

Insurance VFM Review

Executive Summary

Cherwell District Council

Timetable	Papers Finalised	Meeting Date
Project Sponsor	22 May 2009	N/A
CMT	Fri 29 May 2009	Wed 3 June 2009
Use of Resources	Thurs 11 June 2009	Mon 15 June 2009
Executive	23 September 2009	Mon 5 October 2009

Revision History		
Revision Date	Previous Revision Date	Summary of Changes
5 May 2009	28 April 2009	Conversion of project brief into summary findings, addition of benchmarking conclusions and recommendations
6 May 2009	5 May 2009	AD amendments
12 May 2009	6 May 2009	Amended table with policies, premiums and excess data.
22 May 2009	12 May 2009	Recommendations from project team and new Annex. Savings figure calculated. Additional data on comparisons used
9 June 2009	22 May 2009	Additional information from Insurers on savings. New information on costs
10 June 2009	9 June 2009	Feedback from CMT
3 Sept 2009	10 June 2009	Final savings figures from insurers

1. Value for Money Review of Insurance - Executive Summary

Introduction

Purpose of this report

- 1.1. This report details the findings of the VFM review of Insurance and makes recommendations for improving value for money.

Insurance; background

- 1.2. The Council purchases all its insurance cover from Zurich Municipal through a 5 year contract fixed for the first three years and negotiable in years 4 and 5. The contract ends in 2010/11 and so the opportunity exists to tender for a new contract from 2011/12.
- 1.3. Injury claims are always directed to the insurance company for decision with other claims handled by the Risk Management & Insurance Officer. These may also be passed to the Insurers/Loss Adjuster where necessary. An initial letter of repudiation is sent if liability is in doubt. Paperwork relating to repudiated claims is shredded after six months if the matter is not pursued.
- 1.4. All personal injury claims against the council must adhere to Woolf protocols in that a decision on liability must be made within 12 weeks of receiving relevant information.

Cherwell in context

- 1.5. Cherwell has seen its number of insurance claims reduce by 81.7% between 2003/04 and 2008/09 (202 claims to just 37). This can be attributed to reductions in its risk exposure from losing key functions (council housing, leisure centres) having fewer staff and vehicles, and through improved risk management. This is illustrated in Annex 1
- 1.6. In contrast insurance premiums have reduced by just 32.8% over the same period (£464,000 to £312,000). The cost of premiums for 2009/10 is £280,000, a reduction of 10.1% from 2008/09 (cumulative reduction of 39.6%).
- 1.7. Alongside the premium cost of £280,000 there are additional costs relating to engineering inspection (£3,100), hirers' liability (£1,000) and tenanted property insurance (£25,000), the latter two areas being recharged to end users.
- 1.8. Although claims are reducing overall, motor vehicle claims still attract relatively high levels of claim and cost; they make up 78% of total claims, 34% of total premiums and 86% of total claim payments.

Staffing

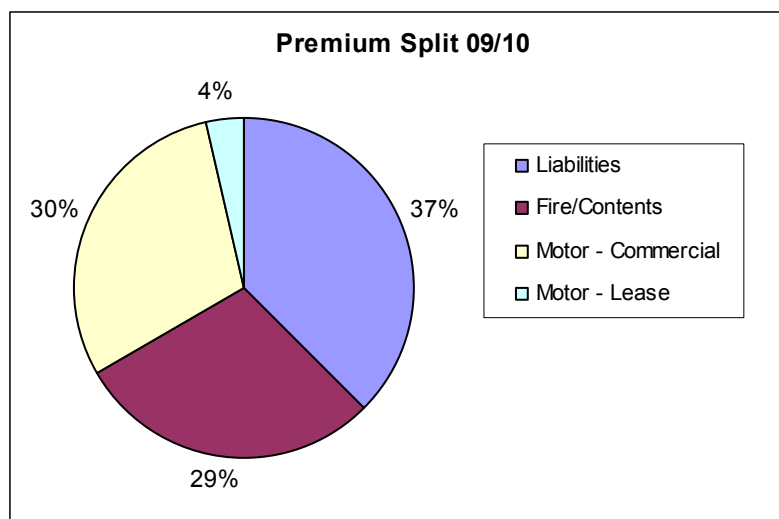
- 1.9. The Insurance function is located within the Exchequer Service. The service formerly operated with 1.4 FTE, comprising the Risk Management & Insurance Officer (RMIO) and a part-time administrative assistant, but has effectively operated with 1FTE for 12 months due to long term sickness. This reduction has been made permanent in 2009/10. The RMIO estimates she spends around 40% of her time on insurance matters.

Expenditure

- 1.10. The staffing budget for the function is as follows

	2008/09	2009/10
	Actual	Budget
Expenditure	£52,418	£46,244
Income	(£63,539)	(£46,242)
Net	(£11,120)	£2

- 1.11. The total premiums for 2009/10 are split as follows;



Findings from the Review

- 1.12. The review has used results from the 2008 CIPFA Insurance benchmarking club providing predominantly 2006/07 and 2007/08 comparative data. Direct contact was also made with seven other authorities, providing 2008/09 claims and 2009/10 premium comparisons.
- 1.13. Direct comparisons are difficult given the variance in service provision, type of buildings etc, but the evidence obtained is at least indicative of Cherwell's performance in comparison to the average authority.

VFM Conclusion

- 1.14. The overall conclusion of the review is that the function is **high cost**, has **average performance** in terms of its productivity, but is **high quality** in terms of the qualifications of staff employed and low level of payments made. Satisfaction has not been judged as part of this review.

Expenditure

- 1.15. Cherwell appears to spend around the average for its insurance cover overall;
- The average 2009/10 premium for those District Councils contacted was £284,000 per annum, slightly higher than Cherwell's premium of £280,000. However, this is not a comparable figure as it takes no account of individual authority circumstances (risk exposure or claims experience). Cherwell has the lowest level of public liability claims of the group.
 - Comparison of the costs of cover suggests Cherwell is often more expensive; the average insurance £% rate for buildings was 0.06%, compared to Cherwell's 0.08%; premium per vehicle (all types) was £850 compared to a benchmark average of £720. For commercial vehicles this is as high as £1,082 per vehicle for 2009/10, but as none of the local comparators uses their own freighters this cannot be compared.
 - In contrast, public liability premiums per head of population were £0.50 compared to a benchmark average of £1.00, and the premium rate per non-commercial vehicle was the 2nd cheapest at £366 per vehicle.

Staffing structure and productivity

- 1.16. Cherwell has highly qualified staff and a staffing level consistent with its claims experience;

- It is the council is the only council in the Oxfordshire area with a risk manager holding professional qualifications.
- It deals with fewer claims than benchmark authorities. For example, public liability claims were 0.7 per 1,000 population compared to the average of 2.9. Motor claims were 0.39 per vehicle per year (compared to the average of 0.51) and reduced in 2008/09 to just 0.25.
- Other District Councils have approximately 1 FTE working on insurance, though this activity is often combined with other roles. Cherwell has less staff directly employed on insurance (0.4FTE) and its FTE per 1,000 employees is lower than the benchmark average (0.7FTE compared to 1.7 FTE). This reflects the low level of claims experienced by the council.

Insurance cover and excess values

1.17. Cherwell has a high level of insurance cover and carries very little of the risk itself through policy excesses;

- Cherwell has 20 different insurance policies, with premiums ranging from £86,000 to just £52. The level of cover these provide ranges from £1m to £53.7m (terrorism). A full list of these policies and their premiums for 2009/10 is shown in Annex 2
- It has exceptionally low excess values on all insurance policies other than professional indemnity and fidelity guarantee. For example, the benchmark average excess for motor policies (all vehicles) is £38,000; Cherwell's highest motor excess is £500 (commercial vehicles). For 55% of policies it does not operate any excess.
- In 2008 Cherwell had the second highest level of cover for terrorism amongst benchmark authorities (£45m compared to an average of £11m) as the majority of its functions are delivered from a single high value property (Bodicote House). This cover increased in 2009/10 to £53.7m
- Cherwell has insured a fleet of 25 leased vehicles for staff at an annual cost of £9,290. New cars were being ordered for staff with a provision in their contractual terms and conditions as recently as June 2009. Latest indications show that the cost of cars has increased by 33% in a year.

Claims handling and self funding

1.18. Cherwell has a similar claims handling process to other authorities and does not self fund any claims, relying on insurers to fund any payments. Its unit cost of claims handling is high.

- The average benchmark cost of claims handling for 2007/08 was £307.70 per claim. Cherwell's cost per claim for 2008/09 was £567. This does not include the cost of dealing with repudiated claims which are estimated to be around one to two claims per week.
- A number of councils spread their insurance cover across more than one insurer, although the majority use Zurich Municipal for all of their cover.
- Most authorities contacted directly either send all claims to their insurers, or operate an initial 'sifting' similar to Cherwell. Amongst CIPFA benchmark authorities self funding of claims is more common practice, with 46.7% of benchmark authorities dealing directly with public liability claims over £5,000, and 33% with property claims. Cherwell currently does not settle any claims directly.
- Cherwell has a very low level of claim payments; the five year costs for claims are set out below. As a comparison the last five years costs for premiums were £1,735,000 in total

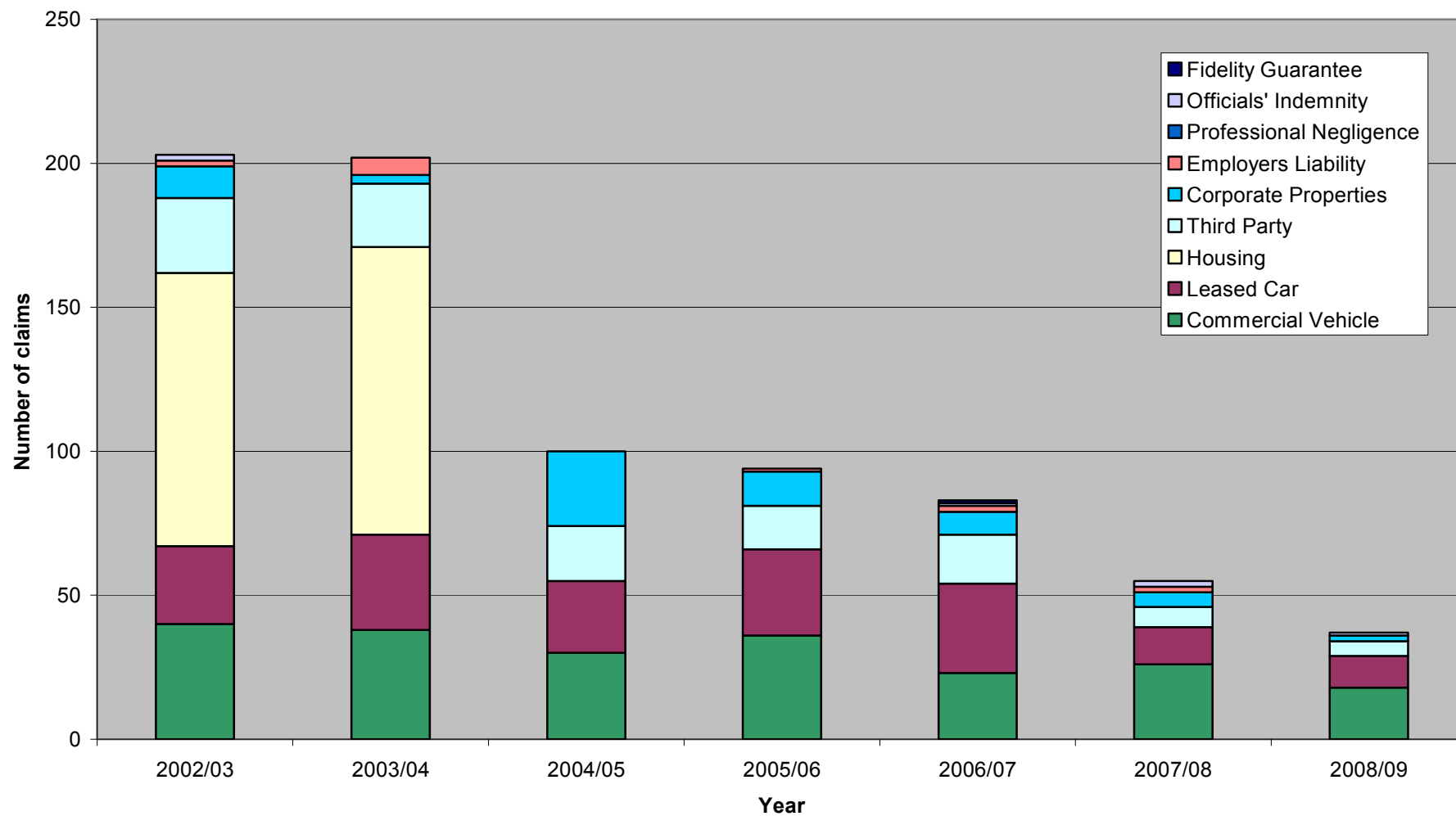
Public Liability	£232,000	2002/03 to 2006/07
General Property	£170,000	2003/04 to 2007/08
Motor	£277,000	2003/04 to 2007/08
	£679,000	

- The proportion of payments is also reducing. For 2008/09 the claims payments amounted to 23.5% of the total premiums paid
- Cherwell had an average number of claims it repudiates (55.6% in 2007/08). At present, only claims where the RMIO considers the council are liable are passed to the insurers for settlement.
- The average insurance fund reserve amongst comparators was £513,000. Cherwell make use of reserves to cover areas where insurance cover is problematic; £160,000 relating to Housing Stock transferred to Charter and £750,000 relating to flooding at Spiceball - a total of £910,000.

Recommendations for Improvement

- 1.19. It is proposed that to secure greater cost effectiveness the council shifts its emphasis from transferring the majority of its risk to an insurer, to self insuring a larger proportion of its risk given the very low of claims it currently experiences. In other words, the council should increase its risk 'appetite' to be commensurate with its low claims experience. This will involve:
 - Reducing areas of cover, and increasing excesses on policies so that a greater proportion of claims are determined or settled in-house rather than by insurers.
 - Injury claims continuing to be handled by insurers given the complexity, potential high cost and the expertise needed in determining settlement figures.
 - The provision of an internal insurance fund from reserves. Once Spiceball reconstruction is completed the need for a £750,000 provision for flood risk will be removed, which could be retained for this purpose.
- 1.20. For 2010/11 have a saving target of £65,813. Annex 3 sets out how this can be achieved.
- 1.21. Future savings from 2011/12 will be obtained through the procurement of a new insurance contract, the use of shared service/consortia arrangements with other local authorities to share costs, and the provision of insurance cover to parish councils.

Claims Experience by Policy



Insurance costs and cover

Policy	Sum insured	Excess	Statutory?	2009/10 Premium	Unit cost/ £%	Claims 2008/09	Cost (in year)
Commercial Fleet	N/A	£500	Yes	£85,921	£1,177	18	£55,279
Public Liability	£25m	£0	No	£54,439	0.38%	5	£33,047
Buildings / Contents	£43m + 15% sum insured	£250	No	£31,349	0.09%	2	£16,445
Employers Liability	£25m	£0	No	£30,944	0.22%	0	
"All Risks"	£4.3m	£250	No	£28,260	Flat	0	
Leased Car Fleet	N/A	£250	Yes	£9,150	£366	11	£7,892
Business Interruption Car Parks	£4.0m	£0	No	£3,671	0.10%	0	
Business Interruption All Premises	£5.5m	£0	No	£3,520	0.07%	0	
Terrorism	£53.7m	£0	No	£5,439	various	0	
Fidelity Guarantee	Various	£2,500	Yes	£5,229	0.04%	0	
Officials Indemnity	£3m	£0	No	£4,168	0.03%	1	£10,000
Land Charges	£1m	£0	No	£3,500	2.55%	0	
Theft	£5.6m	£250	No	£2,653	0.06%	0	
Computers	£1.4m	Variable	No	£2,608	various	0	
Professional Indemnity	£3m	Variable	No	£2,400	various	0	
Public Health Act	£3m	£0	No	£2,234	0.02%	0	
Works in Progress	£1.5m	As policy	No	£1,601	0.12%	0	
Libel & Slander	£1m	£0	No	£1,581	Flat	0	
Loss of non-negotiable money	£16,755,646	£0	No	£1,432	0.01%	0	
Engineering Insurance	N/A	£100	No	£52	Flat	0	
Total				£280,151		37	£73,171

Areas of potential saving

Policy	Risk Rating	Likely saving	Mechanism for achieving saving
Commercial Fleet	Medium – High	£4,316	Apply a higher excess of £10,000 to accidental damage to our vehicles but not to 3 rd party vehicles.
Leased Car Fleet	Medium	£9,800	Withdrawal of the Leased Car Scheme and subsequent removal of policy
Employers' Liability	Medium – High	£4,000	Apply an excess of £10,000 with stop loss cover. Considered a high risk as claims can arise many years after employment ends.
Public Liability	Medium – High	£6,000	Apply an excess of £10,000, and with £100,000 stop loss cover. Retain insurers for all injury claims.
Buildings / Contents	Medium – High	£6,000	Apply an excess of £25,000, and with £150,000 stop loss cover.
Terrorism	Low	£5,439	Self insure against this risk. Delete this policy
"All Risks"	Low	£18,687	Self-insure against this risk save for sports centre AstroTurf, which would have cover reduced to just fire cover (at a premium of £5,573)
Business Interruption (Car Parks)	Low	£3,671	Self insure against this risk. Delete this policy
Business Interruption (All Premises)	Medium	Nil	Not in the Council's interest to remove this cover due to the unpredictable nature of the risk and the potential for high losses
Fidelity Guarantee	Medium	Nil	Any possible savings would be negligible for a substantially higher excess
Officials' Indemnity	Medium	Nil	Any possible savings would be negligible for a substantially higher excess
Land Charges	Low	Nil	Not in the Council's interest to remove this cover due to long-tail reserves being required.
Theft	Medium	£2,653	Self insure against this risk. Delete this policy
Computers, laptops and computer suite	Medium – High	Nil	Not in the Council's interest to remove this cover due to potential loss of server room
Professional Indemnity	Medium	Nil	Not in the Council's interest to remove this cover due to the potential cost of claims. Outside bodies would expect/insist that cover was in place.

Annex 3

Policy	Risk Rating	Likely saving	Mechanism for achieving saving
Public Health Act.	Low	£2,234	Self insure against this risk. Delete this policy
Works in Progress	Medium	Nil	Not in the Council's interest to remove this cover due to the potential risk of loss.
Libel & Slander	Low	£1,581	Self insure against this risk. Delete this policy
Loss of non-negotiable money	Low	£1,432	Self insure against this risk. Delete this policy
Engineering Insurance	Low	Nil	Not in the Council's interest to remove this cover due to the potential cost of fragmentation and Third Party claims. Premium is very low (only £52).

Total	£65,813
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