



Report to: **Audit & Risk Assurance Committee**
Agenda item: **8**
Date: **30 May 2014**
Subject: **Annual Insurance Programme**
Sponsor: **T/Deputy Chief Constable**
For: **Information**

1. PURPOSE OF PAPER

1.1 To provide a summary of the British Transport Police Authority (BTPA) / British Transport Police (BTP) insurance programme and outline actions to be taken regarding the 2014 renewal.

2. BACKGROUND

2.1 The insurance programme jointly protects BTPA and the Chief Constable against the financial consequences of loss or damage to its assets and liabilities arising from business activities.

2.2 In June 2010 BTP became full members of the South East & Eastern Region Police Insurance Consortium (SEERPIC) to secure financial benefits of consortium purchasing.

2.3 In 2011 an insurance tender was undertaken with Long Term Agreements (LTAs) being aligned with SEERPIC's LTA expiry dates to enable BTP to join the SEERPIC tenders at the next opportunity.

2.4 At 2012 renewal (1 October) SEERPIC tendered Property (Material Damage; Business Interruption; Computer; Contract Works; Terrorism), Fidelity Guarantee and Personal Accident/Travel classes. As result of the tender BTP joined the SEERPIC Property insurance arrangements subject to LTAs expiring in 2015 with an option to extend for two further periods of one year each.



2.5 At the 2013 renewal SEERPIC planned to tender the Motor and Casualty classes, giving BTP the opportunity to participate. However, a major deterioration in the SEERPIC Motor claims experience meant that a significant premium increase would be applied. SEERPIC had to decide whether to proceed with the tender or negotiate the best possible terms with their current Motor insurer. SEERPIC completed the tender research and as there were only 2 insurers that were interested in putting forward terms the SEERPIC forces felt that the result of a tender could potentially produce worse terms than negotiating with the current insurer. This view was supported by the Insurers Brokers and BTP. Consequently SEERPIC decided that it was in the best interests of the members to forego the tender and obtain terms from the current insurer. Kent Constabulary Procurement Team ran the initial Motor tender. Terms were negotiated subject to a 25% premium increase and the LTA extended to 2015. As Motor was not tendered, SEERPIC renewed the Casualty classes with the current insurer subject to the LTA expiring in 2015.

As SEERPIC did not proceed with the intended Motor and Casualty tenders and members can only join classes of insurance at tender and not renewal, BTP renewed Motor and Casualty independently of SEERPIC with our current insurers subject to the LTAs expiring in 2015. This then aligned our LTAs in order to participate in SEERPIC's full tender in 2015.

3. STRATEGIC OBJECTIVES

3.1 Our strategy and objectives are to:

- Review policy coverage and ensure appropriate cover is in place taking account of changes to our risk profile
- Minimise the budget requirement for both the insured and self insured elements of the insurance programme where possible
- Identify any aspects of cover that are capable of an increased level of self-insurance
- Identify areas where cover could be rationalised or removed to realise financial efficiencies.



4. INSURANCE PROGRAMME ANALYSIS

4.1 **Property (Material Damage; Business Interruption; Computer; Contract Works; Terrorism)**

At 2012 renewal we joined the SEERPIC arrangements, subject to a 3 year LTA with an option to extend for two further periods of one year each. This brought the following benefits:-

- Reduced self insured retention for Specified All Risks; Computers; Contract Works
- Increased inner limits for a number of cover extensions
- Removal of Condition Precedent relating to fire and security requirements
- Increased limit for seized property

There was a premium saving of £66,000 (51% reduction compared to expiring premiums) which showed the benefits using consortia purchasing.

At 2013 renewal we continued with the current insurer at an unchanged rating.

At 2014 renewal it is expected to continue with the current insurer, subject to the LTA expiring in 2015. There will then be an option to extend for two further periods of one year each. SEERPIC are considering whether it is in the members' best interests to tender in 2015 or take the extension option. A decision will be made as part of the lead up to the 2015 renewal.

4.2 **Personal Accident/Travel**

Inclusion in the SEERPIC arrangements at 2012 renewal provided the following cover enhancements:

- Increased benefit for staff, officers from 3x earnings to 5x earnings
- Increased benefit for BTPA members, special constables and volunteers from £50,000 to £150,000
- Amendment to weekly disablement benefits and deferment periods

There was an increased premium from £7,145 to £14,799 but this highlighted that the previous premium was possibly incorrect as BTP retained the same insurer following inclusion into the SEERPIC arrangements.

At 2013 renewal we continued with the current insurer at unchanged rating.

At 2014 renewal it is expected to continue with the current insurer, subject to the LTA expiring in 2015. As with Property the option to extend for a further one year (plus a further one year) may be taken.

4.3 **Fidelity Guarantee**

At 2012 renewal this class was placed in the SEERPIC arrangements subject to a 3 year LTA with an option to extend for two further periods of one year each. There was a marginal increase in premium from £13,889 to £14,305.

At 2013 renewal we continued with the current insurer at an unchanged premium.

At 2014 renewal it is expected to continue with the current insurer, subject to the LTA expiring in 2015. As with Property and personal accident, the option to extend for a further one year (plus a further on year) may be taken. SEERPIC are considering a re apportionment of the premium to take into consideration members' payroll, limit and level of self insurance, which will have a bearing on the premium applicable to BTP.

4.4 **Motor**

Cover continues to protect against liability risks associated with vehicles being used on BTP business. Damage to own vehicles remains uninsured with repairs being dealt with by the Fleet Department and recoveries being made against third parties for BTP losses where a third party was at fault.

At 2011 renewal a detailed review of the self insurance retention was undertaken with it being decided that a higher self insured retention was beneficial in order to avoid simple

pound swapping plus insurer profit. The self insured retention increased from £5k to £25k. This level of self insurance is less than other Forces where the normal deductible is £100k or £250k.

At 2012 renewal we renewed with the current insurer at unchanged rating.

At 2013 renewal BTP's claims experience was running favourably mainly due to the decision to increase the level of self insured from £5,000 to £25,000. This in itself should have enabled the existing rating to be maintained, however insurers views changed following an operational decision mid policy year to absorb the London Underground (LU) motor fleet into the main overground insurance policy. The decision was made to insure the vehicles in the main policy to ensure vehicles were able to attend incidents both underground and none underground related for Pan- London, this would have proved difficult with the arrangements in place as Transport for London's insurance policy had certain exclusions relating to the attendance of none underground areas. BTP successfully negotiated a low mid year premium for the additional vehicles which was based on the current exposure of the overground fleet. Once The LU fleet claims experience was received from Transport for London and produced to insurers in anticipation of the annual renewal on October 01st, insurers were concerned regarding a significant claim where a cyclist was knocked off his bicycle and sustained major injuries along with the volume of minor LU claims, Transport for London documented payments and reserves exceeding £500,000 for the London Underground fleet. Consequently, BTP's insurers' perception of the LU fleet was that it was not as well controlled as the overground fleet and this could result in historical claims being brought forward. Assurance was provided to insurers that the vehicles would be absorbed into the current successful overground process and the compliance with BTP's Driving Standards would be controlled, The Corporate Risk Team would impose strict claims handling adherence and other control measures will undoubtedly bring the LU fleet up to the same standards as the overground fleet.

BTP's insurers felt they needed a period of transition and applied a 10% increase to the current rate per vehicle, which increased the premium from £161,192 (inclusive of

additional vehicles added mid year) to £177,775. BTP were able to negotiate this increase as a temporary measure and agreed a low claims rebate clause. This meant that depending on the claims experience for the 2013/14 period of insurance a 10% rebate can be earned which would then negate the premium increase that was applied. Consequently if BTP's view on future exposures is proved right then the rebate brings us back to the unchanged rating that BTP would otherwise have expected if the LU fleet had not been added.

Due to the strict claims handling and damage limitation both on the part of Driving Standards and the Corporate Risk Team, as matters currently stand it is expected that the 10% rebate will be earned back at the 2014 renewal on October 01st. BTP will also be making a formal request to insurers for the removal of the low claim rebate clause from BTP's policy wording.

At 2014 renewal it is expected that BTP will continue with its current insurer, subject to the LTA expiring in 2015.

BTP's LTA was extended to 2015 to be aligned with SEERPIC's intended tender in 2015. However, there has been a further deterioration in the SEERPIC claims experience and there is no doubt that the insurer will be applying a further significant premium increase. Again SEERPIC will need to decide whether to accept the increase imposed by their insurers and renew within the LTA to 2015 or undertake a tender this year with an LTA of four years. The decision will be made when SEERPIC's Motor insurers advise their intent at beginning of July.

As our LTA expires in 2015 it would only be possible to consider joining the SEERPIC Motor arrangements on expiry. This would be as part of the SEERPIC 2015 tender or joining mid way through the four year LTA.

Joining the SEERPIC Motor arrangements would mean that BTP's basis of cover would change from third party only to comprehensive subject to the self insured retention increasing from £25k to £100k. This basis has previously been determined by SEERPIC

following a detailed analysis of premiums and claims, as well as independent benchmarking to establish the optimum balance between external insurance and self insured retentions. This is a significant change but being full SEERPIC members BTP are committed to this to ensure consistency and to follow the optimal basis established by past analysis/benchmarking.

4.5 Casualty (Employers' Liability, Public Liability, Professional Indemnity and Officials' Indemnity)

At 2013 renewal we continued with the current insurer at an unchanged premium taking the option of extending the LTA to 2015. The terms negotiated took into consideration that Public Liability claims relating to London Underground area became BTP's responsibility.

At 2014 renewal as our LTA has been extended to 2015 it would be the intention renew with the current insurer and then be aligned to participate in SEERPIC's tender in 2015. However the current insurer is reviewing all their Public Sector accounts and there is a possibility that increased terms may be applied thus breaking the LTA. A decision could be made to accept increased terms but it may also be necessary to consider whether to undertake a tender. The latter gives rise to an issue as it would not be possible to tender for one year only in order to be aligned with SEERPIC's tender in 2015, consequently it may need to be on the basis of a four year LTA to then be aligned with SEERPIC's tender in 2018.

4.6 Details of the current insurance programme are shown in Appendix A.

4.7 Details of the insurance premiums, fees and claims are shown in Appendix B and C. In relation to Appendix C it is necessary to comment that "Claims paid in Financial Year" relates to the payments made by BTP for each financial year however this expenditure can relate to historical claims as a claim has a shelf life of up to 12 years. Consequently any sizable payment relating to a past claim would distort year on year comparisons.

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- 4.8 New risks, projects and activities are routinely analysed for risk financing implications and where necessary additional cover may be purchased. A risk based decision is made in determining whether to retain or finance risks with the originating department. Market developments are also routinely considered to determine alternative risk financing solutions and areas of restriction or additional coverage. In addition, the level of self insurance is subject to annual reappraisal to ensure that the most cost effective basis is being adopted.

5. OTHER INSURANCES

- 5.1 Following a change to the indemnity protection currently being provided to Occupational Health Advisors it has been necessary to consider affecting a separate Medical Malpractice policy. The reason for this has been due to the Royal College of Nursing (RCN) advising that the indemnity protection afforded within the membership is no longer available to medically qualified persons who are not employed within the NHS. Consequently in respect of BTP-employed Occupational Health Advisors a separate Medical Malpractice policy is required. Details are being obtained so that a quotation can be obtained in order to consider cover when the RCN indemnity ceases from 1 July.

6. UNINSURED RISKS

- 6.1 There are a number of risks that are either uninsurable or are uninsured because a positive decision has been made not to insure, for financial, coverage or risk reasons. These are:
- 6.1.1 **Riot Damages Act** – damages under this Act are uninsurable. However, when we considered our position in light of the summer disturbances in 2011 it was determined that it was highly unlikely that BTP would be considered a Police Area under the Act. Indeed the claims we received have been successfully passed to the MPS to settle.
- 6.1.2 **Motor Own Damage** – this is currently an uninsured risk and does not form part of the self insured programme. All uninsured loss recovery on behalf of Fleet is outsourced and managed entirely by Fleet.



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- 6.1.3 **Punitive Damages** – this relates to liquidated damages or damages by way of a penalty or fine. Uninsurable with our current Insurers however cover has been extended to include exemplary or aggravated damages agreed as part of a claim from a third party.
- 6.1.4 **Gradual Pollution / clean up costs** – uninsured. No activities are undertaken that would require an extension of cover e.g. bulk fuel storage.
- 6.1.5 **Airside Liability** – Should there be any airside activity then prior notification is needed so that appropriate cover can be considered. Cover has been affected for incidental access to an airfield/airport if an incident occurs where it is necessary to transverse airfield/airport land.

7. RECOMMENDATIONS

- 7.1 That Members note the current risk financing arrangements and strategy used to determine types and levels of cover. Participation in SEERPIC insurance arrangements/tenders ensures that the insurance programme is cost effective by means of collaborative purchasing and providing a wide breath of insurance cover to protect the assets and liabilities of BTPA/BTP.