Performance and Resources Scrutiny Programme 2022/23

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

Title of Report:	**Annual Insurance Update**
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Chief Officer	**DCC Andrew Prophet** **Janet Perry, Chief Financial Officer,** **PFCC Office**
Report from:	**Corporate Finance**
Date of Meeting:	**25th August 2022**
Author on behalf of Chief Officer:	**Matt Tokley, Head of Corporate Accounting**
Date of Approval:	**DCC Prophet - 24th July 2022**

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 related link to the Insurance Provision and MTFS. Chief Officers are requested to note the contents of this report.

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 briefing note will follow later in the 2022/23 financial year, relating to the Insurance Reserve proposal.

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 Introduction/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 SEERPIC Lead post was created and recruited into during 2019. To complement this, a Data Analyst was subsequently recruited in 2021, with this role being made permanent in 2022, adding further resilience to the collaborative setup.

5.0 Market update

5.1 The COVID-19 pandemic continues to have some impact on global economies and society in general. Whilst the pandemic may have had positive impacts in respect of certain covers (e.g. fewer road traffic accidents for motor claims) there has also been a wide range of negative impacts, such as the potential for claims resulting from COVID-19 infections contracted in the workplace. It is also important to note that these claims may have yet to fully materialise.

5.2 Further 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. social distancing policies which may result in more specialised employer liability claims. There is also the potential for additional claim trends as a consequence of the economic impact of the pandemic, which the force is also yet to still see the full impact of.

5.3 The impact of the pandemic together with the wider economic picture, including continuing low interest rates and high claims inflation, means a continuation of the hard market position which has been prevalent for some time now. This is evident within the higher premiums, deductibles and aggregation limits now being seen in the insurance markets. Furthermore, the past few months have seen significant economic inflation globally, reflecting the cost of living crisis being referred to in the UK. It is expected that this will again result in upward pressure on liability claims.

5.4 Insurers are continuing to increase premium rates and reduce insurance coverage across most of the main product lines. Putting aside the issues of claims experience and inflation, these issues also result from the reduced availability of market entrants and those willing to maintain the provision of cover (reinsurance) which in turn feed into the level of premiums charged for insurance coverage.

5.5 Specific issues impacting certain covers have also been evident. In particular, there has been increased difficulties in obtaining property insurance relating to larger risks, especially where full coverage is required. This has been seen with the difficulties faced when looking to increase the force limits on cash held in safes over the past few months, something which is elaborated on elsewhere within this report. For liability modules, specific disease and medical-based exclusions are also now commonplace within policies.

5.6 In summary, the market is continuing to be volatile due to the uncertainty caused by the COVID-19 pandemic, as well as from impacts on the environment and economy due to climate change, which will continue to result in an increased frequency of more extreme weather events going forward.

6.0 Current Arrangements

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).

Motor

6.2 Motor risk is insured via Edison, who specialise in large and complex fleets that require a strong insurer led 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 up to the 30th September 2023.

6.3 Whilst the agreement of the extension obliges Edison to continue to provide cover in 2022/23, the terms remain subject to negotiation and as at the start of July 2022 the draft renewal terms for year 5 had not been received. However, terms were subsequently received on the 8th July 2022, on the same ‘per vehicle’ rate as year 4, but updated for numbers of vehicles. These terms are currently being reviewed by individual forces within the consortium, and it is not envisaged that there will be any need for a tender process earlier than expected (see paragraph 6.4).

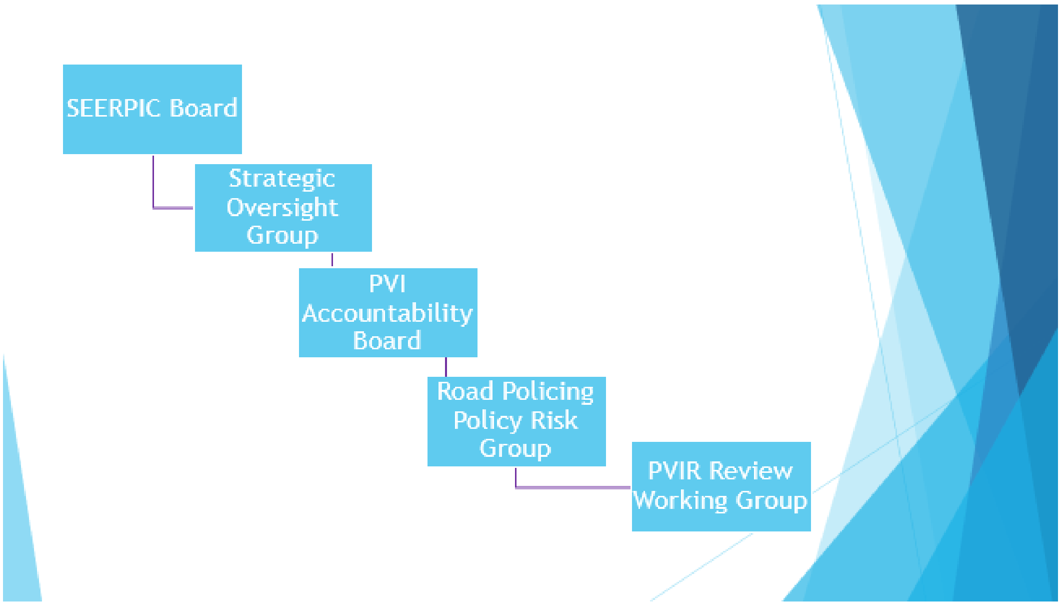
6.4 Work is currently underway to look at options for the provision of motor cover beyond September 2023, when the present long-term (extended) agreement expires. A SEERPIC engagement day held in November 2021 assisted in identifying which markets would provide the best potential overall deal in respect of issuing a tender on a whole collaboration basis. This included looking at fully comprehensive and third-party only options, as well as differing levels of deductibles. This approach was endorsed by the SEERPIC Board and a timeline has been subsequently agreed to ensure cover is in place by the start of October 2023. The proposed plan includes the production of a draft tender specification by January 2023, the deadline for bids received by June 2023, and the contract award actioned by Procurement in early September 2023.

6.5 In the event that Edison does not participate in this upcoming tender, they will remain responsible for run-off for any claims or incidents occurring between the start and end dates of their cover period. In addition, it should be noted that Zurich Municipal continue to cover the covert fleet, and have indicated they wish to cease this cover after the end of September 2022. However, it is proposed to request a one-year extension for this cover, and thereafter align the covert vehicles with the rest of the SEERPIC forces fleet cover.

6.6 The transfer to Edison has brought a significant uplift in motor premiums payable for the SEERPIC consortium, and as previously been reported this contract has also introduced 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 (PVI) forms, which is required for every incident involving a force vehicle
- Greater levels of statistical analysis and data required from forces, which is compiled by the consortium Data Analyst to provide insurers with better information to enable them to better assess the risk level of their clients
- Greater focus on technology and capturing information in the vehicles themselves (e.g. dashcams, telematics etc)

- 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 (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 the Chief Finance Officer and the Director of Support Services, and the PVI Accountability Board being chaired by the Temporary Assistant Chief Constable. The governance process is summarised in the graphic below



<u>Liability</u>

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 followed 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), with the terms for the year commencing 1st October 2022 still to be received at the time of writing.

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 provides SEERPIC with an insurer with established long-term expertise in police liability risks who continue to demonstrate an 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 is provided by Travelers, following the decision to proceed with a new long-term agreement (LTA) on the 1st October 2020.

6.10 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 was confirmed at £0.074m. Similar to the liability module, the draft terms for property cover in respect of the year commencing 1st October 2022 are still to be received at the time of writing.

6.11 A summary of the 2021/22 renewals position for all covers 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. The comparable figures for the liability cover were £0.330m for 1st October 2020, compared to £0.343m for 1st October 2021 (both excluding IPT).

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.

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

6.13 Renewal questionnaires have now been completed by the Insurance team and terms are awaited for the upcoming year, commencing 1st October 2022. We are expecting to see widespread uplifts to the force premiums, based on the factors summarised within the market update section of this report, and advice from the SEERPIC brokers (Marsh). This will most likely be reflected in the motor and property modules, with the latter especially becoming more of a challenging sector for the force over the past few months.

6.14 An example of the property module becoming more complex has been where the force has requested increases to limits for cash held in safes across the force estate due to an increase in seized monies income held during this period. In addition to an increase from the current £1m threshold to £3m being declined based on the information supplied by the force (due to strict criteria in respect of alarmed buildings and 24-hour front desk presence for the buildings concerned) the insurer has indicated that existing cover will potentially need to be scaled back, to manage their own risks. Increases in premiums are estimated to rise between 5% and 10% for the coming year, with the month 3 budget monitoring position currently assuming 7.5% for these uplifts.

Deductible Levels

6.15 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.

6.16 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 1st October 2021, based on third-party only cover. This figure will increase further with the motor deductible reaching £600,000 by 1st October 2022. 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.

6.17 In respect of the liability deductible this has remained more static during the last few years but also increased up to £350,000 by the start of the 2021/22 insurance period. 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 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.

6.18 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.

Cover

6.19 A description of what 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 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.

7.3 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.

7.4 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 2022/23.

Table 3 – Claims expenditure

Financial Year	Total Expenditure (£)
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	1,005,380
2022/23 (forecast)	1,300,000

7.5 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, with a minor decrease in 2021/22 which is understood to have been impacted by the pandemic. The trends are more accurately demonstrated by the values held within the Insurance Provision up to the end of 2021/22, and the supporting tables set out below.

7.6 At the end of each year the Insurance 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.

Table 4a – Insurance Provision (Outstanding liability)

Type of claim	2018/19 (£)	2019/20 (£)	2020/21 (£)	2021/22 (£)
Motor	584,516	418,266	456,410	410,712
PL	1,831,812	1,844,037	2,010,531	1,811,387
EL	163,511	321,154	565,209	502,391
Total	**2,579,839**	**2,583,457**	**3,032,150**	**2,724,490**

Table 4b – Insurance Provision (Outstanding/open claims at year-end)

Type of claim	2018/19	2019/20	2020/21	2021/22
Motor	101	93	104	96
PL	112	128	129	123
EL	14	19	21	22
Total	**227**	**240**	**254**	**241**

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

Type of claim	2018/19 (£)	2019/20 (£)	2020/21 (£)	2021/22 (£)
Motor	6,966	5,952	7,246	6,969
PL	21,807	19,209	20,781	19,636
EL	15,573	22,537	28,825	24,892
Average	**14,782**	**15,899**	**18,951**	**17,166**

7.7 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.

7.8 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.

7.9 Based on an external audit recommendation the 25% discount factor was reviewed at the end of 2021/22 based on the estimates for the twenty highest value outstanding claims at the start of year, compared to the actual settlement value in each case. As these findings did not produce any firm conclusion, a further review process of a further twenty claims will be undertaken midway through 2022/23, to ensure the discount factor remains materially accurate and suitable for use for ongoing forecasting purposes.

7.10 The latest position for the Insurance Provision as at 31st March has been calculated 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 age profile of the current outstanding claims for the position as at 30/9/21 and 31/3/22 are shown in Tables 5a and 5b below.

Table 5a – Insurance Provision Profile of Claims (to 30/9/21)

	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%**

Table 5b – Insurance Provision Profile of Claims (to 31/3/22)

	Employer Liability		Public Liability		Motor Liability	
Incident period for claim	**No. of o/s claims (31/3/22)**	**%**	**No. of o/s claims (31/3/22)**	**%**	**No. of o/s claims (31/3/22)**	**%**
2021/22	3	14%	36	29%	48	50%
2020/21	5	23%	38	31%	22	23%
2019/20	5	23%	23	19%	7	7%
2018/19	3	14%	10	8%	10	10%
2017/18	2	9%	7	6%	5	5%
2016/17	0	0%	4	3%	2	2%
2015/16 (or earlier)	4	18%	5	4%	2	2%
Total	**22**	**100%**	**123**	**100%**	**96**	**100%**

7.11 The latest ‘fund data audit’ exercise has been undertaken by A J Gallagher at the end of 2021/22. A J Gallagher are an insurance broker who were appointed to undertaken fund data audits for all SEERPIC forces from 2020/21 onwards. Gallaghers review the outstanding claims estimates for the force with the results of this exercise typically 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 Tables 6 and 7 below.

Table 6 – Fund Data Audit Report (31/3/22)

Forecast Total Liability to the Fund as at 31st March 2022

	Aggregates	Historic Retained Losses					Split			
Policy Year	EL/PL	Paid	Outstanding	Incurred	Ultimate Retained	Remaining Liability	O/S	IBNER	IBNR	Aggregate Breach
Prior to 2012			£76,700			£76,700	£76,700			
2012/2013	£600,000	£972,100	£24,900	£997,000	£997,100	£24,900	£24,900	£0	£0	£0
2013/2014	£600,000	£1,302,800	£100	£1,302,900	£1,303,500	£700	£100	£600	£0	£168,049
2014/2015	£1,600,000	£1,149,700	£282,200	£1,431,900	£1,435,700	£286,000	£282,200	£3,800	£0	£0
2015/2016	£2,300,000	£895,600	£143,900	£1,039,500	£1,043,500	£147,900	£143,900	£3,500	£500	£0
2016/2017	£2,300,000	£616,600	£137,700	£754,300	£759,400	£142,800	£137,700	£4,000	£1,100	£0
2017/2018	£2,300,000	£1,060,600	£664,500	£1,725,100	£1,821,400	£760,800	£664,500	£69,900	£26,400	£0
2018/2019	£2,400,000	£991,700	£724,300	£1,716,000	£1,958,300	£966,600	£724,300	£165,500	£76,800	£0
2019/2020	£2,400,000	£1,097,400	£911,400	£2,008,800	£2,560,400	£1,463,000	£911,400	£375,800	£175,800	£0
2020/2021	£2,500,000	£686,300	£484,300	£1,170,600	£2,082,700	£1,396,300	£484,300	£581,600	£330,400	£0
2021/2022	£2,500,000	£197,000	£105,800	£302,800	£1,960,200	£881,700	£105,800	£165,500	£610,400	£0
TOTALS		£8,969,800	£3,555,800	£12,448,900	£15,922,200	£6,147,400	£3,555,800	£1,370,200	£1,221,400	£168,000

	Less Paid 31/03/2022 and 31/03/2022	£0
Plus suggested reserves	Agg Breach	-£600
	Residual IBNR	£201,100
	Emerging claims	£710,000
	FG Claims	£25,000
	GRAND TOTAL	£7,082,900

Table 7 – Breakdown of Forecast Total Liability (31/3/22)

Basis of allocation	Provisions	Reserves
Reported Outstanding Claims	√	
IBNR		√
IBNER		√
Residual IBNR		√
Emerging Claim Buffer		√
MMI Levy		√
Additional Reserves		√

Policy Years	Element	Provisions	Reserves	Totals
2012/2013 to 2021/2022	EL	£691,000	£528,000	£1,219,000
2012/2013 to 2021/2022	PL	£2,080,100	£927,100	£3,007,200
2012/2013 to 2021/2022	Motor_Comp	£602,100	£360,700	£962,800
Prior to 2012	EL/PL open claims	£76,700	£0	£76,700
2012/2013 to 2021/2022	Aggregate Breach	-£600	£0	-£600
Pro-rata of 2021/2022 to 31/03/2022	EL	£0	£121,600	£121,600
Pro-rata of 2021/2022 to 31/03/2022	PL	£32,000	£353,400	£385,400
Pro-rata of 2021/2022 to 31/03/2022	Motor_Comp	£73,800	£300,900	£374,700
Legacy	Residual IBNR		£201,100	£201,100
Legacy	Emerging Claims		£710,000	£710,000
Legacy	FG Claims		£25,000	£25,000
		£3,555,100	£3,527,800	£7,082,900

7.12 A summary of the key points of the above tables are as follows:

- A total estimated liability at the 31st March 2022 of £7.083m based on current claims for the period 2011/12 to 2021/22, 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 minor decrease of £0.019m when compared to the corresponding figure (£7.102m) at 31st March 2021. More pertinently however, the value represents a shortfall of £4.359m compared to the Insurance Provision value at the 31st March 2022 of £2.724m. It should be noted that in accordance with the criteria set out in paragraph 7.2 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 £2.591m 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 Gallaghers report (this explains the differential between the Provision element quoted of £3.555m compared to the value held in the force Balance Sheet at the 31st March 2022)

- 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 Gallaghers 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. Nevertheless, the force is proposing to consider the creation of an Insurance Reserve to mitigate some of these risks, and this proposal is covered further in section 8

8.0 Current and emerging issues

Cyber risk

8.1 Within the insurance update paper previously presented to both Chief Officers and the PFCC in 2021 a recommendation was included to review the potential for exploring the acquisition of specific cyber security cover, in the wake of several high-profile incidents both within the public sector, and more widely across the globe. These risks were further accentuated in the first quarter of 2022 following the Russian invasion of Ukraine and the potential threat of further cyber attacks to organisations within the UK.

8.2 Following lengthy discussions with insurers it was ultimately confirmed that acquiring a cyber insurance policy to mitigate these risks would not be acceptable in terms of cost, and the scope of cover. It was therefore recommended to defer this option, and revisit at a later point in time when market conditions will hopefully be more attractive to the force.

8.3 In place of the insurance option the IT Management team have followed this up to explore how similar levels of investment could provide the force with additional and enhanced cyber security measures instead, providing a proactive solution to dealing with these risks, rather than a reactive 'comfort blanket'. The solution identified is the acquisition of licences for Tenable software, which will provide the force with substantial protection against a wide range of cyber risks going forward.

Insurance recoveries and resourcing

8.4 The Insurance team has recently been successful in acquiring growth to increase the hours of the Insurance Technician role, providing additional resilience to the team going forward. This FTE increase has been funded by the additional income referenced in paragraph 8.5 onwards. This role works closely with the Insurance Officer and Senior Insurance Technician to manage/process claims, and provide advice to stakeholders across the force on a variety of topics.

8.5 One of the main advantages of this growth will also be the ability to have a concentrated focus on insurance recoveries. This is the recovery of costs from third parties who have been deemed liable in motor incidents involving force vehicles. Due to the amount of time spent on claims as well as the more prominent risk management workstreams referred to elsewhere in this report, the recovery of this income has to some degree had to be side lined. This has been reflected in the level of income recovered during this period.

8.6 However, this trend has now been reversed and recoveries are increasing. In 2021/22 the recoveries exceeded £0.250m and in 2022/23 to date we have already achieved £0.114m. These recoveries will be a continued focus in 2022/23 and beyond, and the base budget will be assessed for the 2023/24 budget setting process to assess whether further income growth can be incorporated within the MTFS position.

Insurance Reserve

8.7 Following the late year-end variance movement in respect of the insurance claims forecast in 2021/22 the Corporate Finance team have explored the option to create an Insurance Reserve, which would be held to provide additional resilience for insurance liabilities going forward.

8.8 There are several perceived benefits of creating this reserve, but the main advantages will be to smooth out the impact of insurance claims volatility in the year, and ensure the PFCC has sufficient earmarked resources available to meet insurance-related liabilities as they fall due. This includes the potential costs of claims not yet received or costed, as set out in Table 6 and paragraph 7.11 above e.g. based upon this information it is clear that the PFCC does not presently hold sufficient resources to meet ongoing claims commitments in future as they fall due. It should also be noted that five of the other six 7F forces have a similar earmarked reserve for the same purpose as this proposal.

8.9 It is proposed that the Insurance Reserve would be used to negate the impact of material claim movements as they arise. This should assist with the accuracy of insurance claim forecasting, together with the proposal set out in paragraph 6.10. The reserve aspect would involve a minimum threshold being applied (circa £0.1m) whereby the reserve is used to neutralise claims movements in year, thus ensuring that monthly forecast movements provided to Chief Officers and the PFCC are less volatile. This would also result in the base budget for insurance claims reducing, with a saving arising for the 2023/24 budget setting process.

8.10 A separate proposal to omit claims forecasts until they are at least three months old (the normal duration for when all relevant information for a claim should have been collated) is also proposed going forward. This is supported by the narrative contained within the A J Gallagher report (see 7.11) that there were 'previously some reductions in incurred claims at later development periods for motor and liability, which might suggest some level of initial over-reserving on case estimates'.

8.11 Whilst there has been general consensus from both Chief Officers and the PFCC in respect of creating an insurance reserve, work is currently underway to determine the value which should be appropriated from the General Reserve. This will encompass an assessment of updated claims estimates, using the A J Gallagher report as a key source to determine this value, as well as what insurance-related liabilities are expected for the force and its SEERPIC partners across the medium-term. It is proposed that a separate briefing paper will be produced for both Chief Officers and the PFCC, with a proposed appropriation to the new reserve incorporated into the month 6 monitoring report in 2022/23.

Collaboration & Loss Corridor

8.12 Work continues in earnest on a wide range of SEERPIC workstreams which will continue to explore further insurance-related efficiencies and savings for forces. These include continued reviews in respect of the options around pooled staffing resources, the creation of a single consortium claims handling system, as well as more complex arrangements for sharing premiums and associated risks across individual forces.

8.13 One alternative arrangement being considered is the 'Loss Corridor' (effectively a consortium excess) which would sit on top of an increased force deductible, and potentially create savings for forces across the medium-term, despite the initial higher outlay.

8.14 The Loss Corridor proposal was originally included in the 2018 motor tender information received by SEERPIC, however was ultimately not seen at the time to be cost effective for forces to progress with. Marsh, acting as brokers for SEERPIC, have now been commissioned to review the comparable costs which would have arisen over the period from 2018-2022 had the Loss Corridor option been adopted rather than the conventional approach.

8.15 Based on summarised figures the conclusions from this exercise have indicated that forces within the consortium would have saved approximately £0.250m per annum during this period should they have adopted the Loss Corridor, although the longer-term picture would also need to be considered based on the fact that the true liabilities for major motor claims are not fully known until many years later. Marsh will also be feeding back more detailed and reliable information to individual forces from this exercise in due course.

8.16 Arrangements such as the Loss Corridor provide SEERPIC forces with food for thought in respect of moving away from more established and conventional methods of cover, towards a hybrid of force deductible and mutual-based arrangements. Indeed, the Loss Corridor could very much be a stepping stone towards a more fully fledged captive arrangement in future. Opportunities to achieve savings for premiums from revising these structures of cover will continue to be actively explored when each of the main covers next come up for renewal.

9.0 Conclusions/Summary

9.1 The insurance market has been challenging for a number of years now and the current climate is no exception, with a decreasing amount of insurers willing to cover the inherent risks within the blue light sector, and levels of cover/sums insured also decreasing where cover is still available. The continued emphasis on risk management will mean that the force will need to undertake more work and satisfy more criteria to ensure that cover remains in place for its operational activities.

9.2 The current economic position and levels of inflation means that premium costs will most likely rise significantly, potentially by up to 10%, when draft renewal terms are received for the majority of the force policies in August 2022, ahead of the new insurance period commencing 1st October. These costs will need to be built into current year forecasts and the 2023/24 budget setting position going forward.

9.3 The Insurance Reserve proposal will be the subject of a separate briefing paper for Chief Officers and the PFCC later in 2022. This will set out the calculated optimum starting balance in the reserve, together with the proposed use of the reserve for the remainder of 2022/23 and the subsequent MTFS period. The use of the reserve to neutralise the impact of material swings in claims forecasts will also be explained.