Corporate Insurance Strategy

1. Introduction

This strategy outlines the Shire's overall approach to risk retention and transfer including the procurement of corporate insurance cover through relevant policies of insurance. The purpose of this insurance strategy is to help stakeholders understand the Shire's future requirements in this key business area.

The Shire has purchased a wide range of insurance policies to protect its assets, its people and its reputation. In recent years with the development of better risk management processes and a softening of the insurance market there has been the opportunity to look for better value for money in using insurance as a mitigating factor in reducing the risk of loss.

There has been a move towards more self-insurance as a strategy where organisations have better risk management and where there is a risk of a gradual hardening of the external insurance markets causing premiums to increase and more restrictions being placed on the cover available.

This strategy enhances the Shire's ability to:

- Maintain an optimum balance between internal "self-insurance" and the procurement of external insurance.
- Safeguard the Shire's assets and protect the Shire's reputation.
- Determine whether the Shire should consider an Insurance Reserve to provide an "insurance fund" to meet potential and contingent liabilities as mechanism towards the development of a self-insurance fund.
- Proactively manage and investigate insurance claims including appropriate mechanisms for the detection and prevention of fraud and claim settlements.

2. Strategic Vision

Vision Statement
To ensure that appropriate insurance arrangements are in place to protect the Shire's assets and potential liabilities.

By following the approach to corporate insurance set out in this strategy, the Shire seeks to minimize its exposure to catastrophic losses and to those risks that might affect the delivery of its corporate objectives.

The key benefits of our approach to corporate insurance will be:

- Reduce the cost of external insurance premium spend in real terms over time;
- Enhance the attractiveness of the Shire's risk profile to underwriters;
- Protect the Shire's assets (people & property);
- Incentivise departments to manage risk;
- The investigation of and possible implementation of insurance fund that is maintained at an appropriate level;
- Robust claims handling arrangements and insurance fraud detection;
- Greater control of costs – demonstrating value for money;
- Provide transparency in relation to insurance premium recharges;
- Maintain an appropriate balance between external insurance and internal risk retention; and

- Protect the reputation of the Shire.

This corporate insurance strategy provides the framework to ensure that the Shire has in place an optimal balance between external insurance and self-insurance and that appropriate and robust arrangements are in place for the handling of insurance claims and the calculation and maintenance of the insurance reserve.

The key strategic elements of this strategy are set out in detail within the remainder of this document, they are:

- **Strategic aim 1**: To maintain an insurance programme that provides the optimal balance between insurance and risk retention.
- **Strategic aim 2**: To maintain appropriate operational policies for the handling of insurance claims, recharging to services and presentation of risks to insurers.
- **Strategic aim 3**: To maintain an adequate insurance reserve to meet potential and contingent liabilities and to support the Shire's insurance programme.

3. Corporate Insurance Objectives

The objectives of the Shires corporate insurance strategy are to:

a) Maintain an optimum balance between self-insurance and external insurance.
b) To ensure that the Shire is adequately protected against catastrophic losses.
c) Limit the financial exposure of the Shire to the cumulative effect of multiple small losses.
d) Comply with any statutory requirements to have in place particular policies of insurance and associated inspection systems.
e) Procure appropriate policies of insurance through appropriate risk transfer and mitigation arrangements.
f) Should an insurance fund be set up, ensure its proper management through maintaining it at an adequate level, proactive management, investigation and appropriate settlement of insurance claims.
g) Provide a framework, procedures, tools, training and guidance to enable the detection and prevention of insurance fraud.
h) Establish mechanisms for the recording of underwriting and claims data and for effective premium re-charging and to incentivise good risk management.

These objectives will be achieved by:

a) Undertaking periodic reviews of self-insurance and excess levels and comparing to current commercial insurance market conditions (hard / soft markets, cost of risk transfer);
b) Using expected maximum losses surveys, claims risk modelling and other risk assessments to determine catastrophic risk exposures;
c) Using claims experience and regular reporting of claims trends to provide opportunities for improved risk management across the Shire;
d) Monitoring insurance arrangements on an on-going basis including undertaking suitable and appropriate assessments on the financial strength of insurers and changes in legislation and relevant case law.
e) Purchasing of relevant insurance policies through LGIS and include measuring our insurance programme (limits & deductibles etc) through benchmarking.
f) Maintaining claims handling protocols that are in line with statutory requirements and ensuring claims handling staff receive appropriate and updated training.
g) Ensuring the Shire's internal control processes are sufficient to identify new opportunities for the identification of fraud and sharing of claims trend data.

4. Insured Risks

Organisations such as the Shire face a wide variety of risks and purchasing insurance cover to protect against all of these risks is neither the most viable nor practical way to address their potential for causing harm to the organisation.

Some risks are not able to be insured against, however if the Shire were to insure against most of the risks that it faced then this would incur a significant amount of annual expenditure in insurance premiums which would not prove to be cost effective. In addition the Shire would be seen as being a risk averse organization, wanting to transfer as much risk as possible rather than accepting and managing some risks through good risk management. Being perceived as risk averse would limit the opportunities available to the Shire in the commercial insurance market with insurance underwriters perhaps placing restrictions on cover or introducing premium loadings.

Many of the risks that the Shire face can be managed and/or reduced through proactive risk management, and the Shire has in place a corporate risk management strategy and framework that ensures that the mechanisms and tools are in place for risks to be identified, owned, treated and managed.

Having in place strong and embedded risk management arrangements across the Shire allows us to retain some risks either by deciding to self-insure these risks in their entirety or by purchasing insurance cover for losses that arise over a certain value (catastrophe cover). Adopting this approach makes the Shire more attractive to insurance underwriters opening up more opportunities for cost effective insurance cover.

There are many factors that determine whether it’s best to self-insure (retain the risk) or to purchase insurance to protect the Shire against losses (transfer the risk), some of these factors are:

- If the Shire establishes an Insurance Fund, the balance / health of that fund;
- Any statutory or contractual requirements to insure;
- Robustness of the Shire’s risk management arrangements;
- The cost of insurance versus the cost of claims (past and expected claims);
- The condition of the insurance markets (hard market– expensive cover, more restrictive cover, soft market – cheap cover, more lenient underwriting standards);
- Availability of cover from markets / alternative risk transfer options;
- The frequency and cost of claims;
- Analysis of risk exposures; and
- Benchmarking and actuarial assessment data

A schedule of insurances (attached at Appendix 1) has been produced which details current risks and whether the Shire has chosen to insure against these risks by way of an external policy of insurance or through self-insurance.

5. Retained Risks – self insuring

There are some risks that have been evaluated as being more cost effective to retain and self-insure rather than to purchase insurance cover for. The “rationale‟ column on the schedule of insurance at Appendix 1 provides some detail as to why the Shire has decided to retain risks or not.

When self-insuring risks can either be retained entirely, or part of the risk can be retained and the remainder insured, i.e. through having a high policy excess (deductible) or by choosing to only insure against specific risks. When setting our insurance program we use a mixture of all of these to ensure that value for money is achieved.

The following is an overview of our current rationale for retaining risk or taking out external insurance:

- Infrastructure risks

  The Shire has significant infrastructure assets comprising of roads, footpaths, carparks, runways, drainage, parks, playgrounds and jetties. Not all of these assets are insured. Under the National Disaster Relief and Recovery Arrangements (NDRRA) assistance is provided to local government to relieve the financial burden in the event that a disaster affects the essential public assets of the community. The assets covered includes roads, road infrastructure, bridges, tunnels, culverts, stormwater infrastructure and local government offices.

  The existence of these arrangements does not remove the obligation of the Shire to proactively explore the range of insurance options in the market and assess their viability based on a cost benefit analysis. The NDRRA is activated by the State Government based on criteria including the nature of the disaster, multi-agency response and a financial threshold published by the Office of Emergency Management from time to time.

  Because of the existence of the NDRRA, the Shire does not insure "pure" infrastructure assets. However, assets such as playground equipment are covered as part of our property assets.

- Property risks

  The Shire owns a substantive property portfolio including administration centres, housing stock, library, leisure centre, works depots, airport buildings etc. Individual property values (rebuilding costs) can be significant, reaching into the millions for some buildings. Serious property damage incidents are low in frequency and tend to be low in value such as minor flood or fire damage. The potential exists however for an occasional high value property damage claim such as a major fire in an individual building or earthquake damage affecting many buildings.

  For this reason we take out an "all risks" type insurance on our property risks but with a high policy deductible, meaning that we self-insure against the frequent low value risks, but have catastrophe protection in place to protect against the occasional large loss.

- Liability risks

  There are a number of liability risks that the Shire faces such as claims for negligence made against us by customers, residents and employees. In relation to public liability claims the risk exposure is wide given the diverse nature of the Shire. These types of claims have the potential to be high in volume and be high in value as well depending upon the nature of the claim such as injury. Employee claims tend to be low in volume and low to medium in value, however an occasional serious injury or disease claim can result in a high value claim.

  We take out insurance to protect against the occasional high value claims and the risk associated with aggregated claims costs whilst keeping premium costs down by having a high policy deductible.

6. Risk Appetite

Strategic aim 1*: To maintain an insurance programme that provides the optimal balance between insurance and risk retention.*

As mentioned earlier in this strategy there are some risks that the Shire has decided to accept rather than to transfer the risk through the purchase of an insurance policy. These risks that are accepted by the Shire are 'self-insured' meaning that any losses that occur within the deductible are settled in full by the Shire.

One of the main drivers in deciding to self-insure is cost versus risk. An insurance company is in business to make a profit, and will therefore charge a premium that it considers will cover the cost of any claims that it is likely to have to pay during the period of insurance, plus an amount in respect of its profit and administration costs. The insurance of frequently occurring small losses is often referred to as 'dollar swapping'. Instead of paying a premium to insure against these predictable losses, the Shire can instead use the money to pay for any loss settlements that may arise during the year. An additional benefit of this approach is that the Shire retains this money should any losses be less than anticipated unlike paying an insurance premium at the outset which is non-refundable regardless of the loss experience.

In contrast, larger infrequent losses are hard to predict and to avert, and it is therefore prudent to insure against this type of loss to avoid exposing the Shire to an unnecessary large financial loss. Even whilst insuring against these larger losses the Shire can still retain some of the risk and reduce the cost of insurance through taking a higher insurance deductible (excess) on each claim.

In determining its insurance programme and deciding which risks to insure against and to what degree, the Shire considers its appetite for risk i.e. the amount of risk exposure or potential adverse impact (in this context cost, financial loss) from an event that the Shire is willing to accept.

There are many factors that contribute towards establishing the Shire's risk appetite which fall into three broad areas – internal factors, external factors and risk ability:

- Internal factors

  These include reviewing how the Shire has approached taking risk in the past, through looking at earlier insurance programmes and the associated claims history, i.e. how much has been paid in insurance premiums, how much has the insurer paid in claims and how much has the Shire paid in claims. The maturity of the Shire's risk management arrangements also need to be considered. The more mature and embedded risk management is across the organisation, the greater the opportunity to increase risk retention, as it means that risks are being actively managed at an operational level.

- External factors

  In addition to those internal factors mentioned above, there are external factors that need to be considered as well. While internal factors are able to be controlled or manipulated to some extent, external factors are a little more difficult to control.

  Perhaps one of the biggest external factors that need to be considered is the current state of the commercial insurance market and its competitiveness. Cycles of growth and decline exist within every industry. The insurance industry, however, is often at the mercy of this cycle because of its unpredictability. The cycles in the insurance industry are more commonly referred to as a 'hard' or 'soft' market. A soft market is a period marked by low premiums, relaxed underwriting standards and fierce competition. A hard market which follows the soft market usually after a wide scale catastrophe, means that underwriting standards become more rigid, premiums increase, cover is withdrawn or restricted and competition loosens as insurers become more selective about who they insure.

- Risk ability

  While internal and external factors both affect the risk appetite of the Shire, the risk ability of the Shire also needs to be understood and considered. Risk ability is the financial capacity for assuming risk, in other words, the current financial position of the Shire and the health of the insurance reserve from which any claims would need to be met where there is no specific budget provision. Where there is no fund the ability for the Shire to meet its liabilities under the insurance arrangements without any significant changes to the annual budget. It is vital to have alignment between risk appetite and risk ability. The willingness to assume risk (risk appetite) without the financial capacity to assume risk (risk ability) would lead to a serious deficiency. The opposite of this is having the financial capacity to assume risk but the willingness to assume risk is underutilised.

  One way of lowering insurance premiums and avoiding the risk of not having any insurance cover in place is to purchase 'catastrophe cover'. This can take many forms but is essentially a way of transferring the risk by way of insurance for large losses, selected events (insured perils) or selected assets. The disadvantage of this is that the insurers will still require a minimum underwriting premium which may not offer the premium savings expected.

7. Claims Handling

***Strategic aim 2**: To maintain appropriate operational policies for the handling of insurance claims, recharging to services and presentation of risks to insurers.*

Procuring the actual policies of insurance is relatively straightforward. Ongoing management of the subsequent claims that are received by the Shire is much more complex and requires procedures to be in place to ensure that claims are handled effectively and in line with relevant legal and contractual requirements.

There are a number of claims handling strategies that are possible but not all are available to the Shire. These are:

- All claims handled by the insurer;
- All claims handled in-house by the Shire;
- A mixture of in-house and insurer;
- A shared services type claims handling solution

There are benefits and disadvantages associated with each of these approaches which again differ depending upon the type of claim being handled and the specific insurer. The key considerations for the Shire are the volume of claims, cost (insurers charge for handling claims), quality and control aspects and customer service.

Currently, the Shire's insurers handle all claims but are closely monitored by the Shire's Co-ordinator Financial Management. This has led to quicker claim turnaround times. There is no adverse cost implication to the insurer handling claims at present.

<u>Claims handling</u>

To allow for the effective handling of claims, and to ensure consistency, flowcharts have been developed to provide guidance for officers in relation to Employers' Liability, Public Liability, Property and Motor claims.

Premium re-charging

The Shire's Corporate Services team arrange and pay for all of the required insurance contracts. On an annual basis services and programs are re-charged for the cost of the insurance cover that they benefit from. These re-charges are carried out at a program level, with an overall total premium being charged to each service. Where appropriate, a provision is made for known/expected self-insurance claims, however this is rare.

The method of calculation for each premium varies depending upon the type of insurance policy but the main factors used to determine premiums due are the numbers of staff (employee's) in each department and the total sum insured for buildings and contents. Claims history should it become a factor can also considered as part of this.

8. Insurance Reserve

***Strategic aim 3**: To maintain an adequate insurance reserve to meet potential and contingent liabilities and to support the Shire's insurance programme.*

When reviewing long term financial plans and preparing annual budgets, local government needs to consider the establishment and maintenance of reserves. In this context, the Shires can establish an insurance reserve that has been specifically set up to provide a contingency to cushion the impact of unexpected events or emergencies, i.e. where no specific budget provision has been made in the accounts. At the present time the Shire does not have an Insurance Reserve but consideration needs to be given to establish one.

The reason for/ purpose of the insurance reserve is so that the Shire can meet its unpaid retained insurance liabilities, i.e. the settlement costs of known and future (unknown) claims from current and past policy years that are not specifically budgeted for. The 'known' claims are those that have already been reported or made against the Shire, some of which will go on to be settled (paid). The 'unknown' claims are those incidents that have occurred but have not yet been reported to the Shire. These are typically referred to as IBNR (incurred but not reported).

Should the Shire began to accept a greater degree of risk by choosing to self-insure more risks where it is more cost effective than purchasing a policy of insurance or by electing to increase the insurance excess, it is advisable that the Shire needs to establish a fund from which to help defray the cost of these claims excesses should they arise. The funds required to establish such a reserve will come from a combination of insurance premiums saved and additional municipal funds. The establishment of a fund can be done on an incremental basis over a number of financial years.

When the Shire becomes legally liable to settle (compensate) a liability claim that has been made against it or its officers and elected members, and for which the Shire is liable for the costs of settlement under the insurance policy excess, a provision is made in the accounts. The reserve can be used to supplement any other budget provision set aside to meet claims.

The cost of settling claims also includes the costs associated with investigating and handling the claim, including the actual monetary compensation, or reinstatement value.

For the Shire's own property damage claims (including equipment, contents, loss of money) the relevant costs are those associated with repair, replacement or reinstatement (including associated professional and legal fees) of the damaged item/s and/or building/s following damage caused by an insured peril.

An insurance reserve is generally reviewed annually as part of the budget process. A key aspect of the insurance strategy involves ensuring that the insurance reserve is maintained at an appropriate level so as to avoid having insufficient cover that may expose the Shire to unnecessary risk.

9. Reporting

As insurance is a critical part of the Shires risk management process reporting of data to the executive and the Council to ensure that the Shire maintains the optimum balance between insurance and risk retention. Reporting should cover the Shires corporate insurance arrangements in place to safeguard the Shires assets and reputation, identifying any areas of potential weakness or exposure, identifying best practice and implementing when financially viable, the adequacy of any insurance reserve and the nature extent and reasons behind any insurance claims.

Reporting should be on a quarterly basis to the Executive Management Team and on an annual basis to the Audit (Finance and Risk) Committee.

Appendix A

Scheme Fund	2016/17	2017/18	Insurer	
LGIS Bush Fire	$4,760	$7,840	LGIS	Claim limit: $500,000
LGIS Liability	$89,830	$89,830	LGIS	Claim Limits: Public and Product Liability $500 million; Professional Indemnity $500 million. Excess: Public liability – nil; Professional indemnity - $1,000; Liable/slander - $5,000
Casual Hirers Liability	$0	$0	LGIS	Claim Limit: $10 million Excess: $500
Crime	$1,476	$1,596	LGIS	Claim Limit: $500,000 Sub limit for computers $250,000 Excess:$1,000
LGIS Property	$430,315	$339,675	LGIS	Claim Limit: $600 million unless cyclone or flood north of 26th parallel then $100 million Excess: $1,000 for standard claims
LGIS Workcare	$224,742	$208,543	LGIS	Claim Limit: $1 million Excess: Nil
Total Contribution	**$751,124**	**$647,483**		

Non Scheme Fund	2016/17	2017/18	Insurer	
Airport Owners' & Operators' Liability - Kununurra	$24,339	$19,637	QBE Aviation	Claim Limit: $400 million; personal injury - $25 million; war or terrorism $200 million. Excess: $5,000 but $25,000 for aircraft damage.
Airport Owners' & Operators'	$3,400	$2,743	QBE Aviation	Claim Limit: $400 million; personal injury -

Liability - Wyndham				$25 million; war or terrorism $200 million. Excess: $5,000 but $25,000 for aircraft damage.
Corporate Travel	$750	$750	Chubb Insurance Australia Limited	Claim Limit: $10 million for any one accident subject to schedule of benefits Excess: $250
Cyber Liability	$0	$3,900	Chubb Insurance Australia Limited	Claim Limit: $1 million Excess: $10,000
Management Liability	$8,506	$8,506	Chubb Insurance Australia Limited	Claim Limit: Statutory $2 million; Councillors and Officers $1 million; Employment practices $1 million. Excess: $Employment practices $12,500; Councillors and Officers $5,000; Statutory $2,000
Marine Cargo	$200	$200	QBE Insurance (Australia) Ltd through Thistle Underwriting Services - Marine	Claim Limit: $250,000 Excess: $100
Marine Hull Commercial	$840	$504	QBE Insurance (Australia) Ltd through Thistle Underwriting Services - Marine	Claim Limit: $75,000 Excess: $1,500
Motor Vehicle	$76,274	$73,376	Zurich Australian Insurance Limited	Claim Limit: $20 million for vehicle; $30 million for Third Party. Excess: $300
Personal Accident - Volunteers	$425	$425	Chubb Insurance	Claim Limit: $10 million

			Australia Limited	
Pollution Legal Liability	$0	$0	AIG Australia Limited	Claim Limit: $50 million Excess: $50,000
Total Premium	**$114,735**	**$110,041**		