



CORPORATE GOVERNANCE COMMITTEE
22 SEPTEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INSURANCE SERVICE – ANNUAL REPORT 2022-23

Purpose

1. To provide the Corporate Governance Committee (the Committee) with the inaugural annual report on work conducted by the Insurance Service (the Service).

Background

2. Within Leicestershire County Council's (the Council's) Constitution Financial Procedure Rules, rule 31 states that the Chief Financial Officer (CFO) will be responsible for arranging or amending insurance cover. This will be in accordance with policies laid down by the Executive.
3. Standard Financial Instruction 18 (Insurance of Risks) stipulates arrangements for: -
 - a. advising the Executive at key stages in the process of any litigation or disputes resolution where the Council is at risk of paying significant damages or costs;
 - b. notifying the CFO immediately any fire, loss, liability or damage, or any event likely to lead to a claim;
 - c. obtaining prior approval from the CFO and the Director of Law and Governance to the terms of any indemnity which the Council is requested to give;
 - d. allowing that a chief officer may arrange to provide insurance cover against risks not normally covered by the County Council as a whole but such cover must be arranged via the CFO.

5. The Council's insurance programme runs from 1 October to 30 September. The current (2022-23) programme was arranged in September 2022 in conjunction with the Council's appointed Insurance Brokers, which at the time was Aon UK Ltd. The option was taken to extend the contracts provided by long term insurers Risk Management Partners (RMP) with liability and motor risks underwritten by QBE and property risks underwritten by American International Group (AIG). The Council has to re-procure for its main insurance programme in 2024 so this exercise will begin shortly after this year's renewal (autumn).
6. The Service directly employs 7 staff (5.6 fte). It not only arranges insurance cover and handles claims for the Council's own array of services, but also for ESPO, the East Midlands Freeport and maintained schools (it receives income from arranging school trip and staff absence covers). The Service also receives income from administering the Leicestershire Academies Insurance Scheme (LAIS) for academy trusts, predominantly those located within the Leicestershire boundary but for some others located in Nottinghamshire and Derbyshire and Leicester City. Zurich Municipal are the current insurers for LAIS and were awarded the contract from September 2020. The contract has just been extended and there are further options to run to August 2026.

Work undertaken during 2022-23

Insurance Broker Re-Procurement

7. The previous five year contract to provide insurance brokerage ended on 31 January 2023. Officers within the Service worked with the Council's procurement experts to utilise a Yorkshire Purchasing Organisation (YPO) framework via ESPO and re-designed and modernised the detailed request for tender information.
8. Three firms applied, Marsh Limited was successful and appointed from 1 February 2023. The contract is for a period of 12 months, with options to extend for a further 3 years in annual increments. The contract is deliberately short since as mentioned earlier the Council has no option but to re-procure its main insurance programme in 2024 and so there may be alternative brokerage options available.
9. Marsh Limited has been very proactive since its appointment, examples being: -
 - a. Conducting a review of the Council's, ESPO's, LAIS' and other smaller policies to ensure that the main sums insured, limits and deductibles are appropriate. No major issues were identified but Marsh is negotiating with the insurer whether some areas of cover can be added at renewal including external claims cost support to the Council independent of a Loss Adjuster which

some insurers provide as standard. This exercise will also be useful for re-procurement in 2024.

- b. Planned, organised, and ran the revised procurement for engineering inspection services (lifts, stairlifts and plant equipment) and led on the evaluation of three tenders.
10. Representatives from Marsh Limited will provide a short presentation at the Committee meeting.

'Total Cost of Risk' Exercise

11. Potential losses are covered by a combination of self-insurance and a range of policies held with insurance companies. The process to identify the level of self-insured retention against the insurance required is based on several factors. These include the reduction in premium (including associated premium tax currently 12%) to be achieved by altering the excess levels weighed up against the Council's ability to meet an increased exposure, for example by way of a spike in claims received due to external factors like the weather and for one-off large losses. 'Aggregate stop limits' are in place which cap the potential exposure to the Council on an annual basis by reducing the self-insured retention levels (excess) significantly once the limit has been breached.
12. Using information provided to them on claims, premiums, and claims handling costs (incurred by the Service, the Council's legal team and external solicitors), the Council's insurers RMP undertook (at no additional fee) a review of the current programme including the types and levels of cover and self-insured retention (SIR) limits. The intention was for RMP to assess past and present claims levels assisting the Service to judge not just the insurance approach but the level to contribute to reserves for claims incurred but not reported. RMP aimed to present its view on what would be a sensible programme, but it was clear that it would be for the Council and its broker to decide any changes. It was clear that it wasn't conducting an actuarial valuation.
13. RMP presented very positive findings to the Service and its broker Marsh Limited on 20 March 2023, including: -

Liability

- a. There had been no claims above self-insured retention values for over 10 years i.e. no high value claims where the insurer took on any financial liability potentially keeping premiums lower
- b. Claims were well clear of the aggregate stop loss i.e. the cumulative value of claims didn't trigger insurers getting involved
- c. Whilst there had been an upward trend in claims this wasn't a worry to RMP

- d. RMP indicated the Service had a very good understanding of claims patterns and was making prudent reserves when claims were received.
- e. Repudiation of highways claims was 93%, possibly the highest RMP had seen and reflected the Service's strong evidence of rigour in assessing and defending claims.
- f. RMP stated that there was a very sensible pragmatic approach to risk financing. SIR history had allowed premiums to be maintained and even reduced. The risk financing approach was 'commended'.
- g. RMP saw no advantage to fully externalising claims handling as there would likely be greater costs and little merit in increasing the SIR given current premiums and the Council's claims profile.

Property & Motor

- h. RMP saw property performance as more straight forward with only 10 claims over last 10 years most claims fell within SIR. Again the performance was deemed to be good. RMP warned about high inflation rebuilding costs.
 - i. For motor there was little by way of SIR. Given the loss ratios RMP suggested it represented very good value although it commented that the loss ratio is perhaps higher than should be prompting some further risk mitigations.
14. Looking forward RMP thought that as things stood at present it didn't see how the next 10 years would differ greatly. It advised to review again every 3 years in case claims data changed.
15. Because RMP was not an actuary, and its review had been undertaken for no additional fee, it was considered prudent to obtain an alternative opinion by commissioning a comprehensive actuarial review of the Council's two in-house insurance funds to ensure that they are adequately provisioned to meet present and future liabilities and obtain advice regarding future options available to reduce or control the external costs of its insurance programme.

Actuarial Review

16. Assessing liability claim levels is difficult. Due to the nature of claims that the Council receives, some claims will have been incurred but not reported within the financial year of the incident. A number of years can elapse before a liability claim is concluded. Two earmarked funds (reserves) are held to allow for years of exceptionally high claims, both in terms of volume and value, to be covered without detriment on the annual revenue budget. In addition, provisions are held for claims received that are awaiting settlement, the level being based on an assessment of the likely liability. As at 31 March 2022, the total amount reported in the County Council's financial statements was £17.9m.

17. The funds are subject to an annual internal assessment to ensure that they are maintained at suitable levels in order to meet ongoing financial commitments. However, an external, independent actuarial valuation was last undertaken in 2015. Given the value of the funds and the time elapsed, it was considered prudent for a revised actuarial valuation to be undertaken.
18. A revised detailed specification explained that the Council wished to commission a comprehensive actuarial review of its in-house Liability Insurance Fund and Uninsured Loss Fund as at 1st October 2022 to ensure that they are adequately provisioned to meet present and future liabilities including the levy's imposed under the Municipal Mutual Insurance Co. Ltd. (MMI) scheme of arrangement (see below) and the uninsured liabilities arising from the period of cover with Independent Insurance Co. Ltd. (Independent). In addition, the Council wished to obtain advice regarding future options available to reduce or control the external costs of its insurance programme by retaining a higher level of risk in-house and advice on the resulting effect that this will have on the Fund. It was specified that the review should be compliant with the relevant Technical Actuarial Standards as adopted by the Financial Reporting Council.
19. Following some soft market analysis, the procurement option to seek to obtain a minimum of 3 written quotations was chosen. Three national brokers were contacted and Gallaghers (Arthur J Gallaghers Insurance Brokers Ltd) was chosen to undertake the exercise.
20. An array of information was provided and clarifications sought. Gallaghers has produced a draft report with recommendations but the Service is currently following up on some final matters and then options will be discussed with the Director of Corporate Resources and the Assistant Director Finance, Strategic Property and Commissioning, to determine the appropriate level of reserve to be held going forward.

Municipal Mutual Insurance Ltd

21. Municipal Mutual Insurance Limited (MMI), the Authority's insurer between November 1969 and October 1992, ceased writing insurance business owing to financial difficulties in September 1992. MMI became subject to a Scheme of Arrangement which was triggered in November 2012.
22. Once the scheme was triggered, the Scheme Administrator reviewed the assets and liabilities of MMI in order to determine whether a Levy on Scheme Creditors was required. Based on an actuarial review by KPMG an initial 15% levy was required to achieve a projected solvent run-off. MMI has collected the original 15% levy (set in January 2014) and the additional 10% levy in April 2016. As a result, the Council (as a member of the Scheme of Arrangement) is now self-insured to the extent of 25% of any future claim payments.

23. In January 2023, the Service's Technical Underwriting Manager Service attended a webinar ran by the independent broker Gallaghers' on the results of its annual review of the scheme administrators report, Within the 2021/2022 accounts, the scheme administrator indicated a profit of £nil for the company in the past year (2020/2021 profit was £nil). Grant Thornton remained as external auditors. Some of the key comments outlined in the scheme administrator's strategic review were:
- a. The current accumulated loss on the balance sheet was £nil as it was in 2020/1.
 - b. There had been a decline in the market value of MMI's investment portfolio, driven by rising interest rates and the war in Ukraine.
 - c. The gross reserves for claims had reduced by slightly more than expected during the year, resulting in a release to profit.
 - d. There had been reductions in both the number of outstanding claims and the number of new claims reported in a year.
 - e. No further increases to the levy (from 25%) were currently anticipated. However, as always this was caveated with, 'Due to the latent nature of some claims, MMI's independent actuaries (KPMG) projections are subject to substantial uncertainty and it is not possible to guarantee that the total levy percentage of 25% will remain sufficient'.
24. The position is kept under review especially in terms of the aforementioned Uninsured Loss Fund (paragraph 18).

Claims handling

25. The Insurance Service employs experienced claims negotiators who handle all liability claims brought against Leicestershire County Council up to the delegated authority limits as agreed with the insurer.
26. The claims handling delegated authority extends to full 'cradle to grave' claims handling of public and employers liability claims. This includes investigation, determining legal liability and repudiation or settlement of the claim as appropriate. The Council's claims team, its Legal Services team, external solicitors and other approved experts, work in partnership to defend litigated claims.
27. **Appendix 1** provides information on Council claims over the last year. From the information provided key points to note are highlighted: -
- A. Over the year new claims (especially public liability – highways) peak in the winter (Q4) and tail off over summer (Q2 and Q3)
 - B. Total claims open is fairly even across the year
 - C. Only a small number of claims are closed with a payment to a claimant

- D. Repudiation percentage is high most often 90%+. This reflects the Service's rigour in assessing and defending claims

Mitigating risks

28. Whilst its core business is arranging appropriate cover and defending claims, the Service has a key role to play in advising departments on mitigating risks in their service provision. The results of the 2022 Corporate Services Satisfaction Survey returned some very positive scores for the Service as follows: -

Type of support	Very satisfied (%)	Somewhat satisfied (%)
Advising on insurance issues	78	22
Knowledge of staff	81	19
Helpfulness of staff	81	19
Responsiveness	72	28
Quality of support/output provided	75	25
Communication	78	22
Overall experience last 12 months	67	33

29. Some examples of advice and interaction assisting risk mitigation are shown in **Appendix 2**.

Resource Implications

30. The work of the Insurance Service helps to protect the Council's assets (and the public purse) by determining an appropriate mix of risk financing methods, defending claims against the Council, and assisting departments with their service risk mitigations.

Equality Implications

31. There are **no specific** equality and human rights implications contained within the annual summary of work undertaken.

Human Rights Implications

32. There are no human rights implications arising from this report.

Recommendations

33. That the Committee **notes** the Insurance Service annual report for 2022-23.

Background Papers

The Constitution of Leicestershire County Council

Circulation under the Local Issues Alert Procedure

None

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