

Southampton City Council - Fund Evaluation

Scope

This paper summarises the analysis and results of the evaluation into the adequacy of the existing funding provisions for the historical self-insured retention as at 31st March 2010 by the Risk Consulting Practice of Marsh. The purpose of the evaluation was to provide an ultimate forecast of retained claims for the years 1997/98 to 2009/10 as well as a forecast for the current 2010/11 policy period. The analysis covered:

- Employers' Liability (EL)
- Public Liability (PL)
- Property Damage (PD)
- Computer and Contents (C & C)

Background

In common with most large organisations, the Council self-insures a proportion of risk with all liability and property claims settled below £125k and £40k respectively being met from an internal insurance fund (the "Fund"). The Fund comprises contributions from all Directorates which are reviewed annually and are based on factors such as exposure (i.e. employee numbers, nature of operations, asset values), claims experience, outstanding liabilities and other external factors that may impact on future claims experience (i.e. case law, changes in legislation).

For each and every claim received the Council's insurers allocate a 'reserve' which an estimate of the potential cost of the claim. Each individual claim reserve figure is reviewed periodically as and when further information becomes available regarding the merits of the claimants case for example, extent of injury, value of loss etc. Liability claims represent the vast majority of the total outstanding claims reserve figure and such claims will only be paid where it is deemed that the Council has been negligent and is legally liable to pay compensation.

The Fund position is therefore fluid as claims are repudiated or settled, the reserves on individual claims amended and new claims received on an ongoing basis.

The review provides a 'snapshot' as to whether the Fund balance as at 31st March 2010 would be adequate to cover all known claims and any future claims (i.e. those that have been 'incurred but not reported') with an incident date occurring on or before 31st March 2010. The review forecasts the ultimate cost of all claims over the period, less the claims paid to date to identify the required reserve for claims outstanding – this figure is then compared to the Fund balance.

Key Findings

The Fund balance as at 31st March 2010 was £6.08m. Based on the claims data supplied provided by the Council, methods, assumptions, limitations and caveats set out in the full report the ultimate estimated value of outstanding liabilities for 1997/98 to 2009/10 is £4.33m. The expected value of claims compared with the Fund balance figure therefore provides a potential estimated surplus of £2.48m. The potential surplus is a best estimate.

This compares with the position at the last fund audit in 2007 where there was an estimated surplus of £904,000 (this covered period 31st March 1992 to 31st March 2007).

It is important to note that analysis of asbestos related exposure or claims is outside the scope of this exercise due to the complex nature of the analysis required. The figures also exclude any allowance or analysis of claims with an incident date of prior to 1st April 1992. Prior to this date claims were met in full by insurers i.e. there was no excess on claims and therefore no requirement for an internal insurance Fund. The local authority insurance market changed considerably in 1992 following the demise of Municipal Mutual Insurance who had previously insured the vast majority of local authorities.

Although complex statistical modelling processes have been used, insurance is inherently uncertain therefore no estimation model will be perfect. The report has however been carried out in accordance with generally accepted actuarial techniques.

Comment

The purpose of the Fund is to ensure that adequate funds are available to meet both current and future insurance liabilities. The funding strategy seeks to smooth the cost of risk to the Council and individual service areas and, wherever possible to minimise year on year fluctuations in costs.

It is not possible to consistently maintain the optimum level of funding at all times due to the fluid nature of the Fund and the inherent element of uncertainty associated with insurance.

The report confirms that the position of the Fund has a potential surplus of £2.48m, an increase from the £0.904m surplus in 2007 although this figure is subject to the assumptions and limitations outlined in the full report.

The review was based on a 'snapshot' of the position as at 31st March 2010 therefore any potential surplus or deficit is hypothetical as the Fund operates on an ongoing basis rather than by operating by individual policy year. This is in line with good practice.