

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item: 10

24 July 2013

An update on the Authority's insurance arrangements

Report by the Chief Officer

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1 Introduction

1.1 The purpose of this report is to provide an update on the Authority's arrangements for insurance cover.

1.2 It provides an overview of:

- our insurance arrangements (including their procurement);
- the objectives of the 'Fire and Rescue Services' Insurance Consortium' (we are a member);
- our levels of cover we hold;
- the importance of keeping our cover up to date;
- insurance issues currently under consideration;
- our risk profile;
- how insurance claims and issues are dealt with in the Service;
- the implications of the new Ministry of Justice rules on fast tracking personal injury claims; and
- our claims experience since November 2010.

2 Recommendations

2.1 That the Committees notes the contents of the report.

3 Overview of insurance arrangements

3.1 On 1 November 2008, Hampshire Fire and Rescue Authority entered into a contract with Zurich Mutual to provide insurance cover, following an EU tender. It did so as a Consortium with eight other fire and rescue authorities.¹ These authorities had previously worked together as

¹ Kent, Devon and Somerset, Cheshire, Leicestershire, Royal Berkshire, Bedfordshire and Luton, Cambridgeshire and Essex

insurance mutual: the 'Fire and Rescue Authorities' Mutual Limited'. (FRAML). As a Consortium we buy cover as a group. We try to keep requirements as consistent as we can, but inevitably there are differences according to needs, such as marine or international deployment cover. Excesses vary according to each Authority's requirements.

- 3.2 The consortium is currently preparing to tender for a new insurance contract to be in place by 1 November 2013. All members contribute to the tendering process, but it is being led and coordinated by Essex Fire and Rescue Authority.
- 3.3 The Performance Review Manager represents the Service on the Consortium.
- 3.4 The Consortium's broker contract was retendered via the EU tender process in 2011. Following an extensive evaluation process, the contract was awarded to Oxygen Insurance Services Ltd for a three year period. A few months into the contract however, Oxygen advised that they were in negotiation with an interested party to purchase the broking arm of its business. Subsequently Gallagher Heath emerged as the buyer and in due course "bought" the business, following which they offered to continue with the Oxygen contract. The terms of the purchase of the business did not however allow the transfer of the contract as would be the case in many acquisitions of this nature, and it was decided to re-tender the contract. A full refund of all outstanding contract sums paid was received from Oxygen. The procurement process was led by Essex Fire and Rescue Authority on behalf of the consortium. JPIC Ltd, a specialist insurance advisor rather than a traditional broker, were appointed. JPIC had recently recruited a former Oxygen employee previously engaged in working with the consortium to head up the bid, so the consortium experienced limited disruption during the handover to the new company as the new contract manager already had a working knowledge of the consortium.

4 Objectives of the Fire and Rescue Services Insurance Consortium

- 4.1 The Consortium's primary objective is to procure insurance cover for its members at the most competitive rates possible. It has achieved this so far. However, to continue to make savings and keep the cost of risk low, it must:
- ensure that its risk profile can attract the best premium rates;
 - keep the value and volume of claims paid by the insurer low, and
 - have access to as much of the market as possible.
- 4.2 Professional independent advice is key to achieving this. The Consortium has access to this advice throughout the year, particularly during the tender process and at annual renewal.

5. Summary of current insurance cover and costs at November 2012

Note these policies are subject to some exclusions

Insurance class	Excess (£)	Limit of cover (£)
Property cover is provided for any physical loss or damage to Service property against perils such as fire, explosion, storm, escape of water and impact. It excludes terrorism (see below). Property includes premises, machinery, stock and equipment.	5,000	According to loss and sum insured
Terrorism cover is provided for any physical loss or damage to Service property as a result of terrorism	Nil	According to loss and sum insured
Business continuity additional expenditure incurred as a result of accidental damage to Service property.	5,000	5.2m over 36 months
Money covers loss of money, including cheques due to theft, but not due to fraud or dishonesty of employees.	Nil	According to loss and sum insured
All risks this covers the Service's statues, New Dimension 'POD's' and drone helicopter.	5,000	According to loss and sum insured
Theft covers theft and reinstatement costs relating to forcible entry to premises.	5,000	According to loss and sum insured
Public Liability covers legal liability to third parties.	25,000	£50m any one claim
Employers Liability covers all sums to which the Authority becomes legally liable to pay as damages in respect to death, disease or bodily injury of an employee, arising out of and in the course of employment	25,000	£50m any one claim
Officials Indemnity Covers legal liability for financial loss to third parties for any negligent act or accidental error or omission committed or alleged to have been committed by employees of the Service whilst carrying out, or as a consequence of, their duties of the business of the Service. It does not include fraudulent acts.	25,000	£5m any one claim

Libel and slander	25,000	£5m any one claim
Motor includes airside and legal expenses/uninsured loss recovery.	£50,000 own vehicle damage nil excess on third party damage	£10m – commercial vehicle £50m – private vehicle
Engineering covers hot water boilers and equipment that lifts or pulls. The Service has cover of up to £100K for any one occurrence.	100	100k any one claim
Fidelity guarantee covers losses arising as a direct result of fraud or dishonesty committed by an employee. It should be noted that cover will not apply once any other employee of the Service becomes aware of, or has reasonable grounds for suspicion of any act of fraud, dishonesty or irregular conduct of the employee.	5,000	£1m any one claim
Personal accident covers the Service in the event of death or injury to staff whilst in the course of their duties. The policy is in the name of the Service and is designed to compensate it in respect to payments it is required to make in such circumstances	Nil	N/A
Business travel provides full rescue/ repatriation and additional cover for employees including medical expenses and additional costs, loss of baggage, personal effects and money whilst travelling on business overseas.	Nil	£1m = medical/ associated expenses
Computer covers all risks of physical loss or damage in respect to accident, fire and breakdown of computer equipment at any of the premises owned, occupied or used by the Service.	5,000	According to loss and sum insured

6 Keeping our cover up to date

6.1 We keep our insurer aware of changes to risks, or of any planned events or activities that are out of the ordinary. We do this to ensure that we have appropriate and sufficient cover. It should be noted that we do not wait for the renewal process to update or change levels of cover. We take the approach that we discuss new or changes to risk as they arise.

6.2 It should be remembered that insurance is there to help mitigate financial loss after an event has occurred. Normal risk prevention measures should always apply when considering new activities to prevent foreseeable injury or damage to the Authority or its staff.

7 Insurance issues currently under consideration

7.1 Property valuations of our building stock have been reviewed by our estates advisor and provided to our insurer.

7.2 We are currently working in conjunction with our advisor and insurer on:

- advice regarding Joint Working;
- assessing whether there is a requirement for a specific policy to cover environmental pollution beyond that already covered in our public liability policy;
- advice regarding the commercial arm; and
- ensuring that our excesses are appropriate.

8 Risk Profile

8.1 As mentioned above, members of the Consortium aim to have an overall risk profile that is attractive to the market. It will form part of the insurance tender documentation to enable tenderers to price risks on a more informed basis, and be a benchmarking tool to assess fire and rescue services who may want to join in the future. Without the obvious implications for insurance, it has benefits for risk management within the Service and provides us with extra data sharing and cooperation between the Services involved. We have recently engaged a specialist risk engineering company to review each member's insurance risk profiles. The work concentrated on the following headings:

- fleet
- health and safety
- property
- business interruption
- ICT security
- environmental risks
- special perils

8.2 We are currently awaiting the outcome of this work. Any recommended improvements that are appropriate to the Service will be fed into the relevant channel for consideration, for example the Health and Safety Committee, Road Risk Management Group, Information and Physical Asset Security Forum.

9 How insurance issues are dealt with in the Service

9.1 After the approval of a new post in the Performance Review Team, an Insurance and Risk officer was appointed in May 2013, initially on a one year fixed term contract. This allows us to administer our insurance arrangements in one post rather than the work being done across four teams. It means that information on incidents and related claims, or potential claims is known and drawn together by one person. The post is not solely concerned with the administration of insurance, but also with risk management, particularly where there are insurance implications, for example working closely with the Road Risk Management Group, and the Health and Safety Manager in particular. At the time of writing this report, we are already seeing improvements as a result of this arrangement.

9.2 The work involves:

- undertaking the annual renewal process;
- maintaining a good working relationship with our broker and the insurers;
- providing advice to managers and staff on general insurance issues;
- dealing with all claims against the Service and liaising directly with the insurers to process them;
- providing an overview of the number of types of claims received and ensuring their outcomes are maintained; and
- communications to managers and staff.

9.3 The Insurance and Risk Officer is working closely with other departments to target the specific areas identified as having the potential to create a cost saving. This is a work in progress and the realised benefits will not be instantly visible. She has developed a tracker which she maintains and monitors for vehicle crash data. This gives us the ability to identify trends which enables us to target specific issues. This data is provided to the Health and Safety Manager for his regular updates. Regular communications to staff using routine notice, Extra newsletters, posters, and updated intranet pages are just some of the ways we aim to highlight these issues to staff.

9.4 Regular meetings are held with the Health and Safety Manager to discuss safety events and potential insurance claims. It is important that claims are robustly defended where the Service is not liable for a claim, but it is equally important that it is dealt with promptly for the sake of the individual and to mitigate legal costs that quickly mount up. Close

liaison is maintained with Human Resources Business Partners.

10 The implications of the new Ministry of Justice rules on fast tracking personal injury claims

10.1 The Ministry of Justice has set new rules governing how employers and public liability claims are litigated after July 2013. In a nutshell, there will be fixed upper costs on low value injury claims, under £25,000. These will be subject to pre action protocols, setting out a strict regime for exchange of information, timing of admissions and negotiations. Claimants will be required to submit their claim electronically in a standard form and defendants (the Authority) will then have the following period for investigations:

- motor claims – 15 working days
- employee liability claims – 30 working days
- public liability claims – 40 working days.

If we do not respond in time, the claim will exit the protocol and the former process will apply, resulting in higher legal costs.

10.2 The implication of these rules is that we need to be in a position to determine any liability, and defend a claim quickly, which means that our investigations need to be completed promptly and effectively, after an incident. The Health and Safety team, which coordinates investigations, is aware of these changes.

11 Claims experience

11.1 As discussed above, one of the major factors determining future premiums is the value and volume of claims paid by insurers. The Authority carries relatively high excesses on its policies as a means of keeping premiums to a minimum (particularly on own damage for fleet), and therefore meets the initial cost of each claim, up to the agreed excess, from its budget. Reducing the volume and cost of claims is therefore of importance in minimising direct costs each year as well as keeping future premium increases to a minimum. Claims costs are therefore now closely monitored by the Performance Review Team, and analysed so that any trends emerging can be identified and addressed where possible. Appendix 1 to this report provides a high level analysis of claim trends over recent years. This sets out information regarding the Authority's claims position to illustrate the context within which future premiums are determined, as well as monitoring activity designed to reduce claims costs.

11.2 We have experienced an increase in motor premiums of 52% over the course of the current contract. This has been driven by a general increase in motor premiums, and in particular blue light insurance. The Consortium has suffered a number of large motor claims, one of which relates to Hampshire. Our motor claims experience has been improving although we see a number of reversing and manoeuvring crashes, some impacting on fire station doors which have the added cost and

disruption associated to them. We do not perform as well as other Consortium members when we compare the number and value of motor claims.

- 11.3 It is important that we try to keep these to a minimum, not only to ensure more control over future premiums, but because one of our Service Priorities is 'Safer Road Users'. For this reason I have proposed that the Road Risk Management Group's plan is incorporated under this Priority in the Service Improvement Plan.
- 11.4 Property claims have increased in the last two years with thefts of lead from fire station roofs and generators from the headquarters site.
- 11.5 Our experience of employee and public liability claims is good and low compared to other fire services in the Consortium.
- 11.6 Insurance plays its part of mitigation when control measures have failed. It is important that we continue to place importance on preventative risk management strategies like road risk management, health and safety, and the security of facilities to ensure that where possible these events are prevented.

12 Supporting our corporate priorities and aims

- 12.1 Ensuring that the Authority is adequately insured supports the achievement of our aims and objectives.

13 Risk analysis

- 13.1 Insurance cover is a key element of the treatment of risk. It is important to be aware of the potential financial risk that could arise in the day to day activities of a Fire and Rescue Service. For this reason it is essential that appropriate insurance provision is purchased in order to minimise potential financial risks to the Authority. It is also important to bear in mind that insurance does not replace the need for appropriate risk management procedures to help prevent the likelihood of these risks occurring.

14 People impact assessment

- 14.1 The proposals in this report are considered compatible with the provisions of the equality and human rights legislation.

15 Resource implications

- 15.1 The management of the Authority's insurance arrangements is undertaken within the Performance Review team, by the Risk and Insurance officer with input from the Performance Review Manager. The former post is currently funded until May 2014. However, there will be a bid for the post to become permanent.

16 Background papers

The following documents disclose the facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of the report:

None

Note: The list excludes: (1) published works; and (2) documents that disclose exempt or confidential information defined in the Act.

Overview of claims

Appendix 1

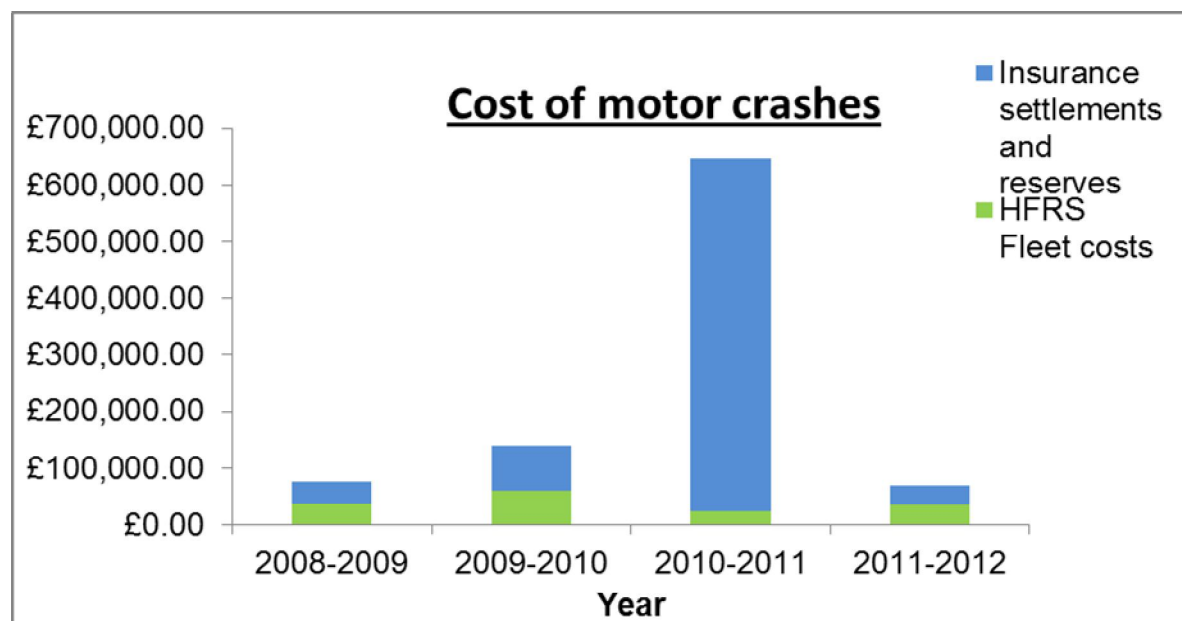
The nature of insurance claims involving personal injury is such that they can take a long time to settle. This is particularly true of liability and some motor claims where three years from the date of claim to final settlement is not unusual. This means the final cost of some more recent claims may not be known at the end of any given reporting period. Insurers will set a “reserve” providing an estimate of the likely final cost of the claim. Financial Services Authority rules require that these reserves are “prudent”, which inevitably means that they err on the side of caution and are more likely to be overstated than understated.

1. Motor claims

This information was taken from data provided by the insurer as at June 2013 (note that total sums paid are subject to frequent change). Payments made by the insurer include current reserve sums set aside. Repair costs to our own vehicles are those recorded as at the end of January 2013, and are therefore likely to increase.

The policy is subject to a £50k excess for damage to our own vehicles but a nil excess for third party damage.

You will note that the cost for 2010-11 is large in comparison with other years. This is due to one large third party motor claim which cost £582k. The underlying trend is a downward one.



Motor crashes	November 2010 to October 2011	November 2011 to October 2012	November 2012 to May 2013
Total number of crashes	85	64	38
Number of crashes involving a third party	39	29	20
Number of crashes not involving a third party	46	35	18
Number of crashes (above) where the Service was found to be partly/at fault	83 plus 2 open claims	59 plus 3 open claims	29 plus 9 open claims
Number of crashes where a third party person was injured	3	0	1

2. Property claims

The policy is subject to a £5k excess.

We have had theft of lead from Hardley Fire Station and the theft of two generators from Headquarters. A business interruption event resulting from a power outage in January 2013 resulted in a claim which is currently on-going.

Property Claims	November 2010 to October 2011	November 2011 to October 2012	November 2012 to May 2013
Number of claims	6	0	1
Theft of property	4	1	0
Cost to the Service (£)	10,966	5,000	Not complete
Insurance settlement	Nil	6,950	Nil

3. Employer and Public Liability claims (EL/PL)

The policy is subject to an excess of £25k for both EL and PL claims, so any claim below that amount is paid by the Service. The Performance Review Team are currently examining different options to deal with the EL claims to reduce legal costs, and the time taken, either by processing some of our own claims or changing the excess.

Employer Liability	November 2009 to October 2010	November 2010 to October 2011	November 2011 to October 2012	November 2012 to May 2013
Number of claims	1	2	0	1
Payments made and reserves set to date (£)	See note below	£75,645.00	0	£12,000.00
Internally negotiated	1	0	0	0

A significant claim from 2009/10 is currently being dealt with by our insurers.

Two further claims (not included above) are being dealt with by previous insurers as they relate to incidents prior to November 2008.

Public Liability	November 2009 to October 2010	November 2010 to October 2011	November 2011 to October 2012	November 2012 to May 2013
Number of claims	4	0	0	1
Number of claims repudiated	4	0	0	0
Payments made and reserves set (£)	nil	nil	nil	£300 reserve