



Report to: **Audit & Risk Assurance Committee**
Agenda item: **8**
Date: **3 June 2015**
Subject: **Annual Insurance Review**
Sponsor: **Deputy Chief Constable**
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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 2015 renewal, which is due on 1 October 2015.

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 both BTPA and BTP activities.

2.2 In June 2010 BTP became full members of the South East and Eastern Region Police Insurance Consortium (SEERPIC), in order to secure economies of scale via consortium purchasing and benefit from the sharing of expertise among consortium members.

2.3 The programme was tendered at 2011 renewal, with Long Term Agreements (LTAs) being aligned with those of SEERPIC, to enable BTP to join the SEERPIC tenders at the next available opportunity.

2.4 At 2012 renewal, SEERPIC tendered Property (Material Damage; Business Interruption; Computer; Contract Works; Terrorism), Fidelity Guarantee and Personal Accident/Travel classes. The tender outcome led to the decision to join SEERPIC Property insurance arrangements, with the LTA expiring in 2015 and an option to extend for two further periods of one year each.

2.5 2013 Renewal and SEERPIC's decline in claims experience

2.5.1 At the 2013 renewal, SEERPIC planned to tender the Motor and Casualty classes, allowing BTP the opportunity to participate in this part of the consortium. However, a major deterioration in the SEERPIC Motor claims experience meant a significant premium increase of 25% was applied. SEERPIC researched the market and made the decision to accept the increase with current insurers with an extension of the LTA extended until 2015.

2.5.2 Given that the Motor was not tendered, SEERPIC renewed the Casualty with their current insurer and the LTA was also extended until 2015.

2.6 Due to members only being able to join the consortium at the tender stage and not renewal, BTP renewed its Motor and Casualty independently of SEERPIC.

2.7 2014 Renewal and SEERPIC's continued decline in claims experience

2.7.1 The 2014 renewal saw a further deterioration in SEERPIC's Motor claims experience, resulting in a substantial premium increase and the imposition of a minimum deductible of £250,000 for most members. SEERPIC's Motor claims experience and that of other police forces meant that the number of insurers willing to offer terms on "Blue Light" risks was limited.

2.7.2 SEERPIC's brokers undertook a benchmarking exercise. The outcome of which showed that despite the increased terms for Motor and Casualty, these were not unreasonable in view of the poor claims experience. SEERPIC accepted the increased terms with a LTA expiring in 2015.

2.8 BTP's own Casualty and Motor insurances continued to run independently of SEERPIC arrangements, being renewed for a further year to the 2015 renewal.

2.9 The original intention was for BTP to participate in the SEERPIC tender for both Casualty and Motor at the 2015 renewal. However due to the serious deterioration of the

SEERPIC claims experience this meant that the likely terms, premium and deductible received in the tender responses by SEERPIC would be detrimental to BTP.

- 2.10 The Force Insurance Manager completed a detailed risk assessment of the potential increased costs for participating in the SEERPIC tender, the findings of this analysis were presented to the Deputy Chief Constable and BTPA with a recommendation to not participate which would ultimately result in the SEERPIC membership withdrawal.
- 2.11 On the basis of financial risk, the decision to withdraw from SEERPIC was upheld by BTPA and The Deputy Chief Constable.
- 2.12 Due to the decision to withdraw and the current LTA's expiring for both Motor and Casualty, BTP are independently tendering for both risks.
- 2.13 In addition the BTP withdrawal from SEERPIC, Hampshire Police completed their own analysis and risk review. Due to the similarities with BTP, Hampshire also made the decision to withdraw from SEERPIC in February 2015 and is currently running their own independent tender for Motor and Casualty.
- 2.13 The other elements of BTP's insurance programme placed with SEERPIC are unaffected by this action in the short term, they remain with the SEERPIC insurers under LTA until 2017 when a new tender will be initiated independent of SEERPIC.

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

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- 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 the 2012 renewal BTP 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

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

4.1.2 At 2013 renewal BTP continued with the current insurer at an unchanged rating. A 10% Low claims rebate of premium was earned in this year.

4.1.3 At 2014 renewal BTP continued with the current insurer at an unchanged rating. The one exception to this is the Computer cover, which the SEERPIC programme amended to a stand-alone policy, with improvements in cover and extended period for increased costs of working, all within the existing rating. The new Computer cover was agreed with a LTA which expires in 2017. A 10% Low claims rebate of premium was earned in this year.

4.1.4 For the 2015 renewal, the existing LTA expires and both SEERPIC and the insurers have agreed to take up the option to extend the LTA for two further periods of one year each, maintaining the rating until the expiry in 2017. Whilst this means the LTA has a different expiry date to the Motor and Casualty, it was felt amongst SEERPIC that there



are no advantages in tendering all insurances at the same time. This was due to the likely market response and considerable resources required to carry out a tender for all insurances.

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

4.2.1 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.

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

4.2.3 At 2014 renewal BTP continued with the current insurer at unchanged rating. The policy cover was updated, providing further minor cover enhancements.

4.2.4 For the 2015 renewal, this cover has followed the Property, with both SEERPIC and the insurers having agreed to take up the option to extend the LTA for two further periods of one year each, maintaining the rating to the expiry in 2017.

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.

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

4.3.2 At 2014 renewal BTP continued with the current insurer at unchanged rating. The policy cover was updated, providing further minor cover enhancements. SEERPIC undertook a premium re-apportionment exercise, taking account of each member's payroll, policy limit and level of self-insurance. The result of this exercise was that BTP's premium reduced from £14,305 in 2013 to £9,372 at 2014 renewal.

4.3.3 For the 2015 renewal, both SEERPIC and the insurers have agreed to take up the option to extend the LTA for two further periods of one year each, maintaining the rating to the expiry in 2017.

4.4 **Motor**

BTP's motor cover continues to protect against liability risks associated with vehicles being used on BTP business. Damage to own vehicles is uninsured, repairs being dealt with by the Fleet Department and recoveries being made against Third Parties for BTP losses, where the Third Party was at fault.

4.4.1 At 2011 renewal, a detailed review of the self insurance retention was undertaken, it being decided that a higher self insured retention was beneficial, to avoid simple pound swapping plus insurer profit. The self insured retention increased from £5,000 to £25,000, which is less than other Forces, where the normal deductible is £100,000 or £250,000.

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

4.4.3 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 should have enabled the existing rating to be maintained, however the insurers views changed following an operational decision mid policy year, to absorb the London Underground (LU) motor fleet into the main overground insurance policy.

4.4.4 The decision was made to insure the vehicles in the main policy, to make sure vehicles were able to attend incidents both underground and non-underground related. This

would have proved difficult, with the expiring arrangements in place. Transport for London's (TFL) policy had certain exclusions relating to the attendance of non-underground areas.

- 4.4.5 BTP successfully negotiated a low mid year premium for the additional vehicles, based on the current exposure of the overground fleet. However, once The LU fleet claims experience was received and produced to BTP's insurers, in anticipation of the annual renewal on 1st October, insurers were concerned regarding a significant claim. This incident involved a cyclist, who was knocked off his bicycle and sustained major injuries. This, along with the volume of minor LU claims, TFL documented payments and reserves exceeded £500,000 for the LU fleet.
- 4.4.6 Consequently, BTP's insurers' perception of the LU fleet was that it was not as well controlled as the overground fleet, which could result in historical claims picture continuing under BTP's policy moving forwards. Assurance was provided to BTP's insurers that the vehicles would be absorbed into the current successful overground process and compliance with BTP's Driving Standards would be controlled. Strict claims handling adherence and other control measures would bring the LU fleet up to the same standards as the overground fleet.
- 4.4.7 At 2014 renewal, terms were agreed with unchanged rating, which maintained the LTA until it's expiry in 2015. Consideration was given to increased levels of self-insurance and in the light of analysis undertaken of BTP's claims experience. Quotations based on £50,000 and £100,000 were obtained and it was decided to proceed with the £50,000 option, for a premium saving of £27,850. This gave a revised renewal premium of £153,175.
- 4.4.8 BTP's Motor LTA was extended to 2015, to align with SEERPIC's intended tender in 2015. Due to SEERPIC's claims experience deterioration, insurers requested both increased premiums and levels of self insurance which led to BTP declining to participate in the SEERPIC tender.



4.4.9 BTP's current level of cover and self-insured retention level are appropriate and relative to BTP's Motor claims experience. There are no losses since 2011 above the current self-insured deductible of £50,000 and only two losses above the previous self insured retention level of £25,000.

4.4.10 BTP are currently running an independent Motor tender with responses due early July, BTP are confident current levels and rates are achievable as BTP are seen to be a good risk within the current market.

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

At 2013 renewal BTP continued with the current insurer at an unchanged premium, extending the LTA to 2015. The terms negotiated took into consideration that Public Liability claims relating to LU became BTP's responsibility from renewal 2013.

4.5.1 At 2014 renewal, BTP's current insurers increased their terms for Employers' Liability (EL), following a review of their portfolio of public sector risks including police authorities. This review involved a projection of the ultimate cost of claims of the current insurer's portfolio and led to an increase in premiums across the whole insurer's Casualty account.

4.5.2 As a result of a detailed review of BTP's claims experience, which continued to run favourably, the premium increase was negotiated to a revised level of 15% on Employers' Liability only, equating to a premium increase of £12,591. The overall Casualty renewal premium increased to £236,484.64.

4.5.3 The Professional Indemnity (PI) premium increased at renewal 2014 from £1,163.75 to £9,975 purely as a result of estimated increased training income for the 2014/2015.

4.5.4 BTP's current level of cover and self-insured retention level are appropriate and relative to BTP's Casualty claims experience.

4.5.5 BTP are currently running an independent Casualty tender with responses due early July, BTP are confident current levels and rates are achievable as BTP are seen to be a good risk within the current Casualty market.

4.6 **Current details of the insurance Programme, costs and self insured retention rates**

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

4.6.2 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.

4.7 **New risks**

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 was necessary to consider affecting a separate Medical Malpractice policy. The reason for this was 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 was considered. Investigations revealed separate cover was not required and that any such claims arising would be dealt with as part of the injured employee's Employers Liability claim.

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.

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.



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- 7.2 SEERPIC insurance arrangements have ensured that the Property insurance programme remains cost effective by means of collaborative purchasing and providing a wide breadth of insurance cover to protect the assets and liabilities of BTPA/BTP.
- 7.3 The Casualty and Motor insurance programmes have benefited from being outside of SEERPIC arrangements, due to the poor performance of the SEERPIC programme, when compared with BTP's claims experience. The Casualty and Motor programmes however, also remain cost effective and provide appropriate breadth of insurance cover to protect the assets and liabilities of BTPA/BTP. The forthcoming tender process will ensure these objectives are maintained.