



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

INSURANCES

Report of the Chief Fire Officer

Agenda Item No:

Date: 13 July 2012

Purpose of Report:

To inform Members of the types and levels of insurances and indemnities held by the Fire and Rescue Authority.

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1. BACKGROUND

- 1.1 At the April meeting of the Finance and Resources Committee Members asked for a report to be presented detailing the insurance covers that the Authority maintains.
- 1.2 Section 4 of the Authority's Financial Regulations is concerned with Risk Management and charges the ACO Director of Finance and Resources with the development of a risk management strategy and the development of a series risk management controls.
- 1.3 Risk management controls include the ability to transfer risk to other parties usually by way of insurance for which the ACO Director of Finance is also responsible.
- 1.4 This report sets out for Members the extent of insurance covers held, the premiums paid for each type of cover and the limits of liability under each category of insurance.

2. REPORT

- 2.1 As set out above the ACO Director of Finance and Resources is responsible for the negotiation and determination of insurance covers for the Fire and Rescue Authority. This officer does this by taking advice both from the Authority's Risk Manager who is very experienced in insurance matters and engaging a firm of commercial brokers who are highly experienced in the Fire and Local Government sector.
- 2.2 Various scenarios of retained risk and limits of indemnity are considered before finally determining the extent of the cover required. This process involves an analysis of claims in various categories both for frequency and value as well as some soft market testing to see how premiums vary with different scenarios. For example, suppliers were asked what their premium changes would be for various levels of uninsured risk (excesses) on the motor policy and these were compared with known claims performance before a final decision was taken. The ACO Director of Finance and Resources will then determine the most appropriate levels of cover on the balance of residual risk and premium and formal European tenders are run for a period of between three and five years (usually three with a five year option as insurers give better premiums for longer term commitment and for packaging insurances appropriately.
- 2.3 Currently the Authority has the following insurance covers in place:

Casualty
- 2.4 The casualty policy provides cover for the Authority in the event that the negligence of its employees (including members) results in loss or damage to property, or personal injury being sustained by a third party (Public Liability); or personal injury to another employee (Employers Liability).

- 2.5 The Risk Manager takes a robust approach to managing claims falling under this policy. This has resulted in a decrease in the number of claims lodged against the Service, as frivolous and vexatious claims are successfully defended, and phishing claimants deterred.
- 2.6 This policy also includes Officials Indemnity cover, which provides protection where a third party claims to have suffered financial losses arising from negligent decisions made by officers or members.
- 2.7 This policy has a deductible (excess) of £10,000 for each and every claim. Cover is provided by Travellers for a premium of £154,000. The overall limit of indemnity is £35,000,000 for Employers Liability; £50,000,000 for Public Liability; and £5,000,000 for Officials Indemnity.

Motor

- 2.8 The Authority insures its fleet on a fully comprehensive basis. Due to the risk inherent in blue-light emergency response, particularly in fire appliances, insurers tend to price the cover on the basis that there will inevitably be a significant loss every five years or so. Recently, the Authority has sustained some losses and this has resulted in the holding insurer breaking the long-term agreement obtained at tender in 2011, significantly increasing premiums and leading to the need to run a further tender exercise for renewal at 1 April 2013.
- 2.9 Motor insurance is currently provided by Chartis, via their managing agent Risk Management Partners, at a premium of £196,000 with a deductible of £250 on every claim. The limit of indemnity on this policy is unlimited for injury to third parties £10,000,000 for damage to third party vehicles/property; and £500,000 for own/accidental damage.

Property

- 2.10 The property insurance provides cover for damage to the fabric of the Authority's property portfolio, or the loss or damage of contents, including IT equipment. This is akin to a standard buildings and contents insurance.
- 2.11 There is a standard deductible on this policy of £500 per claim and a limit of indemnity based on the reinstatement valuation of properties provided by the Authority at renewal. Property is currently insured by Tokio Marine for a premium of £25,000.

Fidelity Guarantee

- 2.12 This policy provides cover in the event of an employees dishonesty resulting in the misappropriation of the authority's financial resources up to a maximum of £2,000,000. Insurance is provided by Chartis through Risk Management Partners. There is a £5,000 deductible on this policy and the premium is £4,500.

Engineering

- 2.13 In addition to insurance this policy also provides an inspection service for plant requiring statutory inspections and insurance cover for sudden and unforeseen damage in respect of boiler and pressure plant. It is provided by HSB Engineering through Risk Management Partners for a premium of £21,000. The policy carries a deductible of £100 and a limit of indemnity of £500,000

Personal Accident and Travel

- 2.14 This policy provides cover for officers, non-fire fighting employees and members against personal accidents or injuries sustained during business travel. Insurers will not provide accident insurance for employees actively involved in fire fighting. This insurance is provided by Chartis via managing agents Risk Management Partners for a premium of £6,500

Marine

- 2.15 Specialist cover arranged through brokers Gallagher Heath with RSA for the one rigid and three inflatable craft currently on the Authority's fleet at a premium of £1,600.

Future approach to insurance procurement

- 2.16 In view of the relative stability of the majority of the insurance policies, it is considered that, excepting significant market changes, retendering every five years provides an appropriate balance of value for money and long-term discount, versus tendering costs. In order to provide some flexibility, this five year period will consist of a 3-year long term agreement, with the option to extend to 4 or 5 years. There are currently three major insurers in the general local authority market and a limited number of specialist insurers providing cover for specific classes.
- 2.17 Due to the claims history and potential for future claims volatility, the motor insurance will be tendered more frequently on a three-year cycle. Three years offers the Authority the opportunity to benefit from long-term insurer discounts and avoids being 'locked-in' to rates set in the context of recent loss history. Latest advice from brokers is that there are only two insurers in the market for writing blue-light motor risk.
- 2.18 The Authority has used Gallagher Heath (formerly Heath Lambert) to provide insurance brokerage ever since the inception of the CFA. In order to ensure the achievement of best value, the contract for insurance brokerage will be tendered in 2013 and thereafter every four years. This frequency has been chosen as it allows enough time for the insurance broker to build good working relationships with both the Authority and insurers, while still promoting competition. Our current brokerage fee is £6,000 per year inclusive of all tender exercises.

3. FINANCIAL IMPLICATIONS

- 3.1 Insurance premium costs and brokerage fees are of the order of £415,000 per annum with a further £70,000 set aside for uninsured losses and deductibles. This is not an insignificant sum and various strategies have been adopted with procurement to try and drive costs down. As with any insurance however the largest driver of premium is risk and this is determined almost exclusively by reference to claims.
- 3.2 The Risk Manager and key senior managers continue to seek to reduce claims but unfortunately one or two large claims such as those recently experienced can quickly negate much of this work.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no implications for Human Resources or Learning and Development arising from this report.

5. EQUALITIES IMPLICATIONS

There are no implications for equalities arising from this report.

6. CRIME AND DISORDER IMPLICATIONS

There are no implications for crime and disorder arising from this report.

7. LEGAL IMPLICATIONS

There only legal implications relating to this report is the requirement to maintain third party motor insurance.

8. RISK MANAGEMENT IMPLICATIONS

Implications for Risk Management are clearly significant as insurance is a method of transferring risk to the insurance sector. The entire process of determining the types of insurance, selecting insurers and levels of indemnity, is driven by risk considerations.

9. RECOMMENDATIONS

That Members note the contents of this report.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Frank Swann
CHIEF FIRE OFFICER