Corporate Insurance

Strategy

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Version 1.6 : September 2011
A risk and insurance strategy is a new innovation and will help out stakeholders understand our corporate governance and strategy to this key business area. We hope also it will aid the insurance market to give us better VFM cover by increasing transparency across our key objectives, processes and finance.

Signed

Councilor Paul McGlone
Cabinet Member for Finance

and

Mike Suarez
Executive Director of Finance and Resources
Summary

This strategy outlines the Council’s overall approach to risk retention and transfer including the procurement of corporate insurance cover through relevant policies of insurance. This strategy enhances the Council’s ability to:

- Maintain an optimum balance between internal 'self insurance' and the procurement of external insurance.
- Safeguard the Council’s assets and protect the Council’s reputation.
- Maintain an adequate insurance reserve - ‘insurance fund’ to meet potential and contingent liabilities.
- Proactively manage and investigate insurance claims including appropriate mechanisms for the detection and prevention of fraud and claim settlements.

In compiling this strategy reference has been made to the CIPFA guidance note on local authority reserves and balances ‘LAAP bulletin 77 – November 2008’. In line with the recommendations contained within the CIPFA guidance note this strategy sets out clear protocols for:

- The reason for / purpose of the insurance reserve
- How and when the reserve can be used
- Procedures for the reserve’s management and control
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy
Our position to date

Prior to 1992 Lambeth like the majority of other local authorities was insured with Municipal Mutual Insurance (MMI) for all of its corporate insurance requirements such as employers and public liability and property insurance. Insurance cover during this period was ‘ground up’ meaning that there was no (or very minimal) policy excess with all claims incurred being paid by MMI.

Following the demise of MMI in 1992 the council subsequently insured through Zurich Municipal and found itself going overnight from ‘ground up’ cover to having a policy excess of £100,000 introduced on all employers and liability claim settlements. This meant that for the first time the council had to set aside an insurance reserve in order to meet the cost of the then current and future claims falling under the insurance policy excess.

In 1998 the council re-tendered all of its corporate insurance contracts awarding the liability insurance contracts to American Re-insurance through Risk Management Partners (RMP) with the property insurance contracts being retained by Zurich Municipal. This position continued until 2007 despite periodic re-tendering exercises, as there was little appetite from the commercial insurance market for local authority insurance, in particular property insurance.

In 2008 Lambeth in partnership with nine other London borough’s created the London Authorities Mutual Limited (LAML), a mutual insurer that we used to place our corporate insurance contracts through.

Unfortunately the creation of LAML was subsequently challenged by a commercial insurer and following a court of appeal ruling in 2009 the council’s participation in LAML was deemed ultra vires.

Following the court of appeal ruling some of the ex LAML members subsequently formed the Insurance London Consortium (ILC) and went on to procure cost effective insurance cover. Lambeth is currently insured with Zurich Municipal through the ILC until March 2012.
The Commercial insurance market is a multi billion pound worldwide market offering insurance as a mechanism for transferring risks to the insurer for a financial consideration (the premium). The broad principal of insurance is that the premiums collected from many policyholders pay for the claims of a few, whilst still allowing the insurer to meet their overheads, pay dividends to shareholders, purchase re-insurance to protect themselves against catastrophic losses and to build up their reserves.

Although certain types of insurance are compulsory for most organisations, those insurances are not compulsory for local authorities such as Lambeth, due the “public body” exemptions of the Employers Liability Insurance Act 1969 and the Road Traffic Acts 1988. In reality however over the years most public sector organisations including Lambeth, have chosen to purchase these insurances in order to transfer the risk.

Under the Local Government Act 1972 local authorities are required to “take such security” to account for all money and property entrusted to or under the control of all employees. The requirement under this Act has traditionally been met by the council through taking out Fidelity Guarantee Insurance to protect the council in the event of a financial loss arising out of the fraud or dishonesty of its employees.

There are also other statutory requirements under various Health & Safety Acts (Lifting Operations and Lifting Equipment Regulations 1998 and The Pressure Equipment Regulations 1998) to have pressure plant (boilers) and lifting equipment (lifts) regularly inspected by a qualified person. These inspections are included as part of the engineering insurance policy that is purchased by the council.
Insurance Premium Tax (IPT) was introduced by the UK government in 1994, and means that all insurance premiums are subject to the tax which was originally set at 5% and was increased to its current rate of 6% from 4th January 2011.

Historically the council has purchased a wide range of insurance policies to protect its assets (people, property, money etc). There has been a gradual move over the years towards more self insurance as a result of improved insurance reserves, better risk management and a gradual hardening of the external insurance markets causing premiums to increase and more restrictions being placed on the cover available.

The commercial insurance market for the public sector has for many years been very restricted with local authorities typically perceived by insurers as ‘bad’ risks. There were only a handful of insurers that were willing to underwrite local authority business, particularly property risks such as housing stock and schools, and policy excesses under such policies were often quite high. Those insurers that did respond to tenders often did so with high premiums, restrictions on cover and a general inflexibility on policy wordings and claims handling to the detriment of the council.

Frustrated by the restricted insurance market, many public sector organisations have over the years sought to stimulate the market and attract new insurers often with little success. This eventually led to a number of alternative risk transfer options being developed by some, including the creation of a mutual insurer (LAML) by London borough’s in 2007. Following the LAML Court of Appeal judgement there has been amendments to existing legislation that once enacted will provide councils with the power to establish and partake in mutual insurance arrangements which will once again pave the way for public sector organisations to further consider alternative risk transfer options.

In the interim there has been a softening of the commercial insurance market for the public sector which has led to lower insurance premiums and greater flexibility on terms, policy wordings and claims handling. The insurance market is typically cyclical in nature and it remains to be seen how long the current soft market lasts, and the impact of the new powers outlined above.
Strategic Vision

Vision Statement

| To ensure that appropriate insurance arrangements are in place to protect the council’s assets and potential liabilities. |

By following the approach to corporate insurance set out in this strategy, the Council seeks to minimize its exposure to catastrophic losses and to those risks that might affect the delivery of its corporate objectives.

The key benefits of our approach to corporate insurance will be:

- Reduce the cost of external insurance premium spend
- Enhance the attractiveness of the council’s risk profile to underwriters
- Protect the council’s assets (people & property)
- Incentivise departments and schools to manage risk
- Ensure the insurance fund is maintained at an appropriate level
- Robust claims handling arrangements and insurance fraud detection
- Greater control of costs – demonstrating value for money
- Provide transparency in relation to insurance premium recharges
- Maintain an appropriate balance between external insurance and internal risk retention
- Protect the reputation of the Council
Strategic aims

This corporate insurance strategy provides the framework to ensure that the council has in place an optimal balance between external insurance and self insurance and that appropriate and robust arrangements are in place for the handling of insurance claims and the calculation and maintenance of the insurance reserve.

The key strategic elements of this strategy are set out in detail within the remainder of this document, they are:

**Strategic aim 1:** To maintain an adequate insurance reserve to meet potential and contingent liabilities and to support the council’s insurance programme.

**Strategic aim 2:** To maintain an insurance programme that provides the optimal balance between insurance and risk retention.

**Strategic aim 3:** To maintain appropriate operational policies for the handling of insurance claims, recharging to services and presentation of risks to insurers.
**Corporate Insurance objectives**

The objectives of Lambeth’s corporate insurance strategy are to:

1. Maintain an optimum balance between self insurance and external insurance.

2. To ensure that the council is adequately protected against catastrophic losses.

3. Limit the financial exposure of the council to the cumulative effect of multiple small losses.

4. Comply with any statutory requirements to have in place particular policies of insurance and associated inspection systems.

5. Procure appropriate policies of insurance through appropriate risk transfer arrangements.

6. Protect the insurance fund through the proactive management, investigation and appropriate settlement of insurance claims.

7. Provide a framework, procedures, tools, training and guidance to enable the detection and prevention of insurance fraud.

8. Ensure that the insurance fund is maintained at an adequate level to meet any claims and pre-fund liabilities that it is required to pay, and in accordance with the relevant CIPFA guidance note.

9. Establish mechanisms for the recording of underwriting and claims data and for effective premium re-charging and to incentivise good risk management.
How these objectives will be achieved

These objectives will be achieved by:

1. Undertaking periodic reviews of self-insurance levels and comparing to current commercial insurance market conditions (hard / soft markets, cost of risk transfer).

2. Using Expected Maximum Losses (EML) surveys, claims risk modelling and other risk assessments to determine catastrophic risk exposures.

3. Using claims experience and regular reporting of claims trends to provide opportunities for improved risk management across the Council and its strategic partners.

4. Monitoring insurance arrangements on an on-going basis including undertaking suitable and appropriate assessments on the financial strength of insurers (FSA returns, Standard & Poor ratings) and changes in legislation, civil justice protocols and relevant case law.

5. Purchasing of relevant insurance policies through the Insurance London Consortium and insurance brokers including measuring our insurance programme (limits & deductibles etc) through benchmarking.

6. Maintaining claims handling protocols that are in line with statutory requirements and ensuring claims handling staff receive appropriate and updated training.

7. Promoting the council's insurance anti-fraud strategy and identifying new opportunities for the identification of fraud and sharing of claims data.

8. Undertaking actuarial fund reviews on a periodic basis and informing a medium term financial strategy to ensure the fund is maintained at the target level.

9. Having in place a formal claims reserving policy and regularly reviewing any over or under reserving trends identified from claims data. Making insurance guidance, training and support available to departments, schools and partners to assist them in managing risks.
Insured risks

Organisations such as the council face a wide variety of risks and purchasing insurance cover to protect against all of these risks is neither the most viable nor practical way to address their potential for causing harm to the organisation.

Some risks are not able to be insured against, however if the council were to insure against most of the risks that it faced then this would incur a significant amount of annual expenditure in insurance premiums which would not prove to be cost effective. In addition the council would be seen as being a risk averse organization, wanting to transfer as much risk as possible rather than accepting and managing some risks through good risk management. Being perceived as risk averse would limit the opportunities available to the council in the commercial insurance market with insurance underwriters perhaps placing restrictions on cover, introducing premium loadings or not willing to underwrite the business at all.

Many of the risks that the council face can be managed and/or reduced through proactive risk management, and the council has in place a corporate risk management strategy and framework that ensures that the mechanisms and tools are in place for risks to be identified, owned, treated and managed.

Having in place strong and embedded risk management arrangements across the council allows us to retain some risks either by deciding to self insure these risks in their entirety or by purchasing insurance cover for losses that arise over a certain value (catastrophe cover). Adopting this approach makes the council more attractive to insurance underwriters opening up more opportunities for cost effective insurance cover.
There are many factors that determine whether it’s 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

A schedule of insurances (attached at Appendix 1) has been produced which details current risks and whether the council has chosen to insure against these risks by way of an external policy of insurance or through self insurance.

See Appendix 1 for schedule of insurances

Retained risks – self insured

There are some risks that have been evaluated as being more cost effective to retain and self-insure rather than to purchase insurance cover for. The ‘rationale’ column on the schedule of insurance at Appendix 1 provides some detail as to why the council has decided to retain risks or not.

When self-insuring risks can either be retained entirely, or part of the risk can be retained and the remainder insured, i.e. through having a high policy excess (deductible) or by choosing to only insure against specific risks. When setting our insurance program we use a mixture of all of these to ensure that value for money is achieved.
The following is an overview of our current rationale for retaining risk or taking out external insurance:

**Property risks**
The council owns a substantive property portfolio including office accommodation, housing stock, schools, libraries, commercial properties etc. Individual property values (rebuilding costs) can be significant, reaching into the high tens of millions for some buildings. Property damage incidents are low in frequency and tend to be low in value such as minor flood or fire damage. The potential exists however for an occasional high value property damage claim such as a major fire in an individual building or earthquake damage affecting many buildings.

For this reason we take out an ‘all risks’ type insurance on our property risks but with a high policy deductible, meaning that we self-insure against the frequent low value risks, but have catastrophe protection in place to protect against the occasional large loss.

**Liability risks**
There are a number of liability risks that the council faces such as claims for negligence made against us by customers, residents and employees. In relation to public liability claims the risk exposure is wide given the diverse nature of the council. These types of claims tend to be high in volume and can be high in value depending upon the nature of the claim such as injury. Employee claims tend to be low in volume and low to medium in value, however an occasional serious injury or disease claim can result in a high value claim.

We take out insurance to protect against the occasional high value claims and the risk associated with aggregated claims costs whilst keeping premium costs down by having a high policy deductible.
Insurance policies & procurement

For those risks that the council has decided to insurance against, insurance policies have been purchased in accordance with the council’s procurement guidance. Due to the aggregated value of the insurance contracts, all insurance procurement complies with the relevant EU procurement rules.

In order to obtain some consistency, stability and to maximise value for money, previous insurance contracts have been procured on a five year term (3 plus a 2 year extension option). Following the demise of LAML the council’s main liability and property contracts have currently been procured on a two year basis through the Insurance London Consortium, however a strategy is currently being drawn up to deal with the procurement strategy beyond this period.

When tendering for insurance contracts the council has traditionally used an insurance broker to ensure maximum market penetration and to access those insurers that will only write business via a broker. The council currently retains Jardine Lloyd Thompson as its insurance broker whilst the Insurance London Consortium has procured the services of Oxygen as the broker for the placement of the consortiums cover.

The main aim when procuring an external insurance policy is to obtain the broadest cover at the most economically advantageous terms available.

Copies of all insurance documentation are retained indefinitely by the Risk & Insurance section, more recently actual policy documentation is received and stored electronically.
Insurance Provisions and reserves

Strategic aim 1: To maintain an adequate insurance reserve to meet potential and contingent liabilities and to support the council’s insurance programme.

The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated expenditure when calculating the budget requirement.

When reviewing medium term financial plans and preparing annual budgets local authorities need to consider the establishment and maintenance of reserves which can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing – this forms part of general reserves.

- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.

- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

Prior to 1992 when the council was insured through Municipal Mutual Insurance (MMI), the council had no need to maintain an insurance reserve as all insurance claims were paid in full by MMI as the policies had no deductible or excess.
Following the collapse of MMI in 1992 the council could only obtain insurance coverage, particularly public and employers liability insurance, with a high deductible, i.e. an amount the council has to pay on each claim before the insurer will pay the rest of the claim.

This meant that the council needed to establish a fund from which to pay these claims excesses, and the insurance provision was therefore created at this time to satisfy this requirement.

In the years following 1992 as insurance deductibles and premiums increased, the council gradually began to accept a greater degree of risk by choosing to self insure some risks as self insurance was often more cost effective than purchasing a policy of insurance due to the high premiums quoted.

In the late nineties and continuing into the millennium, the numbers and cost of public liability claims increased significantly, fuelled by the introduction of ‘no win no fee’ claims companies and the so called compensation culture. At the same time local authorities were experiencing new types of high cost claims being made against them such as asbestosis, abuse, tree roots, and stress to name but a few.

The above factors meant that the insurance provision that had previously been established needed to be increased in order that it remained at a sufficient level to meet the increasing claims payments that were being made from it and not expose the council to unnecessary risk.

**The reason for / purpose of the insurance reserve**

The key reason for maintaining the insurance reserve is so that the council can meet its unpaid retained insurance liabilities, i.e. the settlement costs of known and future (unknown) claims from current and past policy years. The ‘known’ claims are those that have already been reported or made against the council some of which will go on to be settled (paid). The ‘unknown’ claims are those incidents that will already have occurred but have not yet been reported to the council, these are typically referred to as IBNR (Incurred but not reported).
How and when the insurance reserve can be used

The insurance reserve can be used when the council becomes legally liable to settle (compensate) a liability claim that has been made against it or its officers and elected members and for which the council is liable for the costs of settlement under the insurance policy excess. For property damage claims the insurance reserve can be used to cover the cost of repair, replacement, reinstatement, site clearance, making safe or other associated costs in the event of an insured peril (or agreed peril for self insurance), within the limits of any relevant policy excesses. For all other types of insurance claim the insurance reserve can be used where the claim meets the requirement for settlement under the terms of the relevant insurance policy (or relevant self insurance criteria).

The cost of settling claims also includes the costs associated with investigating and handling the claim including our own legal costs, loss adjusters fees, obtaining necessary reports etc. These costs and the actual monetary compensation or reinstatement value are the only costs that can be met from the insurance provision in relation to liability claims.

For the council’s own property damage claims (including equipment, contents, loss of money) the costs associated with repair, replacement or reinstatement (including associated professional and legal fees) of the damaged item/s and/or building/s following damage caused by an insured peril, are the only costs that can be met from the insurance provision.

The insurance provision cannot be used for any other purpose other than settling those insurance claims under the policy deductible or that are entirely self-insured.

**Action point 1: We will audit monthly insurance fund transactions to ensure that all payments from the fund are validated.**
Procedures for the insurance reserve’s management and control

The Insurance Manager and Head of Risk and Insurance oversee the day to day management of the insurance claim payments made from the insurance reserve. A bespoke claims handling system (LACHS) has been procured by the council and this is used to record details of all insurance claims and their financial status (settlements and reserves). Claims handling protocols are in place which requires all claim payments to be signed off and authorised before payment can be made from the insurance reserve.

Formalised arrangements are in place with our external claims handlers and insurers that set out their settlement authority levels on behalf of the council. Any payments falling within these authority levels are made direct by the claims handlers or insurers and reimbursement is made to them upon production of a monthly claims bordereaux.

**Action point 2: We will formally review claims settlement authority levels for our external claims handlers on an annual basis.**

The balance of the insurance reserve is monitored on a monthly basis and audits are carried out to ensure that all transactions are validated. Corporate Finance are consulted on a regular basis in connection with the administration of the insurance reserve, and are provided with an annual summary of transactions affecting the reserve and its end of year position with recommendations.

**Reviewing the insurance reserve to ensure continuing relevance and adequacy**

A key aspect of the corporate insurance strategy involves ensuring that the insurance provision is maintained at an appropriate level so as to avoid having an insufficient reserve that may expose the council to unnecessary risk, or by tying up too much provision unnecessarily. This is achieved through the council obtaining regular actuarial valuations of the insurance provision to determine the appropriate level of provision that should be maintained.
Actuarial valuations involve analysing the council’s past insurance claims experience (numbers, cause and cost of past and current claims) to predict using established actuarial standards, estimated future claims payments to the council on both known and IBNR claims. In addition, the actuarial valuation will also consider new and emerging heads of claim that may impact on the council at some future date, including for example the potential impact on the council of MMI failing to achieve a solvent run off.

**Action point 3: We will obtain a full actuarial valuation of the insurance fund at least every three years and an annual health check in between valuations**

### Actuarial insurance provision valuations

In determining the overall valuation approach to be taken there are a number of typical characteristics of different types of local authority claim that the actuary will take into account. These claims exposure characteristics are:

**Liability claims**

For employers liability (EL) claims there is typically a very small number of claims per year, whilst for public liability (PL) the numbers of claims per year are much higher but are still statistically relatively small. This means that there can be large variations in numbers of claims from year to year (especially for EL) which is due to random chance rather than any underlying claims or risk management trends.

Liability claims from a particular policy year typically take several years to be reported and settled, they can therefore remain outstanding with a financial reserve for many years. For those claims that are handled in-house by the council this means that the council’s reserving policy is very important as adopting and implementing the right policy should prevent issues arising from over or under reserving of claims. Over or under reserving when aggregated across all claims could mean that the total calculated reserve is significantly out.

EL claims are very diverse (Repetitive Strain Injury, slips, stress, disease etc) whereas PL claims are generally less diverse usually in the broad categories of
slips/trips, flood/storm claims etc. Analysis of claims experience can be useful in revealing key drivers for increased or decreased claims numbers in a particular year, e.g. adverse weather incidents causing flood/storm claims to increase in that year.

**Property**

Property claims are generally reported and settled quickly, except for very large claims where there is usually considerable delay in claim settlement whilst decisions in relation to the rebuilding work are made. Some large property claims may also result in liability claims being made from affected individuals, such as the Kerrin Point block of flats explosion in 1997. All aspects of the Kerrin point claim took ten years to bring to a conclusion before all claims were closed off.

**Motor**

Own damage to the council’s motor vehicles are generally reported and settled fairly quickly. Motor liability (injury) claims can take several years to settle.

**Industrial disease claims**

Industrial disease claims such as asbestosis typically have long latency periods, in some cases several decades (40+ years for mesothelioma claims). It is known that exposures for some claims go back to the 1950’s and 1960’s and it is possible even into the 1940’s (an employee who started work with the council in 1940 would now be in their mid 80’s). New claims being received by the council for the first time relating to these periods are very much a reality.

Since 2002 the council has commissioned insurance provision valuations bi-annually up until 2006 and then annually to the present date. It is recommended as part of this strategy that an annual review of the insurance provision is carried out, with a full actuarial valuation being carried out every third year. Having an annual review allows for an early warning of funding issues and claims trends or other potential pressures on the fund.
The table below shows the actuarial recommendations for the insurance provision over this period.

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<td>2002</td>
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<tr>
<td>2010</td>
<td>£16.10m</td>
</tr>
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</table>

An annual insurance provision health check is prepared, reported to and approved by Corporate Finance. This report outlines the last actuarial valuation requirement, the current actual balance of the insurance provision, claims payments trends split by general and HRA funds, and makes a recommendation on acceptable tolerances (variance between actuarial figure and actual balance) as well as recommendations on the required general and HRA annual fund top up charges.

Where there are significant or unacceptable tolerances due to the emergence of new risks and/or worsening claims experience etc, then periodic briefing reports are prepared and submitted to the Executive Director of Finance & Resources and/or relevant departments / BU’s, setting out the options and recommendations to address the issues.

**Action point 4: We will produce regular claims reports for departments highlighting claims trends and opportunities for improvement.**
Strategic aim 2: To maintain an insurance programme that provides the optimal balance between insurance and risk retention.

As mentioned earlier in this strategy there are some risks that the council has decided to accept rather than to transfer the risk through the purchase of an insurance policy. These risks that are accepted by the council are ‘self insured’, meaning that any losses that occur are settled in full by the council from the insurance provision.

One of the main drivers in deciding 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. The insurance of frequently occurring small losses is often referred to as ‘pound swapping’.

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.
In determining its insurance programme and deciding which risks to insure against and to what degree, the council considers 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.

**Action point 5: We will review at each insurance renewal our levels of self-insurance and indemnity limits and make appropriate adjustments to cover based upon the prevailing market conditions and a vfm determination.**

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, i.e. how much have we paid in insurance premiums, how much has the insurer paid in claims and how much has the council paid in claims. Consideration needs to be made as to whether too conservative an approach has previously been taken and whether a different approach may have resulted in greater savings being achieved.

Maturity of the council’s corporate risk management arrangements also need to be considered. The more mature and embedded risk management is across the organisation, the greater the opportunity to increase risk retention, as it means that risks are being actively managed at an operational level.

**External factors**

In addition to those internal factors mentioned above, there are external factors that need to be considered as well. While internal factors are able to be controlled or manipulated to some extent, external factors are a little more difficult to control.

Perhaps one of the biggest external factors that needs to be considered is the current state of the commercial insurance market and its competitiveness.
Cycles of growth and decline exist within every industry, the insurance industry, however, is often at the mercy of this cycle because of its unpredictability.

The cycles in the insurance industry are more commonly referred to as a ‘hard’ or ‘soft’ market. A soft market is a period marked by low premiums, relaxed underwriting standards and fierce competition. A hard market which follows the soft market usually after a wide scale catastrophe, means that underwriting standards become more rigid, premiums increase, cover is withdrawn or restricted and competition loosens as insurers become more selective about who they insure.

Other external factors that need to be considered are reputational issues, particularly following a high profile incident involving the council or even that involving another authority, and our stakeholder’s attitudes.

**Action point 6: We will monitor developments in the insurance markets on a regular basis including the undertaking of financial assessments of those insurers which we currently use.**

**Risk ability**

While internal and external factors both affect the risk appetite of the council, the risk ability of the council also needs to be understood and considered. Risk ability 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.

It is vital to have alignment between risk appetite and risk ability. The willingness to assume risk (risk-appetite) without the financial capacity to assume risk (risk ability) would lead to a serious deficiency. An example of this would be a willingness to take a £10m deductible on property insurance to save £100,000 in premium expenses, whilst maintaining an insurance reserve of around £5m. One serious property claim would wipe out the insurance provision and funding would have to be obtained from elsewhere. The council may have the appetite for this however it does not have the ability.
The opposite of this is having the financial capacity to assume risk but the willingness to assume risk is under utilised. An example of this would be having an insurance reserve of £20m but choosing to insure against every risk and having low insurance deductibles. The cost of insurance premiums would be very high and the council would have missed out on potential premium savings whilst also tying up valuable reserves.

Local authorities have a couple of other advantages that can be used to their advantage in determining their optimal insurance programme. Firstly insurance is not compulsory for local authorities due to the ‘public body’ exemptions of the Employers Liability Insurance Act 1969 and the Road Traffic Acts 1988, and secondly a local authority cannot go out of business in the same way that a commercial organisation could.

This then leads to the question that if insurance is not compulsory for local authorities then why insure? It’s a good question, however not an easy one to answer. By deciding not to insure the council would be taking a risk that either a particular event will never occur or that if it did occur that the council would find the means to pay for the claim from some other source, perhaps from the savings made through retained premiums. Perhaps the biggest single reason for not taking this approach is the risk involved, a large fire or explosion in one of the council’s buildings could cost millions of pounds worth of damage, the town hall for example would cost c£59m to rebuild if it were totally destroyed. Even if it were only partially damaged it would still have a significant financial impact on the council as services would need to be relocated, new equipment purchased and the building repaired. Liability claims arising out of the same incident could push the total costs up even further.

One way of lowering insurance premiums and avoiding the risk of not having any insurance cover in place is to purchase ‘catastrophe cover’. This can take many forms but is essentially a way of transferring the risk by way of insurance for very large losses, selected events (insured perils) or selected assets. The disadvantage of this is that the insurers will still require a minimum underwriting premium which may not offer the premium savings expected.
**Benchmarking**

Another factor that the council uses when determining its optimal insurance programme is benchmarking. The council takes part in various insurance benchmarking exercises, and in particular the annual CIPFA insurance benchmarking club. Benchmarking data is useful in some aspects however it also has its limitations due to the complexities and variations that exist in relation to insurance arrangements.

The best insurance programme for the council isn’t necessarily the same as following the ‘benchmarked norm’ for other local authorities, sometimes an innovative insurance buying strategy delivers better value for the council.

**Rationale for current self-insurance levels**

The schedule of insurance at appendix 1 outlines in more detail the rationale for the current level of insurance deductible or where the council has decided to retain the entire risk in-house and not purchase insurance cover.

Our current policy deductible for our casualty insurance programme (public and employers liability covers etc) has remained at £150,000 for a number of years as in order to benefit from any significant premium savings in the current market conditions we would have to increase the deductible significantly to £500,000 or even £1 million. We will review the deductible under this policy at each policy renewal and may move to increase the deductible at our next renewal if it is felt that the premium savings achieved are worthwhile.
The deductible under the property insurance policy was increased to £500,000 when we became a member of LAML in 2008. There are no plans to increase this level of deductible at the present time as it is felt that the premium cost for this level of cover provides value for money whilst minimising the risk against the council's insurance fund against property losses.

In preparation for our next major insurance policy renewals in 2012 we will include within our planned insurance fund review an actuarial assessment of our current insurance programme including deductibles. This will then enable us to request from the insurance market quotations for insurance cover against a sensible range of considered insurance deductibles.
Strategic aim 3: To maintain appropriate operational policies for the handling of insurance claims, recharging to services and presentation of risks to insurers.

Procuring the actual policies of insurance is the relatively easy part. Ongoing management of the subsequent claims that are received by the council is much more complex and requires a number of procedures to be in place to ensure that claims are handled effectively and in line with relevant legal requirements.

There are a number of claims handling strategies that are available to the council (depending upon the insurer and policy deductibles etc). These are:

- All claims handled by the insurer (or their claims handling agent)
- All claims handled in-house by the council
- A mixture of in-house and insurer
- A shared services type claims handling solution

There are benefits and disadvantages associated with each of these approaches which again differ depending upon the type of claim being handled and the specific insurer. The key considerations for the council are cost (insurers charge for handling claims), quality and control aspects and customer service.

The council over time has moved towards handling more claims in-house, particularly since the introduction of our in-house fraud investigators as this has allowed us to introduce face to face claimant meetings (as opposed to just desk top handling claims) resulting in increased detection of fraudulent and exaggerated claims, improved claims repudiation rates and quicker claim turnaround times.
Claims handling

In order to support the efficient handling of claims the council has procured an electronic claims management system, LACHS (Local Authority Claims Handling System) which allows the council to record and track individual claims and associated costs. The council now has around 15 years worth of claims data recorded within this system which allows for powerful reporting of claims trends.

To allow for the effective handling of claims and to ensure consistency, a suite of claim procedures have been developed to provide detailed claims handling guidance for staff in relation to:

- Abuse claims
- Computer claims
- Employers Liability claims
- Highway claims
- Property claims
- Public liability claims
- Engineering claims
- Leasehold claims
- Motor vehicle claims
- Tree claims

In addition to the above guidance pre-action protocols and flowcharts have been developed detailing the procedures that claims handling staff are required to follow in respect of personal injury claims.

*Action point 9: We will review at least annually the claims handling protocols ensuring that they are updated to reflect changes in legislation, statutory requirements or case law. Claims handling staff will receive regular claims training as part of their PDP / business plan.*

The council’s current agreement with its liability insurer is that all claims valued at 75% or less of the deductible, i.e. £112,500 (75% of £150,000) will be handled in-
house by the insurance department. Losses above this amount or those falling within certain specified categories such as involving death or serious injuries will be passed to the insurer or their appointed claims handlers.

All claims handled in-house are processed in accordance with the Civil Procedure Rules and the relevant Pre-action protocols such as the protocol for personal injury claims.

Claims handling authority and approval levels have been clearly set out for handling staff; these also specify when the instruction of relevant professional experts such as claims investigators or loss adjusters should be considered.

The council’s claims reserving policy is that of ‘realistic reserving’ which means that when a claim is initially entered on the system the reserve (potential cost of claim) is entered as the maximum probable loss resulting from the claim, however the reserve is subsequently amended either upwards or downwards several times during the life of the claim based upon any new information and evidence received. For personal injury claims reference is made to the frequently updated Judicial Studies Board guide for general damages and this is used as a guide to set the claim reserve.

**Action point 10: We will monitor claims reserves on a monthly basis taking action to ensure LACHS data is up-to-date and closed off where appropriate. Claims handling and approval levels will be reviewed annually.**

The council uses external solicitors to provide advice and to case manage some claims, particularly those of a complex nature. These solicitors are procured as part of a legal framework contract where rates are agreed in advance and the council is subsequently able to call off from this framework as and when required. As part of this framework each firm of solicitors also provides training and advice (at no extra cost) to the claims handling staff as necessary.

The council also maintains a contractual relationship with a firm of loss adjusters that can be called upon to provide advice and claims management services on large and complex property losses and/or liability claims, particularly tree root claims.
In addition to the detailed claims handling processes that have been developed, the council has also introduced and published an insurance anti-fraud strategy that sets out the work that we are doing in tackling insurance fraud and raising awareness of this issue. A copy of the insurance anti-fraud strategy is attached at Appendix 3.

**Action point 11: We will review and update the insurance anti-fraud strategy annually.**

**Shared services**

The insurance function within the council has historically been one that has acted in a contract management capacity, procuring the relevant policies of insurance by way of tender and then managing those insurance contracts including the co-ordination of insurance claims which were forwarded onto the insurers to handle.

In the mid 90’s the role of the council’s insurance function changed as the council started retaining more risk and developing and implementing its own risk management strategy. The handling of insurance claims at this time was still carried out by the insurers or their appointed agents as this was a requirement under the terms of the contract. The role of the insurance team was to act as a focal point for the co-ordination of claims and claims correspondence, departmental reports etc between the council and its insurers. However as the cost of external claims handling increased the council gradually started to deal with some claims entirely in-house as this offered better value for money for the council, and improved customer response times.

In recent years the council has increased the level of in-house claims handling as this has provided better value for money and allowed for the introduction of innovation such as the implementation of claims investigators to detect fraud. The council has worked in partnership with other London boroughs in setting up the London Authorities Mutual and subsequently the Insurance London Consortium to support collaborative working between the 8 consortium members.
The wider discussion around further opportunities for insurance shared services, including risk management and claims handling is still ongoing although to date there have not been any viable proposals that would generate real savings or service improvements in this area.

**Premium re-charging**

The Risk & Insurance team arrange and pay for all of the council's required insurance contracts including those required for schools that have opted in to the council's insurance programme.

On an annual basis departments and schools are re-charged for the cost of the insurance cover that they benefit from. These re-charges are carried out at a departmental level (with the exception of schools who are invoiced individually), with an overall total premium being charged to each department.

As part of the LACHS claims handling system there is a premium apportionment module that is used to calculate the relevant premium due to each department. The method of calculation for each premium varies depending upon the type of insurance policy but the main factors used to determine premiums due are the numbers of staff (employee’s) in each department and the total sum insured for buildings and contents.

On an annual basis each department is provided with a breakdown of all the insurance coverage that has been arranged on their behalf, and the actual premium that is attributed to the department in respect of each policy.

For schools the council operates a risk ranking model which has been designed to rewards schools for careful and effective management of risk. All schools are initially given a risk survey to identify any risks on site and also to establish how well the school is at controlling and managing risk across a range of areas such as fire, health & safety, security and staff/pupil wellbeing. Following this survey the school receives a report along with any recommendations or mandatory requirements for risk improvement.
Schools are then assessed annually against a number of key criteria, and depending upon the outcome of this assessment they are placed into a ranking ‘band’. The band that each school falls into determines any premium discount that they are entitled to and the excess that they are required to pay in relation to each claim.

There are currently six bands as part of the school risk ranking programme and these are detailed in the table below:

<table>
<thead>
<tr>
<th>Band</th>
<th>Premium discount</th>
<th>Claims excess payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
<td>Nil</td>
</tr>
<tr>
<td>2</td>
<td>15%</td>
<td>£100</td>
</tr>
<tr>
<td>3</td>
<td>10%</td>
<td>£200</td>
</tr>
<tr>
<td>4</td>
<td>7.5%</td>
<td>£250</td>
</tr>
<tr>
<td>5</td>
<td>5%</td>
<td>£500</td>
</tr>
<tr>
<td>6</td>
<td>0%</td>
<td>£500</td>
</tr>
</tbody>
</table>

This scheme coupled with the risk initiative funding that the council has made available, has proved popular with schools and has encouraged them to take greater ownership of risk management. Currently the majority of schools are within bands 3 and 4 whilst only one school remains in band 5.

In respect of departmental insurance claims a flat departmental claims excess of £500 currently applies for all departments except in relation to Housing property claims where a £1,000 departmental excess applies. No departmental excess in respect of liability claim settlements is charged. Following the success of the school risk ranking exercise a pilot is due to be run to see whether this model can be adapted and used in respect of the council’s internal claims and departmental charges.

In response to changing market conditions and feedback from departments we have removed with effect from April 2011, the departmental excess that used to
apply to computer claims. This change is in recognition of the lower replacement cost of computers and laptops compared to the costs when the excess was first introduced. Departments, staff and members are still required to take ‘reasonable precautions’ to protect ICT equipment and claims will be monitored to identify any trends or problematic areas.

**Action point 12:** We will produce and maintain a number of insurance guides to assist departments and schools in managing insurable risks. Targeted training and tools will be developed and made available online. All guides and training will be reviewed and updated annually.
## Appendix 1: Schedule of Insurance

### PROPERTY RISKS

<table>
<thead>
<tr>
<th>Risk</th>
<th>Perils covered</th>
<th>Limits &amp; Deductible (excess)</th>
<th>Insurer</th>
<th>Policy commencement &amp; period</th>
<th>LTA expiry date</th>
<th>Rationale (external insurance or self insurance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material Damage – General (Offices) property</td>
<td>Fire, Explosion, Aircraft, Riot, Earthquake, Subterranean fire, Spontaneous combustion, Storm, Flood, Escape of water, Sprinklers, Impact, Subsidence, Theft, Accidental damage, fixed glass</td>
<td>Basis: Full reinstatement costs</td>
<td>ILC – via Zurich Municipal</td>
<td>1\textsuperscript{st} January 2010 27 months</td>
<td>31\textsuperscript{st} March 2012</td>
<td>The greatest single property exposure is £59m (town hall) which is too significant a risk to self insure. Deductible is benchmarked and market tested at contract renewals to assess deductible v premium benefit.</td>
</tr>
<tr>
<td>Material Damage – Housing property</td>
<td>Fire, Explosion, Aircraft, Riot, Earthquake, Subterranean fire, Spontaneous combustion, Storm, Flood, Escape of water, Sprinklers, Impact, Subsidence, Theft, Accidental damage, fixed glass</td>
<td>Basis: Full reinstatement costs</td>
<td>ILC – via Zurich Municipal</td>
<td>1\textsuperscript{st} January 2010 27 months</td>
<td>31\textsuperscript{st} March 2012</td>
<td>High single property exposure with individual housing blocks. Overall sum insured high but risk spread across borough, highest single risk (individual block) still too high a risk to self insure. Deductible is benchmarked and market tested at renewals to assess deductible v premium benefit.</td>
</tr>
<tr>
<td>Material Damage – Education property</td>
<td>Fire, Explosion, Aircraft, Riot, Earthquake, Subterranean fire, Spontaneous combustion, Storm, Flood, Escape of water, Sprinklers, Impact, Subsidence, Theft, Accidental damage, fixed glass</td>
<td>Basis: Full reinstatement costs</td>
<td>ILC – via Zurich Municipal</td>
<td>1\textsuperscript{st} January 2010 27 months</td>
<td>31\textsuperscript{st} March 2012</td>
<td>Premium fully re-charged to individual schools. The greatest single school exposure is £33m which is too significant a risk to self insure. Deductible is benchmarked and market tested at renewals to assess deductible v premium benefit.</td>
</tr>
<tr>
<td>Risk</td>
<td>Perils covered</td>
<td>Limits &amp; Deductible (excess)</td>
<td>Insurer</td>
<td>Policy commencement &amp; period</td>
<td>LTA expiry date</td>
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</tr>
</tbody>
</table>
| **Business Interruption – Rent receivable** | Loss of revenue (rent) arising from damage to a building from an insured Material Damage peril | Basis: 36 months Indemnity  
Total sum insured: £1m  
Deductible: £500,000 | ILC – via Zurich Municipal | 1st January 2010  
27 months | 31st March 2012 | Protection against loss of income – self insurance not an option as this would be the equivalent of not insuring. Benefit provided outweighs the minimal premium cost. |
| **Business Interruption – Increased cost of working** | Additional costs of working as a result of damage to a building from an insured Material Damage peril | Basis: 36 months Indemnity  
Total sum insured: £106m  
Deductible: £500,000 | ILC – via Zurich Municipal | 1st January 2010  
27 months | 31st March 2012 | Cover for alternative office accommodation etc – could be self insured but the benefit provided outweighs the minimal premium cost of the cover. |
| **Computer – All Risks** | All Risks cover on computer equipment and data reinstatement. | Basis:  
Equipment - Full reinstatement costs  
Data – Reinstatement – 36 months  
Total sum insured:  
Equipment £9m  
Data £3m  
Deductible: £500,000 | ILC – via Zurich Municipal | 1st January 2010  
27 months | 31st March 2012 | Self insured for all losses within the deductible. i.e. individual computer / laptop damage claims. Insurance is taken for catastrophe cover i.e. fire in a building damaging many PC’s and servers.  
Risk of catastrophic damage is too great to self insure. |
## PROPERTY RISKS

<table>
<thead>
<tr>
<th>Risk</th>
<th>Perils covered</th>
<th>Limits &amp; Deductible (excess)</th>
<th>Insurer</th>
<th>Policy commencement &amp; period</th>
<th>LTA expiry date</th>
<th>Rationale (external insurance or self insurance)</th>
</tr>
</thead>
</table>
| Works in Progress           | Material damage cover for building works, new build or existing buildings.      | Limit of liability any single contract: £5m  
Limit of liability all claims in period: £56m  
Deductible: £500,000 | ILC – via Zurich Municipal | 1st January 2010  
27 months | 31st March 2012 | Single greatest exposure is £5m on building works. Cost of insurance cover is low compared to the risk of self insuring. |
| Money                       | Theft of money and cheques                                                       | Limit of liability: £3m & other various limits  
Deductible: £10,000 | ILC – via Zurich Municipal | 1st January 2010  
27 months | 31st March 2012 | Required under S114 of Local Government Act 1972 – “security to be taken” |
| Industrial & Commercial Properties | Material damage cover for Buildings that we own and lease to other parties  
Total sum insured: £96m  
Deductible: Subsidence £1,000  
All other £250 | Aspen Insurance | 1st April 2009  
36 months | 31st March 2012 | Option to extend for further 2 years  
Insurance required under the terms of lease to third party. Cost of insurance is paid by third party through recharge. |
| Goods in transit            | Contents and equipment owned by the council whilst being transported between locations | Basis: Full reinstatement costs | Self-insured | N/A | N/A | Very low risk due to minimal transportation of council assets between buildings and low value of goods. Risk retained. |
## LIABILITY RISKS

<table>
<thead>
<tr>
<th>Risk</th>
<th>Perils covered</th>
<th>Limits &amp; Deductible (excess)</th>
<th>Insurer</th>
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<th>Rationale (external insurance or self insurance)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Liability</strong></td>
<td>Indemnity to the council and its employees, elected members and volunteers for any legal liability to pay compensation to a third party for bodily injury, illness, disease or loss and/or damage to material property</td>
<td>Limit of Liability: £50m</td>
<td>ILC – via Zurich Municipal</td>
<td>1st January 2010 27 months</td>
<td>31st March 2012</td>
<td>Risk exposure is wide given the diverse nature of council activity. The largest individual claim paid to date was for £750k. High volume of claims received, therefore overall claim payments are high. Potential for more self insurance – value for money is tested during contract procurement.</td>
</tr>
<tr>
<td><strong>Employers Liability</strong></td>
<td>Indemnity to the council for any legal liability to pay compensation to an employee, volunteer or elected member for bodily injury, illness or disease arising in the course of their employment with the council</td>
<td>Limit of Liability: £50m</td>
<td>ILC – via Zurich Municipal</td>
<td>1st January 2010 27 months</td>
<td>31st March 2012</td>
<td>Relatively low risk for the council as the majority of employee’s are office based. Higher risk for care workers and staff working out of the office. Largest individual claim paid to date was for £336k. Potential for more self insurance – value for money is tested during contract procurement.</td>
</tr>
<tr>
<td><strong>Professional Errors and Omissions (Officials Indemnity)</strong></td>
<td>Indemnity to the council and its employees, elected members and volunteers for any legal liability to pay compensation in respect of a financial loss incurred by a third party as a result of the council discharging its statutory functions</td>
<td>Limit of Liability: £5m</td>
<td>ILC – via Zurich Municipal</td>
<td>1st January 2010 27 months</td>
<td>31st March 2012</td>
<td>Low frequency of claims however potential for exposure of up to £5m. Potential for more self insurance – value for money is tested during contract procurement.</td>
</tr>
</tbody>
</table>


## LIABILITY RISKS

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<th>Rationale (external insurance or self insurance)</th>
</tr>
</thead>
</table>
| Libel & Slander | Indemnity to the council and its employees, elected members and volunteers for any legal liability to pay compensation in respect of libels appearing in published statements or oral utterances made. | Limit of Liability: £5m  
Deductible: £150,000                                                                 | ILC – via Zurich Municipal                  | 1st January 2010  
27 months                  | 31st March 2012                      | Low frequency of claims however potential for exposure of up to £5m.  
Potential for more self insurance – value for money is tested during contract procurement. |
| Land Charges  | Indemnity to the council and its employees, elected members and volunteers for any legal liability to pay compensation in respect of losses incurred from the provision of incorrect advice provided in response to searches in the Land Charges Register | Limit of Liability: £5m  
Deductible: £150,000                                                                 | ILC – via Zurich Municipal                  | 1st January 2010  
27 months                  | 31st March 2012                      | Low frequency of claims however potential for exposure of up to £5m.  
Potential for more self insurance – value for money is tested during contract procurement. |
### OTHER RISKS

<table>
<thead>
<tr>
<th>Risk</th>
<th>Perils covered</th>
<th>Limits &amp; Deductible (excess)</th>
<th>Insurer</th>
<th>Policy commencement &amp; period</th>
<th>LTA expiry date</th>
<th>Rationale (external insurance or self insurance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Vehicle</td>
<td>Third party on all vehicles owned or leased by the council</td>
<td>Deductible: £150,000</td>
<td>Third party – JJS Fleet Underwriting Syndicate Own damage – self insured</td>
<td>1(^{st}) April 2008 36 months</td>
<td>31(^{st}) March 2011 Option to extend for further 2 years</td>
<td>Legal requirement to have insurance on road vehicles. Own damage to vehicles is self-insured.</td>
</tr>
<tr>
<td>Engineering Insurance</td>
<td>Sudden and unforeseen damage to plant and surrounding property</td>
<td>Limit of indemnity Fragmentation: £100,000 Deductible: £250</td>
<td>Royal Sun Alliance</td>
<td>1(^{st}) April 2008 36 months</td>
<td>31(^{st}) March 2011 Option to extend for further 2 years</td>
<td>Statutory requirement - Lifting Operations and Lifting Equipment Regulations 1998 and The Pressure Equipment Regulations 1998</td>
</tr>
<tr>
<td>Engineering Inspection</td>
<td>Statutory inspection of plant and lifting equipment</td>
<td>N/A</td>
<td>Royal Sun Alliance</td>
<td>1(^{st}) April 2008 36 months</td>
<td>31(^{st}) March 2011 Option to extend for further 2 years</td>
<td>Statutory requirement - Lifting Operations and Lifting Equipment Regulations 1998 and The Pressure Equipment Regulations 1998</td>
</tr>
<tr>
<td>Crime protection (incorporates old Fidelity Guarantee cover)</td>
<td>Covers both employee fraud and dishonesty and fraudulent acts committed by third parties against the council</td>
<td>Sums guaranteed Specified officers: £20m All other employees: £1m</td>
<td>ILC – via</td>
<td>1(^{st}) April 2011 36 months</td>
<td>31(^{st}) March 2014</td>
<td>Statutory requirement - S114 of Local Government Act 1972 – security to be taken</td>
</tr>
<tr>
<td>Risk</td>
<td>Perils covered</td>
<td>Limits &amp; Deductible (excess)</td>
<td>Insurer</td>
<td>Policy commencement &amp; period</td>
<td>LTA expiry date</td>
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<td>----------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Personal Accident                | Cover for death and serious personal injury to employees, volunteers and members whilst undertaking official council duties | Various                       | Self insured                 | N/A                          | N/A             | Previously insured at an annual premium of £50k per year – one claim in three years with a claim value of £2k.  
More cost effective to self insure – low risk, low frequency                                                                 |
| Business Travel                  | Overseas travel by employee’s and members in the course of official council business. Injury, personal liability and personal possessions / luggage | Various                       | Chubb Insurance Company      | 1st April 2008 36 months     | 31st March 2011  
Option to extend for further 2 years | Medical insurance cover required for overseas travel – difficult to self insure.  
Cost effective policy.                                                                 |
| School Journey (off-site activities) | Travel policy to cover pupils, teachers and support staff whilst on off-site school activities including overseas travel | Various                       | ACE European Group Ltd       | 1st April 2008 36 months     | 31st March 2011  
Option to extend for further 2 years | Medical insurance cover required for overseas travel – difficult to self insure.  
Schools pay individual premiums.                                                                 |
| Marine – small craft             | Vessels, boats and equipment damage caused to third party liability             | Limit of Indemnity: £2m  
Deductible: £150               | Navigators & General          | 1st April 2008 36 months     | 31st March 2011  
Option to extend for further 2 years | Legal requirement to have insurance cover for marine vessels.                                                                 |
## OTHER RISKS

<table>
<thead>
<tr>
<th>Risk</th>
<th>Perils covered</th>
<th>Limits &amp; Deductible (excess)</th>
<th>Insurer</th>
<th>Policy commencement &amp; period</th>
<th>LTA expiry date</th>
<th>Rationale (external insurance or self insurance)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Terrorism</strong></td>
<td>Acts of Terrorism and / or sabotage causing damage to council buildings</td>
<td>Sum Insured: £50m</td>
<td>AON (Lloyds syndicate scheme)</td>
<td>1(^{st}) January 2010</td>
<td>31(^{st}) March 2012</td>
<td>Risk exposure is low probability but high impact. Significant property exposure for town hall at £59m.</td>
</tr>
<tr>
<td><strong>Leasehold Flats</strong></td>
<td>Buildings insurance for council flats sold under right to buy scheme (premium fully rechargeable to leaseholders)</td>
<td>Various</td>
<td>Aspen Insurance</td>
<td>1(^{st}) April 2009</td>
<td>31(^{st}) March 2012</td>
<td>Insurance is a requirement under terms of lease. Fully recharged to leaseholders.</td>
</tr>
<tr>
<td><strong>Directors &amp; Officers (Lambeth Living)</strong></td>
<td>Negligence (Liability) claims made against officers and directors of the board of Lambeth Living including defence costs</td>
<td>Limit of Liability: £5m</td>
<td>Chubb Insurance Company</td>
<td>1(^{st}) April 2010 Annual</td>
<td>N/A</td>
<td>Policy arranged on behalf of Lambeth Living – fully recharged.</td>
</tr>
</tbody>
</table>
## Action Plan

### Delivering the strategy

The objectives set out within the action plan are those that have been identified in order to deliver the three strategic aims of this strategy. All objectives have been designed to improve the council’s corporate insurance arrangements, addressing identified areas of weakness and building on best practice to ensure that the council maintains the optimum balance between insurance and risk retention, safeguards the council’s assets and reputation, maintains an adequate insurance provision and proactively manages and investigates insurance claims.

### Implementation plan

<table>
<thead>
<tr>
<th>Objective / Activity</th>
<th>Responsible person</th>
<th>Completion date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Action point 1:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Validate insurance fund transactions through audit of B8003 &amp; B8010 cost centres</td>
<td>Mark Nicolson</td>
<td>By 5th of each month</td>
</tr>
<tr>
<td><strong>Action point 2:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review claims settlement authority levels with Cunningham Lindsey and agree.</td>
<td>Maureen Dennie</td>
<td>Annually March 12</td>
</tr>
<tr>
<td><strong>Action point 3:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Update insurance fund actuarial valuation including pre-fund and MMI evaluation with an annual health check and full valuation every three years.</td>
<td>Mark Nicolson</td>
<td>Annually Nov 11 Nov 12 Full = Nov 13</td>
</tr>
<tr>
<td><strong>Action point 4:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepare claims trend reports for highways &amp; housing on a monthly basis and quarterly for other key service areas / claim types.</td>
<td>Maureen Dennie</td>
<td>By 5th of each month</td>
</tr>
<tr>
<td><strong>Action point 5:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepare through ILC a 2012 procurement strategy, including the presentation of Lambeth’s risk portfolio and review of indemnity &amp; self-insurance limits.</td>
<td>Mark Nicolson &amp; Maureen Dennie</td>
<td>Dec 11</td>
</tr>
<tr>
<td>Action point 6:</td>
<td>Undertake review of insurer financial ratings and update risk register accordingly.</td>
<td>Mark Nicolson</td>
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<td>Action point 7:</td>
<td>Obtain actuarial opinion on amount of insurance coverage and maximum exposure losses as part of next insurance fund health check.</td>
<td>Mark Nicolson</td>
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<td>Action point 8:</td>
<td>Submit insurance data to CIPFA insurance benchmarking club and analyse findings. Use data to inform 2012 insurance renewal programme.</td>
<td>Maureen Dennie</td>
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<td>Action point 9:</td>
<td>Review and update claims handling protocols and guides and insurance staff training programme to reflect legislative changes and emerging risks.</td>
<td>Mark Nicolson &amp; Maureen Dennie</td>
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<td>Action point 10:</td>
<td>Run monthly fund status report from LACHS and review open claims and reserves to ensure accuracy.</td>
<td>Mark Nicolson</td>
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<td>Action point 11:</td>
<td>Review and update the insurance anti-fraud strategy.</td>
<td>James Yeulet</td>
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<td>Action point 12:</td>
<td>Review and update departmental and school insurance guides, frequently asked questions and insurance tools.</td>
<td>Maureen Dennie</td>
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According to the Association of British Insurers (ABI) insurance fraud is predicted to increase by at least 14% per annum. The types of fraud committed vary from exaggerated or totally fabricated property based claims to exaggerated symptoms and falsified injuries of injury claims.

Further research commissioned by Royal & SunAlliance in May 2000 indicated that 50% of people would inflate the value of a claim by at least a third if it meant that they could replace damaged or lost goods with goods better than the originals, while 70% of people surveyed believed that insurance fraud is a common practice.

Gallup conducted a survey of public attitudes to insurance fraud on behalf of Saga insurance in 1999. It found that one in four people in the UK felt that making a false insurance claim was understandable, acceptable or even praiseworthy. One fifth of those aged 25-34 admitted to knowing someone who had filed a false insurance claim.

Lambeth currently receives an average of 1,100 liability claims per year from members of the public. Payments made on these claims runs at an average of £1.4m per year, most of which is paid by the council under the insurance policy excess. In addition to claims made by the public, an average of 20 claims from employees are received each year with the cost of these claims running at an average of £326,000 per year.

Given the scale of fraud suggested above it is highly likely that Lambeth is suffering a degree of insurance fraud and that some of the claims will be dishonest with the consequent loss of funds that could otherwise be used by the council to providing a better service to customers.

A key part of the strategy is to raise awareness of what actually constitutes insurance fraud, and that the council will not tolerate such fraud and will take action. This will be achieved through the new ‘Fraudline’ scheme, an anti-fraud campaign designed to deter false claims against local authorities. The campaign includes a series of 5 hard-hitting advertisements and a leaflet all of which promote the 24 hour freephone ‘Fraudline’ telephone number.

This scheme which was set up by Cunningham Lindsay UK, and is being rolled out across the UK during 2004, is the first of its kind to specifically target insurance fraud. It is also of significance that this scheme is a UK wide one as not all of those who make insurance claims against Lambeth live or work in the borough, many are visitors from other parts of the country who are passing through. This scheme will therefore have a much greater impact than a local borough wide only one.
The fraud leaflets will be sent out with all claims correspondence, and to the 9,000 leasehold properties for which we administer their buildings insurance. Leaflets will also be sent to past claimants when customer satisfaction surveys are sent out. All employees will also receive a copy.

We work closely with our partners such as the Metropolitan Police. We promote all successes via the local media to reinforce our message of “Zero tolerance” to fraud perpetrated against the London Borough of Lambeth. We have a borough wide advertising campaign with posters and leaflets prominently displayed in places to which the local community have regular access such as G.P surgeries and libraries. Recently we arranged to have our anti fraud posters displayed on Lambeth vehicle’s, this was achieved at no extra cost and replaced our original plan for advertising on local buses which proved to be cost prohibitive. This saved £8000.00 in proposed advertising expense.

Training

Training for claims handling staff is being arranged which will incorporate fraud awareness training, fraud screening systems and a summary of the investigative methods utilised. The emphasis on this training will be on the detection of potentially fraudulent claims against the Borough at an early stage. Training will also outline the techniques employed for successful telephone interviews and the preservation of evidence.

As part of this training a review of the wording in our existing standard letters and claims documentation will be carried out with amendments being made to improve and strengthen our message on fraud, and to act as a better deterrent.

Data sharing/matching

We will continue to explore the possibilities of matching our claims data against that of neighbouring boroughs to identify multiple claims or other potential cases of fraud.

Discussions with our existing insurers have taken place as to the fraud detection techniques employed by them and the extent of data matching/sharing that they currently perform. We will continue to work with insurers to make improvements in this area.

We participate in the NFI data matching exercise. In 2010 we have supplied data 2070 reports for matching against data supplied by other boroughs and partnership agencies such as solicitors and insurance companies.

We have also recently begun the process of CRIF membership which will give access to the data contained in the CRIF database, with a view to comparing and matching data in live investigations.
Fraud identification

All insurance claims are recorded on a specialised insurance claims database developed by a third party software supplier. We will be working with our software supplier to see whether any functionality can be built into the software that helps to identify potential fraudulent claims at the point the information is entered into the system (flagging).

It is intended to introduce telephone interviews on selected claims with each interview following a pre-prepared script designed to identify areas for further investigation. This is similar to the approach followed by several large insurance companies.

Linking in with the telephone interviewing, there will be a need to be able to record individual telephone conversations for evidence and protection purposes and we will be exploring the options available for this. Some major insurers are now also using voice analysis equipment to monitor telephone calls, this equipment being able to flag up claims that merit further investigation. Whilst unlikely that equipment of this nature will be suitable for us to use, we will be assessing the options available.

Investigators

London Borough of Lambeth is currently the only London borough to employ full time in house Claims Investigators in its Improvement Risk & Insurance section. This is an innovative approach with the intention of being pro active in the identification and investigation of fraudulent insurance claims. Claims investigators offer face to face contact with the customer which results in faster resolution of claims, this in turn reduces the need for external loss adjusters and investigators reducing the cost to the council.

Our investigators are qualified and experienced investigators. They are trained in surveillance, evidence gathering and conducting interviews under caution. At Lambeth we have introduced a robust system of checks which are aimed at early identification of potentially fraudulent claims. We have also raised awareness within the Risk & Insurance team through in house training. All claims are examined by the Senior Claims Investigator prior to being entered into the system via the (Local Authority Claims Handling System) database LACHS. The process is ongoing throughout the life of any claim and there are several examples of cases where fraud is suspected at a later stage. Prior to the introduction of the early identification system in June 2008 no cases of insurance fraud had been identified.

Investigations can be described as having three stages of investigation.

Stage 1. Fraud is suspected
The claim contains a factor or factors which provide sufficient information to have “reasonable suspicion” that it may be fraudulent. Investigate/corroborate then review in accordance with Criminal Procedure and Information Act (C.P.I.A )1996. In some cases there will be insufficient evidence to proceed (No Further Action taken). If there is sufficient evidence the claim will have reached stage 2.
Stage 2. Refer for further action
The case will be referred for joint investigation with the seconded Met Police Detective. The suspect will be Arrested and interviewed under caution (P.A.C.E 1984).

Stage 3. Judicial Disposal
The evidence will be submitted to the Crown Prosecution Service for their advice as to Charge, Caution or other decision as to Judicial Disposal.