Insurance and Risk Financing Strategy 2024-2029

Contents

Background and Introduction

This document sets out the Council's insurance and risk financing strategy.

The aims of this strategy are:

- To maintain an insurance programme that provides an optimal balance between external insurance and self-insurance within a framework of prudential financial management.
- To maintain adequate insurance provision for received claims and reserves to meet future potential and contingent liabilities and to support the Council's wider financial obligations.
- To maintain robust and effective claims handling procedures to enable the Council to successfully defend claims and where this isn't possible, to minimise the costs of claims.
- To ensure that the Council remains an attractive risk to insurers and underwriters.

As risk changes through the evolution of the Corporate Plan, it is vital to ensure that the Insurance model is fit for purpose and in line with these altering risks. The Insurance Strategy will underpin the Council's objectives by managing the financial exposure and therefore protecting the reputation of the Council as it develops.

In line with these changing risks, the Strategy must also ensure that the Council's assets and employees together with the users of the Council's many services and resources remain protected through its insurance programme against the significant impact of loss.

Governance

The Council's Financial Procedure Rules state:

H Insurance

The Chief Finance Officer shall arrange and administer all insurance cover.

Procedures for self-insurance must be approved by the Chief Finance Officer. He/she may give that approval where, in his/her opinion and after consulting with the relevant Chief Officer and Executive Member (Finance and Governance), self-insurance is deemed to be the most economically advantageous option.

Directors must notify the Chief Finance Officer, as soon as possible, of all risks, properties or vehicles which need to be insured. They must also notify the Chief Finance Officer promptly of any alterations affecting existing cover. All notifications under this paragraph should indicate the amount of cover needed.

In handling claims from third parties or from employees, Chief Officers must ensure that the mandatory requirements relating to response times are met.

Chief Officers must ensure risk management is promoted within their Departments and, during the year, must ensure that the identified risks and their values remain valid.

Chief Officers must promptly notify the Deputy Director, Legal & Governance and the Chief Finance Officer of any matter likely to result in a claim against the Council.

Uninsured claims against the Council, where appropriate, may be settled by individual Chief Officers up to £500, in each case. These settlements must be in accordance with guidelines issued by the Chief Finance Officer in consultation with the Deputy Director, Legal &

Governance. Uninsured claims above this amount, up to a limit of £1,500 in each case, shall be settled, where appropriate, by the Chief Finance Officer, after consultation with the relevant Chief Officer and the Deputy Director, Legal & Governance.

Risk and Risk Management

Organisations such as the Council face a wide range of risks. Good risk management means that the Council have a detailed understanding of the risks faced and is equipped with the tools to effectively manage them.

There are five basic principles of risk management:

1) Risk identification – identifying what risks exist
2) Risk analysis – assessment of the risks and their potential frequency and severity
3) Risk control – elimination of the risks where possible or mitigation where not
4) Risk financing – external insurance and self-insurance
5) Claims management – reducing the financial impact of an incident / loss

Risk is the probability that an event could occur that causes a loss.

Inherent/Gross risk is the level of risk before any controls and/or preventative measures have been put in place.

Current/Residual Risk is the level of risk remaining after controls and/or preventative measures have been put in place.

Many of the risks faced can be removed entirely or mitigated to an acceptable level through proactive risk management.

Purchasing insurance cover to protect against all of these risks is neither the most viable nor practical way to address their potential for causing loss/harm to the organisation.

The Council has in place a Corporate Risk Management Policy Statement, Risk Management Strategy and Framework and a Risk Management Toolkit that ensure 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 for the retention of some risks, either by deciding to accept and self-insure those risks in their entirety or by purchasing insurance cover for losses that arise over a certain value. Adopting this approach makes the Council more attractive to insurance underwriters opening up more opportunities for cost effective insurance cover.

The continued commitment of all employees and departments across the Council to effective risk management is essential to reduce risk and ultimately reduce the likelihood of incidents occurring and claims arising.

Risk Retention and Transfer

The arrangements fall into three groups:

1) Risks that are entirely covered through external insurance.
2) Risks that the Council entirely self-insures.
3) Risks that are a mixture of self-insured and covered through external insurance.

Insured Risk – transfer the risk
Insurance is a financial mechanism through which an individual or organisation can transfer risk to an insurance company in exchange for an insurance premium to ensure financial certainty (as far as possible).

The basic principle of insurance is that the losses of the few are paid for by the premiums of the many.

Self-insured Risks – tolerate and retain the risk
There are some risks that may be considered more cost effective to retain and self-insure than purchasing cover from an insurance company. When self-insuring, risks can either be retained entirely or partially for example, through having a high policy deductible or excess.

The external insurance market periodically goes through cycles which sees more expensive cover, more restrictions, less insurers in the market (hard market) or periods where there is cheaper cover, less restrictions and more insurers in the market (soft market).

Recent years have seen a gradual hardening of the external insurance markets causing premiums to increase, more restrictions being placed on the cover available and some insurers dropping out of the public sector market or not offering cover on specific lines of business.

In the current market, Councils are often looking to reduce costs of insurance by increasing levels of self-insurance, or insurers are requiring it in order to provide cover.

Risk Appetite
The question of the level of risk-retention for insurable risks is fundamentally linked to the organisation's level of risk tolerance (financial capacity to bear risk) and risk appetite (whether there is willingness to take on the associated additional risks). Two organisations with identical insurable risk profiles may have differing optimal insurance programmes owing to wider enterprise risk management considerations, such as their ability to absorb and account for own claims on the balance sheet, the organisational objectives/articles or the diversification of insured and non-insured risks.

There are advantages and disadvantages to consider when deciding whether to self-insure more (or conversely, less) risk, as set out below.

Advantages of increased self-insurance

- The Council will enjoy significant savings on years with relatively lighter claims experience.
- Further risk retention may encourage more accountable risk management and incentivise departments to reduce the frequency and/or severity of claims (e.g. through improved risk management). This may well save cost in the long run. Taking on more risk usually delivers more control of risk to the organisation.
- Loss settlements and remediation may happen faster for more claims, especially for property lines, as the organisation is able to pay more claims itself.

Disadvantages of increased self-insurance

- Increased volatility in balance sheet risks which might inhibit the extent of financial planning available to the Council.
- A better value price on one cover may be available for higher retention on another cover.
- There may be an additional fee associated with management of the claims.
- Insurers may be able to provide some expertise in areas of risk management and claims recovery through their wider knowledge, which help to keep costs down.
- To some extent the insurer's aggregate stop loss may be increased if the each and every loss deductible increased.

Overall the following factors usually influence risk tolerance and risk appetite:

- Premium saving
- Availability of own funds
- Our confidence (or otherwise) in the risk or risk management posed by the event we want to insure.

Insurance Arrangements

There are various statutory insurances that the Council is required to hold by law. These include Fidelity Guarantee Insurance (Local Government Act 1972), insurance and inspection services for boilers and lifts, etc. (various Health and Safety acts) and Motor Vehicle Insurance (Road Traffic Act of 1930).

The Council has undertaken full re-tenders of its insurance contracts in 2001, 2007, 2012, 2017 and 2023 with advice and support from the Council's Insurance Brokers and Procurement colleagues.

Zurich Municipal is one of the leading providers of insurance and risk management solutions for the public sector and have been the primary insurer for the Council since 1st April 1997.

The Council last undertook a full re-tender of its insurance contracts from 1st April 2023. As a result of this the Council entered into a Long Term Agreement (LTA) with Zurich Municipal for its main areas of cover. Discounts are given off annual premiums/fees for LTA's of 3 years or more.

The current LTA expires 31st March 2026 and there is the option to extend the agreement for a further 2 years until 31st March 2028, and an additional 2 years thereafter until 31st March 2030, should the Council deem either of these options to be appropriate.

Updated information e.g. building sums insured, staff numbers etc, is submitted to the insurers on an annual basis throughout the period of the LTA. This information is reviewed by the insurers and alongside current market and trading conditions, this determines the premium rates for the forthcoming policy year. If the Insurers break the rates agreed as part of the LTA the Council is generally open to re-tendering if this is deemed appropriate.

Details of the insurance cover the Council currently hold for the 2024/25 policy year are found at Appendix 1.

Claims Handling Arrangements

The Insurance Team handle a wide range of claims received against the Council. The team handle the majority of damage only claims up to a value of c.£2000 in-house. The majority of damage only claims over c.£2,000 and all Personal Injury claims are dealt with by the Insurer.

Zurich Municipal charge an annual fee in respect of the handling of public liability (including ancillary) and employers liability claims on behalf of the Council. This fee is for 'cradle to grave' claims handling and covers the policy year in question meaning that they would not seek an additional payment, even if the Council were to no longer be insured with them in future years.

Where claims are handled by the insurer, the Insurance Team are involved in liability and quantum decision making, utilising the expertise of both parties and ensuring the most appropriate decision is made at as early stage as possible to reduce claims spend.

Zurich Municipal have teams across the country with specialised knowledge across key lines of business including Motor, Property and Casualty including leading technical expertise across the claims spectrum and in-depth risk knowledge of the public sector. The Council have a dedicated Underwriter, Claims Relationship Manager and Risk & Insurance Consultant.

They are supported by a panel of specialist external Lawyers, Barristers, Loss Adjustors and other experts.

The Insurance Team work closely with departments across the Council to gather information pertaining to claims in order to consider the liability position. The support and co-operation of colleagues across the Council is imperative in assisting with a successful defence. Feedback is provided to departments on claims, particularly where a defence is not available.

The Insurance Team also deal with certain types of uninsured loss recoveries (ULR's) where the Council is not liable e.g. damage caused to Council vehicles. Certain types of ULR's are dealt with by the department responsible for the property/asset.

Actuarial Review and Insurance Funds

The Council appointed Arthur J. Gallagher Insurance Brokers Limited to undertake a Self-Insurance Funding Review and Insurance Programme Design Review (Actuarial Review) which was completed in January 2024. The review was undertaken by a Senior Consulting Actuary who is a Fellow of the Institute of Actuaries (FIA).

The insurance costs and claims provisions for the year ended 31st March 2024 were as follows:

Fund	**Amount**
Claims Provision	£4,760,000 (general claims and uninsured claims) £319,000 - MMI
Annual Insurance Premiums	£1,613,399
Annual Risk Management Budget	£7,500
TOTAL	**£6,699,899**

Claims Provision

This includes provision for incidents that have taken place that gives the Council, or potentially gives the Council, an obligation to make a settlement and reserves for future potential and contingent liabilities that haven't been realised yet. The Council's self-insurance is met by a central Insurance Fund (amount detailed above) held by Finance and departments also fund the cost of low value claims from their own budgets.

Municipal Mutual Insurance (MMI)

In the majority of years prior to 1992, the Council, like most local authorities, was insured with MMI for its Employers and Public Liability insurance. Insurance during this period was 'ground up' meaning that all insurance claims were paid in full by MMI as the policies had no deductibles/excesses.

MMI went into administration and wrote its last policy in 1992. A Scheme of Arrangement was established in 1994 (effective from 30/09/93), deemed to be in the best interests of policyholders of MMI as an alternative to winding up the company in the event that a solvent run off was not achievable. This Scheme was essentially held in the background as a potential strategy between 1994 and 2012.

The Directors of MMI reluctantly concluded in 2012 that a solvent run-off without triggering the Scheme was unlikely and the Scheme was formally triggered on 13th November 2012. It was decided that a 15% levy was appropriate to address the shortfall between MMI's remaining assets and forecast liabilities, i.e. there would be a claw back from every member of the Scheme of Arrangement of 15% of cumulative claim payments made by MMI on or after 30th September 1993 (less £50,000). In March 2016 an additional levy was set at 10% with payment required by mid-May 2016.

Members of the Scheme of Arrangement are self-insured to the extent of 25% of any future claim payments. In addition, MMI have indicated that Scheme members must make future claim payments themselves, having received authorisation from the claim handlers, and then seek 75% reimbursement from MMI.

In the MMI accounts for the year ending 30th June 2020, the current scheme administrator continues to indicate that MMI believes that they had reached a stable run-off position, given current information, and were not anticipating a further levy currently.

A request for payment of a further levy on historic claims may be made on creditors but not in the near future. Gallagher therefore hold the view that there is still enough uncertainty to warrant reserving at a higher level (35%) than currently allowed for in the levy and therefore clients hold a reserve for a further levy of 10% (this is reflected in the fund table above).

Human Rights Act 1998 (HRA)

The Actuarial Review only addresses the self-insured risk areas and does not identify or quantify the Council's potential uninsured loss exposures from other risks or contingencies. An emerging risk in this area is that of claims pursued under the Human Rights Act 1998 (HRA).

HRA claims against the Council are mostly in relation to Adult and Children's social care for example, where there is an allegation that the local authority failed to remove a child from a situation in which they were being harmed, or where a deprivation of liberty safeguard has not been put in place in the case of an adult.

HRA claims relating to children's social care have historically been pursued alongside a common law negligence claim, with the common law negligence element being the predominant claim. However changes resulting from case law in recent years have meant the legal grounds for successful common law negligence claims have become more difficult for the claimant to bring. This has seen a shift change and in certain cases has led claimants to either abandon the common law negligence element of their claim entirely and pursue their claim solely under the HRA, or still pursue the common law negligence element but with a primary focus on the HRA element.

The policy coverage under the public liability policy with Zurich Municipal is predicated on there being an 'injury' which may give rise to legal liability. Injury is defined under the policy as *'bodily injury, illness or disease (including death)'* and this includes recognised psychiatric disorders. The public liability policy does not cover HRA claims per se and HRA just satisfaction awards are not recoverable.

The 'injury' element is easier to establish in cases where there has been clearly identifiable abuse of some kind, such as in physical/sexual abuse cases. However, claims on behalf of children alleging inappropriate removal from a family, or a failure to ensure permanence in care planning, may not include a recognised physical or psychological injury within the claim. This also proves more difficult in adult care cases where the allegation may be related to deterioration of health due to a failure to provide appropriate equipment or community access. Many of these types of cases involve adults without capacity, where the specific cause of any deterioration, or if indeed there has been any, can be difficult to establish and further medical examination may not be in the claimant's best interests, leading to the claimant's representatives seeking a payment for just satisfaction only.

HRA claims are often pursued under Article 3: Freedom from torture and inhuman or degrading treatment, Article 6: Right to a fair trial and/or Article 8: Respect for your private and family life, home and correspondence. Policy cover therefore becomes problematical where, for instance, claims are pursued for breach of Article 6 and/or Article 8 where no injury is claimed, or Article 3 where there is no medical evidence to support injury.

As a result of the changes in law and a potential increase in the number of claims that are either pursued solely on the basis of alleged HRA breaches, or where the HRA claims are the predominant element, there are likely to be more situations arising where part of the claim is not covered by the public liability policy and Zurich seek a contribution, or even cases where there is no insurance cover at all and the Council will bear the full cost. Each case will be considered on its own merits and this is a complex and evolving area which may be further impacted by future changes in case law.

As at 17th September 2024, the Council have made a contribution in 3 separate cases (with 10 claimants across the 3 cases). In addition to these cases there are 8 open cases (with 11 claimants) notified to the Council that have a confirmed, or a potential, HRA element to them. It does not however, naturally follow that the Council will be required to contribute or pay these claims and as above, each case will be considered on its own merits.

Annual Insurance Premiums
This is based on the 2023/24 annual premiums and any indications provided by the insurers and brokers of changes throughout the policy year.

The Council re-charges the buildings insurance premium to its commercial and industrial tenants, where the lease/licence allows.

Schools are able to buy into the Council's motor insurance cover for their school vehicles e.g. minibuses and engineering insurance cover. They are re-charged a premium for this cover.

The Actuarial Review concluded that overall the cover appears broadly appropriate on Liability and Motor taking into account the Council size and the level of premiums. They advised as follows:

Liability Cover:

- It is relatively unusual to have differing deductible levels for EL and PL, though deductibles less than £100k are typical for councils of Blackburn's size.
- The aggregate stop loss provides some protection in the more adverse scenarios, but appears high for both EL and PL.

Motor Cover:

- The actual premiums are broadly in line with our estimated indicative premiums.
- Taking into account the low frequency of large council motor cases and the comparatively low premium spend on this cover, the current deductible levels appear appropriate.

Annual Risk Management
There is a central budget which is available to contribute towards the costs of risk management initiatives within departments or corporate projects. These initiatives should demonstrate that they will address risk issues and ultimately reduce the incidence or impact of potential insurance claims that the Council experiences and thereby reduce future premiums.

The funding cannot be used instead of the department's own revenue budget for ongoing service provision; however it can be used to contribute to one off costs to implement new risk management initiatives where the department's budget is not adequate, or where there is a one off corporate need that cannot be met from existing budget provision.

Objectives and Strategy

The main aim of the strategy is to maintain, or reduce where possible, the total cost of risk i.e. the total cost to the Council of external insurance and self-insurance.

Key Strategy Projects
The strategy encompasses the following six key projects and initiatives designed to support the current and future insurance requirements of the Council:

- Insurance Tender
- Annual insurance renewals
- Actuarial review
- Claims handling
- Management Information
- Risk Management and lessons learnt

The objectives will be achieved by:

1) In consultation with the Council's Insurance Brokers and Insurers, a review has been undertaken of the current insurance arrangements. Prior to the next insurance renewal from 1st April 2025, further consideration will be given as to the cover options requested and these options will be reviewed annually and in detail as part of the next insurance tender.

   As part of the 2023/24 re-tender, the following alternative quotations were requested to allow the Council to assess the savings on premium that would result from accepting a higher level of self-insurance:

Cover	**Excess Options**
EL	Option 1 - £25,000 Option 2 - £50,000
PL	Option 1 - £25,000 Option 2 - £50,000
Motor	Option 1 - £25,000 Option 2 - £50,000
Corporate Property	Option 1 – FLEA perils with nil excess except £250,000 storm Option 2 – FLEA perils with £100,000 excess except £250,000 storm Option 3 – All Risks with nil excess except £250,000 storm

   The above options are indicative of alternative options that may be requested moving forwards however, it is likely that to see a worthwhile saving in premium, significantly higher excesses will be required. Any premium saving will of course need to be balanced against the increased risk of self-insurance.

2) Actuarial Reviews will be undertaken annually to review the continued adequacy of the Claims Provision. An Actuarial Review including Programme Design Review will be completed prior to any re-tender of the insurance contracts to provide advice on the most appropriate excess/deductible and aggregate stop loss structures, to be requested within the tender. This will ensure that the Council maintains an optimal balance between external insurance and self-insurance.

Definitions/Glossary

Aggregate Stop Loss
A monetary limit provided by the overlying insurer, eroded by the accumulation of paid losses within the insured's deductible / excess. If cumulative paid losses within the insured's deductible / excess exceed the aggregate stop loss, any further losses are paid by the overlying insurers from the ground up unless non-ranking excesses apply.

Provision
Made where an incident has taken place that gives the insured an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Reserve
Future potential and contingent liabilities for insurance claims, which fall outside the definition of provision.

Deductible/Excess
An amount that an insured will pay out of pocket before an insurer will issue payment for the remainder of the claim (up to any policy limits). So the maximum paid by the insurer is the limit less the deductible. Note that although often used interchangeably with excess (the concepts are very similar), on a policy with an excess, the insurer will pay a maximum equal to the limit. Is also sometimes referred to as self-insured retention (SIR).

Self-insurance
The funding of risks internally and not through purchasing external insurance.

Limit of indemnity
The limit under the policy of the insurer's financial exposure. Anything above the limit of indemnity is effectively not insured and is self-funded.

Other useful documents and information

- Insurance Protocol
- Risk Management Policy Statement
- Risk Management Strategy and Framework
- Risk Management Toolkit

Insurance Contacts

Colin Ferguson, Head of Audit and Assurance – 01254 585 326
Natalie Coupe, Principal Insurance Officer - 01254 269 221
Email: insurance@blackburn.gov.uk

APPENDIX 1

The Council currently hold the following covers for the 2024/25 policy year:

Policy	Insurer
PROPERTY COVERS	
Material damage	Zurich Municipal
Works in Progress (also known as Contract Works)	Zurich Municipal
Business Interruption – gross revenue	Zurich Municipal
Business Interruption - additional expenditure	Zurich Municipal
Business Interruption - rent receivable	Zurich Municipal
Money	Zurich Municipal
All Risks	Zurich Municipal
Homeowners	Zurich Municipal
Theft	Zurich Municipal
LIABILITY COVERS	
Public liability	Zurich Municipal
Employers' liability	Zurich Municipal
Officials' indemnity	Zurich Municipal
Libel and slander	Zurich Municipal
Professional negligence	Zurich Municipal
MOTOR COVERS	
Council Fleet	Zurich Municipal
ADDITIONAL COVERS	
Engineering insurance	Zurich Municipal
Engineering inspection contract	Zurich Municipal
Fidelity Guarantee (Crime)	Zurich Municipal
Hirers Liability	Zurich Municipal
Land charges	Zurich Municipal
Personal accident	Zurich Municipal
Public Health Act	Zurich Municipal
Business Travel	Zurich Municipal
Computer	Zurich Municipal
Hired in Plant	Zurich Municipal
Marine	Navigators & General
Terrorism	Chaucer Syndicates Ltd
Fine Art	Liberty Mutual Insurance Ltd
Property Owners	QBE UK Ltd