Performance and Resources Scrutiny Programme 2021/22

Report to: the Office of the Police, Fire and Crime Commissioner for Essex

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Chief Officer:	**DCC Andrew Prophet**
Report from:	**Corporate Finance**
Date of Meeting:	**29th November 2021**
Author on behalf of Chief Officer:	**Matt Tokley, Head of Corporate Accounting**
Date of Approval:	**TBC**

1.0 Purpose of Report

1.1 This is a paper providing an update on the key insurance activities of the force, as well as the claims performance and the related link to the Insurance Provision and MTFS.

2.0 Recommendations

2.1 The PFCC is recommended to note the contents of this report, which is principally for informing operational decisions for the force in respect of insurance. It should be noted that a separate cyber cover paper and related decision report will follow to the December PFCC Strategic Board.

3.0 Executive Summary

3.1 This is an annual update on the key insurance issues currently impacting Essex Police as well as the wider insurance sector. The report is provided for the awareness of the PFCC to assist in understanding the strategic importance of these issues, as well as providing an overview of the key insurance-related workstreams and related risks which the force is currently focusing on, and the areas which will be further developed going forward.

4.0 Background

4.1 Insurance claims are categorised under the headings of motor, property, employer's liability (EL) or public liability (PL). Motor and property claims are administered by the Insurance Team located in Corporate Finance. Legal Services administer the employer's liability and public liability claims in excess of £1,500 in value (Corporate Finance staff deal with all claims under this threshold).

4.2 All individual claim details are held on the force's insurance claim handling system (LACHS) and are maintained by both Corporate Finance and Legal Services.

4.3 Essex Police are one of ten forces who are part of the South East & Eastern Region Police Insurance Consortium (SEERPIC) and insurance cover is procured collectively for the consortium. The consortium recently reached the notable landmark of twenty years as a cross-force consortium. Insurance cover arrangements are administered via insurance brokers Marsh who, in their previous incarnation as Jardine Lloyd Thompson (JLT) prior to their subsequent acquisition by Marsh, have been SEERPIC's broker since 2012.

4.4 Further collaborative opportunities and sharing best practice continues to be the priority of the SEERPIC arrangement. Whilst procurement of insurance cover continues to be the main joint activity of the member forces, there has been a greater emphasis on risk management since the introduction of the new motor insurance contract in 2018, which is elaborated on elsewhere in this paper. In addition, the collaboration continues to look at further opportunities relating to sharing of staffing resources, a single insurance system and more joined up governance. To assist with closer collaboration a new 'SEERPIC Lead' post was created and recruited into during 2019, a post held in Norfolk Police but which each force contributes equally to.

5.0 Market update

5.1 The COVID-19 pandemic continues to have a significant and uncertain impact on global economies. Impacts on public sector organisations include effects on claim costs for liability policies, due to staff and officers spending more time based at home e.g. whilst the pandemic may have positive impacts in certain strands of insurance coverage (such as the element of fewer road traffic accidents directly resulting from less vehicles on the road) it is likely that there will be negative impacts as well, most likely from employer liability-related sources where working practices adopted by employers may directly lead to more long-COVID related claims.

5.2 In addition to COVID-related factors the market is continuing to be volatile due to uncertainty from Brexit and from impacts on the environment and economy due to climate change.

5.3 The effects of claims inflation is still impacting the industry and is key to the insurance market, especially where cover is being offered over and above a sizeable deductible. The Ogden discount rate is a calculation used to determine how much money insurance companies should pay as compensation to people who have suffered life-changing injuries. The Ogden table discount rates were increased from -0.75% to -0.25% in August 2019. Although estimated liabilities for significant injury claims have subsequently reduced this has not translated in a reduction to premiums as the market had expected a discount rate of between 0% and 1%, which has not been realised. Statute requires that the Ogden rate be reviewed within the next five years, by a central government body

5.4 The impact of the COVID-19 pandemic and other uncertainties combined with continuing low interest rates and high claims inflation (as alluded to above) adds up to a continuation of the hard market phase. This is represented by higher premiums as well as higher deductibles and/or aggregate stop/loss attachments being added to policies by insurers.

5.5 The above issues directly flow through to the police sector risk arena - changes in the availability and cost of reinsurance directly influence domestic underwriting strategies and stricter reinsurance terms, conditions and pricing inevitably filter down to all policyholders.

5.6 In addition, the number of insurers actively underwriting police sector risks continues to remain very limited in comparison with the wider public sector and general corporate sector. On motor and liability placements there is also very limited choice, which has been emphasised in the recent liability tender undertaken by SEERPIC.

5.7 The uncertainties surrounding the blue light sector means that the management of police risks by the client is of paramount importance to the insurer. On property risks it is essential that general maintenance and risk improvements are still completed in a timely fashion. When looking at liability and motor risks there is concern that ongoing budget restraints will impact on these risks and this triggers some unease for insurers. As a consequence, underwriters are particularly keen to understand the steps being taken to mitigate exposures, both in the motor sector, as demonstrated by the ongoing requirements set out by Edison, as well as in the liability sector where there is a greater emphasis on lessons learnt from specific claims, as well as any related trends which can be identified.

6.0 <u>Current arrangements and 2021/22 renewals</u>

6.1 The majority of the insurance cover in place for the force runs from the 1st October – 30th September each year. The most recent renewals therefore represent the position from 1st October 2021. Insurance Premium Tax (IPT) is charged on all premiums paid at 12% (this is not recoverable by the force and is therefore reflected within all figures quoted in this report).

<u>Motor</u>

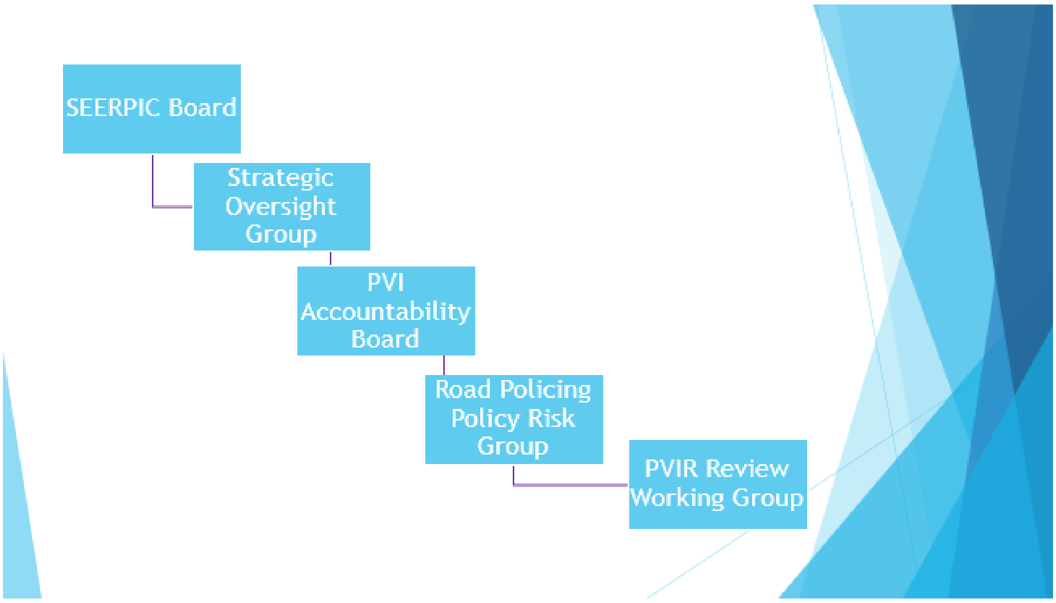
6.2 Motor risk is insured via Edison, who specialise in large and complex fleets that require a strong insurer lead approach to risk. Edison took over the motor contract following the Zurich Municipal decision to exit the blue light sector in 2018. Contract negotiations subsequently commenced with Edison and a three year long-term agreement (LTA) was formally approved across all SEERPIC forces with effect from 1st October 2018. A clause included to extend these arrangements in advance of the third year (2020/21) was subsequently enacted which extended the contract with Edison up to the 30th September 2023, providing financial security for the force in respect of understanding the premium levels for the next three years in advance.

6.3 The transfer to Edison has brought a significant uplift in motor premiums payable for the SEERPIC consortium, and how these costs are allocated to forces has been an issue of contention for some time, with Essex previously suffering from a disproportionate allocation of costs based on historic losses. During 2020/21 negotiations concluded with SEERPIC partners to realign the allocation of these premiums with a resulting outturn position of £1.415m, representing a £0.466m underspend against budget. In respect of the 2021/22 premium the allocations were agreed by the SEERPIC Board in June 2021. Whilst the figure chargeable to Essex Police (£1.437m) represented higher than expected costs based on the budgeted position, it nonetheless represented a modest increase based on the previous year outturn position. Furthermore, the key issues driving the increase e.g. changes in claims history and vehicle numbers across the various SEERPIC forces and the revised allocation basis of the total premium, meant that the 2021/22 premium was deemed as fair and proportionate (particularly as the historic apportionment issues have now been resolved).

6.4 It has previously been reported that the Edison contract has also brought significant levels of risk management-related workstreams where progress needs to be demonstrated to the insurer, in order that cover is maintained at a premium level acceptable to SEERPIC forces. This continues to have various impacts for the force, which can be summarised within the following headings:-

- Ongoing requirement to regularly review all motor-related processes across the force, most notably in Transport Services, Driving Training and the Insurance team, to spot new risks emerging at the earliest opportunity and to ensure clear transparency in all processes.
- Separate specialist claims handler used by the insurer (Davies) who the force directly deals with in addition to Edison.
- Changes required to the data fields within the force insurance system (LACHS) due to additional information required by Davies/Edison when the force submits police vehicle incident forms (see paragraph 4.5).
- Changes to the Insurance team roles and responsibilities e.g. the team is much more focused on risk management now rather than claims processing, cover advice and premium administration.
- Greater levels of governance in respect of managing risk-related workstreams across the force.

6.5 The work to increase the range of information being captured within each Police Vehicle Incident Report (PVIR) submitted, has been a key element of the Edison requirements. This form is required every time a claim is submitted for an incident involving a force vehicle, and has meant more work for both the officer/staff member making the claim, as well as the Insurance Team who then process the claim on LACHS. The additional data is required to provide the insurer with additional statistical analysis to assist with the assessment of risk for each of their clients, and has resulted in a significant amount of new governance requirements for the force, to ensure this work is being adhered to properly (the requirements for this oversight process is specifically written into the renewal terms of the motor cover document). The governance setup can be summarised within the following table, with the SEERPIC Board, and Strategic Oversight Group having Essex representation from Debbie Martin and Mark Gilmartin, and the PVI Accountability Board being chaired by T/ACC Glen Pavelin.



6.6 Whilst Essex have made good progress with this workstream the inconsistent progress across SEERPIC means that overall this is a key area that Edison continues to focus on. The ultimate aim is to reduce the number and severity of PVI's and be able to demonstrate to Edison that our risk profile in this area of operational activity is reducing and being managed effectively, and we are proactively responding to new risks arising.

Liability

6.7 Liability cover is provided by Mavern with a new three year contract agreed from the 1st October 2021, with an option to extend for a further two years when the present period expires. The confirmation that Maven will continue providing liability cover follows a lengthy SEERPIC tender process, where three bidders registered an interest but only one (Mavern) ultimately submitted a bid. Following a subsequent evaluation of this bid and noting the limited options within the market, it was agreed to award the contract for liability insurances and associated claims handling to Mavern on the basis of their submission of the most economically advantageous (and only) tender. The annual cost for the insurance year commencing 1st October 2021 is £0.384m (including IPT and fees).

6.8 The Mavern policy covers both the employer and public liability modules, which insure the force against the majority of civil claims received, the majority of which are managed by the Legal department rather than the Insurance team (who are part of Corporate Finance). The decision to continue with Maven was seen to be positive for SEERPIC, due to their expertise in police liability risks and their ongoing commitment to this sector at a time when alternative options are very limited.

Property

6.9 The other main area of insurance cover relates to the property module, which protects the force against claims relating to its property assets. This cover will continue to be provided by Travelers, following the decision to proceed with a new long-term agreement

(LTA) on the 1st October 2020. Travellers are a large US-owned insurer focusing on property-led risks and smaller local authorities, who do not currently underwrite police motor or liability risks. Following confirmation of the 2021/22 renewals process the new premium for the upcoming year has been confirmed at £0.074m.

6.10 A summary of the 2021/22 renewals position is included within Table 1 below. Note – because the liability contract was a new contract entered into by the force for the 2021/22 year, this is excluded from the below table.

Table 1 – 2021/22 renewal terms

Premium Summary – GBP

Policy	2020		2021 Recommendations	
	Insurer / Provider	Renewal Premium excl. tax	Insurer / Provider	Premium excl. tax
Fidelity Guarantee	Aviva / XL Catlin via Maven Public Sector	27,500.00	Aviva via Maven Public Sector	35,000.00
Property	Travelers Insurance Company Ltd	54,497.70	Travelers Insurance Company Ltd	66,454.02
Group PA & Travel	AIG via Risk Management Partners Ltd	6,534.00	AIG via Risk Management Partners Ltd	7,382.51
Motor Fleet	Edison Motor - Volante International Limited (ex Claims Handling)	1,148,852.68	Edison Motor - Volante International Limited (ex Claims Handling)	1,282,802.00
Marine	Royal & Sun Alliance Ins plc	9,575.00	Royal & Sun Alliance Ins plc	10,380.00
UAS Liability	TMK via Arthur J Gallagher (UK) Ltd	21,525.98	TMK via Arthur J Gallagher (UK) Ltd	22,279.29
Medical Malpractice	Marsh Ltd Networks Practice	2,700.00	Marsh Ltd Networks Practice	2,700.00
Airside Liability	SIEL via Arthur J Gallagher (UK) Ltd	10,125.04	SIEL via Arthur J Gallagher (UK) Ltd	10,125.05
Terrorism	Various Insurers via Marsh LMR	13,950.00	Various Insurers via Marsh LMR	16,000.00
Total		**1,295,260.40**		**1,453,122.87**

Important Notes:

- UK Insurance Premium Tax (IPT) @ 12% applies to all classes of insurance.

6.11 Please note that Table 1 excludes smaller contracts such as museum cover, and the police choir/band.

Deductible Levels

6.12 Essex Police indemnifies itself against losses exceeding an agreed amount (the ‘deductible’) for any single claim. SEERPIC regularly review the in-house retention limits of member forces, taking into account the state of the insurance market and the appetite for police business along with the current requirement to maximise savings.

6.13 The motor deductible level (also known as an ‘excess’) has increased significantly from the position in 2013/14 when the threshold was £100,000. Since then, the motor deductible has steadily increased and is now £550,000 with effect from 2021/22, based on third-party only cover. This figure will increase further with the motor deductible reaching £600,000 by 2022/23. This essentially means we self-insure all of our own vehicle damage, recovering costs from third parties where the force is not proven to be liable. In addition, no third party claims have breached the deductible in the last five years.

6.14 In respect of the liability deductible this has remained more static during the last few years but has also increased up to £350,000 by the start of the 2021/22 insurance period. In assessing the deductible level for the coming year alternative options of £500,000 and £1million were reviewed by SEERPIC forces. The merits of these options were assessed, with consideration given to the impact of increased deductible set against SEERPIC's claim history, the fact than an increase in deductible would be irreversible, as well as an assessment of how consistently the ten SEERPIC forces are managing liability risks at this point in time. Based on an assessment of these factors the board voted unanimously to maintain the £350,000 deductible level.

6.15 Whilst Essex Police therefore meet the first £350,000 of all liability claims received, an aggregate self-insured retention threshold is also in place at £2.5m per annum. This means that should this aggregate value be breached in terms of all the cumulative excess payments in an insurance year, the insurer will then step in and pay any further remaining costs in the insurance period. In addition, an 'indemnity ceiling' is also built into the policy, meaning a total value of claim costs cannot be exceeded by the force in one insurance period. This is normally £35m but may differ for specific types of claims, such as £1m for Asbestos-related claims for instance.

6.16 The levels of deductibles demonstrate the extent of self-insurance effectively in place across the force. Nevertheless, the other elements built into the liability policy as described above, mitigate the potential financial risk of large numbers of claims increasing which may threaten but not exceed the deductibles threshold. Going forward claims trends will continue to be monitored to ensure that cover in place and the related deductibles, remain appropriate for the force.

<u>Cover</u>

6.17 A description of what all of the main insurance policies cover is shown in Table 2 over the page.

Table 2 – Insurance policies and cover

Policy	Cover
Airside Liability	Legal liability for accidental injury to third parties and accidental loss of, or damage to third party property arising in connection with EP business airside at Stansted/Southend airports.
Business Travel	Employee travelling abroad on business covering overseas medical expenses, repatriation and death.
Directors & Officers Liability	Covers cost of compensation claims made against EP directors for alleged wrongful acts e.g. breach of duty, misleading statement, breach of trust etc.
Employers Liability	Legal liability for injury or disease sustained by an employee arising out of and in the course of their employment with Essex Police.
Fidelity Gurantee (Crime)	Loss of money or other property as a direct result of any act of fraud or dishonesty committed by an employee of EP.
Medical Malpractice	Covering Occ Health staff. Due to changes to the Royal College of Nursing not covering members outside of NHS.
Motor	Damage to or losses arising from incidents involving the force's fleet of motor vehicles.
Official Indemnity	Financial loss by a third party as a result of EP fault.
Personal Accident Cover	Accidental bodily injury including assault and death sustained by insured person whilst carrying out duties for EP (staff only).
Product Liability	Legal liability for injury, illness, loss or damage arising out of the sale, supply of goods provided in the course of EP business.
Professional Liability	Covering alleged claims by third parties for EP's non-performance, breach of contract/professional negligence.
Property Damage / Material Damage / Computer / Business Interruption	Reinstatement and replacement cover following fire, theft, loss or damage and other accidental loss of or damage to property owned, in custody or controlled by EP. Reimbursement of any additional expenditure incurred when trying to avoid or diminish the interruption caused over a three year period.
Public Liability	Legal liability to third parties for accidental loss of or damage to property and for accidental injury to third party arising in connection with EP business.
Terrorism	Loss or damage through terrorism to property owned by EP.

7.0 Claims expenditure

7.1 Claims expenditure for the force is posted to the Insurance Provision to discharge related liabilities incurred. This provision is also used to hold ‘reserves’ which are based upon total forecast costs for each and every claim, over and above the deductible relating to that policy. This means the force is recognising an element of future costs for its existing claims, in advance of them actually being incurred.

7.2 To put the above process into context the force has a budget of £1.3m for insurance claims in 2021/22, and based on current expectations this remains the forecast for the year-end position. The £1.3m represents the net impact on the revenue budget in year which will be posted into the Insurance Provision at year-end, and will represent actual cash payments in the year as well as the net estimated movement in existing claims liabilities. The latter element will then offset future cash payments when they are required.

7.3 Forecast costs for claims are recognised in the provision where:-

i) Essex Police has a present obligation as a result of a past event.
ii) It is probable that a transfer of economic benefits will be required to settle the obligation.
iii) A reliable estimate has been made of the amount of the obligation as set out in working papers.

7.4 Claims are received for varying time periods, sometimes several years in arrears of when the incident actually occurred. In these instances the deductible applied will relate to the insurance policy year when the incident occurred, rather than the current policy in place. This also means the current year of claims expenditure incurred could relate to multiple policy years and claims which are either closed or ongoing, representing part or full payment against claim liabilities.

7.5 Table 3 below sets out the amounts paid out annually on claims in each of the last ten years, as well as the forecast figure for 2021/22.

Table 3 – Claims expenditure

Financial Year	Total Expenditure (£)
2011/12	863,942
2012/13	1,096,136
2013/14	1,224,189
2014/15	1,330,621
2015/16	1,112,729
2016/17	1,181,614
2017/18	1,627,458
2018/19	835,432
2019/20	1,208,556
2020/21	698,698
2021/22 - forecast	1,300,000

7.6 Whilst the 2018/19 and 2020/21 years are outliers in terms of actual costs paid out there has been a general upward trend in claims over the last few years, which is more accurately demonstrated by the values held within the Insurance Provision up to the end of 2020/21. At the end of each year the provision holds the estimated value of the outstanding payments expected to be made in future financial years in relation to open claims. Information relating to the provision for the last three financial years, as well as the current year forecast, is shown in Tables 4a – 4c below. It should be noted that the most up to date figures for 2021/22 are the position as at 30th September 2021 which currently reflect slightly lower numbers of claims outstanding, but higher average values for those which remain where a forecast liability has been calculated.

Table 4a – Insurance Provision (Cumulative outstanding liability at year-end)

Type of claim	2018/19 (£)	2019/20 (£)	2020/21 (£)	2021/22 (£) - forecast
Motor	584,516	418,266	456,410	560,190
PL	1,831,812	1,844,037	2,010,531	2,080,485
EL	163,511	321,154	565,209	510,100
Total	**2,579,839**	**2,583,457**	**3,032,150**	**3,150,775**

Table 4b – Insurance Provision (Number of outstanding/open claims at year-end)

Type of claim	2018/19	2019/20	2020/21	2021/22 (forecast)
Motor	101	93	104	87
PL	112	128	129	114
EL	14	19	21	19
Total	**227**	**240**	**254**	**220**

Table 4c – Insurance Provision (Average open claim values at year-end)

Type of claim	2018/19 (£)	2019/20 (£)	2020/21 (£)	2021/22 (£) - forecast
Motor	6,966	5,952	7,246	8,585
PL	21,807	19,209	20,781	24,333
EL	15,573	22,537	28,825	35,796
Average	**14,782**	**15,899**	**18,951**	**22,905**

7.7 In respect of the EL average claim value this has increased from 2020/21 onwards to the current value of £35,796, mainly due to one claim notified to the force in September 2020 which is currently reserved at an estimated value of £192,500.An additional claim notified in September 2020 for £60,000, as well as a slight decrease in claims numbers, has also impacted the current average EL claim value now being £35,796.

7.8 Payments in each financial year will vary as claims reach completion and expenditure in one year can be particularly affected when large claims are settled. Over time the trend is for claims costs to increase as a result of increasing numbers of claims received, plus inflation on legal fees and damages awarded for liability and injury claims.

7.9 Due to the unpredictability surrounding insurance claims in terms of volume and expenditure, it is extremely difficult to assess the level of insurance provision required in future years and any assessment of the insurance provision requirement can be inaccurate and need to be treated with caution. Year-end estimates are typically discounted by 25% to allow for a margin of error which, based on historical context, has been fairly accurate. However, in line with an external audit recommendation this discount factor will be reviewed during 2021/22 to ensure it remains materially accurate and suitable for use for ongoing forecasting purposes.

7.10 The latest forecast for the Insurance Provision as at 30th September 2021 has been based on the most up to date estimates for individual claims. Whilst some of these claims relate to prior years these are being regularly assessed by both Legal and the Insurance team to ensure the estimated liability values remain as accurate as possible – there are no historic values which need to be removed or which are not assessed on a regular basis. The current age profile of the current outstanding claims are shown in Table 5 below.

Table 5 – Insurance Provision Profile of Claims

	Employer Liability		Public Liability		Motor Liability	
Incident period for claim	**No. of o/s claims (30/9/21)**	**%**	**No. of o/s claims (30/9/21)**	**%**	**No. of o/s claims (30/9/21)**	**%**
2021/22 (to date)	3	16%	21	18%	22	25%
2020/21	7	37%	36	32%	35	40%
2019/20	4	21%	25	22%	12	14%
2018/19	1	5%	12	11%	10	11%
2017/18	1	5%	8	7%	3	3%
2016/17	2	11%	3	3%	2	2%
2015/16 (or earlier)	1	5%	9	8%	3	3%
Total	**19**	**100%**	**114**	**100%**	**87**	**100%**

7.11 The latest 'fund data audit' exercise was undertaken by Gallagher's at the end of 2020/21. Gallagher's are an insurance broker who were appointed to undertaken fund data audits for all SEERPIC forces from 2020/21 onwards. Gallagher's reviewed the outstanding claims estimates for the force with the results of this exercise highlighting significant levels of potential further claims expenditure in the short to medium-term which, if accurate, would need to be borne by the force. A summary of the findings is shown in Table 6 below.

Table 6 – Fund Data Audit Report (31/3/21)

Forecast Total Liability to the Fund as at 31st March 2021

	Aggregates			Historic Retained Losses					Split			
							Ultimate	Remaining				Aggregate
Policy Year	EL/PL	Motor	Property	Paid	Outstanding	Incurred	Retained	Liability	O/S	IBNER	IBNR	Breach
Prior to 2011					£287,700			£287,700	£287,700			
2011/2012	£600,000	£1,165,000	NA	£1,668,500	£0	£1,668,500	£1,668,500	£0	£0	£0	£0	£353,479
2012/2013	£600,000	£1,223,250	NA	£981,700	£37,600	£1,019,300	£1,019,800	£38,200	£37,600	£600	£0	£0
2013/2014	£600,000	£1,223,250	NA	£1,279,000	£87,700	£1,366,700	£1,368,500	£89,600	£87,700	-£1,800	£3,700	£230,094
2014/2015	£1,600,000	£1,400,000	NA	£1,137,500	£271,200	£1,408,700	£1,411,900	£274,300	£271,200	-£11,600	£14,700	£0
2015/2016	£2,300,000	£1,400,000	NA	£829,000	£190,300	£1,019,300	£1,027,000	£198,000	£190,300	-£6,100	£13,800	£0
2016/2017	£2,300,000	£1,400,000	NA	£627,900	£452,200	£1,080,100	£1,117,500	£489,600	£452,200	£10,200	£27,200	£0
2017/2018	£2,300,000	£1,400,000	NA	£754,500	£870,300	£1,624,800	£1,844,500	£1,090,100	£870,300	£133,700	£86,100	£0
2018/2019	£2,400,000	N/A	NA	£851,800	£706,200	£1,558,000	£2,075,100	£1,223,300	£706,200	£344,500	£172,600	£0
2019/2020	£2,400,000	N/A	NA	£723,300	£724,300	£1,447,600	£2,430,300	£1,707,000	£724,300	£586,300	£396,400	£0
2020/2021	£2,500,000	N/A	NA	£266,400	£177,900	£444,300	£905,400	£905,400	£177,900	£184,100	£543,400	£0
TOTALS				**£9,119,600**	**£3,805,400**	**£12,637,300**	**£14,868,500**	**£6,303,200**	**£3,517,700**	**£1,239,900**	**£1,257,900**	**£583,600**

	Agg Breach	-£89,500
Plus suggested reserves	Residual IBNR	£190,000
	Emerging claims	£673,000
	FG Claims	£25,000
	GRAND TOTAL	**£7,101,700**

A summary of the key points of the above table are as follows:-

- A total estimated liability at the 31st March 2021 of £7.102m based on current claims for the period 2010/11 to 2020/21, including the inflationary development of those claims and further ‘incurred but not reported’ (IBNR) claims for the policy years within this period e.g. reflecting the fact that additional claims are received for policy years long after the actual incidents have occurred, and thus the force should ideally make additional provision for such claims arising in subsequent years.

- This calculation represents a shortfall of £4.070m compared to the Insurance Provision value at the 31st March 2021 of £3.032m, however in accordance with the criteria set out in paragraph 5.2 any costs recognised within the provision would only relate to existing costs and measurement basis, thus removing the inflationary and IBNR elements of the Fund Data Audit report, with the IBNR element alone equating to £2.498m of claims costs.

- In respect of the IBNR claims it should also be noted that the force has an annual claims budget of £1.3m (so £6.5m over the five year MTFS period) which would cover the majority of these costs as older claims are received alongside new ones.

- The 25% discount factor used by EP is also not reflected in the Gallagher’s report.

- In summary whilst the shortfall should be noted and understood, the financial impact is heavily mitigated by other existing budgetary provision and the liability value calculated by Gallagher's should also not be seen as a direct comparable to the EP Insurance Provision, nor as a realistic value which is feasible to be held in earmarked reserves.

8.0 Current and emerging issues

Cyber risk

8.1 Within the insurance update paper presented to both Chief Officers and the PFCC earlier in 2021 a recommendation was included to review the potential for exploring the acquisition of specific cyber security cover, in the wake of some high profile incidents (Redcar and Cleveland Borough Councils), but also due to this being very much an emerging area of risk across the world.

8.2 Cyber security involves the protection of internet connected systems (including hardware, software and associated infrastructure), the data on them and the services they provide from unauthorised access, harm or misuse. This includes harm caused intentionally by the operator of the system, or accidentally as a result of failing to follow security procedures or being manipulated into doing so.

8.3 There continues to be a significant upturn in the frequency, size and scope of cyber claims. The increasing sophistication and morphing nature of cyber attacks are also reshaping loss development patterns (e.g. an attached only needs to be successful one time, the insured 100% of the time).

8.4 As previously noted, the force does not currently have specific cyber insurance cover in place. Specialist covers have been around for some time now, mainly in respect of third party exposures, which account for the majority of the specialist market. A small but increasing number of underwriters are now offering first party cover, and this is an area subject to fairly constant change as risks increase and new risks come onto the market.

8.5 It is important to appreciate the difficulties insurers are having in understanding and quantifying exposure to cyber risk – one malware can affect thousands of organisations being impacted around the world. There is also increased awareness of aggregation events and supply chain risk. In view of these risks underwriters are now looking to satisfy twelve key controls when giving consideration to providing insurance quotations. These controls are as follows:-

- MFA (multi-factor authentication) controlled access
- Secured and tested backups
- Managed vulnerabilities
- Filtered emails and web content
- Patched systems and applications
- Protected privileged accounts
- Prepared and tested incident response plans
- Protected networks
- Secured endpoints
- Phishing-aware workforce
- Logged and monitored networks
- Hardened device configuration

8.6 Without strong risk management and mitigation insurers are either increasing premiums, sometimes not quoting at all, or even declining renewals for existing customers. Work is therefore continuing in respect of ensuring the force has sufficient information in order that a quotation can be prepared, and a proposal will then be drafted for the December Strategic Board in accordance with the PFCC's forward plan.

Whiplash Reforms

8.7 The whiplash reforms apply for incidents on or after 31st May 2021 and are a raft of measures aimed at reducing the frequency and expense of motor accidents, specifically from whiplash injuries. Using a tariff system for these claims, the government expects savings to be made by insurers and have implemented a legal requirement to pass these savings on to policyholders in the form of reduced premiums.

8.8 At this stage it is too early to tell how much impact these changes will have, and there has been a very low claims frequency through the new portal as it currently stands, with solicitors also finding ways to push cases outside the scope of the new reforms. There is therefore a considerable way to go before the government's objectives for the reforms can be fully realised, and for the anticipated benefits to arise.

Electric Vehicles

8.9 With the government announcing that the sale of new petrol and diesel cars will end by 2030, preparation for the acquisition of electric vehicles and their related infrastructure needs to be moving up the agenda for all police forces, with insurers also starting to think through how the introduction of these vehicles will feed through to the risk arena. Whilst it is too early to assess potential cover/cost complications the insurer will be starting to review plans for these future changes, including estates infrastructure for charging points, potential home-charging arrangements for those who keep a vehicle at home, as well as the procurement strategy for the purchase of the new vehicles themselves. There will be a direct link into both the motor and property modules from these changes, and an understanding of the key issues arising at the earliest possible opportunity will be paramount for both client and insurer.

9.0 Conclusions/Summary

9.1 The insurance market continues to be challenging for the force, with fewer insurers willing to offer cover in a high risk/low returns environment. The need for specialist insurers who require additional conditions to be met as part of their terms of cover (e.g. such as a greater emphasis on risk management) will become more commonplace in future and such conditions will need to be accepted and met by the force in order that cover is in place.

9.2 Despite the difficult economic circumstances for the sector the renewals for 2021/22 represent a modest uplift in premium costs which are manageable within existing budgetary provision. Furthermore, the existing budgetary resource within the MTFS and the Insurance Provision is sufficient for existing claims and premiums, with inflationary uplift bids built into the 2022/23 budget setting process. There are no significant further cost pressures expected at this time.

9.3 Cyber risk is not going away and if anything is becoming a more prominent risk across the sector. Whilst investment in IT technology for the force remains substantial, and related controls being robust and secure, the potential risks of not engaging specialist cover remain significant. Discussions are therefore continuing both with insurance brokers as well as internal stakeholders such as IT, the results of which will be covered within a separate paper due to be submitted to COG on the 1st December and subsequently to the PFCC Strategic Board on the 14th December.

9.4 The challenges set out in this paper indicate that whilst both premiums and claims costs remain manageable, they will rise across the medium-term. With this in mind the force will continue to explore alternative models in respect of the provision of insurance cover. In particular the force recognises the significant cost of motor insurance since Edison took over this contract, as well as the rising deductible level. It is therefore proposed that someone independent (outside SEERPIC or their appointed brokers) will be commissioned to review all insurances, for both Essex and Kent Police.

9.5 Risk management work continues to be at the forefront of insurance-related workstreams, with the focus on motor risk now transferring into the liability/casualty sector, particularly since the recent appointment of Mavern as liability insurer and the low number of insurance providers who wished to participate in the related tender exercise. DCC Prophet will therefore be leading on a workstream looking at risk-reduction across the force, thus looking to ensure that as a potential customer, the force is a more attractive option for potential insurers going forward. This will possibly look to include the creation of a Strategic Oversight Group (SOG) and related governance process for liability insurance, in the same way as the process is currently set up for motor.