

# How to **be successful** in procuring **insurance services**

Improvement through efficiency



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## Introduction

This guide is published by the Regional Centres of Excellence Procurement Programme which is seeking to transform procurement and deliver major efficiencies in the £42 billion that local government spend on goods and services.

Protecting against the risks associated with every day life is essential to everyone's well-being and peace of mind. Insurance is a way of allowing people to minimize their individual financial damages by combining their potential for loss with that of others.

Although many types of insurance seem complicated, the basic principles are straightforward. Insurance companies assess the risk of any eventuality and the potential downside associated with it. Then, based on past experience and their own expertise, they calculate the premium that a customer needs to pay to provide cover against injury or loss. When the insured event happens, the company pays out the agreed level of claim.

This is a simple way of describing a complex, challenging global market. In a similar way, the world of local government insurance can be complex and challenging but this guide seeks to present key information clearly and unambiguously. It serves as an introduction to help you gain a basic understanding of the general insurance sector. It cannot cover all possible scenarios, requirements, risks or options but it will guide you to a sound understanding of what needs to be done, why and how, before going to market to obtain best value for money.

This guide has been produced by the East of England Centre of Excellence on behalf of all Regional Centres of Excellence in response to a need for guidance for district councils in particular but also as a useful training aid to new members of bigger county or unitary insurance teams.

Collaborative procurement of goods and services can bring further benefits and is increasingly being used as a means of tackling capacity issues, sharing best practice and achieving consistency. Collaboration can also optimise the use and reduce the costs of scarce procurement expertise. We have included a number of procurement options for insurance services towards the end of the guide that you should consider before going to market so that both efficiency and improvement can be optimised.

## Basic principles of insurance

Insurance can be a complex subject but it is underpinned by some basic principles described below.

### Subrogation

This is the right of an insurer who has granted an indemnity (see below) to take over any recovery rights the insured may have against third parties liable for the same loss. A subrogation condition in a policy enables the insurer to take action in the insured's name before paying the claim. Subrogation may arise under contract, tort or statute. A simple example would be where an insurer, paying for a car damaged by a third party's negligence, can pursue the third party.

### Utmost good faith (*uberrimae fidei*)

This describes the obligation of the insured to disclose material facts. The insurer must reciprocate but in practice the duty weighs more heavily on the insured. A breach by the insured makes the contract avoidable *ab initio* (from the beginning) at the insurer's option. Breaches may be through concealment, non-disclosure, fraudulent misrepresentation or innocent misrepresentation. The duty is pre-contractual but it is revived at renewal and at certain mid-term alterations affecting the risk.

- > A material fact is a fact that would influence the judgement of a prudent underwriter in deciding whether to accept a risk for insurance and on what terms
- > Concealment is the wilful failure to disclose a material fact before the contract is concluded. It is a breach of utmost good faith that renders the contract void and entitles the insurer to sue for damages for deceit. If fraud is proved, the insured is not entitled to a return of premium
- > Innocent non-disclosure by the proposer before the insurance contract has been concluded is also voidable at the option of the insurer. If the insurer exercises the option, the full premium will be returned
- > Fraudulent misrepresentation is where the person knowingly makes a false statement relating to a material fact, does not believe it to be true or makes it recklessly without due regard to accuracy
- > Innocent misrepresentation is the unintentional supply of misleading information relating to a material fact in breach of the duty of utmost good faith. Where the insurer exercises the right of avoidance, the risk does not attach and the full premium must be returned. Under industry code of practice, insurers agree not to void policies issued to private individuals where the innocent misrepresentation is in the nature of a technicality

### Indemnity

This is a key insurance principle designed to place an insured in the same financial position after a loss that existed immediately before the loss. An exact financial compensation may be denied by an inadequate sum insured, indemnity limit, excess or franchise.

The leading case on indemnity is *Castellain v Preston* (1883) which serves as a good example. The defendant contracted to sell a property but, before completion, the property sustained fire damage (£330), which the defendant recovered from his insurer. On completion, the defendant received the full purchase price from the purchaser despite not having repaired the damage. The insurer recovered the £330 payment as the defendant, having received the full price, had suffered no loss and the fire policy was one of indemnity.

Where the sum insured is inadequate then average may apply whereby if the sum insured is less than the value at risk at the time of the loss, the claim will be reduced in the same proportion.

In relation to this principle, it is worth explaining some of the terms used and to explain reinstatement as distinct from indemnity.

- > A reinstatement condition is attached to a commercial property policy so that a claim may be based on full repair or replacement cost without deduction for depreciation subject to certain conditions. Many household policies contain a reinstatement clause allowing 'new for old' settlements subject to conditions and excluded forms of property. Where a 'new' item is superior to an 'old' item the insurer, commercial or household, may replace it provided the insured contributes to the betterment
- > The limit of indemnity/liability is the maximum sum an insured may collect, or for which an insured is protected, under the policy. It is a 'sum insured' under a property insurance and a 'limit of indemnity' under liability policies. The liability limit may be per policy, per event, per occurrence or per year
- > An excess (or deductible) is the amount deducted from each and every claim and is borne by the insured. The excess will eliminate all claims equal to or less than the excess and will reduce the insurer's liability for all other claims. The excess may be compulsory or voluntary in which instance the insured's premium is discounted
- > A franchise relieves an insurer of each and every loss that does not exceed a specified amount or percentage. If the limit is exceeded, the loss is paid in full

### **Contribution**

This is a corollary of indemnity, meaning an equitable division between insurers where two or more insurers cover the same insured and the same risk. Each insurer pays a rateable proportion of the loss either in proportion to the sum insured or in proportion to their respective independent liabilities.

### **Insurable interest**

A policy is not valid unless the insured person stands to suffer a financial loss if the insured event occurs (e.g. loss or damage to property or creation of a liability) or benefit from the non-occurrence of the event i.e. the property being preserved or no liability being created. Generally, an insurable interest must exist when the policy is issued and at the time of loss except in the case of marine insurance when interest is required only at the time of loss and in life insurance when interest is only required at the inception.

### **Proximate cause**

The insurer is liable only for loss proximately caused by an insured peril not loss caused by an excepted or uninsured peril. It is the dominant cause not the remote cause. The insurer will be liable if the sequence between an insured peril and the loss is unbroken i.e. one link in the chain is the natural and probable consequence of the previous link. If the initial cause in an unbroken chain is an excepted peril, the excepted peril is the proximate cause notwithstanding that it triggers an insured peril. As well as operating sequentially with other perils, the insured peril may run as a concurrent cause with other perils.

Pawsey v Scottish Union and National sets out a classic definition: 'proximate cause means the active, efficient cause that sets in motion a train of events which brings about a result without the intervention of a force started and working actively from a new and independent source'.

An example to illustrate proximate cause would be where a fire at a factory causes stock to be removed. While out in the open air it rains heavily and the stock suffers water damage. The proximate cause is the fire so even if water damage was not an insured peril the loss would be covered providing fire cover was in force.

## The insurance market

### Insurance in the economy

The UK insurance industry:

- > Is the largest in Europe and the third largest in the world accounting for 8.6% of total worldwide premium income
- > Employs 332,000 people
- > Controls 17% of investment in the London stock market
- > Is a major contributor to the UK's tax take
- > Is a major exporter with a quarter of its net premium income coming from overseas business
- > As at 31 December 2005, the insurance industry had £1,330 billion invested in company shares and other assets

### The UK insurance market

1,118 companies are authorised by the Financial Services Authority to carry out insurance business in the UK. Of these:

- > 836 carry out general business only e.g. motor, household and commercial insurance
- > 232 carry out long term business (such as life insurance and pensions)
- > 50 carry out both general and long term business

### Insurance intermediaries

Recent years have seen a rapid expansion in customer access through multi-distribution channels. Insurance can now be purchased:

- > Online directly with the insurer
- > By telephone directly with the insurer
- > Through an insurance broker or intermediary
- > Through channels where the supply has been 'white labelled' e.g. via supermarkets and banks
- > At the point of sale for items such as motor vehicles or travel arrangements

The choice of channel can often be determined by the complexity of the insurance arrangements and whether the particular covers sought have been commoditised. The insurance intermediary market still remains the biggest distribution channel particularly for commercial/business insurances. The intermediary will either arrange the insurance and be remunerated by commission from the insurer, agree a fee basis with the customer or a combination of the two.

### **The public sector**

Insurance within the public sector is relatively specialised and, as such, competition within the market is limited. Schools and social housing are considered to be areas of particularly high risk which deter many insurers from considering public sector portfolios. Some will however consider district council insurances although in reality their ability to compete with the established market where the critical mass resides is limited.

The main public sector insurers are Zurich Municipal, AIG and St Pauls.

The UK's biggest insurer is Norwich Union which will consider public sector insurances to a limited extent. They will consider property schedules from district councils and motor fleets where the fleet is car based with no emergency or refuse vehicles. Where Norwich Union insures a public sector car fleet, it will offer black box technology to help the authority track the business use of its vehicles. This technology enhances the duty of care an authority owes to its drivers and is capable of tracking the length of the journey, the time and breaks in the journey, the average and maximum speeds and road type. The information provides excellent web-based risk management data. The boxes are installed and managed free of charge in return for a two year fixed premium deal and access to the data which helps the insurer with its pricing capability.

Limited market availability and competition has prompted some London boroughs, where it is easier to generate a critical mass of premiums, to group together to form their own mutual. A mutual is an insurance company owned by its policyholders (it has no shareholders) formed by deed of settlement or registered as a company limited by guarantee. Funds are raised by premiums and an additional levy or call is imposed to meet losses if premium contributions are insufficient. The profits generated are retained for the benefit of the policyholders.

It should be noted, however, that developing a mutual for district councils would be a significant challenge given the numbers required for a critical mass of income and matters geography and culture. Recent research by the Regional Centres of Excellence has demonstrated that such an approach is unlikely to be viable.

County and unitary councils utilise large professional insurance intermediaries such as Marsh or AON to prepare their insurances for presentation to the market on tender. Many district councils package their insurances and utilise the facilities provided directly by insurers such as the Zurich. It is worth considering engaging with a professional intermediary and agreeing a fee for a review and report to ensure that when you present your insurance portfolio you will obtain the best possible premium based on the completeness and accuracy of the information you are presenting. In many cases, the premiums you might save could far outweigh the fee payable to the intermediary.

### **Hard and soft markets**

You may hear these terms frequently and it is worth offering some background and explanation of what they mean.

The insurance market has always been cyclical. There are years of good profits and years of poor profits or in some cases unsustainable losses. What prompts this is to a large extent is the underwriting cycle. In the good years, an insurer may achieve excellent underwriting margins i.e. they achieve greater levels of income against what is being paid out in claims and expenses.

A competitor may decide that since such good profit margins are to be had, they will seek growth by offering a better product and undercutting on price. The original insurer will try and protect its book of business by matching the competitor. Over a period of time, perhaps several years, the premiums we all pay will fall as a result, sometimes significantly, and this is termed the 'soft' market.

Eventually the situation will arise where the underwriting profit becomes a loss which is mitigated by the investment income return. This may eventually be eroded to a point where the insurer is making an insurance loss i.e. the claims and expenses being paid exceed the premium and investment income being generated. The insurer may then make the decision that rates or premiums must increase and, as the market leader in particular, raises its rates the market will generally follow until such time as the book of business is returned to profitability. This is termed the 'hard' market.

Insurers have, in recent years, made attempts to flatten the peaks and troughs of the underwriting cycle by expanding income generation in risk free areas. To some degree, this has been successful but soft and hard markets do still remain.

It follows that you are likely to be in an advantageous position if you tender your insurances in a soft market and sign a long term agreement (see section 8) at a time when the rates are low. It should be noted however that the market can be unpredictable and may soften or harden further or longer than expected.

## The Role of the Financial Services Authority

### Strategic objectives

The Financial Services Authority (FSA) is an independent non-governmental body given statutory powers by the Financial Services and Markets Act 2000. It is accountable to Parliament via the Treasury although it is operationally independent of Government and is funded entirely by the firms it regulates. The Financial Services and Markets Act gives the FSA four statutory objectives:

- > Market confidence: maintaining confidence in the financial system
- > Public awareness: promoting public understanding of the financial system
- > Consumer protection: securing the appropriate degree of protection for consumers
- > Reduction of financial crime: reducing the possibility for a business to be used for a purpose connected with financial crime

The FSA regulate most types of financial services firms, such as banks, building societies, credit unions, insurance companies, financial advisers, stockbrokers, mortgage and insurance sellers.

It protects consumers by:

- > Setting standards which firms that offer financial products in the UK must meet when dealing with a customer
- > Holding a register of firms that are regulated by the FSA to carry out financial services in the UK
- > Fining firms and naming them if they don't meet FSA standards
- > Establishing the Financial Ombudsman Service, an independent body set up by law to investigate a complaint if a customer is not satisfied with the way a firm has handled it
- > Setting up the Financial Services Compensation Scheme which is able to pay compensation to a customer if an FSA authorised firm goes out of business

### Local authorities

One of the manuals produced by the FSA is the Perimeter Guidance Manual (PERG). Specifically, paragraph 5.14.5 stipulates:

‘In addition to certain named persons exempted by the Exemption Order from the need to obtain authorisation, the following bodies are exempt in relation to insurance mediation activities that do not relate to life policies:

(1) local authorities but not their subsidiaries’

What this means in practice is best highlighted by an example of shared services. A county council makes a shared services offer to several district councils in the county to arrange their insurances and to handle the claims on their behalf. There may be a mutual agreement such as a fee involved. The county council is technically engaging in an intermediated activity i.e. arranging insurance on behalf of someone else which is subject to the FSA regulations and as such authorisation is required.

Paragraph 5.14.5 exempts local authorities in relation to insurance mediation activities allowing the county council to offer the shared services to the district councils without having to become authorised. The exception to this is where the county council sets up its shared services operation as a subsidiary organisation, for example County Council A Shared Services Ltd., which then becomes subject to the regulations and FSA authorisation.

## The insurance professional

### The role of the Chartered Insurance Institute

In some cases the person asked to manage the insurances of an authority may have limited or no experience.

The Chartered Insurance Institute (CII) is the premier professional organisation for those working in the insurance and financial services industry. It is dedicated to promoting higher standards of competence and integrity through the provision of relevant qualifications for employees at all levels and across all sectors of the industry. Success in CII qualifications is universally recognised as a sign of commitment and professionalism.

With 90,000 members, the CII is the world’s largest professional body dedicated to the insurance, savings and financial services sector. Its broad portfolio of education and qualification services is continually expanding to meet the changing requirements of companies and individuals across the financial services community.

### The qualification framework

The CII provides market-led qualifications, which serve all sectors of the insurance industry and cater for all levels of knowledge and experience.

### Award in Insurance

This is an introductory level study programme which provides basic knowledge on key topics. Candidates pass one test, gaining credits which they can use towards studying for a CII qualification. Average study time is 40 hours and the exam format is a two hour online examination of 100 multiple choice questions.

### Certificate in Insurance

This is the 'core' level qualification which is suitable for gaining essential knowledge of the market, key disciplines and products. It requires candidates to pass a 40-credit threshold. A pass entitles the candidate to apply to use the designation Cert CII. It contains seven units with an average study time of 50 hours per unit. The examination is online and consists of multiple choice and mini-case studies.

### Diploma in Insurance

This qualification recognises the technical development achieved by those with a growing understanding of the industry. It requires the candidate to pass a 110 credit threshold and if successful an application for the designation Dip CII can be made.

### Advanced Diploma in Insurance

This is the professional qualification awarded to experienced and expert market practitioners. It requires candidates to pass a 290-credit threshold and if successful the candidate can apply for the designation ACII.

### The Association of Local Authority Risk Managers

Unplanned and therefore unbudgeted losses impose additional burdens on public service providers. Whether losses result from the activities of criminals, from litigation or from accidents, much can be done to reduce this drain on resources.

The profile of risk management has been enhanced in the public sector and is now generally recognised as a key consideration for all public sector bodies. It requires corporate as well as individual commitment. The Association of Local Authority Risk Managers (ALARM) is the national forum for risk management in the public sector and has been in existence in one form or another for 16 years.

Membership now exceeds 1,700 who are drawn from a range of public sector bodies including local government, the Police, fire and rescue services, water authorities, the Probation Service, universities, the Environment Agency, housing associations, health authorities, national parks and the Construction Service Agency. A wide cross section of backgrounds is represented such as insurance and risk finance, health and safety, audit, legal services, emergency and business continuity planning, project and performance management. There are nine regional groups – East Anglia, Midlands, North East, North West, Scotland, South East, South West, Wales and Northern Ireland.

ALARM has four key objectives:

- > Identifying and addressing the needs of its members
- > Promoting professionalism and best practice in risk management
- > Working in partnership with other agencies in the promotion of public service risk management
- > Ensuring a sustainable and viable organisation

## Risk management

### Understanding risk

Risk is the possibility of harm, injury or damage. It is influenced by hazards present in a situation. A hazard is a condition that creates or increases the probability or extent of a loss from physical sources, such as unsafe working conditions or asbestos in buildings, and moral features such as poor attitudes. This can encompass the character, habits and actions of people that influence the possibility and extent of a loss. Carelessness, unreliability, poor lifestyle, dishonesty are characteristics that insurers guard against or avoid.

Physical hazards may arise from the material, structural or operational features of the risk itself. In fire insurance for example, physical hazard concerns construction, heating, security and use of premises.

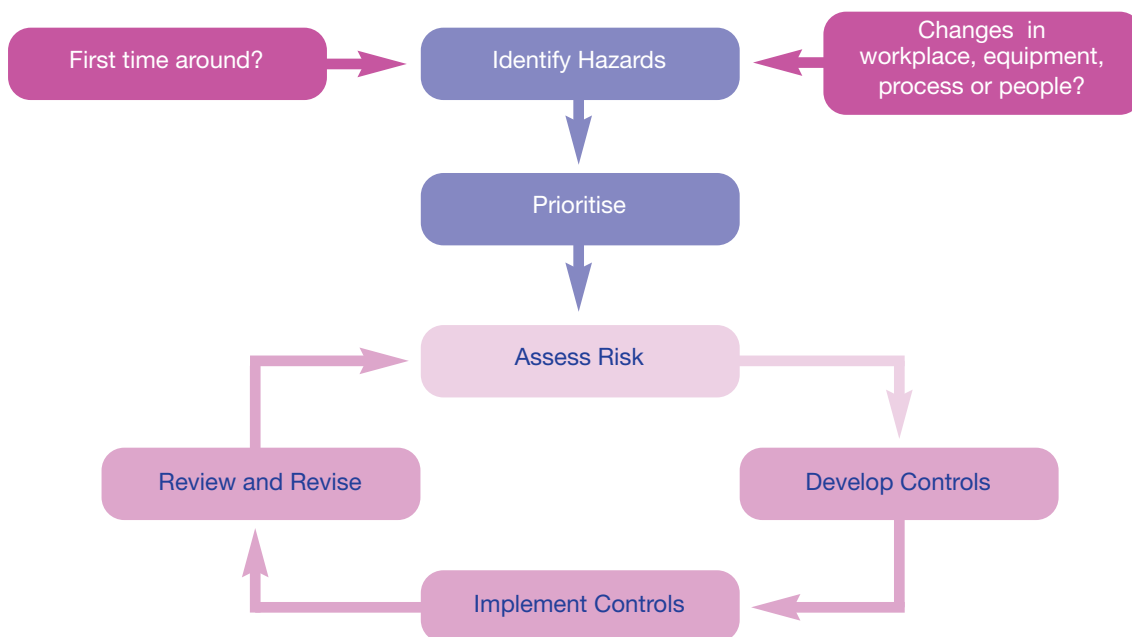
This guide restricts itself to the area of insurance risk and management but if you would like to broaden your knowledge of risk then the publication 'A Risk Management Standard' has been produced in collaboration between ALARM, the Institute of Risk Management and the Association of Insurance and Risk Managers.

### Risk management

The purpose of risk management is to limit an organisation's exposure to risk to an acceptable level taking account of the probability of the loss occurring, its impact or both. The principles can be directed at limiting adverse outcomes or achieving desirable ones.

### Risk assessment

Risk assessment should be approached in a methodical way to ensure all significant features which could influence the view of your insurer have been identified and the risks defined. The simple flow chart below shows the process to adopt.



**Risk control checklist**

The table below provides you with some structure for your risk assessment and management work. Your objective is to ensure good housekeeping to influence an underwriter's view of your risk and therefore the premium they will charge or terms that may apply. In addition, good housekeeping may allow smaller councils to view the concept of a voluntary excess with more confidence in the knowledge that they are exercising good risk management which may further reduce premiums payable.

**People**

- > Maintain up to date lists of all employees, including part time, temporary and agency staff, detailing names, addresses, phone numbers and next of kin
- > Ensure all visitors are logged in and out of premises
- > Provide staff with training in emergency and evacuation procedures.
- > Write down your safety, fire and security policies and ensure staff understand them
- > Train staff in the use of fire extinguishers and raising the alarm

**Fire**

- > Identify significant hazards from processes, storage and services and how these can be removed or reduced
- > Maintain high standards of housekeeping, including waste removal and a clear desk policy
- > Ensure adequate fire extinguishers of the correct type are provided and that staff are trained in their use
- > Consider the use of automatic control and suppression systems such as sprinklers to protect premises or specialist systems such as gas flooding in high risk/high value areas such as computer rooms
- > Provide automatic fire detection and alarm systems that signal to an alarm receiving centre
- > Maintain 'compartmentation' within premises by ensuring walls, doors and shutters are in good condition and that where services or cables penetrate they are adequately fire stopped
- > Undertake frequent and regular inspections of premises, rectify any faults found and record your results
- > Exercise close control of contractors working on your premises through a permit to work system
- > Have all plant, machinery and services tested, inspected and maintained by competent contractors

**Security**

- > Maintain all security devices in good condition and full working order
- > Ensure that perimeter fences, walls and gates are in sound repair and secure
- > Fit good quality locks to all external doors and protect ground floor and accessible upper floor windows appropriately. This may also require shutters, grilles or bars
- > Provide intruder alarm protection that signals to an alarm receiving centre
- > Ensure only authorised people have access to premises by means of CCTV, static guarding and/or access control systems such as card/ PIN or proximity card
- > Provide security lighting externally
- > Before allowing contractors or others to work on the premises ensure that you have checked their accreditation and, if necessary, ensure they are accompanied on site at all times
- > Ensure premises are clear before locking up at the end of the day and that all valuable and sensitive documents, plans or patterns are secure
- > Shred all sensitive documents before disposal

**Computers, networks and communications**

- > Control passwords and means of access to systems and networks, including those used by contract staff and those who have left the organisation
- > Provide UPS to ensure safe shut down in the event of power failure
- > Consider provision of stand-by power generation capacity
- > Regularly back up data and software and keep copies in a fire-resisting data cabinet and off site in a secure location
- > Consider automatic fire detection and protection of computer rooms, not forgetting modems and other communications technology
- > Keep anti-virus software up to date
- > Protect against lightning strike and power surges

Taken from 'Business Resilience: a guide to protecting your business and its people'. Reproduced by kind permission of the Fire Protection Association for InFiReS.

**Insurers' fire research strategy scheme ("InFiReS")**

InFiReS membership is a group of UK insurers that actively support a number of expert working groups developing and disseminating best practice for the protection of people, property, business and the environment from loss due to fire and other risks. Technical expertise is provided by the Fire Protection Association (FPA), external consultants and experts from the insurance industry who together form the various InFiReS steering groups. Documents developed through this scheme are published by the FPA on behalf on InFiReS.

**Motor fleets**

Good risk management begins with the fleet drivers. You should have a good understanding of the driver profile, age and experience through a rigorous induction process. You may wish to provide a driver handbook and driver training courses which may reduce your claims.

Investigate accidents thoroughly and understand the actions you can take to minimise the chance of a recurrence. Remember every claim that is made and paid enhances the chances of your renewal premium increasing. Most insurers will also provide you with monthly claims data to allow you to manage your fleet risks proactively and also to track the progress of estimates, particularly third party estimates.

## Understanding your portfolio

By their very nature, local authorities are exposed to a number of significant insurable risks. It is vital that each of these is subject to a coherent financing strategy that either retains or transfers the risk as appropriate. In order to make assessments on the need for insurance protection, each authority will need to consider its exposures, the extent to which it is comfortable to self-finance these and purchase insurance for those it requires cover for.

Developing an insurance strategy will allow a council to understand its risks and should include:

- > An overview of services provided by the council
- > Information on contracted out or shared service arrangements and relevant indemnity protections
- > A review of each class of insurance risk with an assessment of required sums insured and indemnity levels
- > A financial assessment of optimum retention levels, preferably with actuary sign off
- > Consideration of any specific insurance requirements
- > How uninsurable risks will be managed such as pollution-related claims
- > Management arrangements for procurement of insurance. Will a broker be retained or will this be managed by in-house procurement or insurance specialists?

The business of your authority is constantly changing. The insurance requirements will change too so always challenge and never accept the status quo. Ask yourself the fundamental question – why do we have insurance? As you come to your answer, you may create an insurance strategy for your organisation to promote wider understanding.

### **Excesses, limit of indemnity and self insurance**

#### **Excesses (or deductibles)**

An excess is the amount deducted from each and every claim and borne by the insured. The excess will eliminate all claims equal to or less than the excess and will reduce the insurer's liability for all other claims. The excess may be compulsory or voluntary in which instance the insured's premium is discounted.

The level of excess or deductible taken by a council will reflect their ability and appetite to the self-financing of losses. It is desirable for an authority to consider the efficient retention of loss in order to reduce the cost of external insurance provision. Buying 'ground up' insurance cover is no longer cost effective for most authorities and carefully balanced deductibles can provide significant financial savings for even the smallest authorities. Information to help councils with risk financing decisions of this nature is usually best sourced from retained insurance brokers or by actuaries who will be able to consider loss history and programme structures to advise on the optimum level of deductibles.

At a practical level, you should consider the level of risk that the authority wishes to retain and obtain quotes for appropriate deductibles. Consider whether recovery should be made from internal departments to focus attention on reducing risk.

### Limit of indemnity

This refers to the maximum sum an insured may collect or for which an insured is protected under the policy. It is termed a 'sum insured' under property insurances but a 'limit of indemnity' under liability policies. The liability limit may be per policy, per event, per occurrence, per year, per originating cause or, by way of sub-limit, per specified type of loss.

You should ensure limits are adequate to comply with standard industry contract requirements. Minimum acceptable levels are £5 million for public liability, £10 million for employer's liability and £1 million for professional indemnity.

Benchmarking data suggests that county councils now procure on average £40 million limit of indemnity on their public liability policies while district councils are likely to arrange limits of £20 million for public liability and £25 million for employer's liability.

### Self insurance

This refers to the payment of losses as they become due by an individual, partnership or corporation that retains all or part of its own risks. High frequency/low impact losses are paid out of cash flow. In other cases, the body retains the first portion of other losses which will be paid out of reserves and insures the excess of the retention. Self-insurance is distinguished from non-insurance because it represents a formalised accrual of liabilities.

### Property

This refers to physical damage to tangible property as opposed to financial loss, even if following from the damage, or to bodily injury. It does not refer to property in the sense of a right of ownership.

The standard range of contingencies is fire, aircraft, explosion, riot, malicious damage, storm, flood, burst pipes and impact. Accidental damage may be added where it is considered appropriate. This insurance does not relate just to buildings but property generally and is sometimes referred to as material damage.

When you insure your buildings, care should be taken over the following:

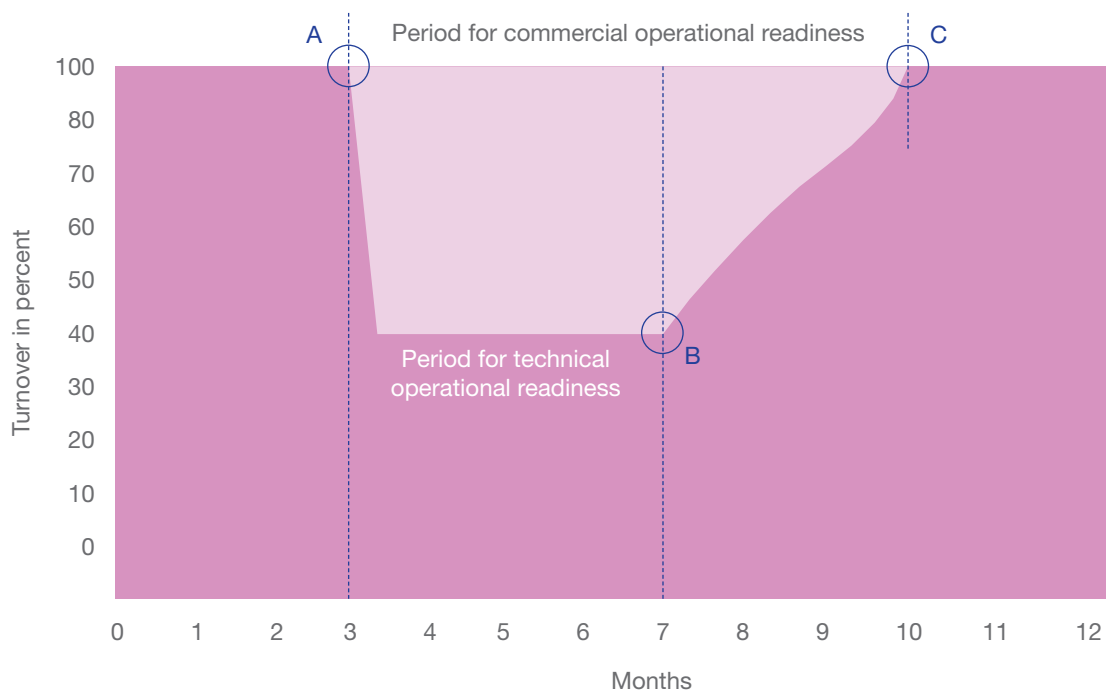
- > Unoccupied buildings – confirmation from your buildings insurers should be sought regarding specific conditions which apply to cover on unoccupied buildings. There may be a requirement for notification within a set time period and limitations on cover may apply together with specific requirements on care and maintenance
- > Obsolete buildings – consideration needs to be given to the level of cover in place and liability issues that may arise from a lack of routine maintenance and security

### Business interruption

This covers the loss of gross profit following reduced turnover which results from, and occurring after, insured property damage. The gross profit indemnity enables the business to pay its standing charges and recover its net profit during the indemnity period. The indemnity period is the time needed to restore normal trading levels. Specified working expenses are not at risk and are therefore deducted from turnover before arriving at the gross profit figure.

The policy also covers increased costs of working, such as renting alternative premises, subject to the cost not exceeding the amount of loss thereby avoided. The policy may extend to interruptions caused by damage at the premises of customers or suppliers, or resulting from loss of attractions, murder, suicide, food poisoning or infectious/contagious diseases.

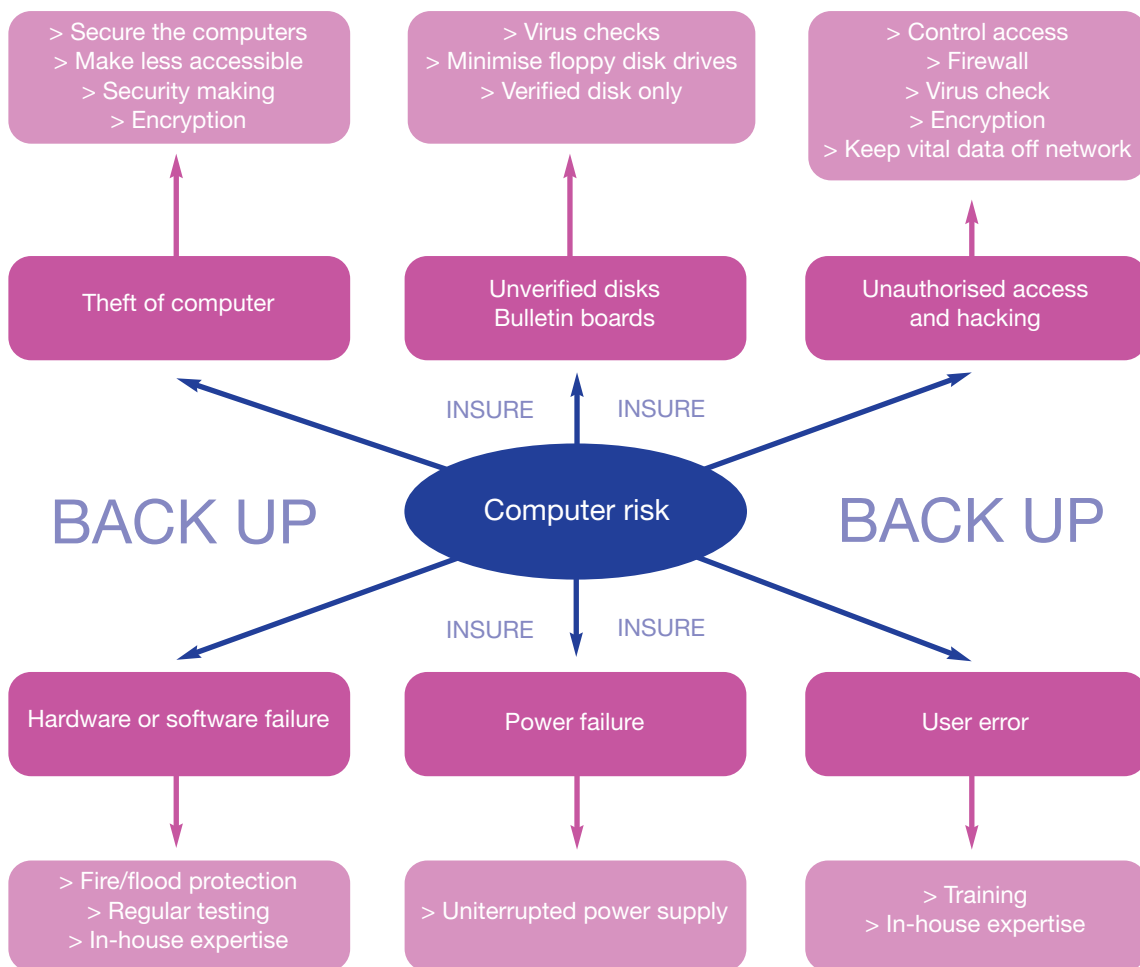
In many cases, the cost of temporary accommodation, site clearance and fees can outweigh the actual cost of reinstating the damaged site. It is also important to ensure that there is an appropriate period of indemnity to cover the full amount of time that it will take to plan (including gaining planning permission), specify, tender and reinstate the damage.



- A = Start of business interruption
- B = Resumption of production
- C = End of effects on business income

**Computer and cyber risks**

This covers all risks, theft and breakdown included, on computer and ancillary equipment. Chips and standard software are included automatically. Other key features include ‘new for old’ settlements, cover on UK premises and transit, negotiable excesses, loss of data, Data Protection Act liability and consequential loss following an insured breakdown or loss. Liability insurance may also be included. Exclusions are minimal but special precautions have to be taken when computer equipment is left in an unattended vehicle. Policies may apply to personal computers, laptops and mainframe systems.



Councils should ensure that they have sufficient insurance should mechanical failures cause damage to computer systems. Failures of cooling and uninterrupted power supplies are critical risks and councils should ensure that main computer hubs are adequately insured for this risk.

All councils should consider the need for cyber liability insurance. This provides cover for claims made in respect of negligent content, infringement of intellectual property rights, breach of privacy or misuse of information and defamation of character.

### **Fidelity guarantee (suretyship insurance)**

Even with robust systems of internal control and exacting audit regimes, employee fraud is still a very live issue for councils. It is vital that councils obtain insurance to cover theft by employees at all levels within the organisation and not just officers responsible for main accounting systems, treasury and investment functions.

- > Commercial guarantees protect employers against financial loss from the dishonesty of employees
- > Local government guarantees operate similarly but also cover loss due to mistakes
- > Collective policies cover named employees with separate amounts for each
- > Floating policies cover unnamed employees up to one overall amount
- > Blanket policies guarantee the staff generally
- > Positions policies guarantee the position (e.g. chief accountant) and not the individual by name
- > The insurer considers the previous history of named employees and the type of work undertaken and the system of check
- > Court bonds guarantee the performance of individuals appointed by the court to handle money or other assets
- > Government bonds guarantee the performance of individuals in a position of trust given by government departments or concerned with dutiable goods for whom a customs and excise bond is appropriate
- > A local government bond is a guarantee to a local or public authority required under the Local Government Act 1972 in respect of loss of money or other property due to the dishonesty of officials employed by the authority

### **Engineering and pressure vessels insurance**

This refers to the insurance of plant under the following headings.

#### **Boilers and pressure plant**

This is a general term for all steam or fluid pressure plant subject to the risks of explosion and collapse, including steam boilers, economisers and superheaters. The policy covers damage to the plant itself, surrounding property and liability for third party injury. Business interruption risks can also be covered under engineering consequential loss. Boiler and pressure plant equipment has to be examined at prescribed intervals.

#### **Electrical and mechanical plant**

This covers machinery, plant, motors, accessories and connections powered electrically or mechanically against sudden and unforeseen damage, breakdown, explosion and collapse, accidental damage and damage to surrounding property. Third party risks are generally covered under public liability insurance. Insurance on plant is usually coupled with in-service inspections, many of which are required by statute.

#### **Lifting machinery**

The cover provided under a lift policy is applicable to items such as electric or hydraulic passenger and goods lifts, manual goods lifts and service lifts, paternosters, motor vehicles lifting tables and cupola hoists.

The insurances cover self-damage (actual damage to the insured item from internal rather than external causes), damage to surrounding property, third party risks and engineering interruption insurance. Cover is also provided in connection with deterioration of stock, computer risks, contractors' plant and machinery erection and other miscellaneous insurances.

The principal risks against which insurance is sought are explosion and collapse, breakdown, sudden and unforeseen physical damage, fragmentation risk/fragmentation policy (impact damage cover) and extraneous causes.

### Legal liability

This describes the liability attached to a party because of the breach of a legal duty or by way of statute. Employers' liability, public liability insurances for example, insure the legal liability of the insured and not the injury, damage or loss suffered by the third party. If there is no legal liability there will be no payment to an injured claimant. The allegation of liability is sufficient to give the insured access to the insurer's help by way of defence costs and claims handling.

### Employers' liability insurance

This covers the insured's legal liability for bodily injury or disease to employees i.e. those under a contract of service as opposed to a contract for services. To avoid legal disputes, the insurer defines 'employee' broadly in employers' and public liability policies. The definition extends to labour gangs, sub-contractors, self-employed persons, persons hired or borrowed by the insured and volunteers. The Employers' Liability (Compulsory Insurance) Act definition is 'an individual who has entered into or works under a contract of service or apprenticeship with any employer, whether by way of manual labour, clerical work, or otherwise, whether such contract is expressed or implied, or oral or in writing.'

The policy also covers the insured's own costs and pays for solicitors' representation at inquests and courts of summary jurisdiction. Cover does not apply to injury or disease caused outside the UK except for UK-based employees. The normal limit of indemnity is £10 million for any one occurrence.

Most employers are obliged by law to hold employer's liability cover and to display a current certificate of insurance at each place of business. This is laid down in the Employer's Liability (Compulsory Insurance) Act. Local authorities are exempt from the requirement to insure but the liability to employees still remains. Many councils choose to insure as a matter of financial prudence.

### Public liability insurance

This is a losses-occurring policy, subject to a limit for any one occurrence, indemnifying the insured in respect of legal liability for third party injury and property damage arising from the business. The insured's own costs are covered. The policy has a number of extensions, such as motor contingent liability and data protection, and excludes risks, such as employers' liability which is normally covered under other policies.

A public liability policy protects a council against the financial consequences of a claim made against it. It is good practice to ensure that the policy jointly indemnifies the council, any employee acting in the course of their employment and any volunteer acting within the scope of their authority.

### Professional indemnity insurance

This is claims-made cover (a liability policy covering all claims first notified during the policy year or any applicable extended reporting period regardless of when the injury or loss occurred) protecting professionals against civil liability arising from a breach of professional duty. It is subject to an annual aggregate limit and the insured's own costs are covered. Professional negligence is defined as the neglect of a professional duty of care by a professional. It is a negligent act, error or omission that, if it causes a loss, will make the professional liable in law to a client or third party to whom duty is owed.

### Officials indemnity

This policy provides coverage for mistakes made by an employee or a councillor of the council that gives rise to a financial loss by a third party.

### Directors and officers liability insurance

This indemnifies directors and officers for loss arising from claims against them by reason of a wrongful act related to their duties. A wrongful act is any actual or alleged breach of duty, breach of trust, neglect, error, mis-statement, omission, breach of warranty of authority or other act done wrongfully or attempted by any director or officer. The indemnity is on an annual aggregate limit basis and is inclusive of legal costs and expenses incurred in responding to any allegation against directors and officers. Defence costs related to certain criminal or regulatory charges are also covered.

The policy does not cover fines, penalties or punitive damages or, unless extended, liability as pension trustees. The insurer indemnifies the company where it has reimbursed a director or officer in relation to an insured event. The policy is claims-made, carries an excess and may be extended to cover employment practices liability. It protects employers, directors and officers, and employees against the financial consequences of employment-related actions and disputes. The main exposures are unfair or wrongful dismissal, discrimination and working time issues.

### Libel and slander

The risk of libel and slander is one to which those in public life are particularly exposed. Things are sometimes said or written that may be considered defamatory a consequence of which a writ for libel or slander may be served. Officers are insured against this risk arising out of official business of the authority and the cover includes the high legal costs of defending such actions.

### Land charges

This provides cover for claims in respect of errors made on land searches carried out by a county council during the transfer of properties between parties. Insurers will indemnify a county council against liability at law for any loss or claim (including a claimant's costs, fees and expenses) and defence costs due to or arising from or in consequence of any act or omission of the authority or any officer or servant of the authority with regard to:

- > Information given or made available on questions of fact concerning land or buildings in respect of which the authority is required to maintain and does maintain registers and or other records
- > Replies given to questions (other than questions of fact referred to above) added to the approved printed form of enquiry and issued at the same time as the certificate of search in the register of Local Land Charges provided always that such replies shall be given subject to a disclaimer of liability in a form approved by the insurers

### Motor fleet

This refers to a policy on a number of vehicles operated by the same body and insured and rated on an experience basis i.e. fleet rating. Usually five or more vehicles constitute a fleet and can comprise vehicles of different classes, such as private cars and goods-carrying vehicles. Aircraft and ships can also be insured as fleets.

### Fleet rating

An insurer compares the average gross premium per vehicle with the claims cost per vehicle/year during previous years. If the loss ratio is under a certain percentage, say 60%, the gross average premium may attract a fleet discount. If the loss ratio exceeds, say 62.5%, then the gross average premium will be increased. The discount or loading takes account of any trend and is applied to the insurer's tabular rate for each vehicle in the fleet. For large fleets (premiums over £100,000), rating is by burning cost or is retrospective i.e. premiums will be based on known claims costs over a period after payment of an initial deposit premium.

### Motor Insurers' Information Centre

Motor Insurers' Information Centre (MIIC) is a wholly owned subsidiary of the Motor Insurers' Bureau that tackles uninsured driving via its Motor Insurance Database. This database also enables the MIIC to fulfil the role of national information centre as required by the Fourth EU Motor Insurance Directive to make cross-border claims less onerous.

### Motor Insurance Database

The Motor Insurance Database (MID) was set up to combat uninsured driving by holding information on registered vehicles, policyholders and insurance details. Insurers supply the mandatory data for privately insured vehicles. Fleet owners and motor traders must also supply details. The MID links with the Police national computer to identify uninsured drivers and help with fraud enquiries.

### Terrorism

The Pool Re/HM Treasury definition for (re)insurance purposes is 'an act of any person acting on behalf of or in connection with any organisation which carries out activities directed towards the overthrowing or influencing of any government de jure or de facto by force or violence'.

The specified actions are actions which involve serious violence against a person, cause serious damage to property, endanger a person's life (other than the person committing the act), create a serious risk to the health or safety of the public or those which are designed to interfere with or seriously disrupt an electronic system.

### Pool Re (Pool Reinsurance Co. Ltd)

This is a Government-inspired mutual company authorised to transact reinsurance for property and business interruption and related classes. Pool Re provides its members – major insurance companies and Lloyds – with reinsurance cover for losses from commercial property damage in Great Britain caused by acts of terrorism. Members offer 'defined' terrorism cover where they insure property against fire and explosion and they reinsure their terrorism portfolio with Pool Re. Pool Re is a party to a retrocession with HM Treasury who will indemnify Pool Re against its reinsurance liabilities to members subject to exceptions and deductions for expenses.

### Terrorism cover

From 2003, this refers to insurance, not exceeding 12 months and written as per the general cover to which it attaches, and otherwise in accordance with the Pool Re Underwriting Manual, to cover all losses subject to certain terms and conditions and excluded losses such as war including riot and cyber terrorism.

The reinsurance cover is now all risks (extended from fire and explosion) irrespective of the original policy perils. The direct insurer may still insert a terrorism exclusion limiting the scope of the cover obliging the insured to 'buy back' to the level offered by Pool Re. Insurers may now modify their definitions of terrorism. Previously, insurers linked terrorism with acts for political, religious, ideological or similar purposes. Pool Re's definition links only to organisations seeking to overthrow governments. Cover offered by companies will come into line with that offered by Pool Re.

## Claims

### In-house or outsourced

In many cases, a local authority will have an option to managing its insurance claims in-house or outsourced. This may be driven by what is important to the authority – more control and a customer focused approach or more impersonal but possibly cheaper external handling. This in turn may be influenced to some degree by the extent of self-insurance carried by the authority and the extent to which it is handling claims within the excess chosen.

### Claims management

Many district councils chose to outsource claims handling to the insurer or other external body. The role of the authority in such cases could be passive whereby all claims are directed to the external provider. Alternatively, there could be a degree of autonomy agreed with the external provider whereby the authority accepts or repudiates the claim at source before submitting potentially valid claims to the insurer. This is more likely to be where material damage claims are made as insurers are more cautious about accepting or rejecting liability claims. Councils should, as part of the tender process, satisfy themselves on the quality of claims-handling procedures obtained from the insurer(s).

Irrespective of the arrangement in place, it is vital that to manage claims effectively you understand fully the policies you have and the cover and exclusions they provide.

When the time arrives to tender your insurance requirements, you will need the claims history of your policies, usually over a minimum of five years. While a claims history can be gained from your insurer (and will be required from any new insurer in the standard market format), it is a matter of good practice to record and understand your own claims picture in relation to your authority. This demonstrates good risk management to any potential insurer and can provide useful information during the lifetime of your policies. You should record as a minimum:

- > Types of claim
- > Frequency
- > Cost
- > Date the claim was made
- > Date the claim was settled plus reserving on any outstanding claim (see below)
- > Fault incidence (typically under motor fleets policies which may be a pointer to the need for driver training)

The type and frequency of claims may point you in the direction of poor risk management within your authority which may adversely affect your premiums. This will allow you to take the appropriate remedial action ahead of tender.

### Claims reserving

Some claims take a long time to manage and conclude and in the case of personal injury or liability claims, it may take years. In this instance, when the claim is submitted the insurer will put a reserve on the claim which is based on a tried and tested formula to reflect what the insurer believes may be the ultimate settlement figure. However over time, more information will be provided, such as detailed medical reports, which may influence the insurer to amend the reserve on the claim up or down.

Regular review of claims reserving needs to be carried out with your insurer to ensure an up-to-date picture is maintained and the reserve put on the claim by the insurer is an accurate representation of the potential liability. This is particularly important as you approach the stage of tendering your insurances. Inflated reserves may present a false picture of your claims history to the market and adversely affect the competitiveness of the quotations you may receive.

## Long term and profit share agreements

### Long term agreements

This is an agreement by the insured to renew a policy on the original terms for a given term of years in return for a premium discount. Long term agreements (LTAs) are separate contracts and if the insurer offers amended cover, the insured can avoid renewals. LTAs are most common in commercial insurance. The key question is how much budget certainty is required? Most insurers offer three or five year LTAs with options to extend.

You may need to take advice on the relative benefits associated with an LTA at the time of your insurance renewal. Clearly, you will benefit from a discounted premium perhaps in the region of 5% – 7.5% but conversely you do not wish to be tied to an agreement where the basic rates are high (see hard and soft markets) which have the potential to fall over subsequent years.

Remember that a large part of an insurer's administrative costs are incurred at the inception of a new policy and it is in their interest to retain your custom in subsequent years.

### Profit share agreements

Profit share agreements are still available in the market. In motor insurance, these apply generally when the loss ratio in the closing year is below, say 50%. A typical rebate will be 5% of the previous year's premium where the loss ratio is below 50%. This will increase to 7.5% if the loss ratio is below 40% up to a maximum rebate of 10% if the loss ratio is below 30%. The rebate is usually payable at six months past the renewal date to allow claims to mature in the closing year subject to renewal of the policy.

## Partnership or commissioning arrangements

Clarity of insurance responsibilities is very important. Who is responsible for claims acknowledgement and customer handling? Contracts with external agencies should be reviewed to ensure that your council is appropriately indemnified and that the insurance requirements for the provider are clear.

When entering into a partnership or commissioning arrangement, cover under many liability and motor policies remains in place only when the vehicle is being used by a council department or wholly owned company in support of the delivery of that council's business and where the driver of the vehicle is authorised by the council to drive the vehicle in accordance with its corporate motor policy. Liability cover remains in place where the council has a clear responsibility for managing the activity and is in a position to carry out appropriate risk assessments and implement risk control measures.

If aspects of the service you provide are contracted out to another agency then cover under your insurance policies is not transferred to the contracted organisation. If this responsibility is transferred to a third party as a result of a partnership or commissioning arrangement, then appropriate indemnities and requirements for evidence of insurance cover should be included in the wording of any agreements. Where a vehicle is provided for a service user as part of a care package, this cover remains in place whilst that care is being provided by the council. It will be responsible for providing both public liability insurance and motor insurance if use of the vehicle is required.

## Tendering your insurance requirements

When considering your insurance requirements and how you wish to tender them, you must comply with EU directives. There is a requirement under the EU Procurement Directives for insurance services to be tendered regularly under open competition. The criteria are subject to frequent change but the current EU tender limit is £144,000. Check the current situation with your procurement team. Insurance services will be generally tendered under the Service Directives Category Six (Financial Services, (a) Insurance Services).

Although your insurance requirements may change year on year, there is a core information requirement you will need to consider. The guidelines below will help you with this process.

### Risk management

You must set out a clear story of what has happened to the authority and the plans and activities it has put into place to reduce or eliminate risks. This can be achieved by having a clear risk strategy to focus on what effective risk management will achieve for your authority. It should cover strategic and operational risk and defines:

- > Who assesses the risks
- > How the risks are measured (impact and probability)
- > How risk appetite is defined
- > How you record risks (a risk register)
- > How risk is managed and what are the controls
- > How the controls are tested for their effectiveness (links to audit)
- > How risk and risk management is reported
- > The efforts to embed a risk management culture in the organisation

### Claims information

The insurer should provide claims information in the standard market format. However, make sure you are able to validate or provide the:

- > Types of claims under the covers you require
- > Frequency/number of claims
- > Cost of settled claims
- > Reserve on any outstanding claim
- > Detail of any actions you have taken to reduce the potential incidence of claims
- > Background information to large claims to provide any potential insurer with reassurance that it could be a 'one off'. In some circumstances, the insurer will cap and smooth large claims and true 'one offs' may be excluded as all policies will carry an element of a large claim reserve for such events in the premium

**General information**

You should provide details of:

- > Services and functions outsourced (with dates of outsourcing)
- > Services and functions in-sourced (with dates of in-sourcing)
- > Major changes to responsibilities or service delivery made in the last 12 months and/or planned for the next 12 months
- > A budget for the forthcoming year including split per department which provides a clear indication of where the main risk exposures are likely to be
- > A register of partnerships that the authority is involved in and specifically details of any partnership where the authority has taken on the liabilities of any other party. You may also include how the authority manages its liabilities in respect of partnership agreements
- > Any helicopters or other aircraft owned by the authority or on permanent lease. If the answer is yes then the insurer will wish to know the:
  - > Number of aircraft owned/leased
  - > Number of pilots employed
  - > Maximum number of employees who could fly together at any one time
  - > Any trading company owned or operated by the authority

**Legal liability**

You should provide details of:

- > Wages and salaries estimate and number of employees for forthcoming year
- > Actual wages, salaries and number of employees for each the last three years to indicate trends or stability of risk
- > Confirm if you undertake repair, service, testing and maintenance of any vehicle not insured under your own motor programme other than Hackney carriages and any other vehicle which you are required to test. If you undertake this activity you may need to establish a turnover
- > For Officials Indemnity and Professional Liability, you will need to provide a copy of the page showing the consolidated revenue account from your last published accounts
- > In respect of those activities for which Professional Indemnity cover is required, provide details of the service delivered and the estimate of fee income for the last complete financial year. In addition, provide details of the five largest contracts undertaken in the past three years or, for a new business/practice, in the forthcoming year including the name, nature of the contract and the income
- > Review your limits of indemnity and excess levels and decide what you want

**Fidelity guarantee**

You should:

- > Check and confirm that monthly management reports are examined for variances against budget forecasts and any variances are investigated
- > Check and confirm the maximum value of cash at any one location
- > Describe any corrective measures taken to prevent recurring losses and ensure that these have been implemented across all operations

**Motor**

You should:

- > Provide a totalled schedule of current vehicles and provide a separate list for leased cars
- > Confirm the number of emergency vehicles
- > Provide the number of vehicles insured for each of the last three years
- > Detail the maximum accumulated market value of vehicles at any one location at any one time and maximum value of any one vehicle
- > Provide confirmation of any vehicle for which hire and reward use or the carriage of passengers for hire and reward is required

**Property**

You should:

- > Provide an up-to-date property schedule (in an Excel spreadsheet if possible) with details of all properties including the type of use, postcodes and buildings sum insured along with the contents sum insured and loss of rent figures if applicable
- > Advise if the reinstatement value for each location has been revised and if so, what methods have been used to recalculate the values
- > Provide up-to-date sum insured figures and splits for the business interruption section
- > Provide full details of the data security regime including firewall, anti-virus measures and back-up procedures for ICT systems
- > Provide a risk improvement update for any surveys that have been carried out in the past 12 months
- > Advise if there any premises that require surveying and if so, provide details why a survey is required
- > Advise if a quotation for property terrorism is required

**Travel**

You should:

- > Advise the destinations, number of trips and average duration. Destinations can be included as broadly as UK, Europe, USA and the Rest of the World

## Procurement options and contracting

When procuring your insurance, you should now consider the key national themes of smarter procurement, collaboration and innovation. The practice of local authorities collaborating to procure insurance is in its infancy but initial research shows that the following procurement and contracting options represent new opportunities to deliver efficiencies and raise standards of practice of your insurance services. Please note that they come with advantages and disadvantages which you should consider carefully.

### Brokers

An insurance broker acts as an intermediary between a client and insurance companies. Clients may be either individuals or commercial businesses and organisations. Brokers use their in-depth knowledge of risks and the insurance market to find and arrange suitable insurance policies. Insurance brokers, unlike tied agents, are independent and offer products from more than one insurer to ensure that their clients get the best deal.

#### Advantages

- > A specialist provider working on behalf of your authority at often nominal cost
- > Ability to optimise your insurance provision via a good understanding of the marketplace and what can be achieved
- > Can act as a 'critical friend' to your insurance provision

#### Disadvantages

- > May become too powerful and indispensable within your organisation and difficult to terminate or replace without loss of important information
- > May charge your authority for services you can carry out easily in-house at no additional cost

### Cluster with other authorities

If an authority wishes to obtain savings and benefits by partnering with other authorities via a cluster group, a clear indication of those wishing to participate and a commitment to stick with the process should be established at the start of the process. This will guard against authorities pulling out at the last minute and thereby weakening the cluster and possibly causing last minute revised pricing.

#### Advantages

- > A rollout approach can be considered to accommodate varying contract start dates which would allow for full engagement in the longer term
- > Other authorities do not have to carry the authority with the worst risk in the cluster in their premiums
- > The cluster may grow into a larger consortium arrangement over time with potentially greater savings

#### Disadvantages

- > For a cluster to work effectively, all participating authorities must operate to a reasonable standard before joining so other authorities are not compromised
- > An effective exit strategy for authorities should be in place to ensure the cluster is not de-stabilised e.g. moving to unitary status
- > Using suppliers' prices to negotiate a better arrangement with chosen or incumbent suppliers
- > There should be a genuine appetite to change to alternative providers or arrangements

### Consortia

Consortia will generally be larger and more formalised than clusters and may be working increasingly towards standardisation via continuous improvement. A cluster may grow ultimately into a formalised consortium.

The definition or terms of engagement for the consortium need to be clearly set out to ensure commitment and engagement even if authorities are offered lower quotations by an incumbent provider. For a consortium to tender effectively, a combination of technical insurance experience and procurement experience (non technical) should provide a 'best of both worlds' combination.

#### Advantages

- > A consortium may be part of a wider development initiative across a range of authorities working together
- > A scroll on approach can be considered to accommodate varying contract start dates which would allow for full engagement in the longer term
- > Other authorities do not have to carry the authority with the worst risk in the consortium in their premiums

#### Disadvantages

- > For a consortium to work effectively, all participating authorities must operate to a reasonable standard before joining so other authorities are not compromised
- > An effective exit strategy for authorities should be in place to ensure the consortia is not de-stabilised e.g. moving to unitary status
- > Using suppliers' prices to negotiate a better arrangement with chosen or incumbent suppliers
- > There should be a genuine appetite to change to alternative providers or arrangements

### Mutual

A mutual is an insurance company owned by its policyholders i.e. having no shareholders, formed by deed of settlement or registered as a company limited by guarantee. Funds are raised by premiums and an additional levy or call is imposed to meet losses if premium contributions are insufficient. The profits generated are retained for the benefit of the policyholders.

#### Advantages

- > Potential for significant opportunities to save money via shared risk and reward with a group of authorities

#### Disadvantages

- > Potential risk where there are catastrophic losses or old unaccounted for liabilities

Here are two recent examples of collaborative procurement of insurance services.

#### The Welland Partnership

The Welland Partnership has carried out a collaborative insurance tender exercise with four district councils whose renewal dates are spread over a period of nine months. There are terms which commit the councils to the process but which enable them to withdraw if market circumstances change markedly, giving time for a new tender exercise to take place. There are also terms designed to redress the balance of advantage on any annual review of insurance rates during the life of the contract, plus potential extensions so that subsequent renewal can avoid points when the market is strong.

### Police authorities

The South East and Eastern Region Police Insurance Consortium involves eleven police authorities working together to align their insurance activity. They tendered during summer 2007 and achieved savings. They have also made savings by working together and carrying out a single tendering exercise rather than several. To date, they have achieved a policy on property and have an on-going process of standardisation for the consortia.

## More information

[www.cii.co.uk](http://www.cii.co.uk)

The Chartered Insurance Institute is dedicated to promoting higher standards of competence and integrity through the provision of relevant qualifications for employees at all levels and across all sectors.

[www.alarm-uk.org](http://www.alarm-uk.org)

The profile of risk management has been enhanced in the public sector and is now generally recognised as a key consideration for all public sector bodies. The Association of Local Authority Risk Managers has developed from a small, but enthusiastic grouping to become the significant player in the public sector risk management arena. Members are from a diverse range of public sector organisations which include local government, the Police, fire and rescue services, water authorities, the Probation Service, universities, the Environment Agency, housing associations, health authorities, national parks and the Construction Service Agency.

[www.thefpa.co.uk](http://www.thefpa.co.uk)

The Fire Protection Association is the UK's national fire safety organisation, one of 28 similar national bodies worldwide. It was established in 1946 and has strong support from the insurance industry, primarily through the Association of British Insurers and Lloyds.

[www.nurs.co.uk](http://www.nurs.co.uk)

The specialist division of Norwich Union Insurance is dedicated to helping UK businesses manage their risks in an effective way. It provides a number of free of charge information services including the Net Risk weekly e-mail news bulletin which is designed to keep subscribers up to date with the latest developments in safety and risk and Hardfacts which are downloadable fact sheets on risk related issues.

[www.abi.org.uk](http://www.abi.org.uk)

The Association of British Insurers publishes reports, research papers and responds to public consultations on a regular basis. Details of ABI responses are freely available and they also list their current publication and research papers that may be downloaded free of charge or are available for purchase.

[www.airmic.com](http://www.airmic.com)

The Association of Insurance and Risk Managers (AIRMIC) has published a free 28-page Insurance Buyer's Guide to share best practice. It provides advice on how to acquire cover cost effectively and how to avoid common pitfalls, covering the whole process from risk assessment and reduction through choosing a broker, buying insurance and making claims.

AIRMIC and the CBI have also published two booklets entitled 'Helping staff back to work'. One is aimed at senior staff and written by the Bodily Injury Claims Management Association and the other at line managers. These guides provide simple advice and give case histories to illustrate the advantages of best practice.

[www.businesslink.gov.uk](http://www.businesslink.gov.uk)

Business Link provides access to a self assessment tool to help you find out how well you are handling your health and safety. Good health and safety practice can have a positive impact on your insurance claims and also improves your reputation with customers, the local community and your employees.

[www.hse.gov.uk](http://www.hse.gov.uk)

The Health and Safety Executive website shows you how to take some simple steps to organise your approach to health and safety.

Enforcement Liaison Committee (HELTA), Local Authority Circulars (LACs) and PETroleum Enforcement Liaison circulars (PETELS) provide local authority health and safety enforcement officers with advice and guidance on enforcement management and technical matters. HELTA circulars aim to achieve consistent standards in health and safety enforcement between local authorities and between local authorities and the Health and Safety Executive.

[www.lacors.gov.uk](http://www.lacors.gov.uk)

Local Authorities Coordinators of Regulatory Services provides advice and guidance to help support local authority regulatory and related services. Originally set up in 1978 to co-ordinate the enforcement activities of trading standards, LACORS since 1991 has also worked on food safety and is currently responsible for a range of other regulatory and related services.

It is a local government central body created by the Local Government Association, Welsh Local Government Association, Convention of Scottish Local Authorities and the Northern Ireland Local Government Association.

[www.simap.europa.eu](http://www.simap.europa.eu)

The EU gateway site for the terms and conditions under which insurance is tendered.

[www.miic.org.uk](http://www.miic.org.uk)

The UK has one of the worst records in Western Europe for uninsured driving with an estimated one in every twenty cars on the road being driven without insurance. This results in the motorist paying up to £30 of their insurance premium to compensate the innocent victims of these cheats, and the problem is growing at a dramatic rate.

The Motor Insurance Database (MID) was set up by the insurance industry to help combat this crime and the Police are now the MID's biggest customer, making over 3.8 million enquiries per month. The DVLA with over 1 million enquiry transactions a month is the second largest user of the MID. The MID also helps the UK comply with the Fourth EU Motor Insurance Directive which requires that insurance details of all vehicles in member states can be easily accessed by a national information centre. In the UK, this role is carried out by the Motor Insurers' Information Centre.

To read more about your obligation to submit your vehicle details to the MID, please click on the Fleet Policyholders link in the website.

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