

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**1 October 2013**

**Report of the Director of Finance**

**INSURANCE FUND ACTUARIAL REVIEW JUNE 2013  
(COUNCIL SERVICES)**

**1 Purpose of the Report**

To advise Cabinet of the outcome of the latest actuarial report on the Council's Insurance Fund.

**2 Information and Analysis**

**2.1 Insurance Fund**

The County Council's current Corporate Risk Financing Strategy includes the following statement:

**Aims and Objectives**

The County Council is committed to ensuring that it maintains an optimum balance between internal and external insurance within a framework of prudent financial management.

In determining the balance between internal and external insurance the County Council will seek to

- Insure risks internally where it is financially prudent and advantageous to do so
- Ensure that the internal funding is adequate to meet the claims that it will be required to pay
- Purchase external insurance or arrange cover through an alternative risk transfer arrangement
  - where required by statute
  - to cover catastrophic events

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- to limit the financial exposure of the Council to the cumulative effect of multiple small losses
- where there is a requirement to insure e.g. under the terms of a contract or lease, and the third party insists that external insurance be purchased
- to cover individual losses in excess of the Internal Insurance Fund's capacity and specific risks that could be potentially detrimental to the Insurance Fund.

The County Council insurance fund is maintained to finance claims that fall within the excesses applying on the Authority's external insurance policies. Appendix 1 details the policies affected together with details of the current excess and aggregate stop loss. The aggregate stop loss is the maximum payable by the Council, for a particular insurance year, relating to payments within that year's policy excess. That is to say, all payments within the excess are added together and, when the total level of payments reaches the aggregate stop loss, the insurer will meet the claims in full thereafter.

The principal risks financed from the fund are property and liabilities (Public and Products liability, Employers' Liability, Officials Indemnity, Professional Indemnity and Libel and Slander).

Most fire and property claims are settled within months of the event occurring. The exceptions are large fire claims which can take a number of years before they are settled in full. Nevertheless, funding for these claims is relatively easy to predict.

Liability claims are more problematical because they can come forward many years after the event. For example, the Council is currently receiving asbestosis and mesothelioma claims relating to exposure to asbestos back to the 1960s, as well as 'failure to protect/abuse' claims dating back to the 1980's and sometimes beyond. This makes it very difficult to say that the Council will not receive any more claims relating to a particular year and adequate funding needs to be maintained to ensure that claims can be met as they are settled.

### **2.2 Actuarial Review**

Every 4 years the Council appoints an independent actuary to undertake an actuarial assessment of its Insurance Fund. The process involves financial modelling to predict the ultimate claims out-turn on each insurance year where claims are underwritten in the fund. This enables the Council to determine whether the fund is adequately reserved. The last full assessment was undertaken in 2011 by HJC Actuarial Consulting Limited, which included an assessment of our optimum level of retained insurable risk.

HJC Actuarial Consulting have just completed a mini refresher review of the fund, the conclusions therefrom are set out below

### **3 Financial Considerations**

#### **Legacy Fund**

The legacy fund refers to the provision and reserve for the claims relating to the period prior to 31 March 2013.

The actuary recommends that the council should have a combined provision/reserve in a range of £21m to £25m. This assessment is based on information supplied up to 31 March 2013. This remains consistent with the 2011 review. The recommendation includes an amount of £7m in respect of potential claw-back under the MMI (Municipal Mutual Insurance) Scheme of Arrangement.

The Council's insurance fund as at 31 March was £22.02million. In addition a separate insurance provision exists for the MMI claw-back of £1.84million. The Actuary has estimated future claim payments, including MMI claw-back, of £23m.

Whilst there would appear to be a surplus between the estimated future claim payments and insurance fund/MMI provisions of £0.8m there are a number of reasons why the fund level should not be reduced in the medium term:

- There is still uncertainty over the level of the MMI claw-back. The Actuary has estimated future claim payments of £23m if the full £7m is included.
- The authority has recently increased its excess payable on public and employers liability claims. The actuarial data shows that the Council could have saved money over past years if substantially more risk had been retained and minimal insurance purchased. The additional reserves held will be needed to reduce any additional contributions needed in future budgets.
- There are a number of uninsured risks where indemnity has been agreed, such as Administration of Medicines for School and Adult Care staff. This value of this risk has not been assessed as part of the actuarial review.
- The data analysed did not include Highways Third Party Damage claims. Whilst these are generally settled fairly quickly there will still be a modest level of estimates that should be added to the recommended range.
- External insurance premiums have been at low levels in the recent past, but have since risen significantly year on year with expectations that they will rise further over future years. A potential way to mitigate these additional costs is by increasing excess and stop losses, a strategy that requires a robust Insurance Fund.

## **Fund contributions 2012/13**

The actuary has recommended a contribution rate of £2.7m for current and future underwriting years based upon current deductible levels.

This represents a saving of approximately £600,000 on the current estimated budget.

Consideration is being given to restructuring the insurance programme to reduce the purchase of external insurance. If this proceeds any increased fund contributions required would be expected to be funded from savings made on external insurance premiums.

## **4 Other Considerations**

In preparing this report the relevance of the following factors has been considered: legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

## **5 Key Decision**

No

## **6 Call-in**

Is it required that call-in be waived in respect of the decisions proposed in the report? No

## **7 Background Papers**

The full report and supporting papers are held in the Risk and Insurance Section.

## **8 OFFICER'S RECOMMENDATION**

That the contents of this report be noted.

PETER HANDFORD

Director of Finance

29 August 2013

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## APPENDIX 1

	1. Liabilities - All Departments			2. Property - Fire, Lightning and Explosion (Schools only)		3. Property - Fire, Lightning and Explosion (Non Schools)		4. Schools Contents and parts of buildings for which they are responsible under the Scheme of Delegation, including computers		5. Computers - excluding schools		6. Money- all premises		7. Fidelity Guarantee		
Year	Excess EL	Excess PL	Aggregate Stop Loss	Excess	Aggregate Stop Loss	Excess	Aggregate Stop Loss	Excess	Aggregate Stop Loss	Excess	Aggregate Stop Loss	Excess	Aggregate Stop Loss	Excess	Aggregate Stop Loss	
1992/1993	125,000	125,000	1,600,000	0	0	0	0	Excess payable by schools from their delegated budget	Unlimited	Excess charged to departmental budgets	0	0	0	0	0	
1993/1994	125,000	125,000	1,600,000	250,000	1,250,000	5,000			Unlimited		0	0	0	0	0	0
1994/1995	125,000	125,000	2,000,000	250,000	1,750,000	5,000			Unlimited		0	0	0	0	0	0
1995/1996	125,000	125,000	2,000,000	250,000	1,750,000	5,000			Unlimited		0	0	0	100,000	0	0
1996/1997	125,000	125,000	1,800,000	250,000	1,750,000	5,000			Unlimited		0	0	0	100,000	0	0
1997/1998	125,000	125,000	1,200,000	250,000	1,750,000	5,000					0	0	0	100,000	0	0
1998/1999	125,000	125,000	1,200,000	100,000	500,000	5,000	Included in the Aggregate Stop Loss applying to schools					0	0	100,000	0	0
1999/2000	125,000	125,000	1,500,000	100,000	500,000	5,000					5,000	0	0	100,000	0	0
2000/2001	125,000	125,000	1,750,000	100,000	500,000	5,000					5,000	0	0	100,000	0	0
2001/2002	125,000	125,000	2,800,000	150,000	500,000	5,000					5,000	0	0	100,000	0	0
2002/2003	125,000	125,000	3,880,000	150,000	500,000	5,000					5,000	0	0	100,000	0	0
2003/2004	125,000	125,000	4,700,000	150,000	500,000	5,000					5,000	0	0	100,000	0	0
2004/2005	125,000	125,000	5,800,000	150,000	500,000	5,000					5,000	0	0	100,000	0	0
2005/2006	125,000	125,000	5,000,000	150,000	500,000	5,000					5,000	0	0	100,000	0	0
2006/2007	125,000	125,000	4,000,000	150,000	500,000	5,000					5,000	0	0	100,000	0	0
2007/2008	125,000	125,000	4,000,000	150,000	500,000	5,000					5,000	0	0	100,000	0	0
2008/2009	125,000	125,000	4,000,000	150,000	500,000	5,000		5,000	0	0	100,000	0	0			
2009/2010	125,000	125,000	4,000,000	150,000	1,000,000	5,000		5,000	0	0	100,000	0	0			
2010/2011	125,000	125,000	4,000,000	150,000	1,000,000	5,000		5,000	0	0	100,000	0	0			
2011/2012	125,000	125,000	3,600,000	150,000	1,000,000	5,000		5,000	0	0	100,000	0	0			
2012/2013	125,000	250,000	4,800,000	150,000	1,000,000	5,000		5,000	0	0	100,000	0	0			
2013/2014	500,000	500,000	5,200,000	150,000	1,000,000	5,000		5,000	0	0	100,000	0	0			

1. Excess = the part of each and every claim that is payable by the County Council

2. Aggregate Stop Loss = the aggregate total of policy excess payments made by the Council in any one insurance year

3. Liabilities includes Public/Products Liability, Employers Liability, Libel and Slander, Officials Indemnity, Professional Indemnity, Land Charges