

Agenda Item No.7 (c)

DERBYSHIRE COUNTY COUNCIL

CABINET

22 September 2015

Report of the Director of Finance

**INSURANCE FUND ACTUARIAL REVIEW JUNE 2015
(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

- 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. A mini refresher review of the fund was undertaken in 2013 with the last full assessment in 2011 by HJC Actuarial

Consulting Limited, which included an assessment of our optimum level of retained insurable risk.

This report contains the results of the latest full review.

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 2015.

The Council's insurance fund as at 31 March was £24 million.

The actuary recommends that the council should have a combined provision/reserve in a range of £22m to £27m. This assessment is based on information supplied up to 31 March 2015. This represents an increase of £2million required to meet forecasted liabilities. The recommendation includes an amount of £5m in respect of potential claw-back under the MMI (Municipal Mutual Insurance) Scheme of Arrangement.

Whilst there is the potential for a deficit between the estimated future claim payments and insurance fund/MMI provisions there are a number of reasons why the actuary feels this is not reason for concern.

- There is still uncertainty over the level of the MMI claw-back. The forecast allows for an ultimate total 75% clawback.
- A very cautious position has been taken in respect of potential pollution claims. This contributes £1.5m to forecasted outgoings. A project is currently being undertaken to ascertain the Council's risk exposure in this area which may reduce this figure.
- The Authority increased its insurance deductibles to £1million for property/liability policies and £500,000 for Motor policies at 1 May 2014 which increases the level of reserves required. Increased contributions into the fund have been allowed for to mitigate this.

Fund contributions 2015-16

The actuary has recommended a contribution rate of £3.2m for current and future underwriting years based upon the recently increased deductible levels.

Future Insurance Deductible Strategy

The increases in the Council's insurance policy deductibles were part of a four stage process set out in the Insurance Fund Actuarial Review in 2011. This process is intended to achieve an optimal level of self-insurance for the Council.

The recommended stages were:

- a. Increase Liability excess to £250,000 (aggregate retention £4m) - achieved May 2012.
- b. Increase Liability excess to £500,000 (aggregate retention £5m) - achieved May 2013.
- c. Increase Liability Excess to £1,000,000 (aggregate retention to £6m)
- d. Increase all excesses to £2,000,000 (aggregate retention across all classes £7.5m)

Stage c was achieved at 2014 renewal and the original goal for Stage d was April 2018. This strategy continues to be a recommendation in the latest Insurance Fund review with the goal date being moved to April 2019 to fall in line with the expiry dates of the current insurance policies.

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

1 September 2015

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	Included in the Aggregate Stop Loss applying to schools				0	0	0	100,000	0	0
1998/1999	125,000	125,000	1,200,000	100,000	500,000	5,000					5,000	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			Unlimited but £25,000 cap on each and every claim		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	100,000
2014/2015	1,000,000	1,000,000	6,388,000	1,000,000	1,750,000	1,000,000					1,000,000	Inc in Agg Stop loss applying to schools	1,000,000	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