

Local Government Mutual

Briefing Presentation

Introduction

- Councils collectively spend many hundreds of millions annually on insurance
- Many councils have substantial self insured retentions, with data indicating they are paying the cost of circa 85% of claims themselves
- Some councils have significant self insured aggregate retentions – which have the potential to deliver volatility to their balance sheets
- Councils can typically strike a much keener bargain with the insurance market collectively, than would be expected individually
- The sector has the ability to retain more risk collectively, whilst containing or reducing it individually
- Retaining any surplus generated and using it solely for the benefit of its members, not third party shareholders

The Local Government Mutual

- Pooled retention in the mutual pays for 'expected' claims
- 'Unexpected' claims (individual and accumulations) transferred to insurers
- Members pay contributions based on their own unique risk profile
- Contributions are used for the payment of:
 - Retained claims
 - Excess and aggregate insurance
 - Administration costs
- Surplus can only be used for the benefit of members
- Owned entirely by its members
- Controlled by a Board of Directors drawn from within the membership
- Income retained in the mutual is not subject to insurance premium tax

Aims of the Local Government Mutual

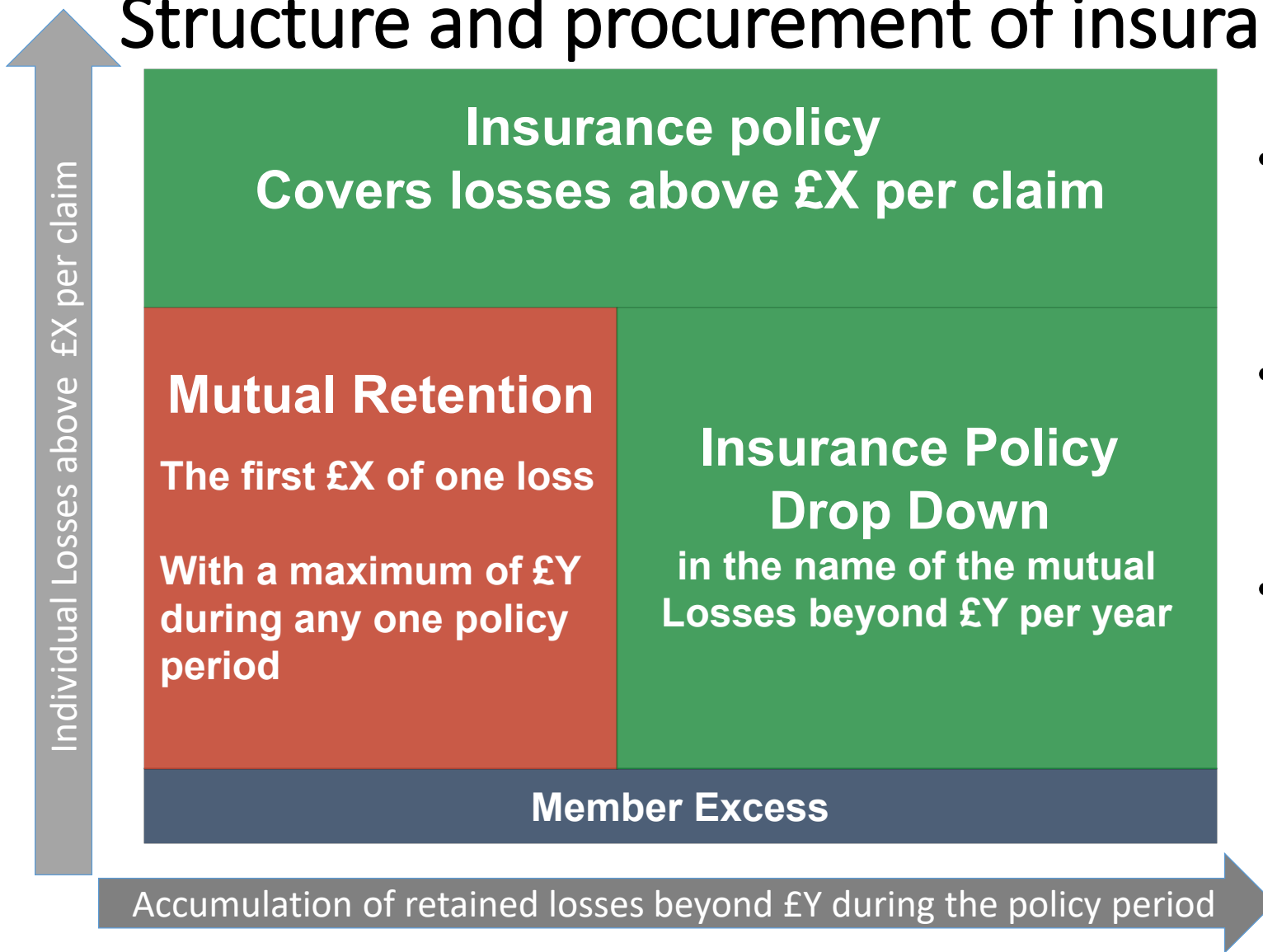
- Provide cost effective risk transfer (with no profit mandate)
- Reduce the Total Cost of Risk, releasing funds for services
- Reducing the direct and indirect costs of losses
- Deliver transparency and minimise frictional costs
- Work collaboratively to improve risk management
- Sustainability through managed level of mutual risk retention
- Robust and proportionate governance and compliance processes
- Enables members to benefit from mutual trading surpluses

Structure and procurement of insurance



- The Mutual is a hybrid-discretionary mutual, not an insurance company
- Contributions are bespoke, based on each local authority's risks and claims performance
- Members are protected by two elements of 'wrap-around' insurance
 - Excess of loss cover – above the mutual's retention
 - Aggregate stop-loss cover – protecting the mutual's retention against an unexpected accumulation of retained claims
- Members have no exposure to an additional call

Structure and procurement of insurance



- Mutual retained exposure is fully funded from operational revenue
- Financial statements prepared in accordance with FRS 102 & 103
- Maximum retained exposure, minus actual claims & IBNR determines annual surplus quantum

Update on the project

- 14 local authorities with LGA have contributed to a steering group which oversaw
 - Incorporation of the mutual
 - Appointment of Directors
 - Brian Roberts (CIPFA Past President)
 - Ian Rogers (Chief Actuary at Government Actuary's Department)
 - Roger Houston (Specialist in Public Sector Insurance Claims)
 - The adoption of an initial Memorandum & Articles of Association
 - The appointment of a management company
- OJEU procurement of mutual manager
 - Local Government Mutual Management Services
 - A joint venture between LGA Commercial Services and Regis Mutual Management
 - Service assurance and contract oversight are independent of the JV
- FCA authorisation
- OJEU procurement of insurer panel
 - DPS framework released and populated with a panel of insurers
 - Supplemented by access to YPO insurance placement DPS

Membership

- LGA members
- 12 month periods
- Owned by member authorities so exempt from EU Public Contract Regulations (Teckal exemption)
- Business case process, reliant on usual disclosures
- Ownership & Control delivers complete transparency
- Cabinet report from council's chief finance officer

Operations

- In-house claims team
- Active account management
- Risk & Insurance Managers – key role in loss reduction and risk management
- Covers include:
 - Property
 - Liability
 - Construction
 - Engineering
 - Management liability
 - Motor
 - Personal accident

Risk management

- Key to mutual's success
- Members benefit directly from the loss reductions that flow from effective risk management
- Member-driven – the mutual acts as a clearing house
- Controlled within authorities by Risk & Insurance Managers, or other nominated officer, where possible
- Supports identification and sharing of best practice, drawing on LGA's Sector Led Improvement capability.
- Mutual provides its members with claims trends analysis, route cause analysis, lessons from losses, anonymised benchmarking, full risk management reports (including insurer MFL & PML calculations to assist with setting loss limits)

Corporate Governance



- Board drawn from and accountable to the membership
- Adheres to the Association of Financial Mutuals' annotated version of the UK Corporate Governance Code
- Satisfies Public Contract Regulations control requirements for a 'Teckal' company.

Current activity and next steps

- OJEU tender completed (DPS remains open)
- We are currently engaging with 55 councils (as at 22-Feb, as at 18-Aug, approaching 100)
 - 8 metropolitan councils
 - 7 unitary councils
 - 1 county council
 - 39 district councils
- Engaged local authorities are at different stages of the business case process
- Events and PR activity to engage all LGA member councils
- Open for business from April 2019.

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