

Insurance Strategy

April 2023 – March 2028

1 Introduction and background

1.1 The purpose of this insurance strategy is to set out the Council's future requirements to manage those risks that could be controlled through either self-insurance or external insurance and to support the successful delivery of the Medium-Term Financial Plan. It is designed to

- Set out the risk appetite for the Council for internal and external insurance.
- Set out how decisions are taken on the options to either insure or retain risk.
- Provide a process for the governance arrangements of insurance and the use of any insurance fund to pay for retained risks.
- Be considered in line with the Council's financial regulations.
- Support the Council's Vision of 'working for a better future' through the provision of good-value council services.

1.2 The Council's approach aims to continue to self-insure for some risks to reflect

- Improved risk management.
- A gradual hardening of the external insurance markets causing premiums to increase.
- More restrictions being placed on the cover available.
- The increase in Insurance Premium Tax (IPT) as unlike VAT, IPT is not recoverable.

2 Strategic vision

To ensure a balance between risk retention and transfer to protect the Council's assets and potential liabilities delivering a value for money option and reflecting the risk appetite as set out in the Risk Management Strategy 2022.

2.1 Our strategic insurance priorities include

- Identifying those risks which can be controlled through self-insurance or external insurance policies based on the risk appetite of the Council.
- Working with services on risk intelligence and how changing risk profiles impact external insurance provision.
- Identifying the objectives of any external insurance arrangements.

- Placing external insurance through an appropriate procurement route utilising the services of an appointed Broker.
- Working with the insurance market to develop strong working relationships to promote the profile of Lincolnshire.
- Having suitable financial protection in place, in the form of an insurance fund, to cover those risks insured internally or for which an external excess is applied.
- Reviewing the insurance reserve annually using an external actuary to provide a level of assurance on the appropriateness of insurance provisions and reserves for self-insured claims.
- Maintaining appropriate operational policies for the handling of insurance claims that take account of the legal requirements and impacts on people. These would also include authority and handling limits.
- Having transparent arrangements in place for internal charging of insurable risks.
- Having clear guidance in place for minimum levels of insurance required for services that are contracted.
- Providing an annual report to Audit Committee as part of risk reporting giving a level of assurance on insurable risks.
- Protect the reputation of the Council.

2.2 Supported by

- A clear structure of roles and responsibilities.
- Services providing details of new risks and changes to existing risks.
- Services adhering to the requirement for prompt claim notification.
- The corporate Insurance and Risk Team providing advice, guidance, and claims management.
- Legal Services Lincolnshire liability team for claims handling.
- The appointed broker for underwriting advice and expertise. To assist with market engagement for the benefit of renewal and tender processes.
- Regular budget monitoring in conjunction with Corporate Finance.

3 Insurance Procurement

3.1 The Insurance Act 2015 is the most significant reform of UK insurance contract law since the Marine Insurance Act 1906, and it came into force on 12th August 2016. One of the main provisions of the Act is the duty of fair presentation which requires policyholders to undertake a reasonable search of information available to them and defines what a policy holder knows or ought to know. It is vital that when the decision to purchase insurance is taken that all relevant information relating to the risk being insured are provided.

3.2 To assist with accessing the insurance market the Council uses the services of an appointed broker. The contract provides support for annual renewal and tendering of the whole programme along with specific cover placement for one-off risks.

3.3 The Insurance Broker appointment was procured through a framework ahead of the tender for insurances in April 2023. The contract will run from 1st October 2022 through to 31st October 2025.

3.4 The current insurance programme was tendered in 2016 in accordance with the Council's procurement guidance and due to the aggregated value of the insurance contracts, all insurance procurement complied with the relevant EU procurement rules.

3.5 In order to obtain some consistency, stability and to maximise value for money, previous insurance contracts were procured on a 3 + 2 year long term agreement. Due to factors impacting the external market in 2020/21 agreement was sought and approval given for the 2016 arrangements to be extended for a further 2 years.

3.6 The next tender will take place in April 2023 and will be let on a 3 + 2 basis using an OPEN tender.

3.7 Prior to the tender being published a market engagement day is held to set out the risk profile of Lincolnshire County Council and to obtain feedback from the market on capacity and appetite for the various risk areas. Information acquired from this is fed into the tender documentation.

4 Roles and Responsibilities

4.1 Executive and CLT – approval of Insurance Strategy ensuring suitable risk transfer, aligned to the Council's risk appetite as set out in the Risk Management Strategy 2022. through procurement of appropriate insurance.

4.2 Audit Committee – receive and consider risk management reports which will include insurance updates as appropriate.

4.3 Deputy Chief Executive and Executive Director of Resources - overall responsibility for the adequacy of the Council's insurance provisions, approving the Council's insurers, the level of cover provided and the level of excesses, determining the level of reserves held by the Council.

4.4 Directorates and Services – to be aware of emerging insurance risks and relay these to the Corporate Team, to be briefed on high value claims and/or those which could impact on the reputation of the Directorate/Service.

4.5 Insurance and Risk Lead – to procure suitable and sufficient insurance cover, appoint brokers, provide settlement agreement within the handling authority across all lines of claims.

4.6 Insurance and Risk Team - support the placing of suitable insurance cover in conjunction with services, support the claims process and provide the interface between insurers and services on claim issues.

5 Insurance Fund/Reserve

5.1 The insurance reserve enables the Council to meet its unpaid retained insurance liabilities. These are made up of the settlement costs of known and future (unknown) claims from current and past policy years. It currently stands at £12.9m as of 30th June 2022.

5.2 The known claims are those that have already been reported or made against the Council.

5.3 The unknown claims are those incidents that have occurred but have not yet been reported to the Council.

5.4 The insurance reserve is reviewed by an external actuary annually. There is regular oversight of claims expenditure and regular monitoring of the fund with Corporate Finance. A key aspect of the insurance strategy is to remain solvent and maintain sufficient reserves to do this.

6 Risk Appetite – self-insurance

6.1 Not all risks are appropriate to transfer through the purchase of an insurance policy. The risks that are accepted by the Council are ‘self-insured’ meaning that any losses that occur within the excess are settled in full by the Council. One of the main drivers in deciding to self-insure is cost versus risk.

6.2 The internal factors which need consideration include –

- Past behaviour on risk taking.
- Claims experience/risk exposures.
- Maturity of risk management arrangements.
- Risk ability, the financial capacity for assuming risk reflected in the insurance fund.
- The Council’s financial regulations.

6.3 In addition there are external factors which include –

- Market capacity and appetite.
- The cost of Insurance Premium Tax, currently at 12% which unlike VAT is not recoverable.

6.4 The overall programme of insurance has performed well since 2016 and with 2 exceptions, detailed below, it is not proposed to make any significant changes to the current arrangements to achieve a successful outcome to the tender in April 2023.

6.5 The 2 exceptions to this are:

1. Property insurance for General Properties which is expanded on below.
2. Schools’ insurance where due to market appetite and capacity a different approach is recommended as expanded on in section 11.

6.6 Attached at Appendix B is a table showing current arrangements with proposed changes. Below is an overview of the current rationale for self-insurance or procuring external insurance.

7 Liability Risks

7.1 There are several liability risks that the Council faces such as claims for negligence made against us by customers, residents, and employees.

7.2 The current programme includes schools and Lincolnshire Fire and Rescue within the programme. As the number of schools is reducing the ability to continue to offer economically viable insurance cover is reducing. As such additional options for risks covering all schools is proposed at section 11.

7.3 The Insurance market has less capacity and appetite for blue light risks but by including these within the main insurance programme it is still considered this will offer the best value for money option. This is based on recent market engagement.

7.4 For Public and Employers' Liability the Council takes out insurance to protect against the occasional high value claims. As a reflection of the Council's strong risk management, previous claims experience, actuarial review, and cost of external premiums the Council retains the first £500,000 of each and every claim. Our current arrangements combine public liability, employer's liability, and the listed lines of cover 1-8 at 7.9. Lines of cover 9 and 10 of 7.9 are specialist lines requiring stand along policies.

7.5 Public Liability (PL) insurance provides cover for accidental events that give rise to claims for:

- Damage or bodily injury to a third party
- Damage or loss to third party property

7.6 These types of claims tend to be high in volume and can be medium in value depending upon the nature of the claim such as injury.

7.7 Employer's Liability (EL) insurance is one of the few compulsory insurance requirements in the UK and it provides cover for any damages or compensation that as an employer the Council may be legally liable to pay for an injury to an employee which occurs or arises in the course of their employment.

7.8 Claims tend to be low in volume and medium in value, however an occasional serious injury or disease claim can result in a high value claim. This means that there can be variations in numbers of claims from year to year which is due to random chance rather than any underlying claims or risk management trends.

7.9 In addition to these main areas of liability insurance there are other insurances we also acquire which are for the whole Council or service specific:

1. Products Liability - provides cover for products and property which has been manufactured, designed, or sold, distributed, or constructed by the insured and comes as part of most PL policies.
2. Pollution Liability – provides cover for pollution which is caused by the insured, and which is sudden, unintended (accidental) and identifiable.

3. Hirer's Liability - this is a contingency insurance for hirers of our buildings who do not have their own public liability insurance.
4. Libel and Slander – provides cover for claims which arises from a libel or slanderous comment committed by an employee.
5. Public Health – provides very specific cover under the terms of the Public Health Act 1984.
6. Officials' Indemnity – this provides cover for any financial loss incurred by a third party because of an error or omission on the part of an employee.
7. Land Charges – provides cover for errors arising from land searches.
8. Professional Indemnity Insurance – this provides cover for financial loss only to a third party in a similar way to Official's Indemnity but where the loss has arisen because of a negligent performance of a professional duty or service for which a fee has been paid.
9. Medical Malpractice – this provides cover for specific areas of our Children's Services/Public Health activities which are excluded under standard PL policies.
10. Drone – provides cover for injury or loss suffered by a third party because of the use of a drone (currently for Chalk Streams project only).

7.10 Claims handling within the self-retention level is delivered by a service level agreement with Legal Services Lincolnshire. When claims exceed the self-retention limit the insurers will appoint claims handlers. No settlement decision is made without reference through either the delegated handling authority and where claims exceed £25 000, the Insurance and Risk Lead. Services are kept updated on claims settlement decisions.

7.11 By retaining our claims handling in-house we can have a strong ethos of collaboration ensuring all parties are involved and invested in the decision-making process. As we understand the organisation we have the right contacts, access to the relevant systems and can make decisions based on best outcomes. We also have the support of an experienced and qualified legal team. For claims where additional expertise is needed, we utilise the services of external solicitors and Counsel with whom we have built up business relationships, so they understand our approach and processes.

7.12 The current arrangements provide a good balance between self-insurance and external insurance at an affordable level and there is no indication this should be changed. The insurance fund can sustain the current level of self-insurance for the proposed period the next tender covers. The exception to this is to explore an additional option for schools as outlined in section 11. There is also no proposal to change the current claims handling arrangements.

8 Property Risks

8.1 The Council owns a diverse and extensive property portfolio including office accommodation, commercial properties, farms, schools, and fire stations as well as specific one-off historic buildings such as the Castle. Individual property values (rebuilding costs) can be significant, reaching into the millions for some buildings.

8.2 General property damage incidents historically were low in frequency and low in value. Unfortunately, the period covered by the last tender has seen some significant claims which while there is no trend have negatively impacted the claims experience.

Year	High Claims	Claim Value	Cause	Excess Values	Insurer	Property
2015	Nil			£ 10,000.00	Zurich	
2016	1 x high claim	£482,000	FIRE	£ 10,000.00	AIG	St Giles
2017	1 x high claim	£165,000	FIRE	£ 10,000.00	AIG	Barrowby
2018	1 x high claim	£102,500	ELECTRICAL	£ 10,000.00	AIG	Vicarage Farm
2019	1 x high claim	£722,000	STORM	£ 10,000.00	AIG	Burgh Le Marsh
2020	3 x high claim	£215,000	MIXED	£ 10,000.00	AIG	x3 Claims
2021	1 x high claim	£50,000	FIRE	£ 10,000.00	AIG	Huttoft Café
2022	1 x high claim	£50,000	FIRE	£ 10,000.00	AIG	Wainfleet Fire Station

8.3 Educational property damage incidents historically were high in frequency and medium value. For this Council over the last tender period the experience has been low volume and low cost.

8.4 In addition to these main areas of property insurance there are other insurances we also acquire which are for the whole Council or service specific:

1. Contract Works – for planned capital projects
2. Computer – cover for IT related equipment
3. Contractors Plant – where we plant is hired in
4. Collection and Archives – cover for Heritage service on permanent items
5. Temporary Loans and Exhibitions – cover for Heritage Services
6. Engineering – this provides cover for plant, machinery, hoists and boilers for unforeseen, sudden loss or damage

8.5 The current arrangement is to self-insure £10,000 for general properties. By increasing this to £150 000, which can be supported by the insurance fund, the premium charges are likely to be more affordable. The increased acceptance of self-insurance has the potential to attract more bids. It also aligns the self-insurance level across property risks.

8.6 Within the claims handling delegated authority claims are handled by the Insurance and Risk Team who will also utilise the services of external loss adjusters and Corporate Property. For claims that exceed the delegated limits insurers will appoint claims handlers/loss adjusters. No settlement decision is made without reference to either the delegated handling authority and/or the Insurance and Risk Lead. Services are kept updated on claims settlement decisions. There is also no proposal to change the current claims handling arrangements.

8.7 Cyber insurance is not purchased following consideration of cover available, and the cost involved. Any losses relating to this risk are self-insured. No change is proposed.

8.8 Terrorism cover is not purchased due to the change this risk now presents being less focused on properties. Any losses would be self-insured. No change is proposed.

9 Motor Risks

9.1 The Council operates a significant fleet across all services.

9.2 Historically own damage claims are high in volume and medium in cost. Third party claims are low in volume and low in value and over the period of the last tender enabled us to recover a low claim rebate for almost every year it was on offer.

9.3 All the risk for own damage to the whole fleet is self-insured except for specialist vehicles supplied to Lincolnshire Fire and Rescue which the government require to have insured on a comprehensive basis.

9.4 The accident management for all own damage is shared between an external procurement service and specialist local suppliers for key items such as fire tenders. This enables access to 24/7 support for drivers in the event of incidents as well as replacement vehicles when required and recovery of losses where the third party is responsible. It is not possible to offer a similar service through in-house claims handling.

9.5 All third-party risks are insured through an external insurance provider who also handles the claims associated with these risks. There is no self-retention element.

9.6 The current arrangements provide a good balance between self-insurance and external insurance at an affordable level and there is no indication this should be changed. The insurance fund can sustain the current level of self-insurance for the proposed period the next tender covers. There is also no proposal to change the current claims handling arrangements.

10 Other Risks

10.1 There are other risks either for the whole Council or for individual services. For these risks, an assessment is taken to identify the best approach to achieve the aims of the insurance strategy, a balance between benefit, risk, and cost. The main examples are listed below but in addition there will be requests for specific cover throughout any insurance year.

- Fidelity guarantee – provides cover for loss of money as result of dishonest or fraudulent acts of employees. Currently £50 000 self-retention.
- Airside – provides cover for loss because of attending airside (currently for Lincolnshire Fire and Rescue only). Currently £1 000 self-retention, this is set by the market.

- Marine – provides cover arising from the use of vessels on in- land water - (currently for Lincolnshire Fire and Rescue and Economic Development only) Currently £1 000 self-retention, this is set by the market.
- Court of Protection – cover for property damage on properties subject to a court of protection order. Currently £150 000 self-insured.
- Travel – provides cover for school trips and business travel. Currently no self-insurance level as this is set by the market.
- Foster carers – cover for property damage caused by placements. Currently no self-insurance level as this is set by the market.
- Money – for loss of cash/cheques. £5 000 self-insured.

10.2 The current arrangements provide a good balance between self-insurance and external insurance at an affordable level and there is no indication this should be changed. The insurance fund can sustain the current level of self-insurance for the proposed period the next tender covers.

11 School Risks

11.1 Locally managed schools are insured through the Council's arrangements with slight differences on policy cover. As schools transfer to Academy status, they are no longer covered by the Council's arrangements.

11.2 As more schools transfer the spread of risk is becoming less and less attractive to insurers and the external appetite for this area of risk has significantly decreased leading to higher premiums. The government have developed a risk pooling arrangement (RPA) for schools which offers a very attractive per pupil charge which is not subject to IPT as it is not a premium but a pooling charge.

11.3 Currently the RPA does not offer the full remit of risk transfer that the Council offers but each year the offering is improving.

11.4 Market engagement has identified there are providers who would offer a standalone schools insurance package to cover all requirements.

11.5 As well as including school's risks as part of the Council's overall insurance programme this element will be separated out for a ground up offering from a single provider as a separate Lot within the procurement.

12 Premium Re-Charging

12.1 Premium charging is managed through corporate budgets except for motor insurance and service specific insurance cover which is charged directly to the services.

12.2 Schools' premiums are charged directly to each school.

12.3 The charging mechanism was approved in 2019 which takes account of external premiums, internal premiums, claims costs and service costs.

13 Definition of Terms

Broker - an insurance intermediary who gives advice on insurance and associated matters, arranges insurance and places them with authorised insurance companies or underwriters.

Claim is a request for payment under the terms of a policy for a loss that has been sustained.

Deductible/self-retention/self-insurance is the amount the insured is responsible for in the event of a loss or claim. Often referred to as excess or self-insured retention limit

Excess – the amount the Council is required to pay on each and every claim that is made. This will vary depending on the policy

Indemnity is protection or security against damage or loss. It is also used to refer to the financial compensation sufficient to place the Insured in the same financial position after a loss as they enjoyed immediately before the loss

Insurance – is a financial product sold by an insurance company to provide a level of protection against specific risks in exchange for a premium

Insurance Market – the companies that are involved in the buying and selling of insurance

Insurance Premium Tax – a tax on general insurance premiums, currently at 12%

Insurance policy is contract (generally a standard form contract) between the insurer and the insured, known as the policyholder, which determines the claims which the insurer is legally required to pay. In exchange for an initial payment, known as the premium, the insurer promises to pay for loss caused by perils covered under the policy language.

Long Term Agreement (LTA) is an agreement whereby in return for the insured agreeing to continue an insurance for a fixed number of years, they receive a beneficial premium rate, usually by way of a LTA discount. The insurer usually retains the right to vary the terms of the insurance during the agreed term but if this right is exercised, the insured may withdraw from the agreement without forfeiture of premium discounts already received. Whilst the agreement may run for several years, policies will be renewable on an annual basis.

Renewal is a term used for the continuance of insurance from the expiry of the existing insurance policy.

Reserve – represents the amount of money to be held to meet future claims. For the Council this will include the claims which fall into the excess and any claims where insurance has not been purchased

Risk Appetite refers to the "amount and type of risk that an organisation is prepared to pursue, retain or take".