

Report title

Provision of Insurance Services

Report to

London Fire Commissioner

Date

6 June 2018

Report by

Assistant Director, Finance

Report number

LFC-0025

NOT PROTECTIVELY MARKED

Summary

This report seeks approval to award contracts for the London Fire Brigade's insurance policies from 1 July 2018.

The LFB has a range of insurance policies in place to protect against the financial impact of liability claims and loss of assets, with annual premiums paid to insurers to provide the required level of cover. The existing insurance arrangements expire on 30 June 2018.

The LFB has undertaken an OJEU tender exercise for the provision of insurance services, supported by the Brigade's insurance Broker (Gallagher). This report provides details on the current insurance arrangements, the consideration of alternative arrangements via collaboration, the response to the invitation to tender, and requests delegation on the appointment of insurers from 1 July 2018.

Recommendations

The London Fire Commissioner approves:

- putting in place insurance arrangements from 1 July 2018; and
- delegates to the Director of Corporate Services the appointment of insurers from 1 July 2018, provided this is within the approved budget for 2018/19 of £1,699k.

Background

1. The LFB has a range of insurance policies in place to protect against the financial impact of liability claims and loss of assets, with annual premiums paid to insurers to provide the required level of cover. The current insurance arrangements have been in place since 2013. The existing policies were awarded following on OJEU tender process, with contracts awarded on the basis of a three year Long Term Agreement (LTA) with the option of a two year extension. The decision on the two year extension was taken in 2016, and so the existing insurance arrangements expire on 30 June 2018.
2. The LTA set out the agreed parameters for any variation in premium costs from year to year and required annual renewal terms to be quoted by insurers for the policies in place.
3. The insurance premium costs for 2017/18 are shown in the table below.

Premium costs - £000	2017/18
Combined Liability	333
Motor (includes Marine)	959
Premises (includes leasehold premises)	274
Other	55
Total	1,621

4. An insurance Broker (Gallagher) is retained to provide professional advice, manage the tendering of insurance services and put in place the various insurance covers required.

Consideration of collaboration opportunities

5. Shared service options for the provision of insurance services were explored in 2014 following an approach from the Greater London Authority (GLA) to manage its insurances services, together with those of the London Pensions Fund Authority (LPFA) and the London Legacy Development Corporation (LLDC). Whilst there was some potential for the LFB to manage the arrangements on behalf of the GLA and the LPFA, the requirements of the LLDC were considered to be too different to the LFB's own requirements to make any shared service viable. However a shared service solution was achieved for the GLA, LPFA and LLDC, with this being provided by Transport for London (TfL). At the time the LFB also considered whether its insurance arrangements should also be managed by TfL, however this wasn't pursued due to the cost, as this option was more expensive than the LFB's in-house provision.
6. Possible collaboration with the Metropolitan Police Service (MPS) was also investigated in 2014, however the MPS was undertaking a review and possible restructure of support services at the time, which subsequently led to it outsourcing a number of services. Contact has been maintained with the MPS and discussions continue. Insurance services have been maintained in-house at the MPS, and therefore have been considered as part of ongoing work on benchmarking of 'support' services with the MPS.
7. Other insurance models such as Mutuals and Consortiums have been considered in the past in the fire sector, and across the wider local government sector. These do have potential to deliver short term savings and/or economies of scale, but can require compromise on long term costs and/or insurance cover. The LFB is still required to meet costs from commitments made to the Municipal Mutual Insurance back in the 1990s, due to the number of years claims relating to conditions such as asbestosis and mesothelioma take to develop. Consortiums can have

challenges around insurance cover and risk appetite, as well as claims history, where these vary between participants.

8. A review of insurance services was undertaken by the GLA Collaborative Procurement Team in 2017. This review found that GLA functional bodies all operate their own model for the provision of insurance Broker services and make decisions on insurance cover based on their own risk profile, financial capacity and statute around their own creation and operation. This also extended to the internal approaches to the co-ordination of insurance business. The conclusion of the review was that the arrangements for each functional body should remain as they are so as to maintain flexibility in approach to risk retention and transfer. All functional bodies were deemed by the review to be independent and that statutory powers would have to change to enable joint purchase of insurance. From an insurance market perspective each body has separate interests, and cover would be required to be provided on that basis. There are only a small number of insurers that operate in the public sector market, and market feedback has indicated that any sort of joint approach might even increase insurance premium costs due to the wide ranging nature of the work that would be required.

Provision of insurance services from 2018

9. The work with the insurance Broker and insurers, as part of regular engagement in consideration of premium increases as part of the LTA, had identified certain premium cost pressures on the two main insurance covers of liability and motor. These cost pressures are caused by the market wide issue of the discount rate (which is an amount that personal injury claim settlements can be reduced by to reflect the investment return that a claimant might expect to make on the sum awarded) and insurance premium tax.
10. The discount rate was reduced from +2.75% to -0.75% (a swing of 3.5%) in 2017 (which can be a significant sum on multi-million pound claim settlements), and this triggered an immediate response from insurers on the impact this would have on liabilities and therefore premiums.
11. The insurance premiums paid by LFB have also been subject to rises in the rate of Insurance Premium Tax (IPT) which is currently 12%, increasing from 10% in 2016. IPT unlike Value Added Tax (VAT) is not recoverable by LFB.
12. To help mitigate some of the impact of these pressures, the LFB contracted the Broker to undertake an actuarial review of all LFB insurance claim liabilities, to ensure these were as robust as possible and support the challenge of liability estimates calculated by insurers. The results of this work formed an element of the information provided as part of this insurance tender process. However it was recognised that the value of this work could be limited if there was little competition in the blue light/emergency services insurance market.
13. Also to help address the cost pressures the level of the insurance excess on certain policies has been reviewed. A certain level of self insurance is accepted by LFB through the excess levels on its policies. These levels have been reviewed in light of the impact they have on premiums, particularly in relation to liability and motor. In considering any excess to be accepted on an insurance policy, and in addition to looking at the impact on premiums, it is important to understand the numbers of claims that may in future fall below any increased excess level and the level of reserves and other resources set aside to manage these costs.
14. The budget for insurance premium costs for 2018/19 is shown in the table below.

Premium costs - £000	2018/19
Combined Liability	360
Motor (includes Marine)	912
Premises (includes leasehold premises)	372
Other	55
Total	1,699

15. This budget allows for some inflationary pressure, but assumed no particular increase in insurance premiums.

OJEU tender process

16. An OJEU insurance tender process has been conducted by LFB Procurement, with support from the insurance Broker, to seek proposals to provide insurance services to the Brigade. The Invitation to Tender (ITT) drew heavily on previous experience from the last procurement exercise in 2013, together with the recently undertaken Broker led exercises by way of an Actuarial Fund Review and subsequent Programme Design Analysis to inform the provision of insurance services moving forward. The ITT included substantial detailed information about the Brigade and its insurance requirements. The ITT was published by Procurement via the Blue Light portal, on 20 March, and presented in 16 lots to address all insurance requirements. Insurers were invited to bid for single or multiple lots – and in some cases insurers may also offer packaged solution for multiple lots.
17. The Brigade received a number of tender submissions across the lots, submitted to the deadline of 4 May. In all 13 insurers have submitted bids, with some of these being for single lots but others covering multiple lots. The different lots attracted different numbers of bids, which to an extent reflects the level of specialism required.

Review of tender submissions and recommendations

18. As part of the services provided to LFB, the Broker is required to, not only fully support the insurance procurement process but also, prepare a detailed analysis and summary, including recommendations, of the tender submissions.
19. Given the interest that it has been possible to generate, with 13 insurers submitting tenders across the 16 lots, the clarification and evaluation of the various insurance options has taken some time and is still ongoing. It is therefore recommended the LFC approves putting in place insurance arrangements from 1 July 2018, and delegates to the Director of Corporate Services the decision on the individual insurers to be appointed across the lots provided these are within the approved budget for 2018/19 of £1,699k.
20. The decision on the appointment of individual insurers will be supported by the report from the Broker. This report will provide a detailed consideration of all tender responses received and include
- Details of the insurance services to be provided under each lot;
 - Detailed analysis for each lot, including potential insurers and premiums;
 - Analysis of variant bids, to include any package solutions;
 - Analysis of overall costs of options for the insurance arrangements; and
 - Recommendations on the appointment of insurers

21. Following decision by the LFC the contracts will be awarded with the new insurance arrangements to commence from 1 July 2018.

Finance comments

22. This report is prepared by the Assistant Director, Finance and as such Finance comments have been incorporated into the report.

Workforce comments

23. No Workforce implications have been identified therefore no formal consultation has been undertaken.

Legal comments

24. General Counsel has reviewed this report and has no comments at this stage. Further stages of the procurement process will be monitored and advice will be given to the Director of Corporate Services when a recommendation is presented to them.

Sustainability Implications

25. There are no direct sustainability implications arising from this report.

Equalities Implications

26. There are no specific equalities implications arising from this report.

Consultation [Note: this section is for internal reference only – consultation information for public consideration should be included within the body of the report]

Name/role	Method consulted
Felicity Carter (General Counsel's Department) – Combined Liability	Review meetings/consultation.
Floyd Philip (Procurement) – Motor, Marine and Airside	Review meetings/consultation.
Lloyd Bentley (TSS) – Property	Review meetings/consultation.
Bobbie Fisher (Procurement) – procurement process	Review meetings/consultation.
Mark Atkinson (Head of Procurement) – procurement process	Review meetings/consultation.
Michael McCarthy (Procurement) – procurement process	Review meetings/consultation.
Miles Smith (General Counsel) – procurement process	Review meetings/consultation.
Saminara Rahman (General Counsel's Department) – procurement process	Review meetings/consultation.
Steven Adams (General Counsel's Department) – decision making process	Review meetings/consultation.