

Insurance & Risk Management Update

SUMMARY

- 1.1 This report provides an overview of the key issues within the Insurance and Risk Management service

RECOMMENDATION

- 2.1 To note the continuing developments in the insurance and risk function.
- 2.2 To request an update on the Strategic Risk Register to the March 2015 meeting.
- 2.3 To request an update at each future meeting on progress being made on improving resilience within the function.

REASONS FOR RECOMMENDATION

- 3.1 The Audit and Accounts Committee is responsible for providing assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.

SUPPORTING INFORMATION

- 4.1 The Statement of Purpose in the Committee's Terms of Reference state that "The purpose of the Audit and Accounts Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the council's governance, risk management and control frameworks."

Measuring Effectiveness of risk management

- 4.2 At the meeting on 24 September 2014, Committee considered a report which identified example models to assess risk management performance of an organisation. Committee agreed that the "risk ladder model" was the most appropriate model for the Council. The Head of Governance and Assurance was asked to explore whether the risk ladder model would benefit from the inclusion of any elements of the private sector model. This assessment is currently on-going and will be reviewed by the Risk Management Board at its next meeting.

Risk Management Board

- 4.3 The Risk Management Board met on 13 October 2014. The Chair of Audit and Accounts Committee is now chairing this Board. The key actions to come out of this meeting were:
- a new terms of reference document was to be drafted
 - to work up the risk ladder model and get approval from Chief Officer Group
 - a future report to Audit and Accounts Committee is required to outline compliance with the Risk Management Framework. A quarterly review should then be carried out to monitor this.
 - Strategic risks need to be reported to Audit and Accounts Committee on a quarterly basis.
 - The valuations of Council properties on the declared property list sent to the Insurer need to be reviewed.
 - The risks around resilience within the Council need to be assessed
 - Resilience in terms of the insurance and risk management function needs to be reported to Audit and Accounts Committee.

Strategic Risk Register

- 4.4 The Strategic Risk register is an active document. It was last reviewed by Chief Officer Group (COG) on 20 August 2014. At that meeting, Chief Officers were also asked to consider the risks relating to their directorates. The Risk Management Board will be considering the individual risks on the strategic risk register at its next meeting and it will then be presented to COG to review and also to identify any new risks.

Self-Insurance

- 4.5 During the tendering for insurance services in 2012/13, the Strategic Director of Resources requested that a review be undertaken to look at the benefits of a move to greater self-insurance. The Chair of Audit and Accounts Committee has asked that the issues around self-insurance are explained to the Committee. At the current time the move towards a higher level of self-insurance is on hold.
- 4.6 Self-insurance is a term to cover a situation where the council decides to accept rather than to transfer the risk through the purchase of an insurance policy. This means that any losses that occur are settled in full by the council from an insurance provision. One of the main drivers in deciding whether or not to self-insure is "cost versus risk". An insurance company is in business to make a profit, and will therefore charge a premium that it considers will cover the cost of any claims that it is likely to have to pay during the period of insurance (particularly in relation to small predictable losses), plus an amount in respect of its profit and administration costs.
- 4.7 Instead of paying a premium to insure against these predictable losses, the council can instead use the money to pay for any loss settlements that may arise during the year. An additional benefit of this approach is that the council retains this money should any losses be less than anticipated unlike paying an insurance premium at the outset which is non refundable regardless of the loss experience. In contrast, larger infrequent losses are hard to predict and to avert, and it is therefore prudent to insure against this type of loss to avoid exposing the council to an unnecessary large financial loss. Even whilst insuring against these larger losses the council can still retain some of the risk and reduce the cost of insurance through taking a higher insurance deductible (excess) on each claim. Excesses on casualty claims (public liability and employer liability) and motor claims were increased at the last insurance tender exercise in March 2013.
- 4.8 A move towards greater self-insurance requires an insurance strategy to be put in place together with a framework to ensure that the council achieves the optimal balance between external insurance and self insurance. It will also require appropriate and robust arrangements for the handling of insurance claims and the calculation and maintenance of the insurance reserve.
- 4.9 The council will need to consider its appetite for risk, i.e. the amount of risk exposure or potential adverse impact (in this context cost, financial loss) from an event that the council is willing to accept. There are many factors that contribute towards establishing the council's risk appetite which fall into three broad areas, internal factors, external factors and risk ability.

Internal factors - These include reviewing how the council has approached taking risk in the past, through looking at earlier insurance programmes and the frequency and cost of claims arising

External Factors - Perhaps one of the biggest external factors that needs to be considered is the current state of the commercial insurance market and its competitiveness. Another external factor that needs to be considered is reputational issues, particularly following a high profile incident involving the council.

Risk ability – This is the financial capacity for assuming risk, in other words the current financial position of the council and more importantly the health of the insurance provision (reserves) from which any claims would need to be met.

- 4.10 For self-insurance to stand any chance of delivering benefits, the Council needs to understand the importance of aligning risk appetite and risk ability. The willingness to assume risk (risk-appetite) without the financial capacity to assume risk (risk ability) could result in a major financial pressure if the risk was to manifest itself.
- 4.11 There are many factors that determine whether its best to self insure (retain the risk) or to purchase insurance to protect the council against losses (transfer the risk), some of these factors are:
- The balance / health of the Insurance fund
 - Statutory requirements to insure
 - Robustness of the council's risk management arrangements
 - The cost of insurance versus the cost of claims (past and expected claims)
 - The condition of the insurance markets (hard market– expensive cover, more restrictive cover, soft market – cheap cover, more lenient underwriting standards)
 - Availability of cover from markets / alternative risk transfer options
 - The frequency and cost of claims
 - Analysis of risk exposures
 - Benchmarking and actuarial assessment data
- 4.12 At the current time the move towards a higher level of self-insurance is on hold. As stated in paragraph 4.9, the Council needs a substantial insurance fund to cover the payment of claims. The size of the insurance currently is insufficient to support an increase in the level of self-insurance.

Insurance statistics

- 4.13 It was agreed at the Committee's meeting in October 2012 that insurance statistics would be presented to members. This presents an opportunity for Committee to scrutinise insurance data for the Council and to review any potential risk areas identified in the data.
- 4.14 The report in Appendix 2 shows the number of claims, estimated values and the payments the Council has made for the 6 month period from 1 September 2013 to 28 February 2014. The report covers the 4 main insurance policy types. The appendix shows the level of potential funding that the Council contributes to insurance claims. It also illustrates a certain level of self-insurance on certain policy types i.e. public liability and employers liability which now both have a higher excess of £50,000 (from 1/4/13).

- 4.15 A successful claim against the Council could be described as a risk that has manifested itself. It could also be down to a mistake by the Council. By reviewing historical insurance data, we can identify issues and then put in place the necessary actions to prevent the risks and mistakes from re-occurring. The analysis of insurance data can also highlight issues where inadequate departmental responses within the claims process have resulted in increased delays and costs. On a more corporate level we can use the data to identify trends in an attempt to reduce either the number, or impact, of future claims.

Resilience in the Insurance and Risk Management team

- 4.16 The Insurance and Risk Management service is managed by the Head of Governance and Assurance. The current staffing is 1fte. In 2010/11 the establishment was 2.8 fte. The reduction was due to voluntary redundancies in March 2011. The recent insurance review project looked at the efficiency of the section's current processes.
- 4.17 The Chair of Committee identified resilience in the Insurance and Risk Management function as one of the key areas for the Committee's work programme for 2014/15. The Director of Legal & Democratic Services and the Head of Governance & Assurance are reviewing the resilience issues and will draw up proposals to address them.
- 4.18 There is a need to look at the claims system (LACHS) that the section currently uses to see if a web based version would be more efficient.
- 4.19 Links are being made with Leicester City Council on insurance and risk management. The aim is to explore the possibility that Leicester could provide short term support to our insurance function to cover periods of absence.

OTHER OPTIONS CONSIDERED

5.1 N/A

This report has been approved by the following officers:

Legal officer	n/a
Financial officer	n/a
Human Resources officer	n/a
Estates/Property officer	n/a
Service Director(s)	n/a
Other(s)	Chief Officer Group

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Insurance Statistics

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IMPLICATIONS

Financial and Value for Money

- 1.1 None directly arising.

Legal

- 2.1 None directly arising

Personnel

- 3.1 None directly arising

IT

- 4.1 None directly arising

Equalities Impact

- 5.1 None directly arising

Health and Safety

- 6.1 None directly arising

Environmental Sustainability

- 7.1 None directly arising

Property and Asset Management

- 8.1 None directly arising

Risk Management

- 9.1 Risks are monitored through the strategic risk register and departmental risk registers.

Corporate objectives and priorities for change

- 10.1 The functions of the Committee have been established to support delivery of corporate objectives by enhancing scrutiny of various aspects of the Council's controls and governance arrangements.

Insurance Statistics – 1 March 2014 to 30 September 2014

The tables below show the number of claims for the 4 main policy categories of insurance. The level of funding required from the Council depends on the level of excess in place for each category of insurance.

Public Liability:

Month	Number of Claims	Number Repudiated	Number Settled	Total Value of Claims	Insurance Company Funded	DCC Funded	Directorate Funded	Payments made
				£	£	£	£	£
Mar 14	31	2	0	262,295.12	142,500.00	108,040.00	11,755.12	0.00
Apr 14	11	1	0	30,920.00	0.00	27,750.00	3,170.00	0.00
May 14	12	2	0	28,754.73	0.00	24,835.00	3,919.73	0.00
June 14	20	0	0	219,624.00	38,058.00	172,464.00	9,102.00	0.00
July 14	14	0	0	58,490.96	0.00	52,484.00	6,006.96	0.00
Aug 14	14	0	0	39,700.00	0.00	33,977.00	5,723.00	0.00
Sept 14	9	0	0	42,453.36	0.00	38,873.36	3,580.00	0.00
Total	111	5	0	682,238.17	180,558.00	458,423.36	43,256.81	0.00

Employers Liability:

Month	Number of Claims	Number Repudiated	Number Settled	Total Value of Claims	Insurance Company Funded	DCC Funded	Directorate Funded	Payments made
				£	£	£	£	£
Mar 14	3	1	0	20,118.00	0.00	20,118.00	0.00	0.00
Apr 14	3	0	0	33,000.00	0.00	33,000.00	0.00	0.00
May 14	2	1	0	10,000.00	0.00	10,000.00	0.00	0.00
June 14	4	0	0	36,793.00	0.00	36,793.00	0.00	0.00
July 14	3	0	0	166,517.00	0.00	166,517.00	0.00	0.00
Aug 14	0	0	0	0.00	0.00	0.00	0.00	0.00
Sept 14	2	0	0	13,267.00	0.00	13,267.00	0.00	0.00
Total	17	2	0	279,695.00	0.00	279,695.00	0.00	0.00

Property:

Month	Number of Claims	Number Repudiated	Number Settled	Total Value of Claims	Insurance Company Funded	DCC Funded	Directorate Funded	Payments made
				£	£	£	£	£
Mar 14	3	0	0	5,501,500.00	5,500,300.00	0.00	1,200.00	0.00
Apr 14	10	0	2	20,319.60	18,619.60	0.00	1,700.00	2,590.40
May 14	2	0	0	2,700.00	2,400.00	0.00	300.00	0.00
June 14	6	0	0	11,120.00	10,120.00	0.00	1,000.00	611.23
July 14	5	0	0	11,900.00	10,900.00	0.00	1,000.00	0.00
Aug 14	0	0	0	0	0	0	0	0
Sept 14	0	0	0	0	0	0	0	0
Total	26	0	2	5,547,539.60	5,542,339.60	0.00	5,200.00	3,201.63

Motor:

Month	Number of Claims	Number Repudiated	Number Settled	Total Value of Claims	Insurance Company Funded	DCC Funded	Directorate Funded	Payments made
				£	£	£	£	£
Mar 14	7	1	3	37,000.00	5,000.00	32,000.00	0.00	0.00
Apr 14	2	0	0	1,000.00	0.00	1,000.00	0.00	0.00
May 14	13	0	3	9,493.95	0.00	9,493.95	0.00	3,017.79
June 14	3	0	0	7,000.00	0.00	7,000.00	0.00	2,784.36
July 14	5	0	1	8,777.00	850.00	7,777.00	150.00	0.00
Aug 14	5	1	0	1,400.00	0.00	1,400.00	0.00	0.00
Sept 14	5	0	0	9,966.23	0.00	9,966.23	0.00	0.00
Total	40	2	7	74,637.18	5,850.00	68,637.18	150.00	5,802.15