

## REQUEST FOR DMPC DECISION – PCD 36

**Title:** Insurance Strategy & 2016 Insurance Renewal

### Executive Summary:

This report requests approval of the MOPAC Insurance Strategy and the 2016 Insurance Renewal for four policies as detailed in section 2.

### Recommendation:

That the DMPC approves the MOPAC Insurance Strategy and the 2016 Insurance Renewal for four policies as detailed in section 2.

### Deputy Mayor for Policing and Crime

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Code of Conduct. Any such interests are recorded below.

The above request has my approval.

**Signature**

*Sybil Henderson*

**Date**

27/07/2016

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE DMPC**

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1 As part of the on-going process of managing contracts and tendering/re-tendering for goods and services, Procurement Services identifies contracts which require DMPC approval for either extension or to initiate contract action to tender or re-tender for goods or services or to award contracts

#### **2. Issues for consideration**

- 2.1. The insurance strategy recommends maintaining the current strategy for 2016 whilst a cross-functional group implement a revised strategy for 2017 onwards.
- 2.2. The 2016 insurance renewal requests approval to renew four policies:
- Damage to property due to specific causes;
  - Legal liabilities for injury to employees or members of the public or damage to third party property;
  - Terrorism;
  - Motor Fleet.

#### **3. Financial Comments**

- 3.1. The total cost of the 2016 premium is £1.812m and will be met from within existing resources.

#### **4. Legal Comments**

- 4.1. The recommendation can be lawfully approved in accordance with MOPAC Contract Regulations and EU/UK Procurement law.
- 4.2. In accordance with the MOPAC Scheme of Delegation and Consent (4.7) the DMPC must approve the annual Insurance Strategy and (4.13) all requests to go out to tender for contracts that exceed £500,000.

#### **5. Equality Comments**

- 5.1. Suppliers will be assessed prior to entering into agreements to ensure they comply with relevant legislation. It will be the responsibility of user departments to ensure that the MPS Equality and Diversity policies are adhered to through the life of the contract.
- 5.2. Suppliers may be asked to sign up to the Diversity Works for London Programme which assesses suppliers against the Equality and Diversity framework.

#### **6. Background/supporting papers**

- 6.1. Investment Advisory Board paper

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOIA) and will be made available on the MOPAC website following approval.

If immediate publication risks compromising the implementation of the decision it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.

**Part 1 Deferral:**

Is the publication of Part 1 of this approval to be deferred? NO

If yes, for what reason:

Until what date:

**Part 2 Confidentiality:** Only the facts or advice considered as likely to be exempt from disclosure under the FOIA should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a **Part 2** form – YES

**ORIGINATING OFFICER DECLARATION:**

	<i>Tick to confirm statement (✓)</i>
<b>Head of Unit:</b> The SFRM team has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.	✓
<b>Legal Advice:</b> The MPS legal team has been consulted on the proposal.	✓
<b>Financial Advice:</b> The Strategic Finance and Resource Management Team has been consulted on this proposal.	✓
<b>Equalities Advice:</b> Equality and diversity issues are covered in the body of the report.	✓

**OFFICER APPROVAL****Chief Operating Officer**

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Deputy Mayor for Policing and Crime.

Signature



Date 27/07/2016



**Mayor's Office for Policing and Crime  
Investment and Advisory Board  
21st July 2016**

**Report by Lynda McMullan on behalf of the Deputy Commissioner**

**Revised Insurance Strategy**

**This report is in two parts:**

The first part is suitable for publication; and

The second part is exempt from publication

**Part 1 (suitable for publication)**

**EXECUTIVE SUMMARY**

This paper recommends a new three year Insurance Strategy following a review by our external insurance brokers and our own insurance professional.

**A. RECOMMENDATIONS**

1. Portfolio and Investment Board recommends that the Deputy Mayor for Policing and Crime:
  - Approves the proposed revised Insurance Strategy for 2016/17, as described in this report and set out in full in Part 2, Appendix A
  - Agrees that the MPS Finance Department establish a proposal to increase Insurance reserves and incorporate into the Medium Term Financial Strategy
  - Agree the creation of a cross-functional group, led by the Insurance Manager to implement the revised Insurance Strategy in the next renewal cycle

**B. Background**

2. MPS/MOPAC addresses financial risk through a combination of retaining some risk and transferring some risk to an insurer.
3. MPS/MOPAC is exposed to financial risk through physical damage to its property assets and potential legal liabilities arising from injury to third parties or damage to third party property in the course of MPS activities.
4. MPS/MOPAC seek to manage the financial impact of such risks by a mixture of bought insurance and self insurance. For the self insured element of this risk we have a third party provision within our balance sheet which we 'top up' each year from our revenue budget. For 2016/17 this top up amount is £21.7m. In addition we have £7.7m in earmarked insurance reserves. Our self funded insurable losses are currently averaging about £19.8m annually and these costs are met from the abovementioned provision.
5. Our annual insurance premium is set out in Part 2, s1. We manage the majority of our insurance claims ourselves (within our insurance team) using our own funds while buying in insurance cover to cap the total amount of losses that MPS/MOPAC would have to pay in

any one year (often referred to as 'Catastrophe cover').

6. The main types of insurance cover currently purchased by MPS/MOPAC as part of the Insurance Strategy are:
  - Property Insurance, including property in the course of construction/alteration, including damage by terrorism
  - Employers Liability: Legal liabilities for injuries as an Employer
  - Public Liability: Legal liabilities to the public for injuries and damages to property
  - Motor Insurance: Legal liabilities to the public for injuries and damage to property arising out of the use of motor vehicles
  - Emergency Medical Expenses while traveling abroad
7. Our claims history is set out in Part 2, s.2.
8. The insurance market place for Police Forces in the UK is currently extremely limited, thereby impacting both choice and competition. Against this background, MOPAC have tested the market periodically, only to find themselves in most instances retaining their existing insurers. While far from ideal, a benefit to this has been a strengthening relationship in which those insurers have accommodated some of the specific operational challenges raised by MOPAC.

### **Review of our Insurance Strategy**

9. Within this context, we have engaged Arthur J Gallagher to help us review our Insurance Strategy. They are a large multi-national insurance broker, firmly established in the UK Public Sector insurance market, with a specific presence in and experience with Police Forces and other blue light organisations.

10. In particular we asked Gallagher's to:-

- propose **revisions to the Insurance Strategy**, informed by the findings of the actuarial and programme review;
- conduct an **actuarial review of required reserves and provisions** for the main self retained insurable financial risks and losses; and
- conduct a review of **how MPS/MOPAC structures and arranges its insurance (the Insurance Programme)** to determine whether the existing structure was still appropriate, or whether there were other options that could be considered that could provide financial savings if changes were made.

### **Key findings and comments on our existing Insurance Strategy and arrangements**

11. Our insurance broker's key findings and comments arising from their review are:

#### Documented Insurance Strategy

- The existing insurance strategy of purchasing catastrophe levels of insurance to minimise insurance premiums and allow MPS/MOPAC to handle and control claims themselves rather than pass them to insurance company, has been successful and delivered good value;
- Good value has been achieved and evidenced to date by tendering each significant cover and the application of the strategic approach set out in the Insurance Strategy, balancing the limitations of the insurance marketplace, the desire to transfer financial

risks beyond our risk appetite to an insurer and the operational preference to retain control of claims ourselves rather than pass control to an insurer.

- MPS/MOPAC's insurance strategy and approach is in line with other Police Forces and Public Sector organisations generally, the only significant difference being that MPS/MOPAC have higher levels of excess, allowing greater control of claims and mitigation of insurance premiums. The levels of excess are higher than other Police Forces but not dissimilar to other Public Sector organisations such as County Councils;

Reserves and provisions (Employers, Public and Motor Legal Liability self funded claims)

- As part of the self insuring funding review, our brokers also compared MPS/MOPAC to other Police Forces in the UK from a claims perspective and found that MPS/MOPAC is broadly comparable to other Police Forces on a per capita (officer numbers) basis, with the difference relating to volume.
- The actuarial review forecasted payments required in future years and recommends further reserves be held as set out in the table below. On the face of it, the table below suggests a £50.4m shortfall in the level of provisions and reserves to cover existing and future liabilities.

<b>Summary of MPS Provisions and Reserves compared to actuarial estimates</b>				
	<b>Actuarial Estimate (£m)</b>	<b>Balance at 31/3/2016 (£m)</b>	<b>Variation (£m)</b>	<b>Notes</b>
Third Party Provision	38.0	25.9	12.1	We are confident the MPS methodology for calculating the provision is sound and is approved by the auditors. Also, the MPS legitimately reduces the value of the provision to reflect historical levels of over-reserving by the lawyers. Also need to bear in mind that the actuarial valuation does not allow for the management costs of processing the claim, where as the MPS provision does allow for those costs.
Reserves*	46.0	7.7	38.3	A number of things need to be considered including the timing of potential insurance pay-outs in the future, the flexibility that FRS 12 provides in terms of accounting treatment and the MPS's budget and reserve strategy moving forward.
<b>Potential Shortfall</b>	<b>84.0</b>	<b>33.6</b>	<b>50.4</b>	

**\*Breakdown of MPS insurance reserves**

Motor Insurance	£5.0m
Property Insurance	£2.0m
Potential Legal Costs: DCP	£0.5m
Legal Costs additional: MOPAC	£0.2m
<b>Total</b>	<b>£7.7m</b>

- Based on the above findings we do need to consider how to build up specific reserves for these liabilities and this will form part of our financial strategy and medium term budget process. The following must also be considered as part of this work:
  - The level of general reserves and other earmarked reserves;
  - The timing of potential payouts - the actuarial estimate assumes payouts over the next ten years; and
  - Historical analysis of the legal claims database and the propensity to 'over-reserve'.
  - The claims trends observed and hence the level of recommended reserves and provisions calculated benchmark well against other large urban police forces. That is to say the size of MPS/MOPAC's total required reserves (not just those earmarked for insurance as outlined below) and provisions are approximately 4.5 times that of the other two largest urban forces when the staff is approximately 4.5 times as large as these other forces.

**Recommendation: Finance to establish a proposal to increase Insurance reserves and incorporate into the Medium Term Financial Strategy.**

#### Insurance Programme Review

- The insurance market place for Police Forces in the UK is extremely limited, but MPS/MOPAC has been strengthening relationships with existing insurers, to the benefit of insurance premium and ability to secure MPS/MOPAC cover requirements;
- The current design of the insurance programme remains effective and efficient for MPS/MOPAC's needs.
- Best premium value is being achieved by tendering each significant cover and the application of the strategic approach set out in the Insurance Strategy, balancing the limitations of the insurance marketplace, the desire to transfer financial risks beyond our risk appetite to an insurer and the operational preference to retain control of claims ourselves rather than pass control to an insurer;
- The planned tender for Property Insurance should seek terms for varying levels of policy excess and aggregate stop-loss cover (which caps the total amount of losses that MPS/MOPAC would have to pay in any policy year to a certain amount - for example, while the MPS/MOPAC has a £5m excess for any single motor insurance claim, it will not have to self fund more than £9.6m in total the period from 1st October 2015 to 30th September 2016). We can then evaluate these options against our broker's benchmark pricing for best cost advantage. This will be incorporated into the OJEU tender for Property Insurance already in its early stages for placement by 1st October 2016; *Note: any decisions to set aggregate stop loss limits of liability in future tenders, should recognise the associated obligations of giving up control of cases and providing detailed information on all relevant cases, in the event of a claim. This may not be suitable or palatable for certain covers like Public Liability, with its myriad of complex, high profile and sensitive civil action claims.*
- The Insurance Programme Review suggested further work, to be done in the subsequent insurance cycle, to explore Alternative Risk Transfer options e.g. captive, buying pools, or risk retention groups; a costed proposal to review this will be sought from the broker.

## Proposed response to the Broker's findings and comments

12. The Director of Commercial & Finance, working in conjunction with the Insurance and Claims Manager, has concluded that while it is evident that the practical arrangements (e.g. commissioning brokers, process to review risk exposures) are all adequate, there is room for greater focus and more rigour in a number of areas, including the following:

- Identification of significant insurable potential losses and clarity about how each is being dealt with;
- Modelling how large those losses could potentially be;
- Being clear about what MPS/MOPAC's preference is in terms of retaining or transferring those exposures;
- For potential losses we choose to transfer to insurance, checking those modelled potential loss against levels of insurance purchased; and
- The adequacy of financial reserves linked to claims expenditure.

i. Consequently, changes will be made within a revised insurance strategy, as detailed in the Appendix A, Part 2 of this report.

13. This will require the creation of a cross-functional group, including Finance, Legal, Risk Management and Commercial staff and others ad-hoc. While specialisms from within the MPS will be the main source of expertise, some additional specialist advice may be needed. Implementation of the new three year Insurance Strategy delivers:

- i. a documented risk appetite for retained insurable risk explaining how much financial risk MPS/MOPAC is prepared to tolerate and how much risk should be transferred to an insurer;
- ii. identification of significant insurable risk exposures, review of those exposures and development of Estimated Maximum Losses (EML) values e.g. the maximum probable financial loss arising from a significant fire at our Hendon site;
- iii. a documented sign-off process and authority for acceptance of EMLs and setting insured limits of liability, within an overall context of MPS/MOPAC's appetite for retained risk exposures;
- iv. any investment requirements to reduce premiums and/or reserves e.g. via risk management learning arising from claims experience;
- v. a clear and cohesive actuarial evaluation of the adequacy of reserves and provisions and changes needed.

**Recommendation: agree the creation of a cross-functional group, led by the Insurance manager to implement the revised Insurance Strategy in the next renewal cycle.**

## C. OTHER ORGANISATIONAL & COMMUNITY IMPLICATIONS

### Equality and Diversity Impact

14. There are no equality and diversity implications directly associated with this report.

### Financial Implications / Value for Money

15. Our 2016/17 annual insurance premium budget held within Finance and Commercial is detailed in Part 2, s.4 and the effect of the revised insurance strategy is expected to be cost neutral on the budget.

16. Based on the actuarial evaluation, ear-marked insurance reserves are insufficient for the level of liability (see paragraph 14 above). The level of general and other ear-marked reserves held means this is not an urgent issue, but we need to consider how to build up the ear-marked reserves as part of the refresh of the medium term financial strategy.

### Legal Implications

17. Legal advice will be obtained where necessary.

### Consultation Undertaken

18. As below

#### Consultation grid

Key stakeholder engagement (up to what level)	Supportive / Supportive with concerns / Not supportive / Not affected
DLS (Assistant Director)	Supportive, but emphasised importance of retaining internal control of threatened and civil actions for best cost control and direct management of high profile cases.
Property Services (Director) Jane Bond c.c. Roger Harding and Andrew Dennis	Supportive
Business Partnering (Head of Department)	Supportive
Procurement (Head of Department)	Supportive
MPS Portfolio and Investment Board, 28/06/16	Approved

### Risk (including Health and Safety) Implications

19. Risk management and insurance arrangements are intrinsically linked and are the subject of this report.

### Real Estate and Environmental Implications

20. This report has no direct environmental implications.

Report author:

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