

REPORT OF THE TREASURER AND CORPORATE SERVICES MANAGER

MUTUAL INSURANCE

1 Purpose of Report

This report outlines current developments in procuring insurance cover. It asks the Fire Authority whether it wishes to consider seeking further information on the current proposal to establish a "Guaranteed Indemnity Mutual" (GIM).

2 Recommendations

Members are asked to consider and decide:

- a) Whether there are sufficient grounds for wishing to join the formation of an English Fire and Rescue Authority GIM and, if so, to task the Fire Authority's Strategy and Resources Committee to consider the issue and report back to the December meeting; or
- b) To retain a watching brief for the present.

3 Background

The Authority currently buys its insurance cover in the market following competitive tendering organised in conjunction with our brokers, AON. The latest tender was awarded to Zurich Municipal at a cost of about £300,000 a year and runs until June 2010. There was a feeling amongst a number of authorities that the insurance market was not competitive and that there could be procurement efficiency savings to be achieved. Furthermore a fire service only company might be able to offer lower rates than a company used to dealing with wider public service risks.

Accordingly, 16 Fire and Rescue Authorities (FRAs), last year supplied information about their insurance costs, cover and claims, which has been analysed and a number of alternative arrangements investigated by insurance consultants.

Last month the outcome of their analysis was presented to the participating Authorities by Firebuy and the consultants. Five non-participating Authorities, including ourselves, attended in order to assess the possibility of achieving cashable efficiencies.



4 Proposed Alternatives: A Guaranteed Indemnity Mutual

The consultants' view was that a GIM would be the best alternative. Based on the data from the self-selecting 16 Authorities, savings in premiums of up to 15% might be achieved, although this would be offset by claims-handling costs, i.e. annual savings of up to £45,000 might be achievable for the Fire Authority. Surplus generated by the GIM would be retained for mutual benefit in future years.

The GIM would:

- i Be run by a Board of Directors drawn from Members
- ii Be managed by professional mutual managers
- iii Provide existing cover (including excesses)
- iv Purchase re-insurance on the market for major risks
- v Be regulated by the Financial Services Authority and capital in the form of £250,000 cash, and guarantees of £3 million would be required from the current interested Authorities
- vi Need firm commitment very shortly, if it is to meet its objective of starting to assess risk on 1 July 2007.

5 Issues for Shropshire and Wrekin Fire Authority

Your officers wish to deliver your policy of achieving maximum efficiencies and have also noted Firebuy's keenness to encourage an FRA Mutual Insurance Company. There are, however, a number of unresolved questions:

- i Is the present Insurance market in fact not competitive? Is our present contract at the same levels as reported by the other Authorities, and therefore, are we sure that we could make savings? Both the Mutual and the insurance market as a whole are affected by re-insurance rates.
- ii If we joined, how much cash and what level of guarantees would be expected?
- iii Could we ever leave the Mutual and under what terms? Many risks have an extremely long "tail", i.e. claims from many years ago are being dealt with by insurers, who do not provide current insurance.
- iv Are we sure there are not better ways of seeking to drive down costs, e.g. pooling risk or consortium purchasing.
- v The proposed timetable seems very aggressive and even some of the participating Authorities, who have invested in the preliminary work have not yet formally committed.
- vi Until the Board has established ground rules, the benefits of being a founder member are not clear. Would we remain outside until our current long-term agreement runs out, or would we be expected to commit ourselves at the onset?

6 Conclusions

Your officers are not convinced that it would be unequivocally in the Authority's interest to be a founder member of the GIM. There is a case for waiting to see if the GIM does successfully establish itself, and then decide whether to join, i.e. it will either be cost effective or it will have driven down insurance costs in the wider market.



It is acknowledged, however, that this would not be an example of working together with other authorities and the Fire Authority might, therefore, consider if it should attempt to answer the concerns expressed in Paragraph 5 i - vi above, before deciding whether to take part in the Company. A first step in participation would be to enter into the benchmarking exercise referred to in section 3 above. This would, however, be at a cost of £6,000 to the Fire Authority.

7 Financial Implications

These are outlined above.

8 Legal Comment

There are no legal implications arising directly from the proposals contained in this report. In the event, however, that the Fire Authority is minded to explore the possibility of joining the GIM in due course, then careful consideration will have to be given to the legal implications for the Authority and to ensure that the Authority is not exposed to additional, unquantified risk.

9 Appendices

There are no appendices attached to this report.

10 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk); the implications are detailed within the report itself.

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| Balance Score Card | | Integrated Risk Management Planning | |
| Business Continuity Planning | | Legal | * |
| Capacity | | Member Involvement | |
| Civil Contingencies Act | | National Framework | |
| Comprehensive Performance Assessment | | Operational Assurance | |
| Equality and Diversity | | Retained | |
| Efficiency Savings | * | Risk and Insurance | * |
| Environmental | | Staff | |
| Financial | * | Strategic Planning | |
| Fire Control/Fire Link | | West Midlands Regional Management Board | |

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202 or Sharon Lloyd, Corporate Services Manager, on 01743 260210.

