year to 30 September 2015 due to lower annual contributions into the Fund (as a one-off saving for the Revenue Budget) offset by a reduction in charges to the Fund for insurance claims. The estimated liabilities have increased slightly, from £1.75m last year to £1.76m 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. 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 £2.2 million in the Fund for future claims as at 30 September 2015. This represents a healthy position.

- 5.2 The Fund is the subject of an actuarial review every 3 years. The last review was undertaken in November 2012 and so the actuarial review will be undertaken shortly.

Aside from a one-off reduction in financial year 2014/15 given the health of the 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 As advised above, 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 encouraging.

- 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 £237,000 relating to ongoing claims. 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	Amounts Claimed**
					£000		£000
2012/13	221	64.1%	145	56	17	20	210
2013/14	165	55.4%	106	34	20	25	333
2014/15	92	46.0%	22	9	1	61	320

**These amounts are subject to review as claims progress through insurance process but are likely to reduce.

It should be noted whilst some claims can be resolved relatively quickly, the legal processes for dealing with claims can result in some claims taking some time to resolve.

6.0 RECENT DEVELOPMENTS

- 6.1 There are ongoing issues on 2 areas affecting the Council's insurance position:
- a. Pleural Plaques
 - b. 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.

As advised in previous years, 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 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 is 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. The allowance will be revised following the actuarial review being undertaken.

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 Fund balance as at 30 September 2015 was £4.307m which is £330,000 lower than the previous year.

One off Costs:

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement from	Other Comments
None					

Annually Recurring Costs/(Savings):

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement from	Other Comments
None					

8.3 Human Resources
None.

8.4 Equalities
None.

9.0 CONSULTATIONS

9.1 None.

10.0 LIST OF BACKGROUND PAPERS

10.1 None.

Appendix A

Insurance Fund Financial Summary - Insurance Years 2013/14 - 2014/15

	Insurance Years		
	2013/2014 (1st Oct 2013 - 30th Sept 2014) £	2014/2015 (1st Oct 2014 - 30th Sept 2015) £	
Fund Income in Year			
Total Contributed to the Fund	425,000.00	50,000.00	
Internal Resources Interest	17,937.32	17,046.91	
	442,937.32	67,046.91	A
Fund Expenditure in Year			
Risk Management	5,000.00	5,000.00	
Consultants/Other Fees	3,400.00	0.00	
Computer Replacement Fund	0.00	0.00	
	8,400.00	5,000.00	
Actually Incurred Charges to the Fund in Year	499,140.83	391,882.86	
	507,540.83	396,882.86	B
Net Surplus/(Deficit) on Fund in Year	(64,603.51)	(329,835.95)	C=A-B
<hr/>			
Fund Balance			
	£	£	
Balance As At Start of Year	4,701,614.78	4,637,011.27	D
Add:			
Net Surplus/(Deficit) on Fund in Year	(64,603.51)	(329,835.95)	C
Actual Fund Balance At End of Year	4,637,011.27	4,307,175.32	E=D+C
Less:			
Estimated Outstanding Charges on Fund	1,754,877.85	1,761,658.44	F
Provision for Clawback for MMI Claims	345,159.00	378,554.00	G
Balance for Future Years Claims At End of Year	2,536,974.42	2,166,962.88	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 £
2010/11	315	312	3	35,839.16
2011/12	403	389	14	138,930.00
2012/13	345	312	33	325,700.00
2013/14	298	252	46	399,189.00
2014/15	200	74	122	721,731.88
	1,561	1,339	218	1,621,390.04
Claims Pre-2010/11			14	140,268.40
TOTALS			232	1,761,658.44

Of the claims outstanding 40 relate to Motor Vehicle claims, none of which are payable by the Insurance Fund.

Insurance Premiums/Payments By Insurers

Appendix B

				2014/15	2014	2013/2014	2013	2012/2013	2012	2011/2012	2011	2010/2011	2010
	Insurer	Policy Excess	Responsibility for Policy Excess	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)
				£	£	£	£	£	£	£	£	£	£
Property Policies													
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	2,831.23	118,866.24	162,918.80	124,699.98	0.00	146,288.78	0.00	150,494.88	0.00	163,931.66
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	14,431.92	0.00	10,662.02	0.00	34,729.15	0.00	34,729.15	0.00	34,827.96
Casualty Policies (Incl Claims Handling)													
Public Liability	Zurich Municipal	£50,300	Note 3										
Employers Liability	Zurich Municipal	£50,300	Note 3	117,249.49	214,469.20	9,507.65	190,526.41	0.00	185,975.94	0.00	182,692.06	11,272.77	177,836.40
Officials Indemnity	Zurich Municipal	£50,300	Note 3										
Libel & Slander	Zurich Municipal	---	Note 3	0.00	2,038.56	0.00	2,038.56	0.00	2,767.66	0.00	2,718.90	0.00	2,693.25
Professional Negligence	Zurich Municipal	Various	---	0.00	6,545.50	0.00	6,545.50	0.00	848.00	0.00	6,784.00	0.00	6,195.00
Other Policies													
Motor (Incl Claims Handling)	RMP/QBE	£50,000	Note 4	6,892.99	84,849.60	18,588.63	101,038.80	8,844.98	69,232.84	11,929.21	70,447.60	27,035.51	73,983.00
Fidelity Guarantee	RMP/QBE	£10,000	Note 3	0.00	23,687.82	0.00	23,687.82	0.00	23,320.00	0.00	23,320.00	0.00	23,100.00
Work In Progress (Cont. All Risks)	Zurich Municipal	£1m	Note 1	0.00	15,631.62	18,532.40	14,875.45	0.00	21,322.73	0.00	24,784.56	0.00	25,218.90
Contractors Plant	Zurich Municipal	£500	Note 2	0.00	4,304.93	0.00	9,695.85	0.00	858.60	0.00	858.60	0.00	850.50
Engineering Insurance	RMP/ HSB	---	---	0.00	2,691.66	0.00	2,713.60	0.00	3,512.91	0.00	3,594.27	0.00	3,600.49
Public Health Act	Zurich Municipal	---	---	0.00	1,244.85	0.00	1,205.57	0.00	1,720.27	0.00	1,792.03	0.00	1,851.00
Computer	RMP/HSB	£5,000	Note 5	0.00	7,472.75	0.00	6,974.80	0.00	13,649.12	0.00	13,649.12	0.00	12,398.65
Hirers Liability	Zurich Municipal	£100	Note 2	0.00	251.75	0.00	251.75	0.00	997.19	0.00	1,361.20	0.00	2,740.50
School Journey	Zurich Municipal	Various	Note 2	895.00	5,995.47	14,304.03	5,995.47	485.00	4,642.57	75.45	4,186.90	338.00	4,644.36
Business Travel/PA	Zurich Municipal	Various	Note 2	0.00	5,417.51	0.00	5,532.88	0.00	6,865.62	0.00	7,314.00	0.00	8,178.01
				127,868.71	507,899.38	223,851.51	506,444.46	9,329.98	516,731.38	12,004.66	528,727.27	38,646.28	542,049.68

Estimated Outstanding Insurers' Liabilities for Current Claims:
£
237,800.10

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.

Appendix B