

Annex B

FIRE & RESCUE INDEMNITY COMPANY LIMITED

PROSPECTIVE MEMBER GUIDANCE

Background

Membership of Fire & Rescue Indemnity Company Limited (FRIC) is for UK Fire and Rescue Authorities that want to work together to reduce the frequency and cost of risk related incidents through improved risk management. FRIC is a “mutual” company limited by guarantee that opened for business with nine founding member authorities on 1 November 2015. Each FRIC Member contributes to a fund which is used to pay for claims, supporting insurance and the Mutual’s business overheads. The Mutual aims to optimise each Member’s risk transfer programme and reduce costs. FRIC Members also have a strong commitment to working together to improve their risk management arrangements and reduce incidents and the overall cost of claims. We welcome applications for membership from any UK Fire and Rescue Authority that shares our values.

What are our values?

We support Fire and Rescue Authorities who want to:

- Reduce the direct and indirect cost of losses
- Work collaboratively to improve risk management arrangements to reduce the risk of incidents and claims
- Improve claims investigation and handling to reduce the cost of claims
- Share data to focus risk management activity
- Contribute to documenting and benchmarking risk management arrangements and aspire to meet best practice
- Share the costs of claims with other Authorities

What is a mutual? How does FRIC work?

A mutual is a legal mechanism which allows its members to share risk and reduce associated costs. A hybrid discretionary mutual model is in place for FRIC with an initial layer of risk retained by the Mutual and insurance purchased in the Members’ names for losses above the retention, plus vehicle and Employers’ Liability insurance as required by law. The use of such a discretionary route is well established and is specifically acknowledged in the Financial Conduct Authority handbook. The amounts of each claim that falls on the mutual, after allowing for the individual member’s retention are summarised in the table below.

Fleet Retention ¹ per Claim	£500k	+ Cross Class Aggregate Insurance ² for retained losses between £2m and £3.6m + Excess Layer insurance ³
Liability Retention ¹ per Claim	£200k	
Property Retention ¹ per Claim	£100k	

¹ The amount of an agreed claim payable out of FRIC’s funds.

² An aggregate insurance policy with an attachment point applying across the sum of claims within the Retention for two or more classes of cover.

³ An insurance policy in the name of the Members covering losses in excess of the Retention as shown in the attached Summary of Protection Limits.

The amounts above the FRIC retention are covered by conventional insurance with each Authority named on the insurance agreement. The establishment of a company to manage a fund to pay claims on a discretionary basis is a legally recognised alternative to conventional insurance.

It is a structure used by groups who share common risks such as UK Universities and City of London Livery Companies. When an organisation cannot carry the cost of a large deductible on its own, cost saving benefits can be achieved through a discretionary mutual. The current structure of FRIC was determined following actuarial analysis of seven years' claims data in the summer of 2015.

FRIC is not an insurance company and its products are not contracts of insurance: each Member has the right to have a claim considered, rather than the right to have a claim paid. The FRIC Board has absolute discretion when it comes to agreeing claims, but Members should expect valid claims to be settled in line with the terms of their Protection.

The Directors have been appointed from appropriate personnel of participating Members. In addition the Articles make provision for independent directors and as at January 2018 one independent director has been appointed. The Directors have a duty to run the Mutual for the benefit of the Membership as a whole. All Members have a say in how the Mutual is run and a number of key issues are retained for approval by member authorities rather than the Board of Directors.

The current FRIC Directors are:

Chairman - Mike Clayton – Independent Director – until December 2017 Finance Director & Treasurer of Essex Fire Authority
mike.clayton@fric.org.uk

Connor Byrne – Head of Finance & Procurement – Royal Berkshire
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Gavin Chambers – Head of Finance and Treasurer - Bedfordshire
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Richard Feltham - Corporate Governance and Risk Manager - Kent
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Lee Howell – Chief Fire Officer – Devon and Somerset
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Geoff Howesgo – Director of Professional Services – Hampshire
Geoff.howesgo@fric.org.uk

Sue Nugent - Insurance and Risk Manager - Devon and Somerset
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Regis Mutual Management Limited, a firm of experienced mutual managers authorised and regulated by the Financial Conduct Authority, manages FRIC's business activities. The Mutual is an appointed representative of Regis in respect of any regulated activities.

What are the steps to Membership?

The Mutual began trading on 1 November 2015 when the current insurance contracts for the FRIC Member Authorities expired. Authorities are eligible to apply for membership at any time, and will receive protection provided by the Mutual from the date they join. To join FRIC, interested Authorities will need to:

1. Gain Authority approval;
2. Pay a one-off, non-refundable on-boarding fee of £15,000;
3. Commit to a minimum of three years' membership;
4. Document their risk management arrangements and risk profile in the standard format adopted by FRIC;
5. Have their risk management arrangements and claims history independently validated by FRIC's risk management advisors (a charge is likely to be payable for this service); and
6. Commit to seeking continuous improvements in their risk management arrangements and adopt common forms and analysis codes.

The initial fee of £15,000 is to cover the costs of Regis in undertaking the data capture and actuarial analysis of claims information. A fee of around £3,000 will be payable for the validation of risk management arrangements, depending on the level of support needed to document the arrangements. The decision as to whether or not to admit an Authority as a Member of the Mutual will be taken by the Directors of FRIC in accordance with the Mutual's Articles of Association and Rules. The Articles and Rules also govern the arrangements and notice period for Members that no longer wish to participate. These can be found at <http://www.fric.org.uk/about/>

These steps are considered in more detail in the sections below.

Gain Authority Approval

In order for Authorities to assess the financial implications of joining the Mutual, FRIC will disclose the contributions of current Members together with the relevant level of self-insurance or deductible. The benefit of Membership of FRIC is not however purely a matter of price. FRIC is not prepared to attempt to set the contribution for a new Authority as part of a wider market costing exercise, but we believe there should be significant savings over the medium term if claims costs are effectively managed. We believe therefore that participation in FRIC is only one part of our shared vision for improving risk management and reducing the overall cost of claims.

The use of FRIC as a substitute for conventional insurance procurement is not subject to the Public Contract Regulations. Each Authority is a participating Member of FRIC, only UK Fire and Rescue Authorities can be Members and Members can exercise the necessary degree of control, so the exemption provided for in the Regulations applies (this was formerly the "Teckal" exemption).

The business case for the Mutual is based on a study, commissioned by the founding FRIC Members, and undertaken by Regis in May 2013. The data within the study was re-validated in the summer of 2015. Copies of the study will be made available to interested Authorities. Based on this study a template Authority paper to seek the necessary approvals to apply to join FRIC has been drafted and used by the existing Members and can be shared with prospective Members if required. This sets out in greater detail how the mutual arrangement works and what financial protections are in place.

The legal advice in the paper was provided by Guy Goodman from Leicestershire FRA. A further legal opinion from John Cavanagh QC has also been obtained and can be made available to potential Members subject to signing a confidentiality agreement. FRIC will support Authorities fully throughout the application process in order to ensure as smooth a transition as possible.

Once an Authority has made the decision to join FRIC, their application is put to the FRIC Board for approval.

Fee

There will be an initial, non-refundable fee of £15,000, payable to FRIC when the application is made, to cover the costs of processing the application.

Document Their Risk Management Arrangements

The Mutual has adopted a standard format to document the risk management arrangements in place across the full range of risks and has agreed a best practice standard to which all Members aspire. In addition, the risk profile of each Member is recorded in a common format. Copies of these can be shared with prospective Members. We will also support Authorities in this process, which is now a practice recommended by the Health and Safety Executive.

Benchmark Risk Management arrangements

FRIC uses Paragon Risk Engineering to support aspects of the journey to improve risk management. As part of the application process, we require Authorities to agree to an independent benchmarking of their risk management arrangements and claims records by specialists from Paragon and Regis. This is not a "pass" or "fail" exercise but is designed to maximise awareness of any gaps between "best practice" and the arrangements in place in each Authority. Access to these documents for existing Members will be provided to interested Authorities. As part of the ethos of mutual trust and shared learning, these reports are shared with all Members in order to assist in directing risk management support and the development of risk improvement projects.

Continuous Improvement in Risk Management

One major building block for Members is the commitment to improving risk management arrangements in order to reduce the number of incidents and cost of claims. Authorities wishing to join FRIC will be required to commit to this approach. They will be expected to commit to improving their own risk management and helping to make overall improvements across the FRIC Membership through the sharing of best practice, help and advice to other Members.

Members also meet as a separate risk management group to progress risk improvement projects and share experiences and successes. We also welcome applications from Authorities who want to join in the risk management work without necessarily becoming a FRIC Member.

WHO DO I CONTACT FOR FURTHER INFORMATION?

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FRIC – Summary of Protection Limits Effective 01/11/15



Class of Protection	Basis of Protection	Member Limit	
Motor Fleet	Comprehensive	Vehicle Third Party Injury Third Party Property Damage	Market Value £Unlimited £25m* ((including ring fenced £5m legal defence) <i>*£5m for Hazardous Goods</i>
Employers Liability	Legal Liability	£50m per event	
Public / Products Liability	Legal Liability	£50m per event and in all for Products and Pollution	
Officials Indemnity	Legal Liability	£5m Aggregate plus 1 Reinstatement	
Professional Indemnity	Legal Liability	£5m Aggregate	
Property	All Risks, premises based, excluding Terrorism	As declared in schedule of properties supplied by Member	£50m combined Property and Business Interruption Member event limit
Business Interruption		As declared in the FRIC Member Renewal Questionnaire	
Computer	All Risks including Breakdown and full Theft, excluding Terrorism	As declared in FRIC Member Renewal Questionnaire	
Money	Loss of Money	FRIC Standard Limits, up to £10,000	
Works In Progress	All Risks excluding Terrorism	£5m per location / event	
All Risks	All Risks, worldwide excluding Terrorism	As declared in the FRIC Member Renewal Questionnaire	
Fidelity Guarantee	Employee Fraud	£5m Aggregate	

Other specialist policies such as marine or travel are purchased jointly for FRIC members.