

REPORT TO: BEST VALUE SUB-COMMITTEE - 26 FEBRUARY 2002

**REPORT ON: INSURANCE AND RISK MANAGEMENT
BEST VALUE REVIEW 2000/01**

REPORT BY: CHIEF EXECUTIVE

REPORT NO: 171-2002

1 PURPOSE OF REPORT

This report is the result of a Best Value Review into Insurance and Risk Management Services administered by the Director of Finance.

2 RECOMMENDATIONS

The Committee is asked to

- approve the continuation of the Council's existing insurance and risk management strategy.
- agree to the establishment of a management information user group by 31 March 2002.
- authorise the Director of Finance to examine in conjunction with IT how the use of e-mail, direct billing and system interfaces may speed the claims handling function.
- remit the Director of Finance to examine ways in which the risk management budget may be increased from its existing level of £75,000 over the next three years.

3 FINANCIAL IMPLICATIONS

This review accounts for 2% of the Department's Revenue Budget at a net budget cost examined of £216,000.

4 LOCAL AGENDA 21 IMPLICATIONS

None

5 EQUAL OPPORTUNITIES

None

6 DEFINITION OF SERVICE REVIEWED

The following summarises the core functions

- Provision of insurance and risk management advice to Council Departments and external Joint Boards/Committees and organisations affiliated to Dundee City Council.
- A fully managed claims administration service.
- Carrying out, as required, full insurance market tender procedure including recommendations on insurance carriers and levels of insurance/self insurance.
- Development and Implementation of Corporate Risk Management Strategies.
- Provision of and administration of a Housing Tenants Contents Insurance Scheme.

The staffing structure may be summarised as:

Grade	Number of Posts
PO15-18	1
AP5	1
AP3	1
AP2	1
AP1	2

7 JUSTIFICATION FOR REVIEWING THIS SERVICE

Insurance and Risk Management is a key corporate and strategic function providing a service to all departments of the Council and various external bodies. The review offers the opportunity to examine whether the Council's approach to this service offers a cost effective balance between the purchase of insurance and assumption of risk.

8 REVIEW METHODOLOGY

8.1 The review team was made up of the following members:

Steve Swann (Team Leader)	: Personnel and Management Services
Graeme Mackenzie (Lead Officer)	: Finance Department
Ron Sturrock	: Finance Department
Bill Fenwick	: Finance Department
Pam Wood	: Finance Department

8.2 Having established the critical success factors by means of consultation with both internal and external customers the review has also compared the Council's current performance by comparison with external service providers prior to determining the options available and arriving at the recommendations detailed in this report.

Limited inter-authority comparisons were made possible by virtue of the Council's membership of the Institute of Public Finance's Benchmarking Club on Insurance and Risk Management Services. Further commentary regarding the club is contained within Section 11.

9 CRITICAL SUCCESS FACTORS

9.1 Stakeholders

The following principal stakeholders were consulted:

- All Council Departments
- External Bodies (ie Police, Fire, Tayside Contracts, Tay Road Bridge)

One of the core functions of the Section is the handling of claims made against Council Departments. It is important to acknowledge these claims are made against operational Departments rather than the Section.

9.2 Consultation

All principal stakeholders were asked to complete a detailed questionnaire. From the analysis of returns it was possible to determine the critical success factors of the service under review. The questionnaire and tabulated responses are enclosed within the appendices.

9.3 Critical Success Factors

Following the consultation process the following Critical Success Factors were determined in descending order of importance:

- Quality of Risk Management Advice
- Frequency and quality of management information
- Quality of claims handling service
- Speed of claims handling service
- Extent of Risk Management funding available
- Annual premium

It was also considered appropriate to incorporate the Finance Department performance indicators within the appendices to this report.

10 PERFORMANCE REVIEW

Critical Success Factors	Performance Indicators	Current Performance
Quality of Risk Management Advice	% of respondents who agreed that high quality Risk Management advice is offered.	100% agreed
Frequency and Quality of Management Information	% of respondents who agreed that management information is provided frequently and is of high quality.	70.6% agreed
Quality of Claims Handling Service	% of respondents who agreed the quality of the claims handling service is high	92.8% agreed
Speed of Claims Handling Service	% of respondents who agreed that claims are handled within an appropriate timescale	85.8% agreed
Extent of Risk Management Funding Available	% of respondents who agreed that the level of Risk Management funding is appropriate	100% agreed
Annual Premium	% of respondents who agreed the annual premium represents value for money	100% agreed
	Premiums paid represent 0.28% of the Council's Revenue Budget	

The level of annual premium was considered to be the least important factor by respondents. This represents a significant shift in Departmental risk awareness. Through a process of continuous education Departments now understand insurance only provides financial security for catastrophe incidents, heightening their active management of risk.

The sheer volume of claims handled (circa 6,500 per annum) impacts on the level of service provided by the Insurance and Risk Management Section. Accordingly, comparisons have been made to establish the adequacy of the existing claims handling staffing complement.

11 RESULTS OF COMPARISONS

a "External" Comparisons

- i Strategically the Council has elected to significantly self-insure its risk exposures. As part of the process of comparison, existing insurance providers were informally requested to provide indicative quotes for comprehensive cover. The results for major classes of cover are tabulated below:

	2000/01 Self- Insured Cost	'Comprehensive' Cost
	£	£
Company A Property Insurance	854,000	1,365,000
Company B Motor Insurance	141,000	409,000
Company C Liability Insurance	<u>607,000</u>	<u>898,000</u>
Total	<u>1,602,000</u>	<u>2,672,000</u>

Details of the companies concerned are contained within the Audit file.

From the results above, it is clear the City Council is delivering value for money through its existing self-insuring strategy. Further, it should be remembered insurance policies are annually renewable and the difference (or saving) in cost between our self-insured strategy and a comprehensive insuring approach recur each year.

- ii It has also been possible to compare the volume of claims handled by staff throughout the course of this review.

Annually, the Insurance and Risk Management Section handle approximately 6,500 claims. It is important to recognise there is a broad mix of claims between straightforward property damage incidents and complex personal injury claims.

Currently 2.5 full time equivalents are involved in claims handling, equating to 2,600 claims per person per year.

This is significantly in excess of that expected of private sector comparators as highlighted below:

Company A: 950 claims per annum per fte
Company B: 1,000 claims per annum per fte

- iii Cost Comparison also shows the Council up in a favourable light. Three external claims handling organisations have provided verbal indication of their annual claims handling costs as under:

DCC Claims handling cost:	£144,000
Company A	£345,000
Company B	£325,000
Company C	£255,000

b **Local Government Comparisons**

The Council is a member of the Institute of Public Finance's Insurance and Risk management Benchmarking Club. The Council is performing satisfactorily against the majority of its peers.

However, it has not been possible to draw firm conclusions from the final report. There are a number of reasons for this including:

- lack of distinction between urban and rural Councils, and
- incomplete submissions by certain Councils.

12 **OPTIONS APPRAISAL**

a **Maintain Status Quo**

It is important to recognise the strategic long term nature of the decisions taken in 1996 surrounding this service. Within the existing strategy, significant excesses are adopted by the Council, whilst insurance protects the Council against catastrophe claims.

This may be summarised as "the status quo option".

The principal advantages with the current strategy are:

- Value for money.
- Maximise self-insurance and thereby retain control of risks.
- Minimise external premiums.
- Maximise financial return on investment by operation of an insurance fund.
- Provide a locally based and locally accountable insurance, risk management and claims handling service.

b **Purchase of Comprehensive Insurance Cover**

Due to the strategic nature of the Risk Management duties concerned, it is not possible to consider wholly outsourcing the functions associated with the provision of internal loss control advice.

It is possible, however, to consider the purchase of comprehensive insurance cover instead of adopting a self-insuring strategy.

As shown above, this option would lead to an increase in cost to the Council of £1m per annum.

c **Elect to Wholly Self-Insure**

The Council is exempted by statute from effecting certain classes of compulsory insurance (Employers Liability and Motor) and could therefore not purchase any cover at all.

However, in so doing, the Council would be completely exposed financially to catastrophic losses (eg multiple employee fatality/loss of a secondary school by fire).

In turn, departments would face budget uncertainty from year to year as "internal premiums" would require to be constantly adjusted to cover losses incurred and may, in the event of significant claims against the fund, be required to meet correspondingly large increases in their contributions to the insurance fund.

d **Vary the excess levels within existing cover**

It would be possible to modify the existing levels of excess within each principal class of insurance. Typically the Council pays the first £100,000 of each claim.

Increasing the excess to say £200,000 would reduce premiums by approximately 10% but by so doing the self-insured exposure would increase disproportionately.

However, decreasing the excess to say £50,000 would increase the external premium spend by circa 25% (£250,000). In addition to increased premium spend there would be a reduction in interest returns from the insurance fund and a loss of control over the progress of larger claims against the Council.

Summary of Option Appraisals

The review concludes continuing with option a) will continue to deliver better value in financial and qualitative terms to Dundee City Council's insurance and risk management function.

13 **CONTINUOUS IMPROVEMENT PROPOSALS**

The following continuous improvement proposals have been identified and relate particularly to the critical success factors relating to management information, claims handling and risk management funding.

a Frequency and Quality of Management Information

It is concluded that the provision of management information to Departments could be improved. Comprehensive loss data is provided to Departments at present but it may be possible to refine and tailor the existing reports to more meaningfully meet operational requirements.

The Principal Insurance and Risk Management Officer will establish a management information user group by 31 March 2002 to establish departmental requirements for loss statistics.

Expected outcome: 30% increase in customer satisfaction over the quality of management information: by September 2002.

b Quality/Speed of Claims Handling

To improve customer satisfaction, the claims handling function may be improved by increasing the use of e-mail and internal electronic cost charging systems. Ideally, incident report forms ultimately could be completed "on-screen" by claimants at various Council locations and transmitted immediately to the Insurance and Risk Management Section.

IT Department's help will be sought to establish an interface between the internal electronic cost charging systems, the Council's financial ledger system and the Risk Management Section's software to avoid unnecessary duplication of effort.

The Insurance and Risk Management Officer will progress these two improvements in line with the Council's ICT strategy with a view to implementation by 1 August 2002.

Expected outcome: 15% increase in customer satisfaction over the quality and speed of the claims handling function: by 31 March 2003.

c Extent of Risk Management Funding

The level of Risk Management funding (currently £75,000 per annum) available to assist Departments minimise self-insured losses will be maximised. Investment in risk management has a direct relationship to the levels of self-insured claim payments the Council has to pay for itself.

Subject to financial constraints, the Director of Finance will endeavour to increase this budget over the next three years.

Expected outcome: 10% reduction in the level of self-insured claim payments made by the Council: by 31 March 2003.

14 **CONSULTATION**

All departments were consulted throughout the course of this review.

15 **BACKGROUND PAPERS**

Best Value submission to the Secretary of State for Scotland December 1997. Policy and Resources Committee - 11 December 1997.

Chief Executive
Alex Stephen
Chief Executive

Date

2000/2001 PERFORMANCE INDICATORS
KEY PERFORMANCE INDICATORS

Finance General				
Insurance and Risk Management	Employers Liability	Public Liability	Property	Motor
<u>Indicator 1</u>				
Cost of Risk by Class of Insurance (Employers Liability, Public Liability, Property and Motor)				
Annual Insurance Premium £	44,625	134,725	290,520	77,139
Self Insured Claim Payments	1,053	37,242	822,530	126,279
External Claims Handling Costs	30,000	35,000	-	3,000
Payments from Departmental Revenue Budgets	-	-	-	-
<u>£TOTAL</u>	<u>75,678</u>	<u>206,967</u>	<u>1,113,050</u>	<u>206,418</u>
Expressed as % of Council's Revenue Budget (including HRA)				
	<u>0.0285%</u>	<u>0.078%</u>	<u>0.42%</u>	<u>0.078%</u>
<u>Indicator 2</u>				
Claims Ratio by Class of Insurance (Employers Liability, Public Liability and Motor)				
Number of Employers Liability Claims per full time equivalent number of employees				
Number of Public Liability Claims per head of population	0.0029			
Number of Motor Claims per number of vehicles	0.0053			
	0.436			

<u>Indicator 3</u>				
Risk Management				
Total Risk Management Budget (held centrally and held within Departments) expressed as % of Council's Revenue Budget (including HRA)	0.028%			

BEST VALUE REVIEW - CUSTOMER QUESTIONNAIRE

Best Value Review

	R.M Advice	Information Quality	Claims Handling	Speed of Handling	R.M Funding	Annual Premium	Added Topics	Helpful Staff	Value for Money	R.M Advice	Claims Handling	Information Quality	Speed of Handling	R.M Funding	RATING
Leisure & Parks	3	2	2	2	2	2		5	4	4	5	4	4	4	39
Information Technology	3	2	3	2	2	1		5	5	5	1	1	1	4	31
Corporate Planning	3	3	3	3	2	1		5	5	5	1	5	1	1	37
Arts & Heritage	3	3	2	3	3	0		5	4	5	1	5	1	1	35
Chief Executive	3	2	2	3	2	3		5	5	5	5	4	4	4	43
Support Services	3	3	3	2	3	3		5	5	5	5	5	5	4	47
Personnel & Management Services	3	3	3	2	3	2		5	5	5	5	5	5	5	46
Planning & Transportation	3	2	3	3	1	1		5	5	1	5	1	5	1	35
Housing	3	3	2	2	2	1	**	4	4	4	4	4	4	4	37
Social Work	3	3	2	2	2	2	**	5	5	5	5	4	1	4	39
Education	3	3	3	3	3	1		5	5	5	5	3	5	1	44
Neighbourhood Resources	3	3	3	3	3	2		5	5	5	1	4	1	4	38
Dundee Contract Services	2	2	3	3	1	2		5	4	4	3	3	3	1	35
Economic Development	3	3	2	1	3	1		5	5	5	4	4	4	5	40
Environmental & Consumer Protection	3	3	3	2	2	2		4	5	4	5	3	4	5	40
Tayside Contracts	3	3	2	2	1	2		5	5	4	5	5	5	4	42
Tayside Police	3	2	3	3	1	3	**	5	5	5	5	3	5	5	43
Tay Road Bridge	3	3	3	2	2	2		5	1	4	1	4	4	4	34
Tayside Fire Service	2	1	2	2	0	3		5	5	4	4	3	3	1	34
	55	49	49	45	38	34		93	87	84	70	70	65	62	739

CRITICAL SUCCESS FACTORS

Best Value Review Critical Success Factors	R.M Advice	Information Quality	Claims Handling	Speed of Handling	R.M Funding	Annual Premium	Added Topics
Leisure & Parks	3	2	2	2	2	2	
Information Technology	3	2	3	2	2	1	
Corporate Planning	3	3	3	3	2	1	
Arts & Heritage	3	3	2	3	3		
Chief Executive	3	2	2	3	2	3	
Support Services	3	3	3	2	3	3	
Personnel & Management Services	3	3	3	2	3	2	
Planning & Transportation	3	2	3	3	1	1	
Housing	3	3	2	2	2	1	**
Social Work	3	3	2	2	2	2	**
Education	3	3	3	3	3	1	
Neighbourhood Resources	3	3	3	3	3	2	
Dundee Contract Services	2	2	3	3	1	2	
Economic Development	3	3	2	1	3	1	
Environmental & Consumer Protection	3	3	3	2	2	2	
Tayside Contracts	3	3	2	2	1	2	
Tayside Police	3	2	3	3	1	3	
Tay Road Bridge	3	3	3	2	2	2	
Tayside Fire Service	2	1	2	2	0	3	
TOTAL	55	49	49	45	38	34	

CRITICAL SUCCESS FACTORS

It was surprising to find clients considered that costs associated with purchasing insurance cover was less important than Claims Handling and the speed of dealing with claims

It was pleasing that Clients recognised the significance of Risk Management advice as a tool in dealing with risks as opposed to the more traditional purchase of cover.

