

**REPORT TO:** SCRUTINY COMMITTEE – 28 SEPTEMBER 2016  
**REPORT ON:** INSURANCE CLAIMS HANDLING AUDIT  
**REPORT BY:** EXECUTIVE DIRECTOR OF CORPORATE SERVICES  
**REPORT NO:** 294-2016

**1.0 PURPOSE OF REPORT**

To submit to Members of the Scrutiny Committee an abridged version of the report prepared by the Council's Insurer's, Zurich Municipal to provide an objective analysis of Dundee City Council's claims handling measured against current best practice. The review measured the quality of claims handling, and in financial terms captured any improvement opportunities.

**2.0 RECOMMENDATIONS**

Members are asked to note the abridged report attached at Appendix A.

**3.0 FINANCIAL IMPLICATIONS**

None

**4.0 MAIN TEXT**

**4.1** The Council's Insurance & Risk Management Service, along with Legal Services handle Employers Liability (EL) claims up to a delegated authority of £100,000 and Public Liability (PL) third party property damage claims up to £2,500. The current EL/PL policy has a deductible/excess of £200,000 and an annual stop loss of £1,250,000. The stop loss is the maximum amount of loss in any one year, anything above this will be met by the Insurer. The Council also handles Motor third party property damage claims up to their deductible/excess of £50,000 and an annual stop loss of £300,000. These policies have been in place since December 2014.

**4.2** This technical claims file review was conducted by Zurich Municipal to provide an independent analysis of Dundee City Council's claims handling measured against current best practice. This review was requested by Zurich Municipal to ensure that the Council's self handling claims procedures were in accordance with Zurich Municipal's Global Claims Policy. This was the first audit carried out by Zurich Municipal in Scotland, with the Council being selected because it is one of the few authorities that handle insurance claims in house.

**4.3** The following standard audit review ratings and corresponding narrative are used by Zurich Municipal to communicate consistently the outcome of a technical claims file review exercise to organisations.

**Effective:** The control environment is considered to be appropriate and maintaining risks within acceptable parameters.

**Needs Improvement:** The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some minor areas of weakness.

**Needs Significant Improvement:** The review raises questions regarding the appropriateness of the control environment and its ability to maintain risks within acceptable parameters; the control environment will require significant enhancement before it can be considered as fully effective. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some significant areas of weakness.

**Ineffective:** The control environment is not considered to be appropriate, or the management of risks reviewed falls outside acceptable parameters, or both. The number and severity of issues relative to the size and scope of the operation, entity, or process being reviewed indicate pervasive, systemic, or individually serious weaknesses.

Having reviewed Dundee City Council's claims handling procedures and allocated an Overall Quality Score of 90.55%, Zurich Municipal awarded an overall audit rating of '**Needs Improvement**'. Which, in line with the audit review rating narrative above, indicates some minor areas of weakness. The main areas identified for improvement relate to reserves and file closure dates. An Action Plan is already in place to address the areas requiring improvement and includes the implementation and use of reserve breakdown sheets, fraud prevention checklists and more effective use of the diary system for managing outstanding claims. Quarterly reports will now be supplied to Legal Services for review and updating of reserves, which will also contribute to improvements in this area.

## **5.0 POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

## **6.0 CONSULTATION**

The Chief Executive, Head of Corporate Finance and Head of Democratic and Legal Services have been consulted on the content of this report.

## **7.0 BACKGROUND PAPERS**

None

Marjory Stewart  
Executive Director of Corporate Services

Date: 28 September 2016



**Delegated Claims Handling Review  
Report  
Dundee City Council  
Technical Claims File Review  
DZ16010**

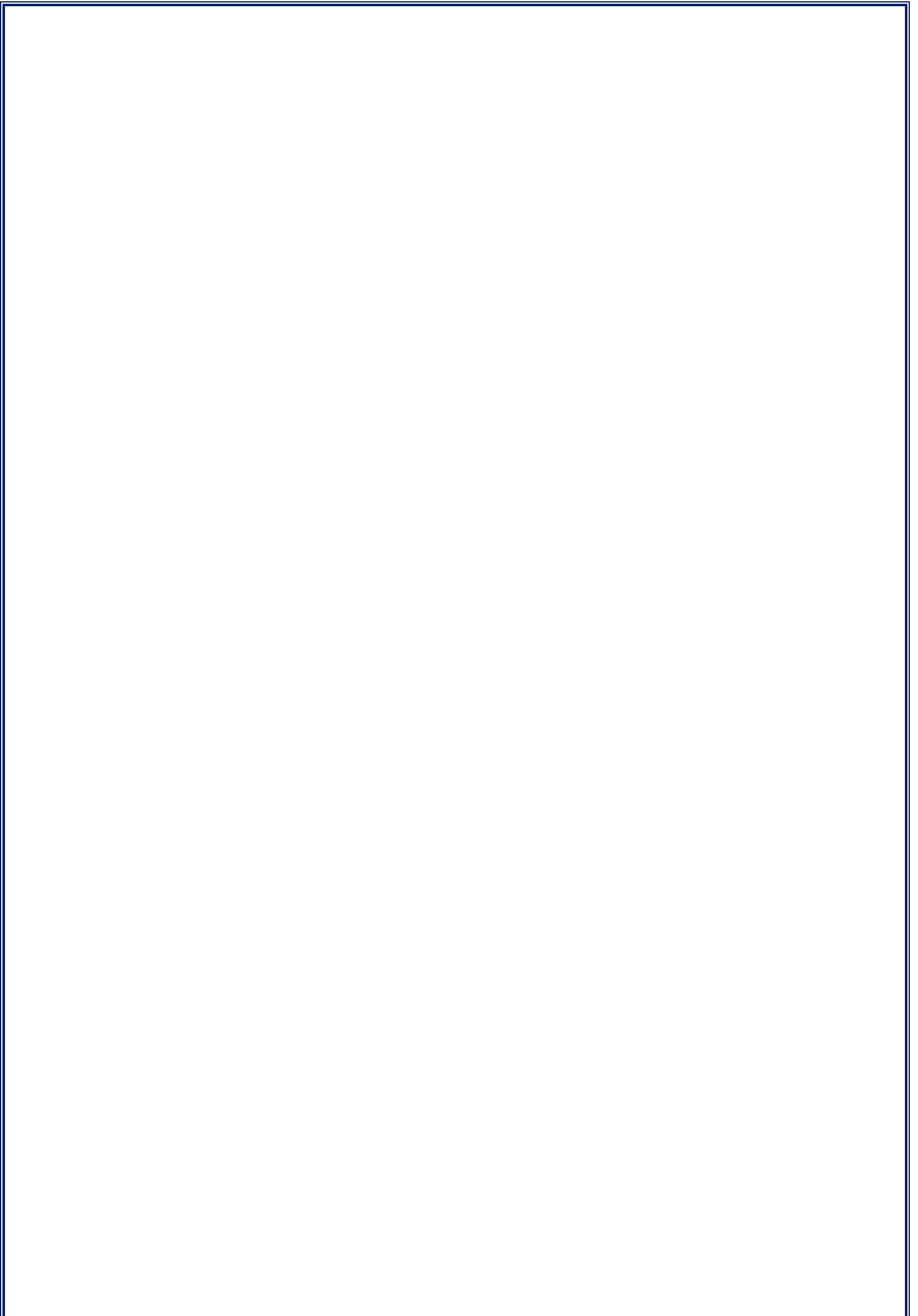


*Delegated Claims Handling*

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**Date Final Report:** 7<sup>th</sup> June 2016



# 1. Executive Summary

## Objectives & Scope

This technical claims file review has been completed to provide a consistent analysis of Dundee City Council's (Dundee CC) claims handling measured against current best practice. In accordance with Zurich's Global Claims Policy, the review measured the quality of claims handling, and in financial terms captured any Improvement Opportunities.

The review was carried out at the offices of Dundee CC between 23<sup>rd</sup> and 26<sup>th</sup> May 2016 by Lyndsey Boyles of Zurich's Delegated Claims Handling Team. The finding and action points within this report have been discussed and agreed with Derek Urquhart, Insurance and Risk Management Officer at Dundee CC.

Dundee CC handle Employers Liability (EL) claims up to a delegated authority of £100,000 and Public Liability (PL) third party property damage claims up to £2,500. The delegated authority has been in place since December 2014. The EL/PL policy has a current deductible of £200,000 and annual stop loss of £1,250,000. Dundee CC also handle Motor third party property damage claims up to their deductible of £50,000. This policy has also been in place since December 2014 with an annual stop loss of £300,000. All injury and credit hire cases are referred to Zurich Municipal in Glasgow for handling. Prior to the audit, we were not aware that the Insured had authority to self-handle PL claims. The PL claims have not been included within the stop loss returns to date – the Insured have now agreed to send these PL returns along with the EL and Motor returns currently provided.

For the last full underwriting year (December 2014-15), 21 EL, 321 PL, and 185 Motor new claims notifications were received.

PL	Total
Volume of files reviewed	40 files – 36 closed, 4 open
Statistical confidence	Indicative sample
Period of review	Claims settled since February 2016 and recent open claims

## Audit Rating

A **Needs Improvement** rating has been applied to the findings of this review. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some minor areas of weakness.

There have been no previous reviews of Dundee CC undertaken by Zurich.

**Total Quality Score**

90.55%

## Top Issues

### **Root Causes**

Contact with claimant/representative not timely
Claim not closed appropriately
Reserves not set timely
Reserves not set appropriately
Reserves not updated timely

### Conclusion

Dundee CC achieved a very good result during this review with an overall quality score of 90.55%. Scores of 100.00% were achieved in the following areas; Coverage, Evaluation and Fraud. The following phases achieved scores above 90% - Notification, File Management, Investigation and Litigation Management. The following 3 phases scored lower; Contact – 85.81%, Negotiation and Settlement – 79.05% and Reserving 50.46%.

The Insured have two different departments which handle their claims. The Risk Management team have responsibility on all claims for the initial set up and acknowledgement, allocating and amending reserves on their electronic claims system (QLAS), raising payments, and file closures. The Risk Management team also handle all Motor TPPD and PL TPPD claims. The EL claims are acknowledged by the Risk Management team, and are then passed to the Legal department who will handle the investigations into liability, along with any negotiation and settlement. The Legal department will send their payment requests to the Risk Management team, who will then raise and issue the payments as and when requested.

There were various positive aspects of the Insured's claim handling found across all lines of business. In particular, it was found that there was accurate data capture on the files and there were no breaches of financial authority encountered. There was evidence of pro-activity which ensured prompt handling of the majority of post received. All telephone calls were followed up with the appropriate file notes. In addition, all claim records contained notes on present position and detailed summaries where medical reports etc. had been reviewed prior to making an offer.

On the EL cases, there were referral emails to senior management seeking authority to proceed found on all claims for settlement with the solicitor's advice on how they felt the claim should proceed, with their thoughts on liability along with guidance on quantum which made the thought process easy to follow. Investigations into liability were very thorough with the correct decisions being made on all cases. JSB and relevant case law was evident on all EL claims where an offer of settlement was made.

The Motor and PL claims reviewed were much lower in value and complexity therefore the investigations and evaluation of these claims were not required to be as detailed. The relevant evidence and documentation was requested by handlers before any decision / payment was made and this documentation was correctly labelled on the system, making the file easy to follow.

In relation to the Motor and EL claims, there were issues recorded whereby there was no reserve allocated to some files at any stage throughout the lifecycle of the claim. On other cases, reserves had been set but were not done so timely, and in some cases, the initial reserves set were not

accurate. There were instances where there was a delay when updating the reserve upon receipt of additional information, or in some cases, the reserves were not updated at all. The reserves were not found to be broken down into the relevant heads of claim. We have provided a reserve breakdown to the Insured and explained the benefit of utilising same on the files, and the importance of updating as and when further information is received which will affect the value of the claim – this should at least be detailed on the EL claims due to the more complex nature and higher value.

Reserving for all claims is carried out by the Risk Management team. The initial reserve will be set by them when the claim is received, and the solicitors who are tasked with handling the EL claims do not record or update their own reserve on the system or the file itself. I advised that the solicitors should be able to calculate and set their own accurate reserve on the cases they are handling and notify Risk Management of the figure in order to keep the QLAS system up to date. Legal should then be responsible for any amendment to the reserve and ensuring the appropriate contact is made to ensure the QLAS system is accurate.

There were no missed fraud opportunities identified on the claims reviewed. Whilst we note that fraud is considered on all cases, the Insured do not currently evidence this on the files. We have provided a copy of Zurich's red flag indicators, along with example fraud checklist for reference, and have advised that going forward, evidence that the handler has considered fraud should be documented on the file.

The Insured advise direct claimants of their right to seek legal advice on some but not all claims. Whilst this is a stance taken by Zurich as an Insurer, the Insured are not required to adopt this process. However, a recommendation has been made to the Insured that all direct claimants should be notified of this right at each key stage of the claim e.g acknowledgement, repudiation/offer stage, by way of best practice claims handling.

Overall, it was evident that a good customer service was being afforded to the customer by Dundee CC, which is adding value to the Delegated Authority Arrangement they have in place.

These findings support the Needs Improvement rating.

