

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

7th July 2008

INSURANCE ARRANGEMENTS

1. Report of the Treasurer & Chief Fire Officer.

RECOMMENDED THAT this report is noted for information.

2. **PURPOSE OF REPORT**

This report is submitted to inform members of the insurance procurement process, provide background to the current insurance arrangements and provide an update on the current position in relation to mutual insurance arrangements. This follows resolution 59/07 (2) made at the Authority Committee on 24th September 2007 that “the Authority’s insurance arrangements for future years be referred to the Audit Committee for consideration”.

3. **BACKGROUND**

3.1 Current Insurance Arrangements

The current Authority insurance programme has developed over the period of time since the inception of the internal funding provision 1992. The insurance arrangements have moved from what was traditional, ground up cover with limited claim excesses, to the current arrangement that is a mix of external insurance policy covers and self-insured risks, with much larger claim excesses borne by the Authority.

Sandwell Metropolitan Borough Council, Transform Sandwell, Risk Management and Insurance service the insurance needs of the Authority through client meetings, specific reported requirements and attendance at the Authority Risk & Insurance Group.

There is an expectation by the insurance industry that larger organisations bear a greater proportion of their risks themselves, relieving administration from insurers for lower level, attritional losses and encouraging organisations to manage their risks more effectively. Well-managed risks reduce organisational costs because incidents giving rise to claims are controlled and reduced and consequently the employee time involved with dealing with the incident or claim is saved.

Ultimately, insurance companies exist to make a profit and organisations taking larger claim excesses internally and effectively insuring in house retain the profit element inherent in purchasing external insurance arrangements.

Following the demise of Municipal Mutual Insurance in September 1992, the Authority set up its own internal insurance funding provision as the insurance market were unable to provide ground up cover. A significant proportion of the Authority's risks are self-insured, these include:

Combined Liabilities – Employers Liability, Public liability, Officials Indemnity and Libel and Slander, individual claim costs up to £125,000

Motor Vehicles - own damage to fleet motor vehicles, including pumps, hydraulic platforms, commercial vans and

Asset Claims – property and contents claims up to £10,000

Fidelity Guarantee – claim excess up to £25,000

The balance of specialist and catastrophe risks, including the value of individual claims that falls above the claim costs mentioned above are placed with external insurers.

In order to best protect the Authorities finances and in the event of exceptional circumstances, the maximum cost of claims that could fall to be paid by the internal funding provision is capped at £1,040,000 across all liability sections of cover (termed the aggregate cap). The external insurance arrangements step in to pay claims above this level. At no time during the existence of the internal funding provision has the aggregate stop been breached.

Terrorism Insurance continues to be procured for the whole of the Authority's buildings portfolio including its computer equipment.

3.2 Insurance Procurement Process

The value of the external insurance portfolio is such that there is a requirement to advertise those insurance policies due for renewal within the Official Journal of the European Union (OJEU). This advertises the specification and needs of insurance policy covers required by the Authority across the European Union. Interested parties are required to express their interest and Tender accordingly.

The Authority's specialist insurance broker, Heath Lambert Group, 27-35 Fleet Street, Swindon, SN1 1RG, currently places the OJEU advert, on behalf of the Authority. The OJEU tender process provides transparency in the procurement process.

The use of a specialist broker ensures that the Authority has access to all insurance markets, including access to Lloyds. The latter is particularly relevant to the Fire Authority, as the third party motor exposure has been insured via a Lloyds syndicate insurer for some time. There is a limited market for Blue light motor insurance risks and the Lloyds market is at the forefront of offering fleet motor cover of this type.

Generally, there remain a relatively small number of insurers willing or able to insure both Fire and Local Authorities; the main insurers are Zurich Municipal, Travelers and Risk Management Partners. There are a number of niche insurers providing cover in respect of specialist risks, details of all the current insurance providers are included on the attached appendix "A" taken from the last insurance report to the Authority on 24th September 2007.

There are a number of factors relevant to formulating the recommendations made in the annual insurance renewal report in order that the Fire Authority maximise the benefits from its insurance arrangements. There are cyclical factors that effect insurance premium levels as to do general market conditions, interest rates, insurers wishing to increase their portfolio or release what they see as poor risks, changes in their business objectives following mergers and acquisitions and general market competition.

A view is also taken on the benefits of entering in to long terms agreements with insurers depending the risk to be insured, the terms offered and the state of the insurance market.

The use of a specialist, public sector broker ensures that the Fire Authority best represent their interests in all insurance markets during the negotiation and placement of insurances.

The insurance Broker is appointed following a tender process organised by Transform Sandwell, Risk Management & Insurance.

3.3 External Insurances

Details of the external insurance cover placed with insurers are shown in the attached appendix "A". The level of cover provided reflects the risks presented by the operations of the Authority and the ability of insurers to provide insurance cover.

Certain insurances and inspection services are required in order to satisfy statutory requirements (fidelity guarantee and engineering inspection services).

Where there are external insurance policy covers in place, any internal funding arrangements mirror the insurance perils and terms and conditions for the purpose of claims handling.

The Authority takes advantage of long term undertakings offered by insurers where it makes commercial sense to do so. Insurers do this in order to retain consistent business over a set period of time and build up a relationship with the insured. In return, the Authority receives a discounted premium, typically 5% or 10%.

3.4 Reporting process

The renewal process and outcomes is the subject of an annual report to the Authority from the Treasurer and the Chief Fire Office, prior to the insurance renewal date of 1st October. The Authority considers the recommendation(s) made in the report, including any budgetary issues and authorises renewal as appropriate.

The report gives background to the renewal process, comments on market conditions where appropriate and highlights any issues with regard to individual insurance policy cover or considerations relevant to the committee in making an informed decision.

To aid comparison, the report appendix details the individual insurance covers, the insurer and the premium costs (including IPT and VAT where applicable) for the current renewal premiums and those of the previous year.

3.5 Actuarial review

The internal insurance provision is subject to an external actuarial review every two years in order to assess the adequacy of the internal provision to meet insurance claims. The actuary is appointed following a tender for services, ensuring that the review meets the requirements of the Treasurer and provides best value to the Fire Authority.

3.6 Alternative Insurance Markets

The Fire Authority has explored the potential of being part of the Fire & Rescue Authority Mutual (FRAML). The relatively recent resurgence of interest in the setting up of mutuals came about because of concerns over the cost and availability of insurance cover from existing providers. The activity in respect of Fire Authorities has been coordinated by FiReBuy, the national fire services procurement body and West Midlands Fire & Rescue Authority has participated in the data and analysis process.

A mutual insurance company is a joint venture controlled by its members, the members insure with the mutual instead of commercial insurers and pool their risks and share costs. There are many legal and practical issues involved in the setting up and viability of a mutual insurance company, not least is the need for a critical mass of those agreeing to become members of the mutual to be reached and the need for the initial capitalisation of the business requiring funds and guarantees.

The creation of a Fire Service Mutual insurance company was the subject of a comprehensive report to the Executive Committee on 18th December 2006 and ultimately the decision was taken not to proceed further with the involvement in the mutual. This does not preclude the possibility of WMF&RA purchasing their insurance from

a Fire Service Mutual Insurance arrangement in the future.

There has also been interest in the setting up of a mutual insurer for Local Authorities, in particular the London Authority Mutual Limited (LAML), in a similar format to the proposed Fire Service Mutual.

LAML have been challenged (by another insurer) as to whether member authorities have the power to jointly set up a company transacting insurance business and whether the OJEU procurement process would apply when transacting with that company. The results of the court case have upheld the challenge at this point in both areas, LAML must now consider whether they appeal the decision against them.

A watching brief will be kept on this matter and any advantages that may be gained from further engagement with FRAML will be reported to the Authority.

The Metropolitan Fire Authorities are also to explore if there is any advantage to be gained from joint procurement activity via a consortium approach to purchasing insurance. This would potentially mean a single offering to the existing insurance market to attempt to reduce overall insurance premium costs.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. This report provides information to members in respect of the current insurance arrangements, the matters contained in this report do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The course of action recommended in this report does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

6. **FINANCIAL IMPLICATIONS**

There are no financial implications as a result of this report.

BACKGROUND PAPERS

Appendix A attachment to renewal report of 24th September 2007.

F.J.E. Sheehan
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