



Nottinghamshire

**POLICE & CRIME COMMISSIONER**

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**INSURANCE UPDATE NOVEMBER 2017**

## **1. Introduction**

The current insurance policies were tendered for in 2015-16. We did this as part of the North West Police Consortium (NWPC), for a three years long term agreement with an option to extend for a further two years. The three year period expires 31<sup>st</sup> March 2018. Therefore the renewal for 2017-18 was potentially the last one under this agreement.

## **2. Insurance Premium Tax**

This year's renewals will be subject to 10% insurance premium tax which was increased, by the Government, from 9.5% in last year's budget. This will further increase by 2% for next year's renewal.

## **3. The Renewal Process for 2017-18**

This year through increased engagement with the insurers and by starting the renewal process earlier, the problems incurred with the previous year's renewal were eradicated. Terms were received in good time and no long term agreements were breached.

A stable claims history has meant that the renewal for 2017-18 is comparable with the premiums paid for 2016-17. The Liability insurance premium has increased slightly, because the Professional Indemnity cover now includes income generation. Property insurance has decreased in line with the reduction in the value of the estate owned. The property policy received a low claims discount during the year of £0.005m and a similar amount has been received during 2017-18.

Despite motor vehicle premiums rising sharply in recent years – the efforts in risk management including Artemis are starting to show results in that a low claims rebate of £0.017m relating to the 2015/16 policy year has been received

The premium figures shown in the summary (section 6) with an asterisk include a 3.5% discount for being part of the NWPC. This equates approximately £0.021m. The level of discount is dependent on the level of business received across all members of the consortium.

## **4. Future Costs and the Discount Rate**

Recently, the Ministry of Justice announced that the “discount rate” used when calculating compensation payment to people who suffer life-changing injuries would be changing, with effect from 20th March 2017. Previously, courts would take 2.5 per cent off compensation pay-outs “to reflect the interest that would be earned by long term investment”. This has been changed to an increase in compensation of 0.75 per cent to reflect the low investment opportunities currently available. This means that settlements will be higher and inevitably this will result in higher premiums next year. The government have recognised the impact of this change following years of no adjustment and have undertaken to review the situation. This will not be before autumn 2018, followed by a 3 yearly review. It is widely predicted by the insurance market that the change will be in the range of no adjustment to a reduction of 1%

To assess the impact of what this might have on the insurance of Nottinghamshire Police, QBE our insurers have been asked to provide indicative premiums for 2018/19 based on the claims experience at 30 September 2017. These are not firm quotations but are a good indication of what premiums are likely to be. The results of this can be seen in the table in section 6. It can be seen that the proposed rises are less than the 60% rise elsewhere, but still substantial in this financial climate.

The indications for 2018-19 have been given by our current insurer based on the claims experience at 30 September 2017. It can be seen that there are substantial increases proposed for 2018-19, which would normally indicate that re-tendering was appropriate. However, the reason being given by QBE for the increase is solely related to the government action relating to the discount rate applied to severe injury claims and do not consider this to be a breaking of the long term agreement (LTA) because it is out of their control.. The premium indications are not offers of renewal and will depend on the claims experience as at December 2017.

The option for going to tender is still available, because of the natural break clause in the contract. The discount rate issue is across all insurers and the premiums would be impacted from any alternate provider and increases of 60% in other recent police renewals have been reported. The other risk is that our current insurer declines to re-tender and we receive no other quotes leaving us effectively without insurance in 2018-19.

The property insurers Tokio Marine have indicated that they have no plans to put up insurance rates the final premium being based on the cost of rebuilding assets

## **5. Summary of premiums**

	<b>2016-17 £m</b>	<b>2017-18 £m</b>	<b>2018-19 indications £m</b>	<b>% increase</b>
Property	0.087	0.077	0.077	0
Liability *	0.310	0.315	0.359	14
Motor *	0.320	0.320	0.416	30
Minor policies *	0.018	0.018	0.018	0
Claims handling	0.012	0.010	0.010	0
<b>Total</b>	<b>0.747</b>	<b>0.740</b>	<b>0.880</b>	<b>19</b>
Plus IPT 9.5%/ 10% / 12%	0.069	0.074	0.106	43
<b>Total incl IPT</b>	<b>0.816</b>	<b>0.814</b>	<b>0.986</b>	<b>21</b>

## **6. Alternate premium proposals**

QBE has also offered a range of proposals where we could accept a higher excess in exchange for a lower premium. These are summarised in the table below. If excesses rise then it is inevitable that retained costs and contributions to reserves will increase, and the levels of aggregate which are the maximum exposure in a year reflect this. Good risk reduction measures can mitigate this.

	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2018/19 £m</b>	<b>2018/19 £m</b>
<b>EL/PL only (table above includes officials indemnity cover etc)</b>				
Excess	0.150	0.150	0.175	0.200
Aggregate	1.700	1.700	1.850	2.000
Premium gross of consortium discount	0.299	0.344	0.321	0.299
Insurance premium tax 10% / 12%	0.030	0.041	0.039	0.036
<b>Total</b>	<b>0.329</b>	<b>0.385</b>	<b>0.360</b>	<b>0.335</b>
<b>Motor</b>				
Excess	0.175	0.175	0.225	0.275
Aggregate	0.612	0.612	0.662	0.712
Premium gross of consortium discount	0.332	0.431	0.382	0.332
Insurance premium tax 10% / 12%	0.033	0.052	0.046	0.040
<b>Total</b>	<b>0.365</b>	<b>0.483</b>	<b>0.427</b>	<b>0.372</b>

To assist in the establishment of the most advantageous level of excess or premium it is recommended that the brokers are commissioned to undertake an actuarial review on the claims history. This also gives confidence that the level of provision made for claims pay-out is adequate. An exercise of this type has not been undertaken for several years. More information about the review service is included as an addendum to this report.

This is an additional item already tendered for within our NWC brokerage contract and would cost £3,850, which compares well to their average charge of £6000.

## **7. The North West Police Consortium**

As previously mentioned this is the method by which we procure insurance and a group consensus is key to preserving the benefits of this arrangement which include better purchasing power and negotiating powers. Other benefits include benchmarking and shared knowledge.

The eight members of the consortium have all received their indicative premiums individually with similar levels of increases. The perceived lack of competition in the insurance market and the knowledge that all insurers will be applying similar rationale has led to no one in the group planning to go to tender although in most cases final decisions are to be made. Essentially if Nottinghamshire went out to tender it likely would be on a 'stand alone basis'

Additionally, the broker to the group Arthur J Gallagher, who has provided that service for several years with the current contract due to expire 30 June 2018. The group agreed not to extend the contract and a procurement exercise is currently being undertaken by Greater Manchester Police on behalf of the group. No service issues were identified with the current provider. The result of the tender will be reported in due course. It is expected that the new contract will be in place by 1 June 2018.

## **8. Insurance Provision**

The payment of the excesses is met from revenue contributions to a provision, which is maintained at the level of outstanding reserves and pays for claims above the excess. The contribution is dependent on the assessed level of claims received and the actual claims paid. The mid-year review showed an improved position on claims settled and claims reserved from the position at the end of 2016-17.

The budget for contributions is £0.850m and the current assessments expect that this budget will be sufficient. Also if a fund review is undertaken then this will impact on the sufficiency of the budget. The position continues to be subject to close monitoring and claims experience has historically shown large fluctuations from year to year.

<b>OUTSTANDING CLAIMS</b>	<b>31.3.17</b>	<b>30.9.17</b>
	<b>£000</b>	<b>£000</b>
Employers Liability	334	89
Public Liability	2,246	2,092
Motor	477	356
<b>TOTAL</b>	<b>3,057</b>	<b>2,537</b>

**Addendum – More detailed information regarding the fund review service.**



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