

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 7

28 January 2015

An update on the Authority's insurance arrangements

Report by the Chief Officer

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1 Introduction

1.1 This report provides an update on the Authority's arrangements for insurance cover. Insurance cover is defined as Motor, Casualty (Employers Liability, Public Liability, Officials Indemnity and Libel and Slander), Property (Business Interruption, Money, Theft, material damage) and additional covers such as computer, travel and fidelity.

1.2 The report provides an overview of:

- The Service's insurance arrangements (including their procurement)
- The objectives of the 'Fire and Rescue Services Insurance Consortium' (FRIC) which HFRS is a member of
- A summary of the insurance cover held by the Service
- The annual insurance renewal
- Insurance issues currently under consideration
- The HFRS risk profile
- How insurance claims and issues are dealt with in the Service
- The Service's claims experience since April 2010

2 Recommendation

2.1 That the Finance and General Purposes Committee note 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 (FRA).¹ These authorities work collaboratively and are known as the Fire and Rescue Services Insurance Consortium (FRIC). As a Consortium we buy cover as a group. The FRIC keep requirements consistent with the exception of differences that arise according to specific FRA needs, such as marine or international deployment cover. Excesses will also vary according to each Authority's requirements. Each Authority can opt for their own choice of excess.

- 3.2 The Consortium tendered for a new insurance contract in November 2013 and awarded a two year contract to Zurich Municipal which can be renewed after year one. The contract will end in November 2015. The tendering process was led and coordinated by Essex Fire and Rescue Authority with all members contributing.
- 3.3 The Insurance and Risk Officer represents the Service on the Consortium.
- 3.4 The Consortium has an insurance broker to provide advice and guidance and to work in collaboration with the consortium on current issues/projects. This service is provided by JPIC Ltd, who are a specialist insurance advisor rather than a traditional broker.
- 3.5 The consortium is currently finalising the details of a 24 hour helpline to provide legal advice for major incidents. Once finalised, details will be shared and stored in the Major Incident Room.

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:

- Identify and share best practice in managing risk
- Generate additional insurance market interest in the Consortium through engagement and knowledge sharing in the form of high quality risk profile and risk management information
- Achieve best practice in terms of claims management
- Develop greater understanding and consistency of policy coverage

FRIC also has a longer term aim to reduce the overall cost of insurance for each member and stabilise the costs spent on dealing with insurance claims as well as other associated costs such as vehicle repairs, thefts and safety events.

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

- 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 2014

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. | 100 for each and every claim | 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 | 25,000 | £5m any one claim |

| | | |
|--|---|---|
| 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. | | |
| Libel and slander | 5,000 | £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 | 500k 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. | 10,000 | £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 Annual insurance renewal

6.1 At the time of writing this report, the annual contract renewal process had just been completed. The insurer was provided with key information in respect to our current salary budget, property (including ICT) valuations and fleet numbers. We also supply them with details of any significant change of risk that is likely to occur over the following 12 months.

6.2 This year we have shared with Zurich, for the purposes of contract renewal a summary of the key activities in the following areas:-

- Joint working – strategic partnerships continue to be explored and implemented with the County Council and the Police.
- HFRS/A have set up a trading arm, 3S Fire, to provide a range of skills, knowledge and resources to any business requiring specialist advice or training in the safety and risk management arena. The work carried out by 3S Fire continues to grow.
- We are working on an agreement with South Central Ambulance Service to enable them to use a number of our fire stations as ‘resorting points’ at which to have breaks and undertake paperwork.
- We will be undertaking a major refurbishment or rebuilding of Basingstoke Fire Station which is due to start early 2015.
- Animal rescue training has evolved and expanded in frequency, the number of HFRS staff being trained and training style.
- Hampshire and Thames Valley Constabulary Armed Response Team are now based at Winchester Fire Station.
- The HFRS Volunteering scheme continues to grow. There are approximately 50 volunteers who support a variety of activities.

6.3 The objective of keeping the insurer aware of change of risks is to ensure that we have appropriate and sufficient cover. But it should be noted that we do not need to 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. For example this we have discussed 3S Fire operations in detail with Zurich.

6.4 Fire Authority members, SMT members and staff are encouraged to seek advice regarding insurance implications of new initiatives or new working arrangements where there is a significant departure from normal practice. This should be done as early as possible to ensure that any insurance issues can be resolved, and the insurer informed of any changes to risk.

7 Insurance issues currently under consideration

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

- Monitoring the activities that are carried out by 3S Fire. There are boundaries that 3S Fire are contractually obliged to keep to in order to be included within the HFRS insurance policy. If the activities that are carried out by 3S Fire deviate away from standard HFRS business/activities then the insurance will no longer be valid and they will have to tender for their own commercial insurance. Commercial insurance is considerably more expensive than municipal insurance for public sectors. If 3S Fire have their own commercial insurance policy, the cost of this will need to be met by the company.
- FRIC Pooling project – Hybrid Discretionary Mutual

Following the November 2013 tender, it became apparent that there is a lack of interest from insurers to insure Fire and Rescue Services due to the risk involved in blue light response driving and also the nature of fire service work being high risk. The market for providing insurance cover for Fire and Rescue Services is limited creating a risk that premiums could increase and become unstable. It puts the insurer in a strong position. Current arrangements also limit opportunities for FRIC members to deliver savings due to not being in control of premiums.

The Fire and Rescue Insurance Consortium (FRIC) has therefore examined alternative options and solutions and will be forming a Hybrid Discretionary Mutual to act as a pool for insurance purposes starting in November 2015. FRIC submitted a transformation bid for financial assistance to set up the FRIC Pool and were successful in securing £220,000.

A report was submitted to Finance and General Purposes Committee in January 2014 which explained the concept of insurance pooling in more detail.

At the time of writing this report the project is in the stage of recruiting for a Pool Manager who will be responsible for the formation of the Pool company, appointing the board of Directors, governance and Pool rules and managing the day to day running of the FRIC Pool.

- Advice and guidance on the sharing of HFRS facilities and service's.
- The implementation of a 24 hour legal advice helpline.

8 Risk Profile

8.1 As mentioned above, members of the Consortium aim to have an overall risk profile which identifies areas of work which could pose a risk. An attractive risk profile will give assurance that risks are being managed in all areas of the Service. The risk profile forms part of future insurance tender documentation to enable tenderers to price risks on a more informed basis and is 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. Each member of FRIC produces a Risk Profile against the following headings:

- Fleet
- Property
- Health & Safety
- IT Security
- Business Interruption
- Environment
- Shared Services
- Trading Arm
- Travel
- Other HFRS activities
- Specialist equipment

8.2 The risk profile is reviewed annually by the Insurance and Risk Officer and updated accordingly.

9 Keeping our cover up to date

9.1 We keep our insurer aware of any changes to risks or 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.

9.2 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.

10 How insurance issues are dealt with in the Service

10.1 In May 2013, an Insurance and Risk officer post was created. It means that information on incidents and related claims or potential claims is collected, analysed and consolidated within one team whereas previously it was across four teams. The post is concerned with the administration of insurance as well as risk management, particularly where there are insurance implications, and works closely with the Road

Risk Management Group, the Fleet Department, Occupational Health, Human Resources and the Health and Safety Manager.

10.2 The work involves:

- representing the Service on the Fire and Rescue Services Consortium (FRIC)
- undertaking the annual insurance renewal process;
- maintaining a productive 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, ensuring their outcomes are maintained and trends identified;
- communications to managers and staff on insurance and risk matters.

10.3 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 work in progress and the realised benefits will not be instantly visible. A tracker has been developed to monitor vehicle incident 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 SMT and Committee 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.

10.4 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, Fleet Management and Occupational Health.

11 The Ministry of Justice rules on fast tracking personal injury claims

11.1 The Ministry of Justice has set new rules governing how claims are litigated after July 2013. There are fixed upper costs on low value injury claims, under £25,000. These are subject to pre action protocols, setting out a strict regime for exchange of information, timing of admissions and negotiations.

Claimants are 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 portal and the former process will apply, resulting in higher legal costs.

- 11.2 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 are aware of these new rules.

12 Claims experience

- 12.1 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 important in minimising direct costs each year as well as keeping future premium increases to a minimum. Claims costs are closely monitored by the Insurance and Risk Officer and analysed so that any emerging trends 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.
- 12.2 In 2013-14 we experienced an increase in motor premiums of 52%. The 2014-15 motor premium was fixed from the previous year so as to ensure a minimum impact on cost. The increase is driven by a general increase in motor premiums across the motoring industry, but 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 also see a high number of collisions with stationary objects such as kerbs, gate posts and lamp-posts. A poster campaign to highlight the importance of using a banks-person when reversing and to raise awareness of the costs associated with colliding with appliance bay doors was carried out in January 2014. This was well received and has helped reduce these types of incidents. Within the Consortium, when we compare the number and value of motor claims, the Service performs relatively well.

- 12.3 Our property claims are minimal. We were subject to thefts, on two occasions, of RTC cutting and hydraulic equipment from two retained fire stations but this appears to be an isolated incident.
- 12.4 Our experience of employee and public liability claims is good and low compared to other fire services in the Consortium. Employee liability claims can be quite complex and can take many years to settle.
- 12.5 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.

13 Supporting our corporate priorities and aims

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

14 Risk analysis

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 prevent the likelihood of these risks occurring.

15 People Impact Assessment

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

16 Resource implications

The management of the Authority's insurance arrangements is undertaken within the Knowledge Management Team, by the Risk and Insurance officer with input from the Head of Knowledge Management. The Insurance and Risk Officer post is currently funded until April 2015. However, within the PSR proposals there are plans to make this post permanent.

17 Background papers

None.

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 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 and collated by the Insurance and Risk Officer as at November 2014 (note that sums paid are subject to change). Payments made by the insurer include current reserve sums set aside.

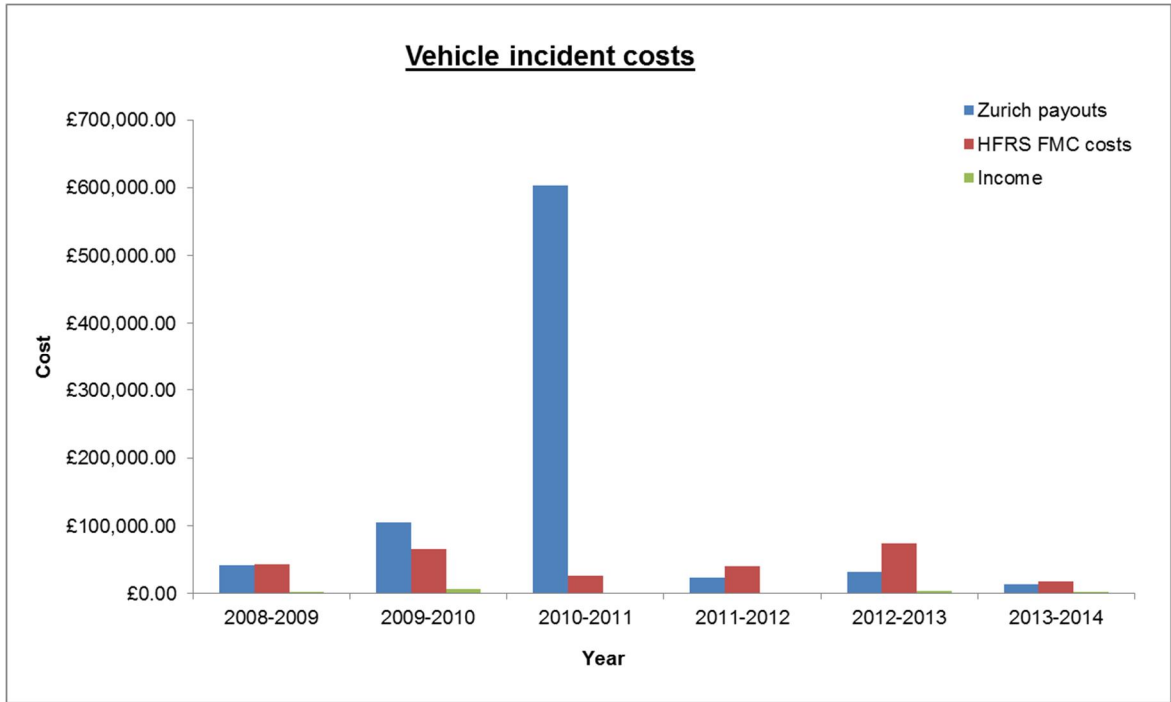
Vehicle repair costs to our own vehicles are those recorded as at the end of October 2014.

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

Note:

- In 2010-11 there was one large third party motor claim which cost £567k.
- There is still one open claim from 2011-12 which has a reserve of £10,500.
- In 2012-13, one vehicle was written off at a cost of £40,000.
- There is still one open claim from 2012-13 which has a reserve of £13k.
- There are still 11 open claims from 2013-14 with reserves totalling £32k.
- FMC repair costs are not available for all vehicle incidents. If the damage is minor the vehicle will be repaired the next time it is brought into workshops. These costs are not captured and are absorbed within other maintenance costs.
- Loss recovery is carried out for vehicle incidents where the 3rd party is at fault and the damage sustained is considerable – this is displayed as income.

The trend for FMC repair costs has been increasing although in 2013-14 we have seen a significant decrease.



The chart above illustrates the costs paid by Zurich, the Fleet Maintenance Centre vehicle repair costs and any income received from 3rd party insurers as loss recovery.

| Vehicle incidents | Nov 2010 to Oct 2011 | Nov 2011 to Oct 2012 | Nov 2012 to Oct 2013 | Nov 2013 to Oct 2014 |
|---|--|---|---|---|
| Total number of vehicle incidents | 93 | 68 | 77 | 72 |
| Number of vehicle incidents involving a third party | 44 | 28 | 40 | 38 |
| Number of vehicle incidents not involving a third party | 49 | 40 | 37 | 34 |
| Number of vehicle incidents reported to insurer | 39 | 27 (1 open claim) | 37 (1 open claim) | 36 (11 open claims) |
| Number of vehicle incidents where HFRS were found to be at fault | 35 | 12 | 16 | 11 |
| Number of vehicle incidents where the claim was dropped or where HFRS were found not to be at fault | 14 | 14 | 20 | 14 |
| Number of vehicle incidents not reported to insurer | 54 | 41 | 40 | 36 |
| Number of vehicle incidents where HFRS were at fault | 53 | 38 | 38 | 34 |
| | (1 not at fault involving SCAS who dealt with the costs) | (3 not at fault due to 3rd party not stopping and member of the public kicking our vehicle) | (2 not at fault due to SCAS 50/50 incident and one that was settled outside of insurance) | (2 not at fault due to no contact with 3rd party made and 3rd party did not stop) |

The table above illustrates the trend of vehicle incidents over the past four years. We are reporting more incidents to our insurer but there is a decrease in the number of vehicle incidents where HFRS are found to be at fault.

2. Property claims

The policy is subject to a £5k excess.

We have had two thefts of RTC cutting equipment and hydraulic equipment; one from Odiham Fire Station in September 2013 and one from Fleet Fire Station in January 2014. A business interruption event resulting from a power outage in January 2013 resulted in a claim which has now been settled.

| Property Claims | Nov 2010 to Oct 2011 | Nov 2011 to Oct 2012 | Nov 2012 to Oct 2013 | Nov 2013 to Oct 2014 |
|------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Number of claims | 6 | 1 | 2 | 1 (1 open) |
| Theft of property | 4 | 1 | 1 | 1 |
| Cost to the Service | £10,966 | £5,000 | Nil | Nil |
| Zurich pay-out | Nil | £6,950 | £30,428 | still open |
| Open claims | 0 | 0 | 0 | 1 (reserve £3,955) |

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

The policy is subject to an excess of £25k for both EL and PL claims, any claim below that amount is paid by the Service.

There are two large claims still unresolved from 2011/2012. We have three claims still being negotiated with the insurers from 2013/2014. We also have one claim received in the current year for which a reserve has not yet been set.

| Employer Liability | April 2010 to Mar 2011 | April 2011 to Mar 2012 | April 2012 to Mar 2013 | April 2013 to Mar 2014 | April 2014 to Oct 2015 |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Number of claims | 4 (closed) | 2 (open) | 1 (closed) | 3 (open) | 1 (open) |
| Number of claims dropped | 1 | 0 | 1 | 0 | 0 |
| Payments made and reserves set to date (£) | £56,315 | £148,401 | Nil | £64,830 | tbc |
| Internally negotiated | 1 | 0 | 0 | 0 | 0 |

| Public Liability | April 2010 to Mar 2011 | April 2011 to Mar 2012 | April 2012 to Mar 2013 | April 2013 to Mar 2014 | April 2014 to Oct 2015 |
|------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Number of claims | 1 | 1 | 0 | 1 | 1 |
| Number of claims dropped | 1 | 1 | 0 | 1 | 0 |
| Payments made and reserves set (£) | none | none | none | none | £468.00 (settled) |