

# MARSH



Friday 12 January 2007

## **Alternative Risk Transfer Options and Analysis for District Councils**

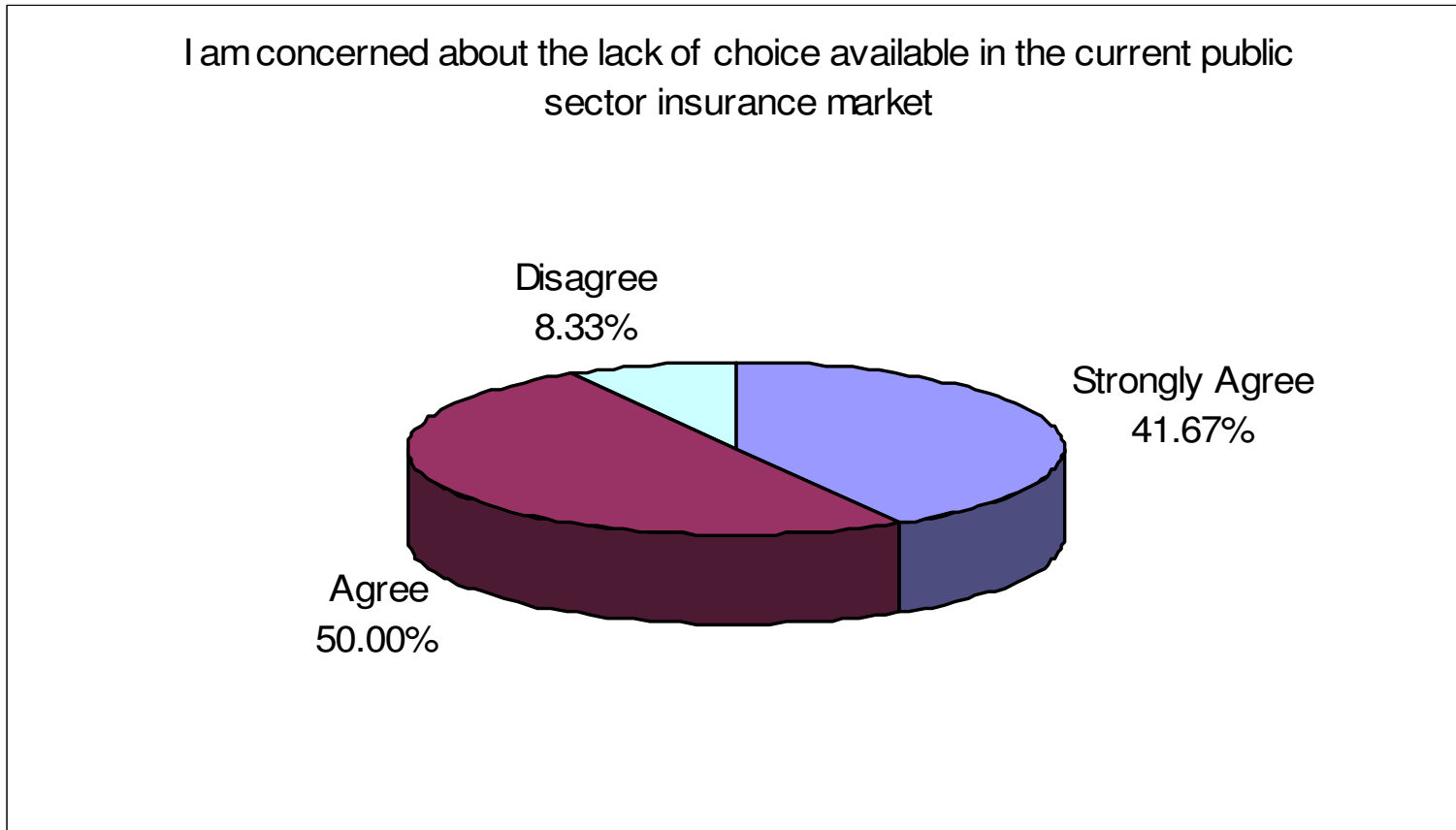
**Brian Shaw, Marsh Ltd**  
**Martin Fone, Charles Taylor Consulting**



## Background Context

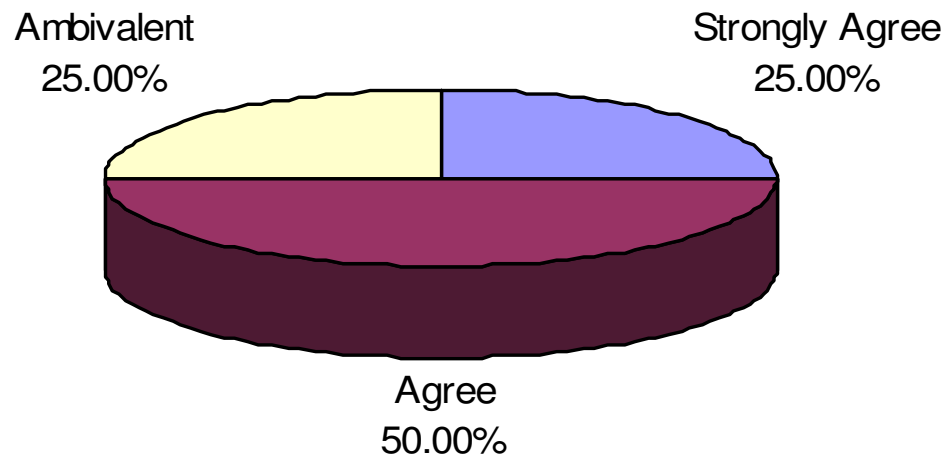
- <1992
  - Municipal Mutual Insurance (MMI)
  - Little or no competition from insurance market
  - Ground-up cover / no incentivisation to self-insure / manage own risk / handle claims
- >1992
  - Zurich Municipal
  - Intermediated market, but few insurers with appetite for local authority risks
  - Bundled package – insurance (low deductibles) / claims handling / loss control

# Marsh Survey – Lack of Choice

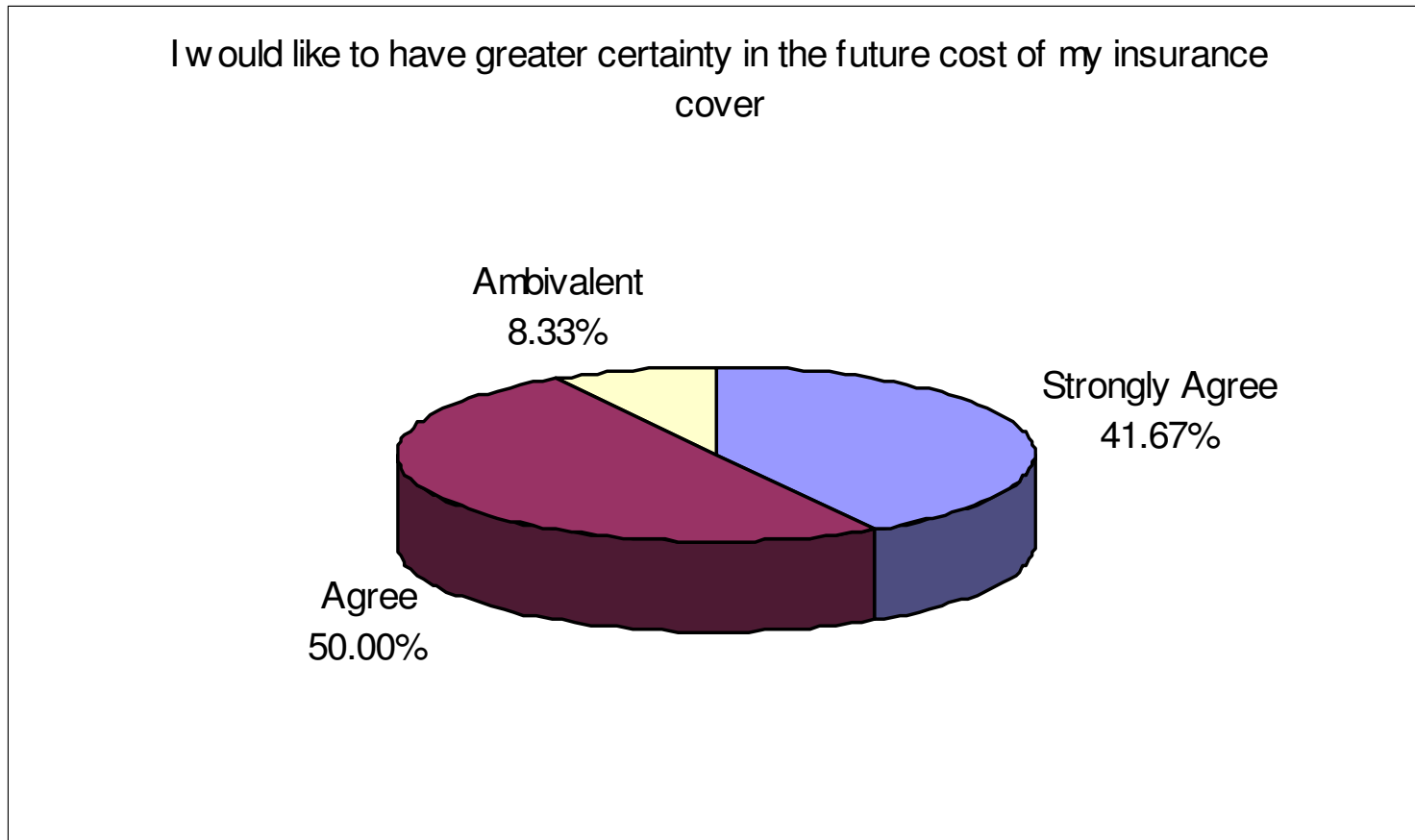


# Marsh Survey – Scope & Cost

I am concerned about the scope & cost of cover available in the current public sector insurance market

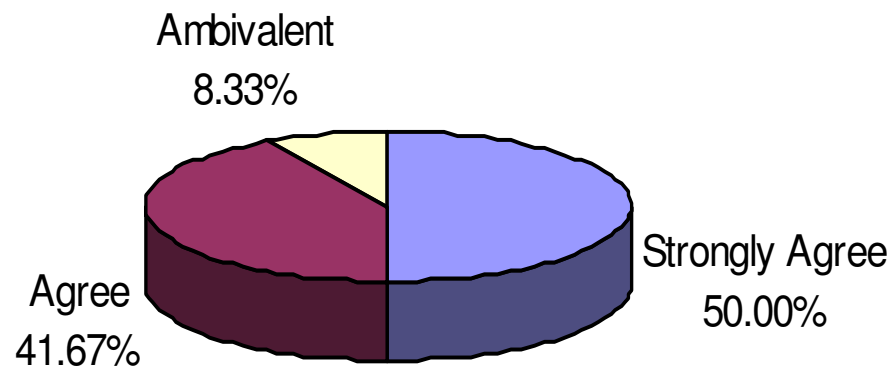


# Marsh Survey – Cost Certainty



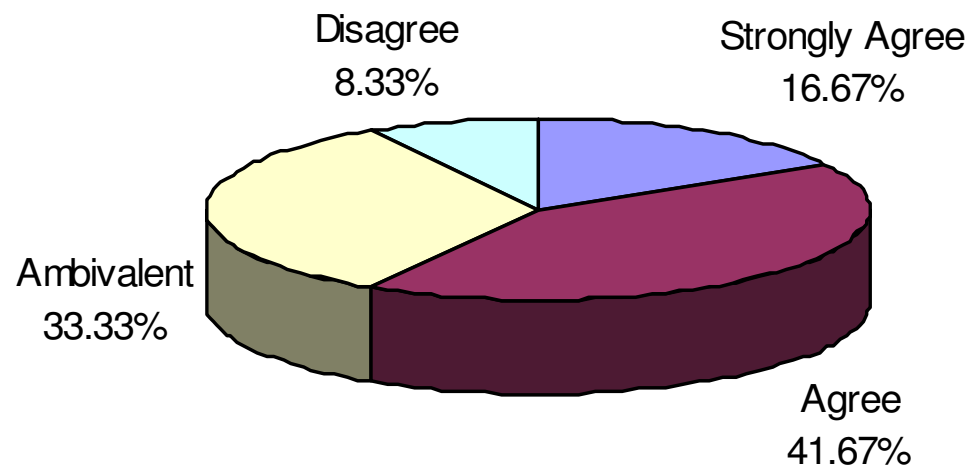
# Marsh Survey – RM Recognition

I would like to see greater recognition of my good management of insurable risk in my insurance premiums



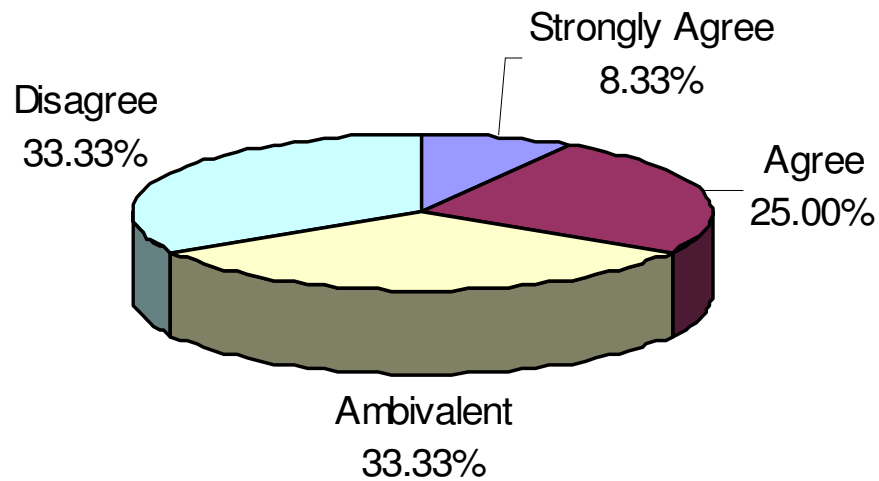
# Marsh Survey – Programme Design

I would like to have greater control over the way in which my insurance programme is designed (self insured retention levels etc.)



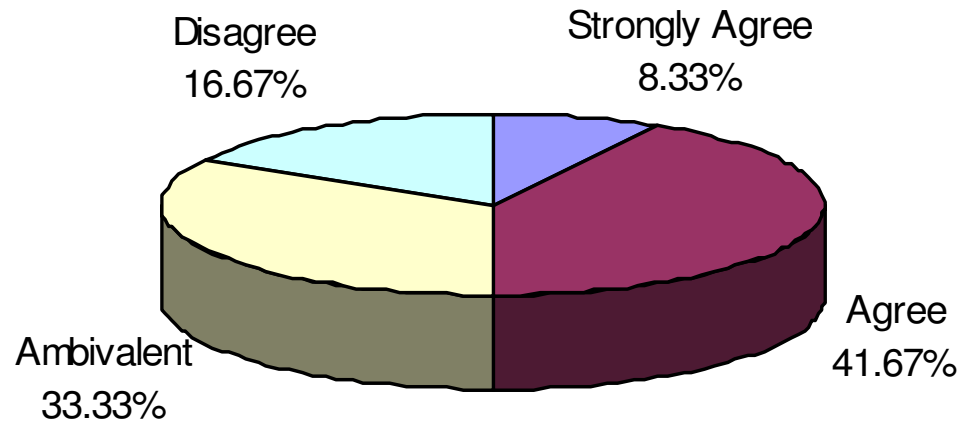
# Marsh Survey – Greater Self-Insurance / Managing Retained Risk

I am prepared to accept higher self-insured retention levels in my insurance programme and to commit resources to managing the retained insurable risk accordingly



# Marsh Survey – Claims Handling

I would like to have greater flexibility to handle claims either in-house or via an independent third party provider



## District Councils – Summary of Current Position

- Mainly insured with Zurich Municipal
- Low appetite amongst other insurers (critical mass issues)
- Low self-insured retentions / traditional insurance programme design (lack of incentivisation)

.....consequently

- Lack of insurable risk management (other than insurer-driven loss control)
- Restricted claims handling options
- Relatively expensive premiums.....

# District Councils – Premium Trends

- 3 / 5 Year Long Term Agreements
- Lack of competition
- Impact of in / out-sourcing – e.g. LSVTs / Leisure Management / Highways Agency etc.
- .....Bucked the trend of recent falling market cycle

	2004-05	2005-06	2006-07	3 Year + / -
EM District A	353,323	264,584	301,434	-15%
WM District A	459,705	603,304	514,389	12%
EM District B	103,178	95,723	96,901	-6%
EM District C	385,623	414,441	435,225	13%

Full Tender	Part Tender	Housing out
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# Powers of Local Authorities

- Local authorities are creatures of statute and their powers are proscribed by legislation
- At least three statutory instruments provide local authorities with the wherewithal to establish and own a mutual including
  - Local Government Act 1972, s111
  - Local Government Act 2000, s2 ('well being powers')
  - Local Government Act 2003, s95 (trading powers)

# Shared Service Delivery Vehicles

- A company owned by and capitalised by a group of local authorities is an interesting vehicle for delivering shared services
- Enables authorities to obtain exemption from the Procurement regime
- Fits National Procurement Strategy thinking
- Could help achieve Gershon Efficiency Savings

## ART Options

- Mutual insurance company
  - Guaranteed
  - Discretionary
- Captive insurance company
  - Group or Association captive
  - Protected Cell Captive
- Risk Purchasing Group (a consortium)

## Current Projects

- London Authorities' Mutual
  - Authorised insurance company
  - Established and financed by London Boroughs
  - Authorised by the Financial Services Authority
  - Operational with effect from 1<sup>st</sup> April 2007
- Fire and Rescue Authorities' Mutual
  - Feasibility study completed
  - 11 FRAs committed to join
  - Implementation project and management contract being procured
  - Anticipated inception date is 1<sup>st</sup> July 2007

# Current Projects

- CARIG

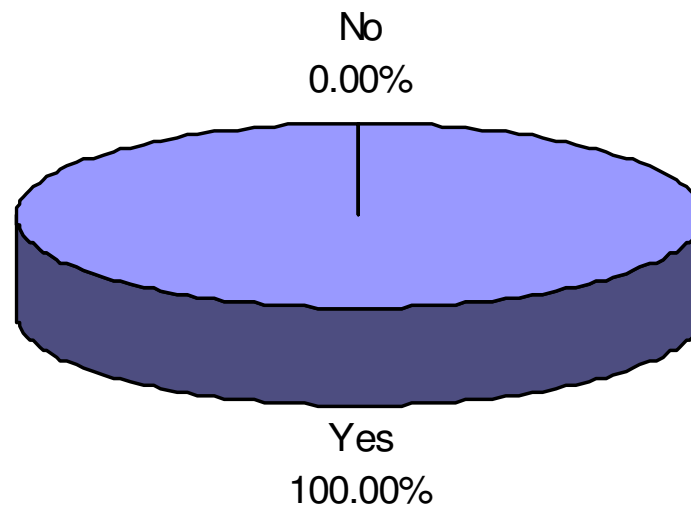
- Feasibility study completed
  - 30 unitary authorities and county councils have been involved
  - Implementation project contract being procured
- .....

- Outlook

Within 18 months mutual will be a realistic option for financing the risks of local authorities in the UK

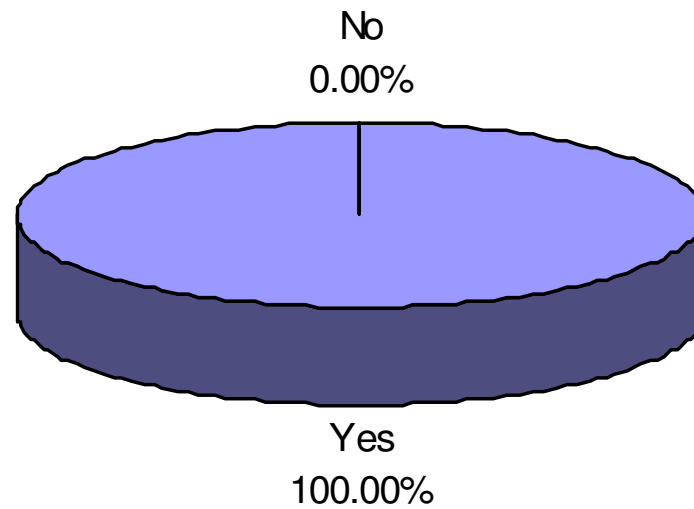
# Marsh Survey – Long-Term View

I am prepared to take a long term view on risk financing and risk management



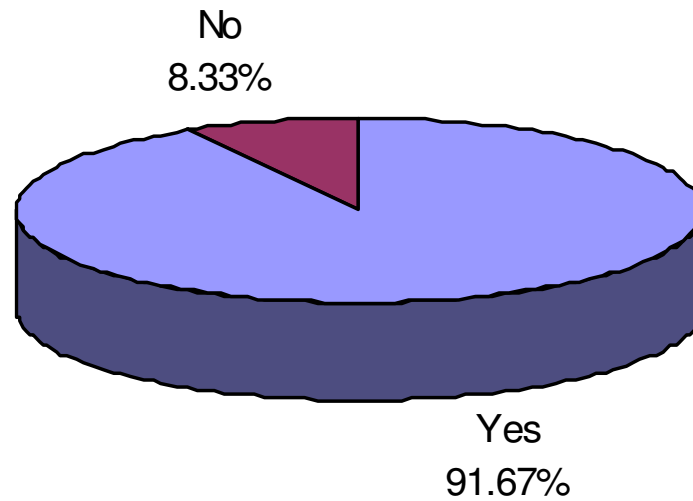
# Marsh Survey – Joint Procurement

I am prepared to consider joint procurement of insurance with other neighbouring authorities



# Marsh Survey – Pooling Risk

I am prepared to consider pooling my risk with other like-minded authorities in an A.R.T vehicle such as a Mutual



# A.R.T. Options Appraisal

- Mutual
  - Requires greater commitment to higher levels of self insurance
  - Members must be prepared to share in each others' fortunes
  - Critical mass to form viable pool c. £10M premium spend (20 / 30 Districts?)
  
- Consortium Purchasing
  - Insurer appetite exists – RMP / SPT / Others eager to consider
  - Critical mass (lower than Mutual) exists from existing study
  - Good fit with National Procurement Strategy
  - Probable contribution towards Gershon Efficiency gains
  - EMCoE / WMCoE conduits to creation of consortium

## Next Steps

- Complete insurance benchmarking exercise
- Formalise pooling group / consortium
- Appoint advisors
- Seek clarification of LTA position on existing policies
- Analyse data – determine optimum risk retention / transfer point (deductible levels)
- Design insurance programme
- Draw-up specifications
- Approach insurance market for quotations

# Questions

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