



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

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

# INSURANCE FUND

Report of the Chief Fire Officer

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**Agenda Item No:**

**Date:** 11 January 2013

**Purpose of Report:**

To report back to Members on the viability of setting up an insurance fund

## CONTACT OFFICER

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## 1. BACKGROUND

- 1.1 At the meeting of the Finance and Resources Committee in October 2012 Members were asked to give approval in principle to the creation of an insurance fund to internalise some of the risk arising from motor claims and thus seek to reduce ongoing premiums. Officers have now considered this issue with the Authority's insurance brokers and have considered a number of options for the creation of a fund.
- 1.2 Members asked for a business case for the creation of a fund to be brought back to the Committee at a future date and this report sets out the latest position.

## 2. REPORT

- 2.1 Members will be aware that the Authority purchases insurance to cover a variety of risks. In the current financial year, the total cost of the insurance premium is £408k in respect of the various policies.
- 2.2 The motor insurance element of the premium is £196k. Members of this Committee may recall that last year it was reported that the Authority's insurers had broken the terms of our long term agreement due to the Authority's worsened motor claims history. This resulted in an increase in premium of £26k this year (an increase of 15%).
- 2.3 Members were also informed that the small number of motor insurers in the market who are willing to underwrite the Authority's motor riskexposes the Authority to the additional risk of increasing market prices.
- 2.4 The Authority's Risk Manager, along with insurance brokers, has carried out an actuarial assessment of the viability of creating an insurance fund or more particularly increasing the level of the deductible and backing this risk with a financial reserve and an aggregate "stop loss".
- 2.5 The deductible is the commercial equivalent of an insurance excess and an aggregate stop loss is the point at which there are no more excesses to pay. For example a deductible of £500 means that the first £500 of every claim is met by the authority and a "stop" of £10,000 means that once £10,000 has been paid in excesses on the policy all losses are then met by insurance.
- 2.6 Professional advisors consider that the market will not accept a premium of less than £80,000 no matter what the level of deductible is. This is borne out by London's experience of reducing their deductible from £1m to £250,000 and not making any premium savings.
- 2.7 It would seem therefore that the optimum deductible would be £100,000 with a stop of £1m which would require a premium of £80,000.
- 2.8 This scenario yields a total cost of risk of £204,800 per annum compared with the current cost of risk at £200,000. This is because of the large amount of

risk held within the deductible that is not accounted for by reduced premium (because £80,000 is the minimum).

- 2.9 What this does mean however is that every pound saved on motor claims can be retained as a saving but by the time that claims handling and other ancillary costs are considered this saving would have to be considerable to make this worthwhile.
- 2.10 It is difficult to conclude therefore that the creation of an insurance reserve coupled with increasing the level of deductible presents a viable alternative to the Authority for whilst it may be possible to reduce some premium costs the remaining risk would be significant and could easily cost the Authority money when the objective had been to try to make a saving.
- 2.11 The question arises as to why some Authorities maintain insurance reserves when the work that has been carried out for NFRS shows that this is not a viable alternative. This is probably for a number of reasons:
- Some Authorities take on a wider portfolio of insurances including other risks apart from motor which may make a reserve more attractive. Schools can have a major effect on this.
  - Large Authorities such as the City and County are able, due to their size to be directly involved in claims settlement in a way that the Fire Authority cannot. The City for example manages car hire and repairs for injured parties to keep settlement costs down.
- 2.12 On the face of things therefore the case for creating a self insurance reserve does not look strong, however this will depend on the actual performance of suppliers in the tender process. It is therefore proposed that Officers be given the discretion to accept an optimal level of deductible and reserve cover such that the total cost of risk (i.e Premium + Insurance Premium Tax +Retained Losses + Other Costs) is less than the usual basis of insurance. This will provide proper reward for taking increased risk.
- 2.13 This is simply the confirmation of existing authorities where the ACO Director of Finance and Resources already negotiates levels of deductible with insurers.

### **3. FINANCIAL IMPLICATIONS**

The financial implications of this proposal will not be clear until the tenders for insurances are returned. Only when the levels of premium are set will optimum levels of deductible be evident.

#### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resource or learning and development implications arising directly from this report.

#### **5. EQUALITIES IMPLICATIONS**

An equality impact assessment has not been undertaken because this report is seeking approval in principle, subject to a valid business case. Equalities implications will be assessed for the next report.

#### **6. CRIME AND DISORDER IMPLICATIONS**

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

#### **7. LEGAL IMPLICATIONS**

The Authority has the legal power to earmark a sum of money to be used as an insurance reserve.

#### **8. RISK MANAGEMENT IMPLICATIONS**

The motor loss history is such that it now represents the largest insurable risk that the Authority faces.

#### **9. RECOMMENDATIONS**

That Members note the contents of this report and authorise the Strategic Director of Finance and Resources to accept the most financially advantageous combination of terms within the insurance tender. This is in keeping with existing delegated authorities.

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

None.

Frank Swann

**CHIEF FIRE OFFICER**