



## Buckinghamshire & Milton Keynes Fire Authority

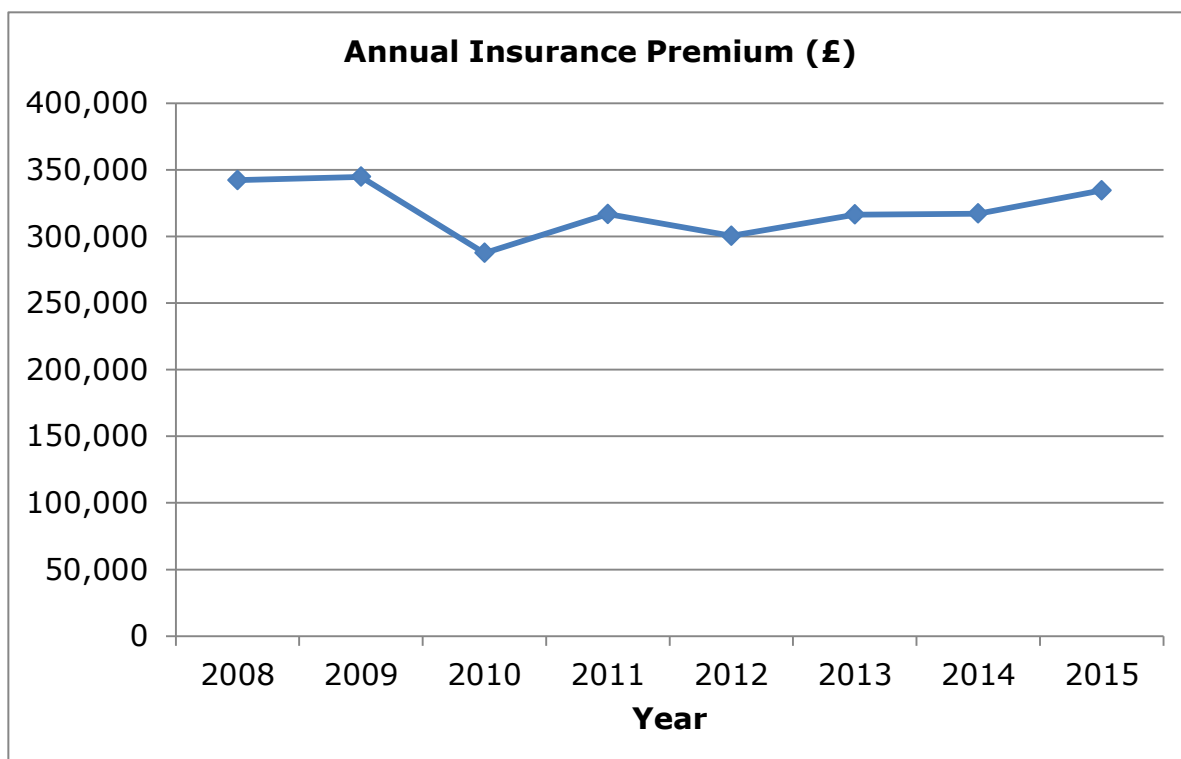
<b>MEETING</b>	Executive Committee
<b>DATE OF MEETING</b>	18 March 2015
<b>OFFICER</b>	David Sutherland, Acting Director of Finance and Assets
<b>LEAD MEMBER</b>	Councillor Andy Dransfield
<b>SUBJECT OF THE REPORT</b>	<b>Insurance Arrangements from 2015/16</b>
<b>EXECUTIVE SUMMARY</b>	<p>This report sets out the current insurance arrangements for the Authority, the claims history and the proposals for arrangements from 2015/16.</p> <p>It is being presented as the Executive Committee will need to be sighted on the risks of the new arrangements, as well as grant approval for the creation of an insurance reserve.</p>
<b>ACTION</b>	Decision.
<b>RECOMMENDATIONS</b>	<p>That the Executive Committee:</p> <ol style="list-style-type: none"> <li>1. Provide approval for the level of excess in relation to fleet insurance to be increased.</li> <li>2. Delegate authority to the Chief Finance Officer to determine the level of the excess.</li> <li>3. Approve the creation of an insurance reserve on 31 March 2015 with an initial transfer of £50k from the projected underspend in 2014/15.</li> </ol>
<b>RISK MANAGEMENT</b>	By increasing the level of excess, the upfront insurance premium will reduce, but with the potential for increased in-year costs. This risk has been modelled and is set out in the body of the report.
<b>FINANCIAL IMPLICATIONS</b>	<p>Based on ten fleet claims per year (which is the average for the past three years) the projected savings per annum by increasing the excess are:</p> <ul style="list-style-type: none"> <li>• at a £1,000 excess - £11k per annum</li> <li>• at a £5,000 excess - £17k per annum</li> </ul> <p>Further detail and analysis is set out in the body of the report.</p>
<b>LEGAL IMPLICATIONS</b>	No direct impact.

<b>HEALTH AND SAFETY</b>	No direct impact.
<b>EQUALITY AND DIVERSITY</b>	No direct impact.
<b>USE OF RESOURCES</b>	No direct impact.
<b>PROVENANCE SECTION &amp; BACKGROUND PAPERS</b>	None.
<b>APPENDICES</b>	Appendix A – Options for Insurance from 2015/16 Appendix B – Detailed Modelling Chart for Fleet Claims
<b>TIME REQUIRED</b>	15 minutes.
<b>REPORT ORIGINATOR AND CONTACT</b>	Mark Hemming <a href="mailto:mhemming@bucksfire.gov.uk">mhemming@bucksfire.gov.uk</a> 01296 744687

## Appendix A – Options for Insurance from 2015/16

### 1. Background

- 1.1. The Authority's current insurance policy is arranged through an insurance broker. The total premium paid (including brokerage fee) for 2014/15 was £335k.
- 1.2. The history of the cost of the annual insurance premium can be seen in Chart A below:



- 1.3. As can be seen in the chart, the insurance premium fell between 2008/09 and 2009/10, but other than one slight fall has risen year-on-year since then. The Authority is now considering two options to try and reduce the annual cost:
  - Accept a higher excess per claim in exchange for a reduced premium.
  - Apply to join the Fire and Rescue Insurance Consortium (FRIC) Insurance Pool.
- 1.4. In 2013/14, the Authority received quotations for the premium to be paid if a higher excess was accepted. The modelling in this paper assumes the same percentage reduction would be applied to the renewal costs for 2015/16. The insurance contract will be re-tendered for 2015/16 so the actual costs may be higher or lower. The table over the page shows the breakdown of the premium for differing levels of excess:

<b>Class</b>	<b>Scenario 1 (£)</b>	<b>Scenario 2 (£)</b>	<b>Scenario 3 (£)</b>
Fleet	127,995	115,305	105,039
Property	24,529	22,077	19,624
Employer's Liability	73,628	73,628	73,628
Public Liability	56,797	56,797	56,797
Other	51,821	51,821	51,821
<b>Total</b>	<b>334,770</b>	<b>319,628</b>	<b>306,909</b>

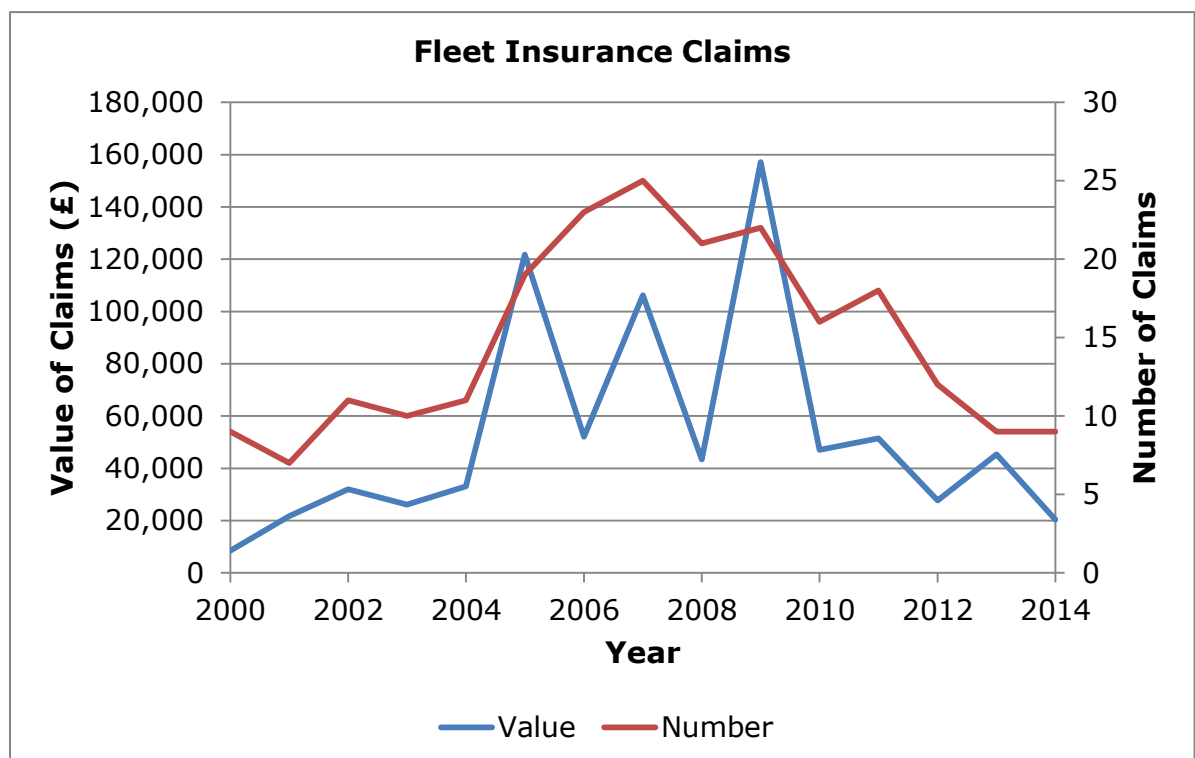
Excess (each and every claim):

- Scenario 1 – Fleet £1,000 (Red) £250 (White) Property £500
- Scenario 2 – Fleet £1,000 (All) Property £5,000
- Scenario 3 – Fleet £5,000 (All) Property £10,000

1.5. An analysis has also been undertaken of claims paid since 2000. The gross payment and number of claims is shown in the table below:

<b>Class</b>	<b>Total Paid (£)</b>	<b>Number of Claims</b>
Fleet	793,800	222
Property	195,809	6
Employer's Liability	183,069	11
Public Liability	61,517	2
Other	309	2
<b>Total</b>	<b>1,234,503</b>	<b>243</b>

1.6. The trend in the number and value of fleet claims since 2000 has also been analysed and can be seen in the chart below:



- 1.7. This analysis shows that the number of and value of fleet claims has reduced steadily in the last six years.
- 1.8. Of the six property related claims, one was for £151k, three claims were for between £10k and £20k and two smaller claims were made for approximately £1k each.
- 1.9. Since the increase in excess for property claims only reduces the premium by a relatively small amount, any benefit of a reduced premium could be more than offset by the cost of just one claim in a year. Therefore no further analysis has been done of this area.
- 1.10. No further analysis has been done of the employer's liability claims or public liability claims. The excess for these two areas is already set at £5,000 per claim and it is not proposed to increase this level at the current time.

## **2. Option 1 – Increase the Level of Excess for Fleet**

- 2.1. By increasing the level of excess payable for each and every claim, insurers will charge a reduced annual premium.
- 2.2. The current excesses for fleet are £250 per white fleet claim and £1,000 per red fleet claim. Assuming a 50:50 split in claims, the average is £625. It is proposed to increase this to either £1,000 or £5,000 per claim.
- 2.3. Modelling has been done based on historic claims from 2000 to 2014. The key findings are highlighted in section 2.5 below. The detailed chart can be seen in Appendix B.
- 2.4. The approach taken was to:
  - Count the number of incidents in bands of £100, from £0 through to £100,000.
  - Calculate the cumulative incidents to give an approximation for the probability that a claim will be above £x.
  - Group the above bandings into wider ranges to simplify the calculation processing, whilst still retaining sufficient granularity.
  - Use these probabilities and random number generation within Excel to simulate the anticipated claims cost (plus premium) for each level of excess for a number of claims ranging between one and thirty per annum.
  - Display the results graphically, showing the minimum, mean and maximum premium plus excess for each level of excess for the range of claims noted above.
- 2.5. The key points to note are:
  - Historically, 48% of all fleet claims have been for under £1,000.
  - Also, 86% of claims have been under £5,000 and 92% have been under £10,000.
  - The mean costs when the excess is £1,000 or £5,000 are both lower than the mean costs when the excess is £625 for all volumes modelled.
  - The mean cost for a £5,000 excess is lower than at £625 for all claim volumes and lower than at £1,000 for claims up to 22 per annum.
  - The maximum total cost for the £1,000 excess never exceeds the mean total cost for a £625 excess level.

- Whilst the maximum cost for a £5,000 excess is volatile, it is only consistently above the maximum cost for a £625 excess after 15 claims per annum.

### **3. Option 2 – Apply to Join the Fire and Rescue Insurance Consortium (FRIC) Insurance Pool**

- 3.1. From 1 November 2015, the nine fire and rescue authorities that are current members of the FRIC are proposing to create a shared indemnity fund. They are proposing the formation of an entity to act as a pooling mechanism to share risk and reduce “insurance” costs.
- 3.2. A hybrid pooling model is planned with a discretionary pool for the attritional losses and conventional insurance for larger losses.
- 3.3. The rationale for the pool is that by grouping together, authorities are able to carry the risk of a larger policy excess or excess than they could individually.

### **4. Recommendations**

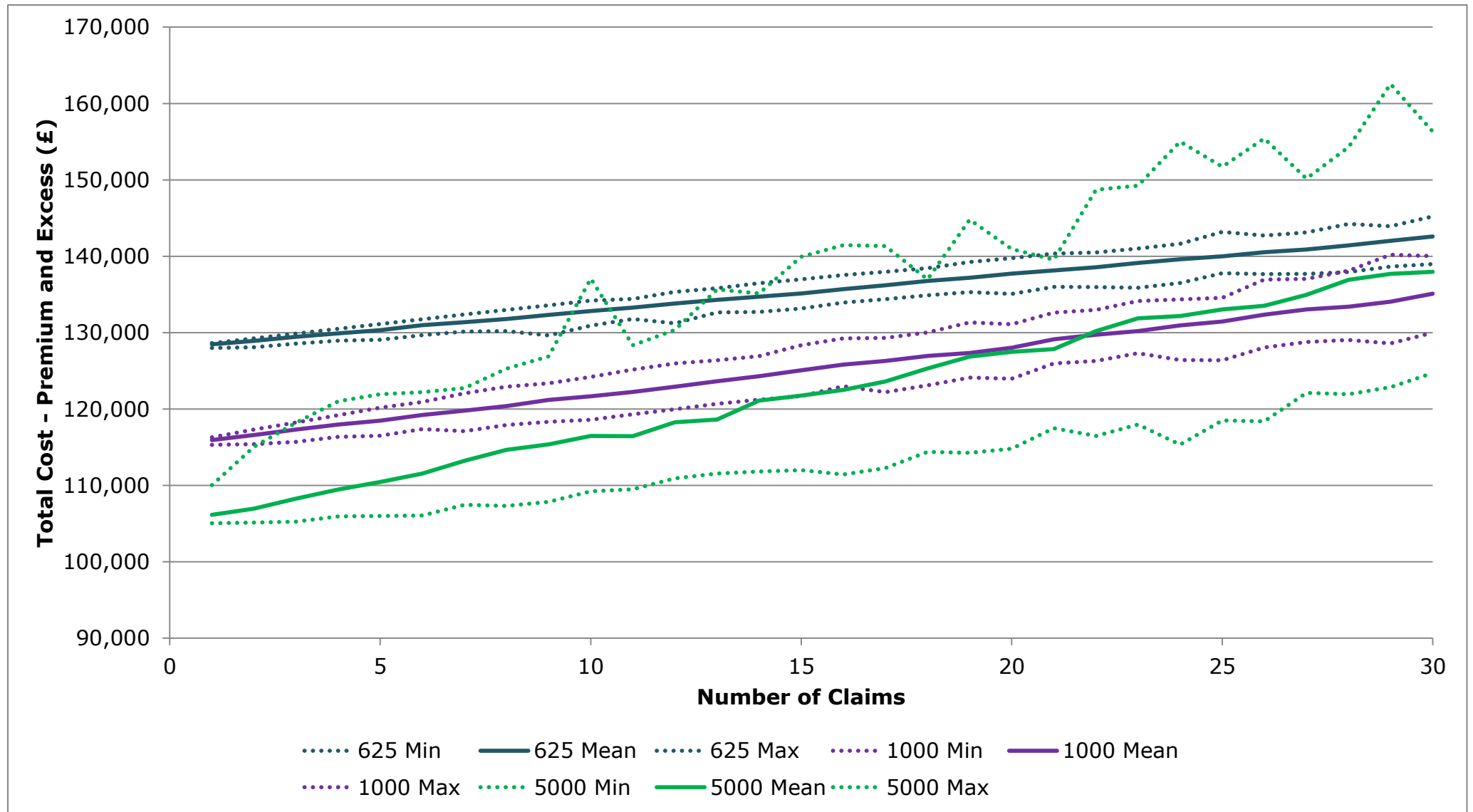
- 4.1. Option 1 is being recommended over option 2 because:
  - The new pooling arrangement is not due to start until November 2015. This is a fairly fundamental shift in the way insurance is handled and the risks and benefits associated with it are yet to be proven.
  - Being in a pool may restrict our ability to make operational changes that are considered by other members of the pool to add significant risk.
  - The Authority has a low number of claims per year and the trend shows that these have reduced steadily over the past six years. Joining a pool may increase the overall risk profile.
  - Given the historic claims levels, the modelling indicates savings can be generated whilst still maintaining an acceptable level of risk by increasing the level of deductible per fleet claim. It is not proposed to increase the level of excess in respect of property, as one claim per annum would likely cost more than the amount saved in terms of a reduced premium.
  - The creation of an insurance reserve would smooth the impact of any years with exceptionally high or low claim volumes. It is recommended that the level of reserve would initially be set at £50k, as this approximate maximum spread between the minimum and maximum total claims cost for a fleet excess of £5,000.
  - It is recommended that the following excesses be adopted for each class, although the Chief Finance Officer will have delegated authority to determine the final amount based on the detailed quotations to be received:
    - Fleet – £5,000 (increased from an average of £625)
    - Property – £500 (no change)
    - Employers Liability – £5,000 (no change)
    - Public Liability – £5,000 (no change)
    -
- 4.2. Based on the 2014/15 quotation, the annual premium for this recommendation would be split as follows:

<b>Class</b>	<b>Premium</b>
Fleet	105,039
Property	24,529
Employer's Liability	73,628
Public Liability	56,797
Other	51,821
<b>Total</b>	<b>311,814</b>

- 4.3. This represents a saving of approximately 7% on the cost of the total annual premium. As noted in section 1.4, the contract will be re-tendered for 2015/16 so the actual costs may be higher or lower.
- 4.4. For information, the breakdown of insurance included within 'Other' is shown in the table below:

Contract Works	3,286
Specified All Risks	1,928
Deterioration of Stock	133
Money	588
Computer All Risks	3,302
Business Interruption	2,444
Fidelity Guarantee	7,813
Officials Indemnity	5,768
Professional Indemnity	3,180
5% Discount	-14,690
Terrorism	3,020
Motor Fleet Uninsured Loss Recovery	982
Group Personal Accident & Travel	11,224
Engineering Inspection	5,043
Fee	17,800
<b>Total</b>	<b>51,821</b>

### Appendix B – Detailed Modelling Chart for Fleet Claims





The table below highlights figures (Total Cost – Premium and Excess [£000]) from the above chart at a regular interval of claim numbers:

Claims per Year	£625 Excess			£1,000 Excess			£5,000 Excess		
	Min. (£000)	Mean (£000)	Max. (£000)	Min. (£000)	Mean (£000)	Max. (£000)	Min. (£000)	Mean (£000)	Max. (£000)
1	128	<b>128</b>	129	115	<b>116</b>	116	105	<b>106</b>	110
5	129	<b>130</b>	131	117	<b>118</b>	120	106	<b>110</b>	122
10	131	<b>133</b>	134	119	<b>122</b>	124	109	<b>116</b>	137
15	133	<b>135</b>	137	122	<b>125</b>	128	112	<b>122</b>	140
20	135	<b>138</b>	140	124	<b>128</b>	131	115	<b>127</b>	141
25	138	<b>140</b>	143	126	<b>131</b>	135	119	<b>133</b>	152
30	139	<b>143</b>	145	130	<b>135</b>	140	125	<b>138</b>	156

The projected savings (based on the mean total cost) for the £1,000 and £5,000 excess compared to the current level are shown in the table below for the same range of claims (amounts in £000):

Claims per Year	£1,000 Excess	£5,000 Excess
1	12	22
5	12	20
10	11	17
15	10	13
20	10	11
25	9	7
30	8	5