

# Insurance Programme Transformation

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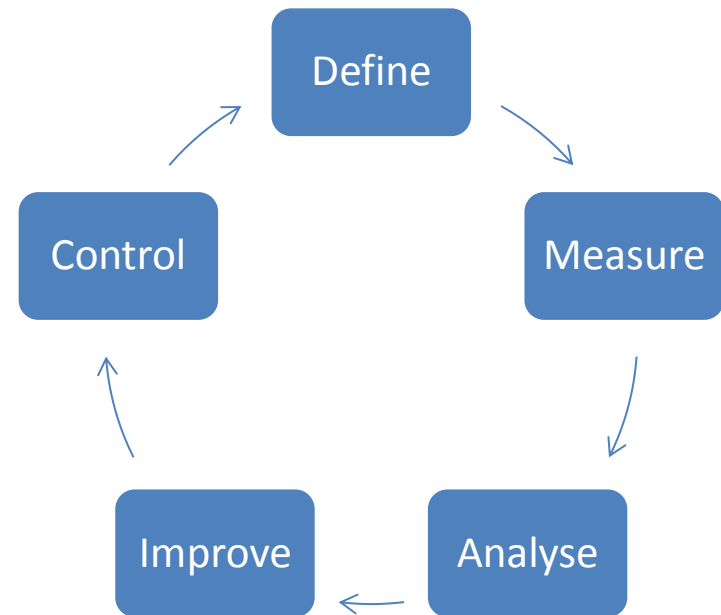
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## Project Definition

To critically examine the way the council is insured with the objective of presenting recommendations which would reduce overall costs and provide the best balance between purchased and self insurance

## The Methodology

DELTA lean review methodology



# Current State highlights #1

## Arrangements

- Council is largely insured (Zurich Municipal)
- The contract ends 31-3-17 but has facility to be extended for 2 years
- Our deductibles are low in comparison to others
- We have an insurance fund and insurance a/c
- The fund is effectively ring-fenced under legislation
- IPT is increasing and adds 10% (moving to 12%) to insurance premiums
- There is a dedicated risk & ins team of 3 FTE + mgt support

## Financials

- Budget costs are made up of 3 elements – self insured, premium and mgt costs
- Insurance budget (insured & self) is £2,063,000 (2016-17)
- Premiums for current year are £1.5M incl IPT
- Management fees (internal) are £160,000
- The balance on the insurance fund is £1.138M at 31-3-16
- Fund balance will likely increase by 31-3-17
- Premium costs in scenarios are **net** of package and long term discounts (roughly 15%)

# Current State highlights #2

## Insurance Fund & Account

- Operation of the fund (capital) is bound by statute.
- The fund is ring fenced for the purposes of insurance
- There is an annual insurance account (revenue) from which the premiums, self insurance, management fee and misc costs are paid. “Premiums” are calculated and collected annually from the directorates to cover these costs
- Any balance + or – on the account at the end of the year is transferred to the fund

## Directorate “Premiums”

- Costs to directorates take account of exposure, claims value and number of claims
- A base budget is allocated to directorates but they must bear the costs of any worsening claims history (but get benefit of any claims history that is improving)
- The concept of the above was to make services accountable for their claims and responsible for risk managing to mitigate – no real evidence it worked
- Annual calculations are too complex and time-consuming – they need simplified and “leaned”
- The allocation base from the start of Angus Council has been somewhat arbitrary and a change at this point gives the opportunity to fundamentally review & simplify

# Annual costs breakdown

	EL	PL	Prop	Motor	Misc***	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Premium	184	308	456	272	116	1,336
IPT*	18	31	42	27	12	130
Self ins**	0	8	333^	63	0	404
Mgt fee etc	5	13	136	18	5	177
Total	207	360	967	380	133	2,047

\*IPT is increasing to 12% shortly

\*\* A 10 year average has been used for self insurance costs

\*\*\* Excludes Statutory Inspection Contract £44k

^ Excludes Southmuir Primary £2.7M

NB: this will not add up to the total on the previous slide because of the use of a self insured average figure

# Current Profile

Class	Excess
EL	£0
PL	£250
Prop-Educ	£25,000
Prop - Gen	£5,000
Prop - Hsg	£5,000
Motor –OD	£500
Motor - TP	0
Misc	0

These insurance covers also include insurance for Angus Alive and the IJB

EL Employers liability

PL Public liability

Prop Property covering Education, General and Housing

Motor OD – Own damage

Motor TP - Third party damage and injury

Misc includes fidelity guarantee, all risks, money, official's indemnity, libel & slander, personal accident, public health act, business travel, computer, school journey, hirers liability, contractors' plant, prof neg

# Options

- If we want to drive some reduction in the cost of insuring the council our main option is to look at increased excesses (a larger balance to self insurance) and active risk management to mitigate risks.
- Within the above there is also an option to choose not to insure some classes. In some cases, this will be low risk and will be incorporated in this exercise to find savings eg in some of the misc insurance areas.
- In other areas eg liability and property, choosing not to insure (ie to fully self insure) is radical and is a very high risk strategy. While it could have high savings potential **if** nothing seriously goes wrong, it could leave the council in a financially unsustainable position if certain claim types arose eg historical abuse, stress claims, loss of a £30m campus.
- The status quo remains an option in some classes if it is evident there is little to be gained from increasing excesses

# Option – Increased Excesses

We sought alternative premiums from our current insurer based on substantially increased excesses as follows:

Class	Current	Alternative
EL	£0	£25K + £100K
PL	£250	£25K + £100K
Education Property	£25K	£100K + £500K
General Property	£5K	£100K + £500K
Housing Property	£5K	£100K + £500K
Motor	£500 + £0	£25K both OD + TP

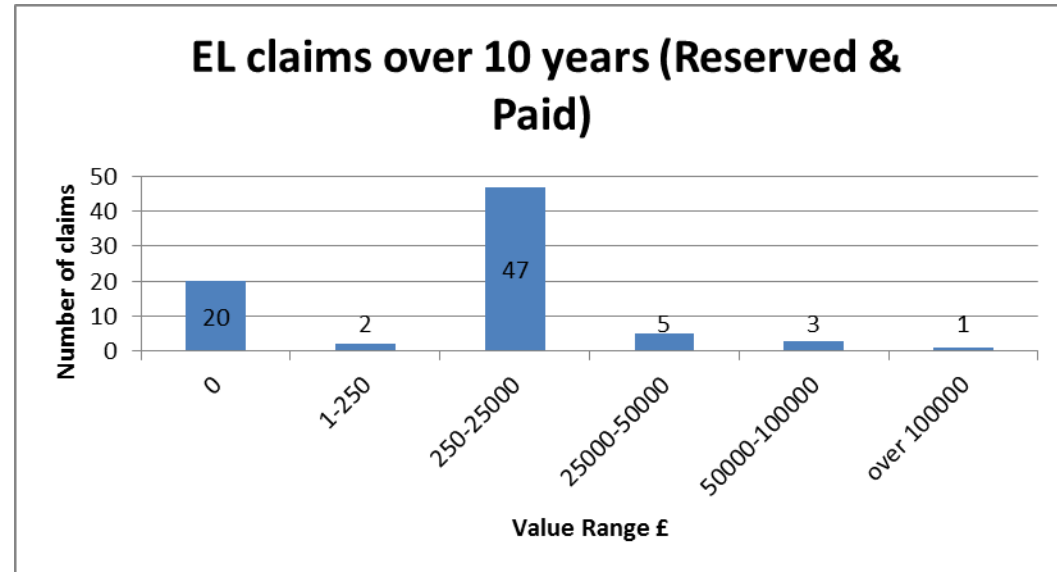
The quotes from the insurers are indicative only – any decision to change the excesses would be subject to finalisation and agreement with the insurers.

The options of the higher deductibles are considered on a class by class basis in the following slides



# Option1 – Employers Liability

- Over 10 years there have been 78 EL claims at a total cost of £915K settled & reserved
- Average value £12K/claim
- Largest single is £100K+ (still reserved)
- There are no savings at higher excesses**

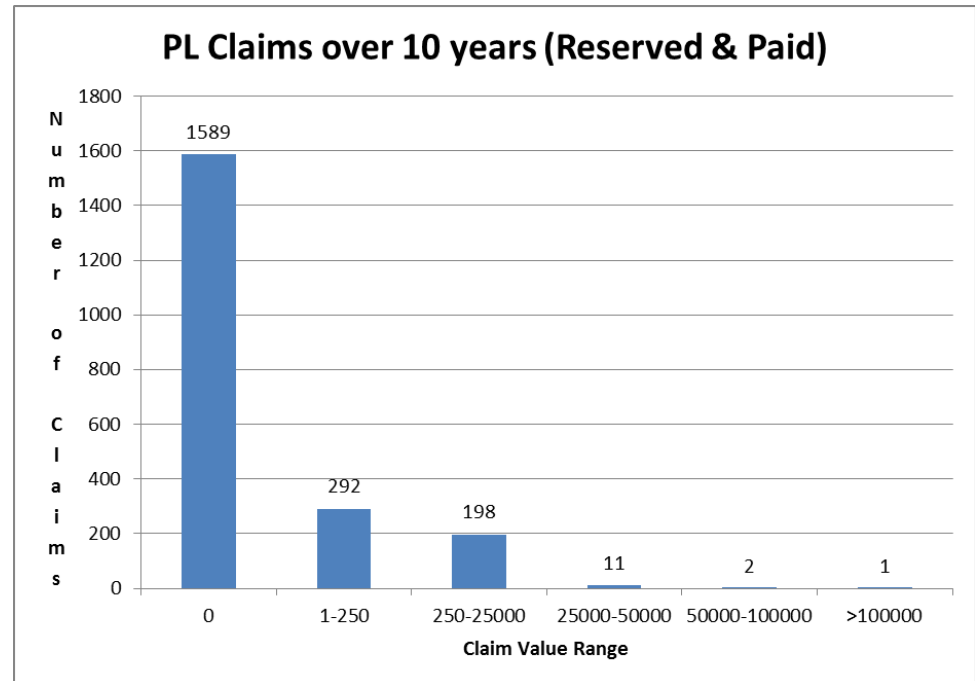


## Employers' Liability

	£0 Current Excess	£25k Excess	£100k Excess
Average annual self insured costs	£0	£70,000	£92,000
Premium cost	£184,000	£129,000	£90,000
IPT	£18,400	£12,900	£9,000
Claims Handling Fee	£0	£5,000	£5,000
Total Cost	£202,400	£216,900	£196,000

# Option1 – Public Liability

- Over 10 years there have been 2093 claims at a total cost of £1.55m
- Ave cost £742/claim
- Highest single £335K
- **No savings at higher excess**



## Public Liability

	£250 Current Excess	£25k Excess	£100k Excess
Average annual self insured costs	£8,000	£107,000	£132,000
Premium cost	£308,000	£209,000	£181,000
IPT	£30,800	£20,900	£18,100
Claims Handling Fee	£0	£39,000	£39,000
Total Cost	£346,800	£375,900	£370,100

# Option 1 – Education Property

- Over 10 years there have been 1770 claims at a total cost of £706K
- Ave £399
- Highest in 10 yrs £46k
- Highest ever £2.7M

53 Primary Schools  
7 Secondary Schools  
1 Campus

Total SI £137M  
Total SI £141M  
Total SI £30M

## Property - Education

**excluding Southmuir Primary £2.7M**

	£25k Current Excess	£100k Excess	£500k Excess
Average annual self insured costs	£67,000	£71,000	£71,000
Premium cost	£91,000	£87,000	£72,000
IPT	£9,100	£8,700	£7,200
Total Cost	£167,100	£166,700	£150,200

Potential savings of  
£17K at £500K excess

# Option 1 – General Property

- Over 10 years there have been 1415 claims at a total cost of £542K
- Ave £383
- Highest in 10 yrs £49k
- Highest ever £49k

Total SI £283M

Including:-

HQ's, Leisure Centres, Recycling Centres, Offices, Residential Units, Libraries, Museums, Public Conveniences, Resource Centres.

## Property - General

	£5k Current Excess	£100k Excess	£500k Excess
Average annual self insured costs	£45,000	£54,000	£54,000
Premium cost	£95,000	£78,000	£54,000
IPT	£9,500	£7,800	£5,400
Total Cost	£149,500	£139,800	£113,400

Potential savings of  
£10K at £100k excess  
or £36K at £500k  
excess

# Option 1 – Housing Property

- Over 10 years there have been 7520 claims at a total cost of £3.415M
- Ave £454/claim
- Highest in 10 yrs £75k
- Highest ever £75k

Circa 7,800 properties

53% Flats

40% Houses

7% Maisonettes

Total SI £874M

## Property - Housing

	£5k Current Excess	£50k Excess	£100k Excess
Average annual self insured costs	£221,000	£336,000	£341,000
Premium cost	£270,000	£154,000	£106,000
IPT	£27,000	£15,400	£10,600
Total Cost	£518,000	£505,400	£457,600

Potential savings of  
£13k at £50k excess or  
£60k at £100k excess

# Option 1 – Motor

- Over 10 years there have been 2552 claims at a total cost of £1.282M
- Ave £502
- Highest in 10 yrs £63k
- Highest ever £63k

Currently 369 fleet vehicles with a value of £14M\* including:

	Value (No.)
Landfill Compactor	£265K (1)
Refuse Lorry	£150k (33)
Digging Shovel	£137k (1)
Mobile Library	£134k (2)

## Motor - Own Damage & TP

	£500 OD only Current Excess	£25k Excess OD & TP
Average annual self insured costs	£63,000	£193,000
Premium cost	£272,000	£83,000
IPT	£27,200	£8,300
Claims Handling Fee	£0	£6,000
Total Cost	£362,200	£290,300

Potential savings of £72K at a £25K excess for own damage & third party damage

\*based on estimated & averaged replacement costs

# Option 1 – Other covers

Policy	Premium	IPT	Total	No. of Claims	Total Incurred	10 Year Average
Professional Negligence	£10,000 *	£100	£100	0	£0	£0
Money	£2,500.00	£250	£2,750	2	£130	£13
All Risks	£27,000.00	£2,700	£29,700	37	£149,000 **	£14,900
Officials Indemnity	£9,000.00	£900	£9,900	13	£42,500	£4,250
Libel & Slander	£3,000.00	£300	£3,300	1	£0	£0
Fidelity Guarantee	£23,000.00	£2,300	£25,300	2	£11,000	£1,100
Personal Accident	£12,000.00	£1,200	£13,200	10	£1,700	£170
Public Health Act	£1,500.00	£150	£1,650	1	£400	£40
Business Travel	£250.00	£25	£275	4	£528	£53
Computer	£8,500.00	£850	£9,350	0	£0	£0
School Journey	£2,000.00	£200	£2,200	120	£34,000	£3,400
Hirers Liability	£350.00	£35	£385	0	£0	£0
Industrial/Commercial	£18,000.00	£1,900	£19,900	39	£16,000	£1,600
Contractors Plant	£9,000.00	£900	£9,900	0	£0	£0
*estimated for 2016/17						
**includes £112k claim for water damage to art works in Meffan Institute						

# Other Covers - Changes

## Keep

- Professional Negligence – needed for providing services to other orgs
- School Journey
- Business Travel
- Hirers Liability - allows smaller community groups to hold meetings in various buildings without the need for PL cover of their own.
- Industrial/commercial - leases state that the landlord insured the building. We should look at this on the basis of recharge
- Contractors plant - tends to be a requirement of the hire agreement

## Consider ditching

- Money – no claims history, low risk
- All risks – mainly 1 claim on works of art, didn't replace. Low risk
- Officials Indemnity – mainly one claim (still open £40K) 13 in 10 years
- Libel & Slander – no claims, low risk
- Fidelity guarantee – no claims last 10 years, low risk
- Personal Accident – low claims, low risk
- Public Health – Low claim, low risk
- Computer – no claims



# Suggested Savings

## Total

	New Excess	Savings (inc IPT)
		£
Education properties	500K	17000
General Properties	500K	36000
Housing	100K	60000
Motor	25K	72000
		<hr/>
		185000
Misc covers		95150
		<hr/>
		<b>280150</b>

## Misc Covers

	£	£	£
Money	2500	250	2750
All Risks	27000	2700	29700
Officials Indemnity	9000	900	9900
Libel & Slander	3000	300	3300
Fidelity Guarantee	23000	2300	25300
Personal Accident	12000	1200	13200
Public Health Act	1500	150	1650
Computer	8500	850	9350
<b>Total</b>	<hr/>	<hr/>	<hr/>
	<b>86500</b>	<b>8650</b>	<b>95150</b>

Liabilities excesses stay as is:

EL – nil

PL - £250

### Impact of Removal of All Risks Policy

- Works of Art would not be covered for accidental damage or theft.
- There would be no insurance cover for exhibits that are loaned to the council.
- No cover for damaged property belonging to foster carers.

# Comparing Option 1 savings using 6 year ave (Main property & motor covers only)

	Educ	Gen	Hsg	Motor	Total
	£	£	£	£	£
Current cost/current excess	167100	149500	518000	362200	1196800
Costs on 6 yr average					
Self Insured costs	57000	77000	280000	208000	622000
Premium	72000	54000	106000	83000	315000
IPT	7200	5400	10600	8300	31500
Claims Handling				6000	6000
Total on 6 yr Ave	136200	136400	396600	305300	974500
Savings on 6 yr ave	30900	13100	121400	56900	<b>222300</b>
Savings on 10 yr ave	17000	36000	60000	72000	<b>185000</b>
Additional savings	13900	-22900	61400	-15100	<b>37300</b>

The above takes some account of the fact that claims costs are generally rising (NPV not utilised in the 10 year ave) and shows that while there is some fluctuation in terms of more/less savings, overall there are still savings to be made at the new excess levels

# Implications for 17-18 budget of savings proposal

- Allow us to set a reduced budget
- Need to call in **all** insurance budgets (base + dept contribution), re-profile and re-set new base
- This base should be set once – any increase/decrease in costs in future years borne by services
- Less complicated allocation process as based solely on exposure

Note: All savings are net of costs to place Engineering Inspection Contract that is currently being reviewed (estimated £20k - £30k)

		Total
		£000's
Employers liab		200
Public liab		347
Educ prop		150
Gen prop		110
Hsg		450
Motor		290
Misc	prof neg	10
	sch journey	2
	Hirers	1
	Ind/com	20
	plant	10
		1590
Management		160
Risk		15
Budget 2017-18		1765
Budget 2016-17		2063
Saving		-298

# Implications for Directorates

- There will need to be active operational risk management as any premium etc increases arising from worsening claims history will be borne by the services
- As current, any cost increases due to rate rises & IPT would be allowable
- Claims will continue to be managed as currently – the internal team will deal with the additional claims handling liaison with the insurers
- The insurance fund will only cover insurable losses – so if we have stopped insuring something, any loss will need to be met from service budgets.
- The insurance “premiums” charged to services will be based only on exposure and will look very different – each service will be charged their costs only so eg education will pay the actual premium related to their property not a share of the all properties premiums as current

# Implementmtation

- New profile from 2017-18
- 2 x 1 year extensions of current contract (allowable within contract)
- Results and learnings from 2017-18 monitoring will inform new tender which must be in place by 31 March 2019.
- Control measures around monitoring of costs of new insurance profile and adjusting as necessary
- Insurance section to look at streamlining and digitising their processes – this will require a new insurance software package
- The new profile will be tested and monitored during 2017-18 and the learnings used to inform the requirements for the insurance tender
- EL and PL covers should be re-examined in 1 years time – there may be options once we have a better sense of some outstanding liability claims