

ESSEX FIRE AUTHORITY

Essex County Fire & Rescue Service



MEETING

**Policy & Strategy
Committee**

AGENDA ITEM

5

MEETING DATE

4 November 2015

REPORT NUMBER

EFA/094/15

SUBJECT

Insurance Pooling

REPORT BY

Finance Director & Treasurer, Mike Clayton

PRESENTED BY

Finance Director & Treasurer, Mike Clayton

SUMMARY

- 1 This report provides an update on the establishment of pooling arrangements to provide cover for low value losses previously covered by insurance. The Authority is a member of the Fire and Rescue Indemnity Company Ltd (FRIC) which provides discretionary cover for these losses. The new arrangements commence on 1 November 2015.

RECOMMENDATION

- 2 Members are asked to note the arrangements that have been put in place.

BACKGROUND

- 3 In January 2014 Members agreed five recommendations that the Authority would support the establishment of an insurance pool to replace conventional insurance arrangement for the Authority. The recommendations were:
 1. Agree to the Authority participating in establishing a Fire & Rescue Authorities Insurance Pool; and Agree that the Authority becomes a full member of the company and authorises the Finance Director and Treasurer, and the Clerk to take all necessary steps to achieve this;
 2. Agree that the Authority utilises the pooling arrangement for its corporate property, liability, motor and other miscellaneous insurance requirements for a minimum period of three years through the pooling entity with effect from 1 November 2014, or thereafter subject to final arrangements being in place;

3. Agree to participate in a financial guarantee for supplementary premiums should claims against the pool exceed the funding available and authorise the Finance Director & Treasurer to take all necessary steps to achieve this;
 4. Agree that officers may serve as Directors of the pooling entity and that the Chief Fire Officer or their nominee be empowered to represent the Authority's interests at any formal meetings of the pooling entity and to vote on its behalf; and
 5. Agree to waive the Authority's existing procurement rules that would require competing bids for the provision of insurance services to allow for the provision of cover for losses through the pooling company.
- 4 The arrangements have now been completed and the new pooling entity commenced providing cover from 1 November 2015. The participating Authorities are:
- Bedfordshire Fire and Rescue Authority
 - Cambridgeshire and Peterborough Fire Authority
 - Cheshire Fire Authority
 - Devon and Somerset Fire and Rescue Authority
 - Essex Fire Authority
 - Kent and Medway Fire and Rescue Authority
 - Hampshire Fire and Rescue Authority
 - Leicester, Leicestershire and Rutland Combined Fire Authority
 - Royal Berkshire Fire Authority

POOL MANAGEMENT

- 5 A procurement process to identify a manager for the insurance pool was carried out in late 2014. The successful bidder was Regis Mutual Management Ltd, a firm that specialises in the management of pooled insurance arrangements. The activities to establish the pool and the new claims handling arrangements started in April 2015 and delivered a completed solution by 1 November.

FEASIBILITY STUDY

- 6 As part of the contract to establish the pool there was a requirement to re-visit the feasibility study to ensure that the decision made in early 2014 was still valid. This work was completed in August 2015 and produced similar results to the original feasibility study. The financial projections for the pool, based on the previous seven years claims data are shown below:

	Years 1-7 Average £'000s
CONTRIBUTIONS	3,980
INVESTMENT INCOME	8
TOTAL INCOME	3,988
EXCESS & AGGREGATE INSURANCE	1,301
RETAINED CLAIMS	1,506
OPERATING EXPENDITURE	668
TOTAL EXPENDITURE	3,475
Average Surplus	513

- 7 Initial contributions have been set using a methodology similar to that applied by the out-going insurer (Zurich). In future years authorities with lower level of claims will see a reduction in their contributions.

POOLING AND INSURANCE ARRANGEMENTS

- 8 There are two levels of retention for a claim before the underlying insurance arrangements are required. Firstly each Authority has a level of deductible – these are £50k for motor claims and £20k for liability claims for the larger Authorities including Essex and £5k for motor claims and £1k for liability claims for smaller Authorities.
- 9 The second level is within the pooling company. The pool will retain the first £100k of each property claim, £200k of each liability claim and £500k of each motor claim. Amounts above this level will be met by the underlying insurance policy. In addition there is an aggregate level of retention across all classes of insurance in the pool. This is set at £2m per annum and claims above this level will be met by the aggregate insurer.

RE-INSURANCE

- 10 Contracts for the excess and aggregate layers have been agreed. The covers provided are listed below:
- Motor – Equity Red Star
 - Liability, Property – Builders Direct SA
 - Aggregate – Builders Direct SA
- 11 The legal requirement for insurance covers from licenced insurers will be met by Equity Red Star (for Motor) and Builders Direct SA (for Employers Liability). Builders Direct SA is a Luxemburg based insurance company keen to develop UK business and support pooling arrangements. Equity Red Star is an established UK motor insurer.

CLAIMS

- 12 All claims management will be handled by Regis as part of the contract for pool management. This will give authorities a closer control over claims and by developing new systems there will be better claims information available to drive

future risk management activity. All authorities will have direct access to the claims system and all claims, including those below the authority deductible level will be recorded to ensure a single database of the claims experience for each authority.

GOVERNANCE

- 13 The company (Fire and Rescue Indemnity Company Ltd) will be controlled by five director appointed by the members. The initial appointments comprise a range of experience and expertise. The Board will be supported by the Pool Managers and have access to independent advice when necessary. The board members are:

- Gavin Chambers (Head of Finance/Treasurer, Bedfordshire)
- Mike Clayton (Finance Director & Treasurer, Essex) – Chairman
- Richard Feltham (Corporate Governance & Risk Manager, Kent)
- Rebecca Leigh (Assurance & Compliance Officer, Hampshire)
- Sue Nugent (Insurance & Risk Manager, Devon & Somerset)

RISK MANAGEMENT IMPLICATIONS

One key driver for the move towards a pooling arrangement to replace conventional insurance is to gain a benefit from improvements in risk management. Within the consortium of nine fire and rescue authorities there has been a focus on improving risk management and learning from each other since the group first started in 2006. This focus continues and the consortium meetings to focus on risk management will continue.

The pooling arrangement does bring in exposure to a wider range of risks across multiple authorities, but this is balanced by the potential savings from improved risk management – these savings will accrue to the authorities, in the past these benefits were retained by the insurer. The underpinning insurance covers limits the risk of exposure.

FINANCIAL IMPLICATIONS

The numbers and value of claims has been falling. This is not reflected in insurance premiums. The proposed approach will provide a more balanced view of costs, better consistency, and provide clearer links between claims costs and premiums.

LEGAL IMPLICATIONS

The company structure, Memorandum and Articles of Association have been constructed to ensure that it meets the requirements of the Public Contracts Regulations 2015 SI 2015/102. This brings into UK law a principal, known as the Teckal rule whereby the Authority does not have to follow European procurement rules if it is contracting with a local authority controlled company.

ENVIRONMENTAL AND EQUALITIES IMPLICATIONS

There are no direct environmental or equalities implications from this paper.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents	
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