



Insurance Team

Insurance Review

2011

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Introduction

The purpose of this report is to provide an update on the strategy and performance of the boroughs insurance arrangements, this report will review three key areas: -

1. Insurance purchase and coverage strategy, including a review of the principals of self-insurance and the benefits of increased in-house claims handling.
2. 2011 CIPFA benchmarking report, in terms of performance comparison and insurance coverage with other London Boroughs and Unitary Authorities.
3. Financial performance of the current insurance arrangements in comparison to historic arrangements prior to April 2007.

The report demonstrates that self-insurance retention, combined with external risk transfer of both catastrophic and accumulative risk exposure is both: -

- Financially efficient and effective, delivering both savings and enhanced ownership.
- A strategy employed by the majority of other London boroughs and Unitary authorities.

The report also demonstrates that increased ownership of insurance claims via in-house claims handling has resulted in: -

- A significant decrease in average liability claims costs.
- Improved service delivery to claimants and increased satisfaction levels.

1. Insurance purchase and coverage strategy

1.1 Insurance purchase and coverage

On the 1st April 2007, the London Borough of Sutton entered into a three plus two-year arrangement with Zurich Municipal for insurance coverage above our self - insured retention limits. This decision was made on the basis of a full OJEU compliant tender process as ratified by Audit Committee.

One of the features of the Zurich Municipal bid was a guarantee, regardless of claims experience, that the risk rating would remain unchanged at first renewal due 1st April 2008. Consequently any changes in terms of the external insurance premiums would be due to inflationary increases only, combined with changes in sums insured or estimates. This guarantee of insurance rates was extended to renewal 2009, although no longer applies. Renewal terms for 2011 – 2012 have been agreed and the final year of the long term agreement has been honored with rates maintained.

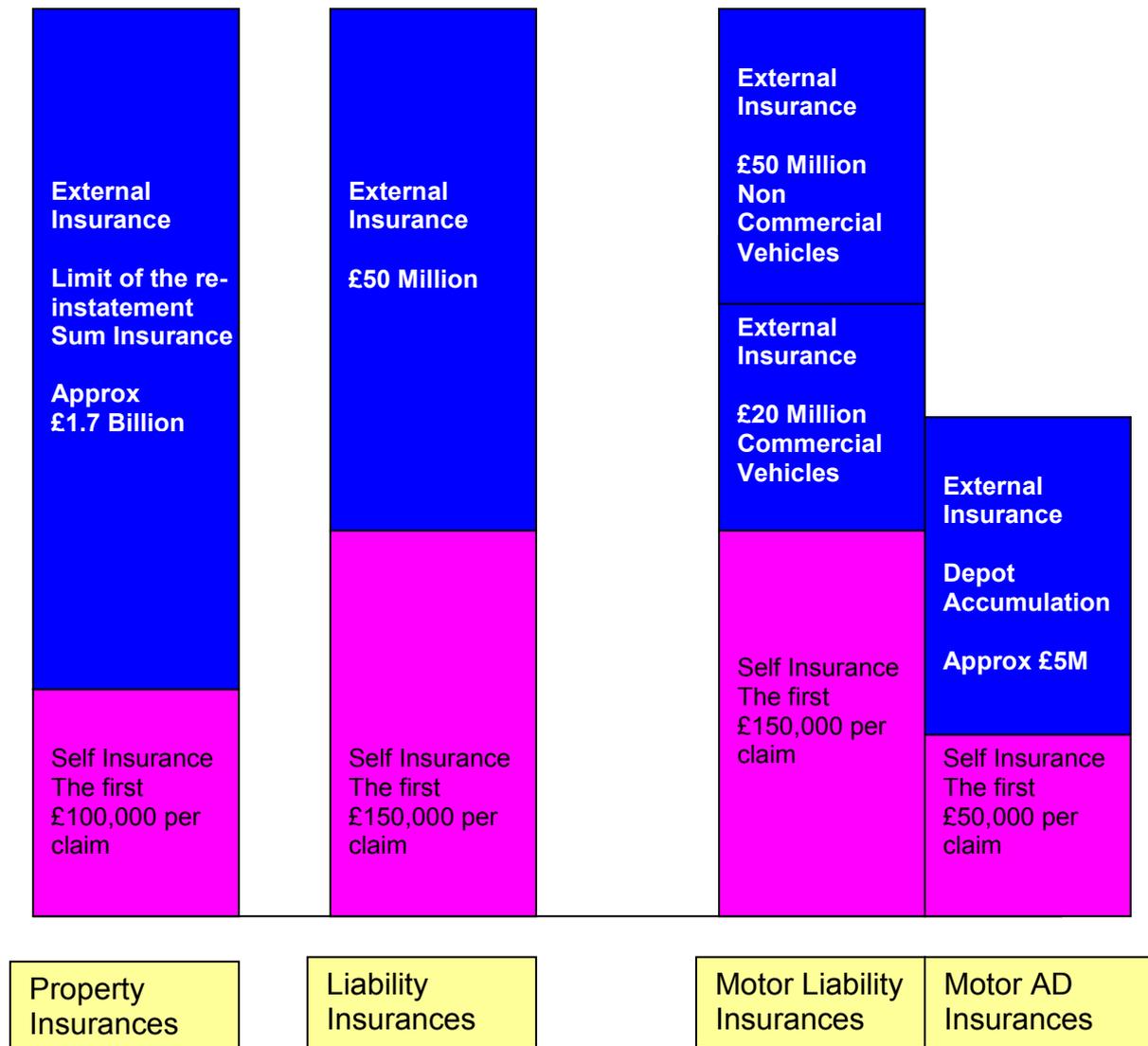
Sutton will be joining the Insurance London Consortium (ILC) to procure future insurance arrangements. The ILC consists of eight London Boroughs including LB Croydon and RB Kingston. The primary focus is on developing operational risk improvement combined with at least equaling best price terms available to Sutton and an expectation of delivering some financial efficiency.

Pictorially the current insurance arrangements can be shown on the following two pages: -

- Firstly in terms of how the policy coverage responds in the event of a single claim – for example on liability based claims, LB Sutton pays the first £150,000 of any claim, with the insurers paying if the claim settlement exceeds that figure.
- Secondly in terms of how the policy coverage responds in total over the insurance year – for example in the unlikely event of an unusually large number of legal liability claims, the maximum contribution from LB Sutton will be £1.5 Million in any one insurance year.

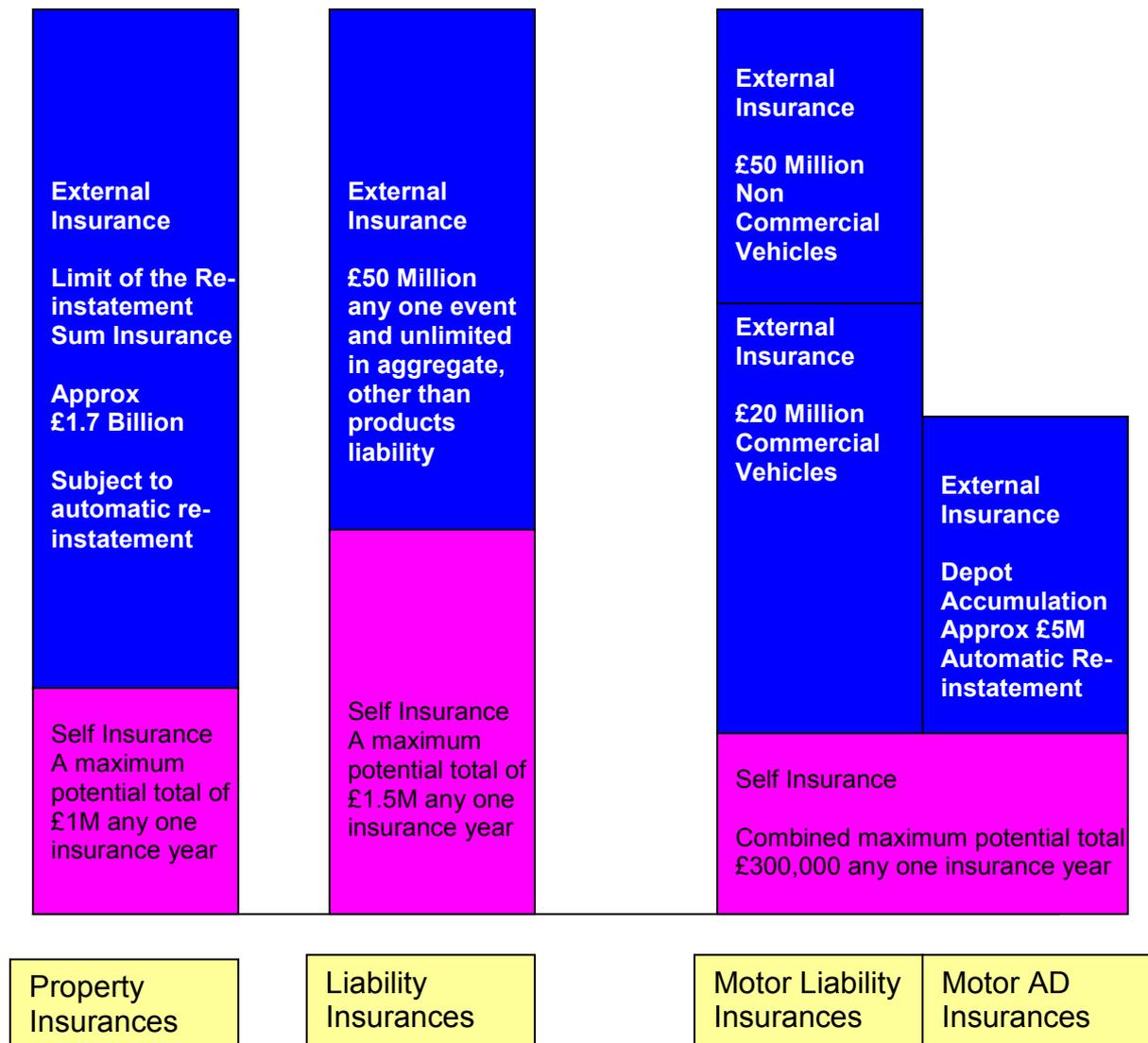
Insurance coverage

In the event of any single claim or incident



Insurance coverage

In total any one insurance year for the aggregate of all insurance claims



1.2 Principals of self-insurance

External insurers consider the following factors when determining the insurance premium charged for a risk: -

1. Historic claim losses and expected level of future losses adjusting for trends.
2. Provision to a common pot for large and infrequent losses.
3. Their own accommodation, general expenses and staffing costs.
4. The need to produce shareholder profit on their business activities.

Typically this means that on average the approximate target is for claims levels to not exceed 60% of the premium charge, thereby allowing for the above expenses and profits margins.

For a large organisation such as the council, we have a statistically predictable average level of claims per year. Following the above model the expected cost of insuring against an average claim loss level of £1Million would be £1.66 Million. Prior to the insurance tender in 2007 the council was paying approx £1 for every 52 pence returned to us in claim payments.

It therefore follows that the most cost effective procurement strategy is: -

To self fund anticipated insurance losses, from the premium savings realised in not purchasing this pound swapping coverage, whilst at the same time purchasing insurance against those large and infrequent losses that would prove difficult to self fund. The self insurance fund is further protected against an accumulation of expenditure by capping the maximum aggregate self insurance claims spend possible in any one year (see pictorial representation on the previous page).

The self funding of all risks however, would require a high retention of funds, £100M or more; therefore being unpractical and a drain on cash flow whilst acquiring such funds and difficult to justify the retention of such large sums of public money.

This approach to procurement generates additional savings in reducing the levels of external expenditure on insurance premiums which in turn result in the following: -

- A reduction in Insurance premium tax liability, which is currently charged at 6% of the external insurance premium. Tax savings compounded at 5% inflation since 2007 has resulted in savings of approx £114K.
- Insurance premiums are paid up-front whilst insurance claims are often paid years later. Investment income generated against those cash reserves is retained by the council and not the insurers or their shareholders. Internally retained additional funds were £456K in 2007, rising annually thereafter, from which Treasury will have generated further investment income.
- Generally and as demonstrated later in this report, increased retention leads to increased risk ownership and awareness. This in turn tends to reduce insurance losses, the savings from which are immediately realised by the council, rather than awaiting the prospect of future insurance premium reductions.
- The purchase of catastrophe insurance can be limited to perils such as Fire, Earthquake, Storm etc rather than theft and burst pipes generating further efficiencies.

Finally reduced dependence on external insurance premium rates enables improved budget control for the council: -

- Lessened impact from insurer's reactions to UK and Global events such as UK flooding and tropical Hurricanes.
- Lessened impact from the typical business cycles between soft and hard insurance rates in the market place or corporate investment losses.
- Reduction in premium invested in insurance companies, which can and do occasionally go into administration.
- The ability to self fund risks the insurance market declines such as lead thefts, which would have significantly impacted on operational funds if not self insured.

The above enables a smoother and more gradual budget adjustment process, which is sympathetic to the council's needs.

Even upon considering the possibility of a sustained uplift in claim volumes resulting in increased losses and erosion in premium savings and therefore self insurance funds in the short term; reference to the underwriting criteria under 1.1 demonstrates that if those losses were externally insured, premiums would subsequently rise until insurers had re-cooped their losses and restored profitability over a period of time, which would also be of financial disadvantage to Sutton.

1.3 Benefits of In-house claims handling

In addition to the premium benefits of self-insurance retention, outlined in 1.2, insurers will allow greater determination of claims handling strategies - on the basis that it's the local authority's money that funds the majority of claims.

It follows that in a performance managed, monitored and reported upon section such as the insurance team; that we will be better motivated to manage our own council's funds in contrast to external claims handlers. Equally we will be better equipped to control unnecessary legal expenditure through local performance management techniques. The insurance team has been incrementally building upon this strategy since 2007 and from April 2009 the insurance section begun handling personal injury claims in house.

In practice this means that with a few exceptions for very large losses and claims in excess of £100k we no longer use the insurance company's claims handlers. All personal injury claims are therefore investigated in house with appropriate site visits to make a determination of legal liability. External specialist solicitors are used to both support the determination of liability decisions when necessary through case surgeries. In the event of legal proceedings being issued, external solicitors are then placed on record, in the same way the insurers do, but importantly Sutton remain the decision makers and drive the case management. Initially insurers were auditing LB Sutton every 2 months, then quarterly and now only annually, increasing our authority limits to £100K for liability claims following their assurance and very positive endorsement of our processes, practice and results.

The strategy behind this was to save at least a further £75k per annum by reducing claims handling payments to our insurers, which were £45k in 2009, and reduce third party legal costs. The insurers have historically been very slow in turning around paperwork within an environment that accepts the general rule that the longer a claim remains unresolved the higher the third party solicitor's legal fees will be. The financial prediction was to break even on the trading account for y/end 2009 / 10 but following self handling implementation a £100k surplus was delivered. This has been better for 2010 / 11 where previous planning had predicted a £150k deficit against the actual result of break even. This validates that bringing this function in house has exceeded the expected £75k per annum savings net of the resource costs to deliver the service. This approach is no longer unique in London with a few boroughs handling their claims in-house, although feedback from a 2009 presentation given to councils in the South East suggests the process and procedures of our systems were of interest to those councils as well.

As a socially responsibly organisation our approach to insurance claims against the borough remains as follows: -

- All claims are handled in accordance with the Civil Procedure Rules and Woolf Protocols.
- All claims are investigated via reports or statements from the operational area and followed up to ensure that any decision made on legal liability is on the basis of best possible information.
- Should a claim be declined the claimant or their solicitors will be provided with full details as to why in terms of the law and on what information this was made. This then enables the claimant to counter with any other information they believe may have been missed.
- If the investigation concludes that legal liability may attach to the council then this admission is communicated to the third party as soon as possible. The focus is then on reaching a reasonable settlement whilst controlling the third party legal costs.

The legal costs of taking a claim to court and failing in it's defence are potentially high with a typical (if such exists) slip / trip on the highways costing between £50K and £100K inclusive of costs.

This financial sanction is however a very effective means to ensure equitable claims handling, if as an organisation we were overzealous in repudiating claims then ultimately the costs of lost trials would find our strategy out. On the other hand if we were too accommodating with the public purse then the benchmarking report discussed in Section 2 would expose our largess.

2. CIPFA Benchmarking Report 2010

The findings of the 2010 report is that Sutton is overall handling of liability claims is still the best in London and is evidenced by our high rate of repudiation and the ensuing low cost of claims. This indicates that not only are the claims we receive being handled well, but overall good risk management policy is being followed throughout the organisation. In addition, service departments such as the highways department, are performing their duties to a high standard throughout the borough. This means that in a majority of circumstances, it gives the insurance section the best defense to any claims arising from highways defects.

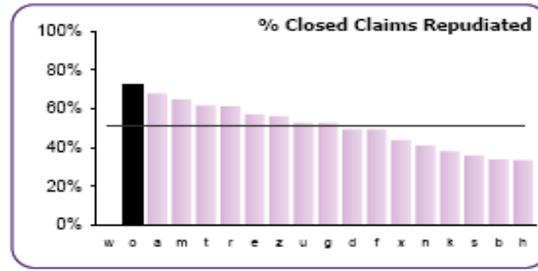
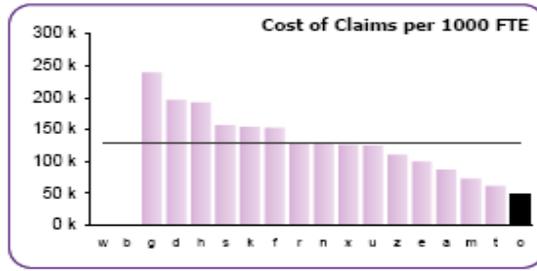
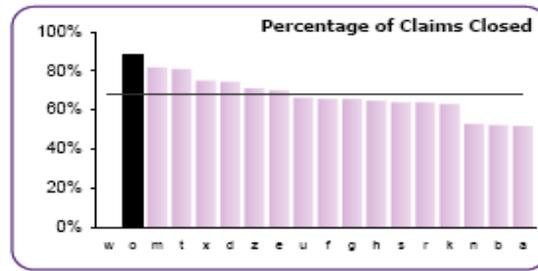
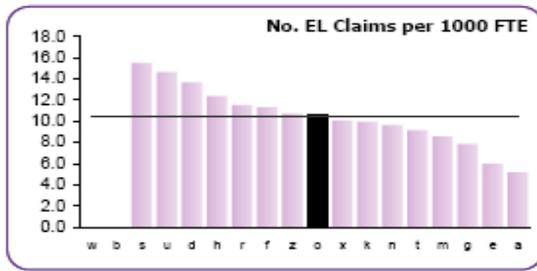
In terms of Employers Liability and Public Liability – LB Sutton ranked number one on the average of performance matrixes across London. The following pages reproduce key CIPFA charts under pinning the performance indicators behind this result with further commentary following.

Combined Liability

	Total	Rank
Sutton	50	1
Barnet	67	2
Croydon	72	3
Kensington	76	4
Richmond	83	5
Enfield	89	6
Redbridge	91	7
Newham	95	8
Ealing	97	9
Camden	104	10
Barking	110	11
Havering	112	12
Haringey	119	13
Hackney	120	14
Islington	-	-
Lambeth	-	-
Merton	-	-
Tower Hamlets	-	-

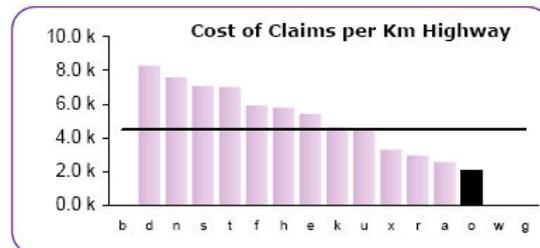
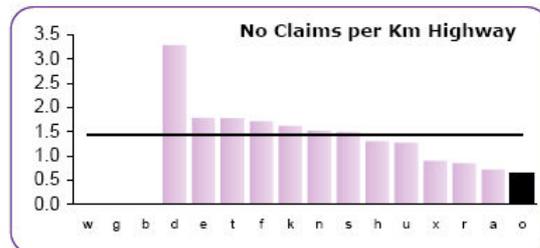
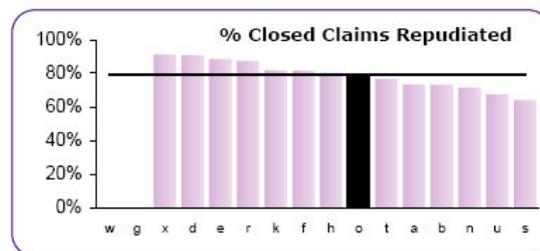
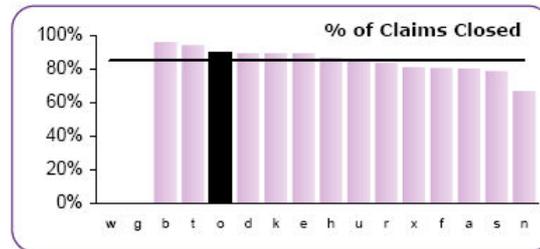
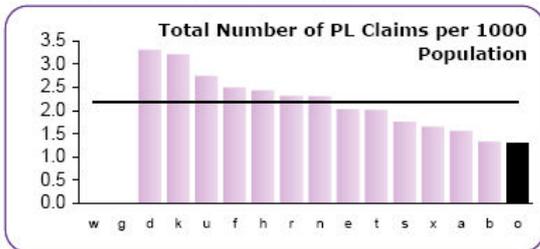
Employers Liability - All Claims

Claims ratios shown relate to the totals of all years collected (Insurance Years 2004/05 to 2008/09). These totals are not divided by 5.



Public Liability Claims - Highways - PI

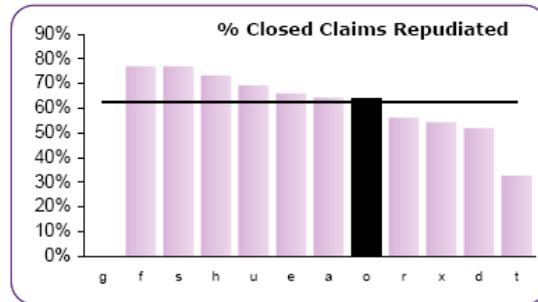
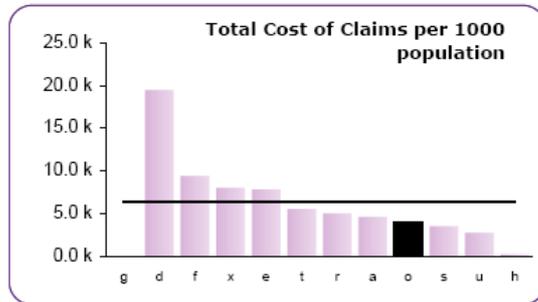
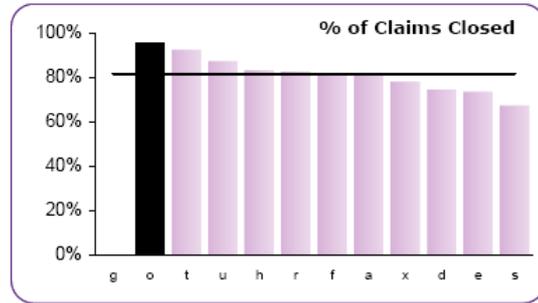
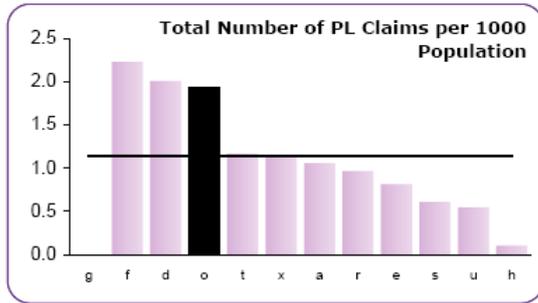
Comparison of 16 Authorities



Public Liability Claims - Tree Roots

Comparison of 12 Authorities

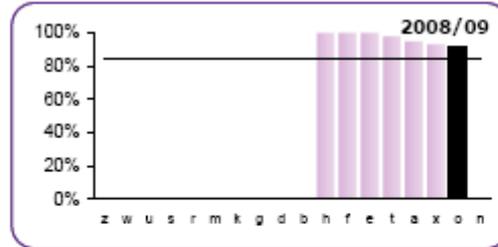
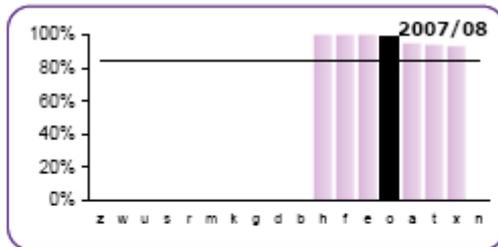
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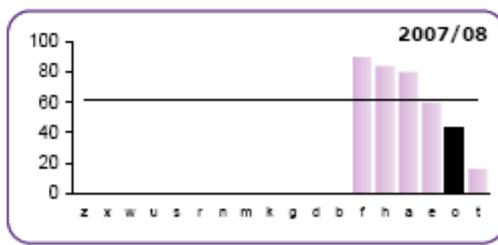
Civil Procedure Rules

With regards to PL claims:

i) Taking into account the CPR rules, what % of your personal injury claims meet the 90 day liability response requirement?



ii) Taking into account the CPR rules, what is the average time taken to communicate a decision on liability to the other party after the acknowledgement letter has been sent?



- **Employer's liability claims**– LB Sutton has an average ratio of claims per employee, but the highest percentage of closed claims, repudiated claims (defended at nil cost) and the lowest average cost per 1000 employees. All indicating an effective system of claims handling
- **Public liability claims – Highways – Person Injury** – LB Sutton has the lowest number of claims, settlement costs per population and the lowest cost and number of claims per km of the highway. The third best closure percentage although repudiation rates are average although clearly costs are best managed.
- **Public liability claims – Tree Roots** – LB Sutton has one of the highest incidences of tree related claims in London per 1000 population given the leafy nature of our borough, but one of the lowest average claims cost per 1000 population demonstrating our expertise in this area; far out performing other high incidence local authorities.
- **Civil Procedure rules** –In 2007/08 Sutton had the 2nd fastest response with an average of 43 days taken compared to the average 62 days taken by other LB's. In 2008/09 this figure improved still, now Sutton's average is 38 days whilst the average among other boroughs has risen to 70 days.

Notwithstanding the largely positive benchmarking, the report also provided benchmarking suggesting that whilst 3rd party property damage claims arising from our housing stock are of a much lower financial consequence; average cost performance was below par resulting in a recommendation for further investigation.

The full internal report and external benchmarking reports are available on request.

3. Financial performance - current insurance arrangements in comparison to historic arrangements prior to April 2007.

3.1 Insurance Costs 2006 – 2012

The following table demonstrates the financial performance of the total insurance costs (both external premiums and self insurance funding) from pre-tender to planned 2011 – 2012 insurance year.

Class of Insurance	Total Cost 2006 - 2007	Total Cost 2007 - 2008	Total Cost 2008 - 2009	Total Cost 2009 - 2010	Total Cost 2010 - 2011	Total Cost 2011- 2012	Savings not adjusted for inflation
Public Liability (inc SHP)	£787,030	£784,000	£631,000	£561,000	£561,000	£677,078	£721,072
Employers Liability	£214,783	£168,000	£105,000	£74,448	£74,448	£90,000	£562,019
Motor Insurance	£322,518	£197,000	£191,000	£177,000	£177,000	£177,000	£693,590
Property (inc SHP ex added schools)	£1,041,045	£916,748	£923,752	£959,986	£959,986	£1,091,038	£353,715
Total	£2,365,376	£2,065,748	£1,850,752	£1,772,434	£1,772,434	£2,035,116	£2,330,396

Please note the figures have been adjusted to allow for the post 2007 addition of 5 grant maintained secondary schools back into the council's insurance program.

The table shows savings of £2.3 million since tendering and increased self insurance in 2007 although without this process the premium of £2,365,376 would have been expected to increase by at least 5% inflation in line with inflationary uplift on sums insured. Allowing for compounded inflation this could have resulted in a 2011 – 2012 premium of £3 million, a further £700k potential saving against the current year's insurance spend. Finally this additional premium would have also been subject to Insurance premium tax @ 6% (£42k). Increases planned for 2011 – 12 recognise that whilst service efficiencies have enabled normal annual inflationary increases in premium to be held at bay since 2007, this can not be sustained indefinitely without weakening reserves.

3.2 Insurance fund performance

The above performance can only be considered alongside the performance of the self insurance fund over the same period. The following table demonstrates the final year end balances 2006 – 2011.

Insurance Fund Balance Brought as at 1 April 2006	
Provision for outstanding claims	£1,758,544
Insurance fund reserves	£4,347,365
Total	£6,105,910
Insurance Fund Balance Brought Forward 1 April 2007	
Provision for outstanding claims	£1,822,206
Insurance fund Reserves	£4,227,490
Total	£6,049,696
Breakdown of the Insurance Fund Balance as at 1st April 2008	
Provision for outstanding claims	£1,774,908
Insurance fund Reserves	£4,743,077
Total	£6,517,985
Breakdown of the Insurance Fund Balance as at 1st April 2009	
Provision for outstanding claims	£1,519,518
Insurance fund Reserves (after £255K contribution to H/way winter repairs)	£4,480,000
Total	£5,999,518
Breakdown of the Insurance Fund Balance as at 1st April 2010	
Provision for outstanding claims	£1,386,066
Insurance fund Reserves (after £508K contribution to H/way winter repairs)	£4,163,000
Total	£5,549,066
Breakdown of the Insurance Fund Balance as at 1st April 2011	
Provision for outstanding claims	£1,380,000
Insurance fund Reserves	£4,172,000
Total	£5,552,000

The table demonstrates that performance under 3.1 above has not been underwritten at the expense of the insurance reserve. Notwithstanding the need for winter repairs to the Highway, the insurance reserves would have in fact increased over the period of self insurance with outstanding claim reserves currently at their lowest level.

4. Schools customer survey report 2010

This report assessed how the Schools evaluated various aspects of the Insurance cover and the claims service provided to them by the London Borough of Sutton. It also probed the Schools knowledge of various Insurance processes to appraise how successful the Insurance team has been in embedding key messages.

The survey results evidenced the good service that the Insurance Office provides to the Schools. It has shown that in all areas that the Insurance Office is working to the highest of standards and has full support from the Schools.

With reference to the team's customer service to Schools, it has shown that the team deal with their problems effectively by being polite, helpful and interested. Also the time in which the team corresponds with the Schools is above even the high standard set in the team's business plan, with 94% receiving correspondence within 7 days.

The Schools Insurance Guide that is provided has been ranked as at least useful and easy to understand by 95% of responders and that no improvements at the time were necessary.

The survey also investigated the Schools experience when making various types of claims. With school journey claims it showed that both the insurers and the Insurance Office are rated highly by the Schools. This is great evidence that the Schools value the service the team provides, underpinned by the 100% desire to remain insured via the borough if possible after transfer. In 2011 / 2012 the service will once again survey claimants to measure progress and impact of self claims handling.

5. Internal Audit Report

In 2010 internal audit carried out a planned investigation and audit into the workings of the insurance section concluding the following in the executive summary: -

1 EXECUTIVE SUMMARY

1.1.1 As a result of our audit, we give management **substantial assurance** over the systems in operation. Overall, we consider that the business unit is well managed in terms of its ongoing objectives as set out in its Business Plan. In addition, the specific elements of the service addressed by this audit have shown that processes and procedures are robust and that service risks are proactively managed.

1.1.2 We have summarised below the total number of recommendations raised as a result of our review (full details can found in section 4 of this report):

Recommendations	High	Medium	Low	Total
Accepted	0	0	1	1
Not-Accepted	0	0	0	0
Total	0	0	1	1

6. Conclusion

In summary this report further continues to evidence: -

1. Self Insurance as a concept is a financially prudent strategy and one followed by other boroughs.
2. Self insurance as a reality has delivered financial savings.
3. Self insurance has enabled and supported performance improvement.
4. Self insurance has enabled improved customer satisfaction through greater ownership of claims handling delivery.
5. Self insurance has enabled greater control over Sutton claims and the targeting of further claims handling efficiencies.

The report has evidenced that none of the above has been achieved at the expense of the insurance reserves, coverage or customer service.