Agenda Item no.10

To: Policy and Resources Committee

From: Deputy Chief Executive Officer - Matthew Warren

Presenting officer(s): Deputy Chief Executive Officer - Matthew Warren
Telephone 01480 444619
matthew.warren@cambsfire.gov.uk

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Fire and Rescue Indemnity Company (FRIC) Update

1. Purpose

1.1 The purpose of this report is to provide the Policy and Resources Committee with an update on the insurance and protection arrangements held by the Authority and its performance as a member of the Fire and Rescue Indemnity Company (FRIC).

2. Recommendation

2.1 The Committee is asked to note the contents of this report and in particular, the ongoing benefits of FRIC membership.

3. Risk Assessment

3.1 Legal – the Authority is required to provide adequate and appropriate insurance to ensure it can protect itself against loss resulting from a potential insurance claim.

3.2 Financial – the Authority must ensure that the level of cover is sufficient to cover potential losses resulting from a claim.

4. Background

4.1 The Authority joined FRIC at its inception in November 2015 along with eight other fire and rescues with the common goal and commitment to work together to reduce the frequency and cost of risk related incidents through improved risk management, performance and value for money.

4.2 FRIC is a “mutual” company limited by guarantee and is owned and controlled by its members. A mutual is a legal mechanism which allows its members to share risk and reduce associated costs.

4.3 A hybrid discretionary mutual model is in place for FRIC with an initial layer of risk retained by the mutual and insurance purchased in both FRIC and the members names for losses above the retention, plus vehicle and employers’ liability insurance as required by law. The use of such a discretionary route is well established and is specifically acknowledged in the Financial Conduct Authority handbook.

4.4 Each FRIC member contributes to a fund, which is used to pay for claims, claims handling, supporting insurance for higher value claims and the mutual's business overheads. The mutual aims to optimise each members risk transfer programme and reduce costs.

4.5 Other insurances and services such as terrorism and business travel insurance and engineering inspection are still procured with Zurich Municipal.

5. Mutual Managers

5.1 Since its inception, the mutual has been managed by Regis Mutual Management Limited (RMML). In June 2022, RMML went into administration and after careful consideration, FRIC along with Activity Industries Mutual (AIM) and Livery Companies' Mutual joined and novated the management of FRIC to Thomas Miller in August 2022.

5.2 Thomas Miller is a long-established manager of mutual's and FRIC has already benefited from and will continue to benefit from, the strength and depth of their offering.

6. Growth

6.1 Since its inception, the mutual now has 12 members and will be welcoming West Yorkshire Fire and Rescue Service this year who will become the mutual's first metropolitan Authority and second largest member within the group.

6.2 FRIC is now well established and has a mature operating arrangement, returning a surplus in each year of operation.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Contributions	£3.77m	£3.80m	£3.74m	£4.13m	£4.8m	£5.7m
"In Year" Surplus	£471k	£136k	£226k	£117k	£998k	£354k
IBNR*	£658k	£1.47m	£2.21m	£2.67m	£2.93m	£4m
Expense Ratio	17%	19%	21%	22%	22%	22%
Combined Ratio	87.5%	96.4%	94%	97%	96%	97%

 # The expense ratio in the insurance industry is a measure of profitability calculated by dividing the expenses associated with acquiring, underwriting and servicing premiums by the net premiums earned by the insurance company.

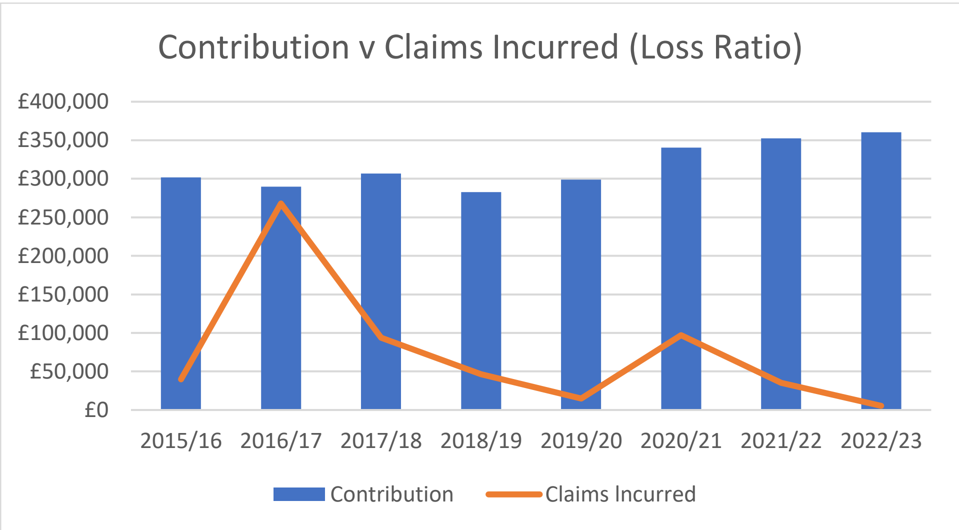
A measure of financial year underwriting profitability is the sum of the net claims, commissions and expenses divided by net earned premium. This excludes instalment and other operating income and investment return. A combined operating ratio ("COR") of less than 100% indicates profitable underwriting.

IBNR is a provision held for claims incurred but not reported (IBNR)

6.3 In financial year 2022/23, the Authority received its first surplus distribution from the FRIC pot totalling £14,725. Following actuarial reviews of FRIC's financial position and future liabilities there are strong possibilities that further distributions of surplus funds will come back to the Authority. This type of benefit would not have been available under our previous standard insurance with Zurich Municipal.

7. Contributions

7.1 The contributions and claims incurred loss ratio for the Authority since joining FRIC is shown in the table below.



7.2 As depicted in the table, contributions have risen from £302k in 2015/16 to £361k in 2022/23. This is an average increase of 3% per year. Since 2019/20, the insurance market has hardened quite significantly mainly due to the pandemic and more recently the on-going Ukrainian conflict and rising inflationary costs.

7.3 In standard insurance arrangements we would expect the impact of these events to have increased our contributions rates to a much greater extent.

7.4 For the 2022/23 contribution, the main factors that dominated the renewal cycle were;

- inflationary pressures impacting FRIC's cost base and core lines of business,
- costs of repairs to vehicles and property (materials and labour) but also injury settlements which are linked to lost earnings.

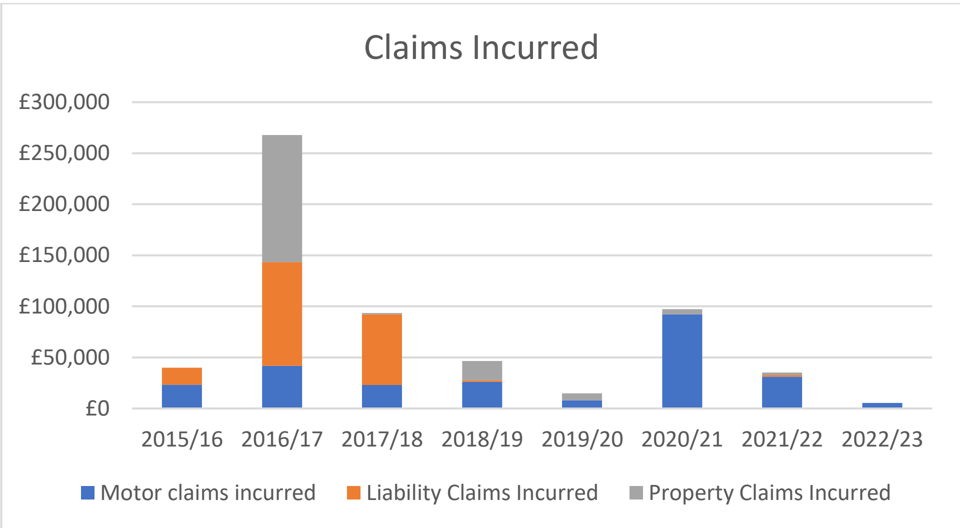
7.5 In 2022/23, FRIC members saw a change in contributions compared to previous years of between 5 to 8% (5.4% on average). The Authority's contribution rose by 2%, this was due to a reduction in fleet size which offset the cost of adding the new Huntingdon Fire Station and Training Centre to the property portfolio and benefiting in full, from the Motor KPI discount (15% of contribution) available.

7.6 The Authority benefits from Motor KPI discounts through having CCTV on vehicles, reduced motor loss ratios, risk mitigating activities and good reporting times. These discounts are not available in standard insurance.

7.7 The Authority also benefits by paying reduced insurance premium tax (IPT). IPT is payable on all insurance policies and as FRIC provides protection arrangements rather than formal insurance on most of its products it is exempt from this type of tax (IPT is still payable on motor and employers liability insurance). This results in a saving of between 5 to 7% on IPT.

8. Claims

8.1 The Authority's claim data is shown in the table below which is split across all principal areas of protection.



8.2 Overall the Authority has a small loss ratio compared to its contributions since inception with the exception of 2016/17 (see also table at Paragraph 7.1) where there was a significant property damage claim at Manea Fire Station. A large loss such as this would normally influence the next renewal however by being part of the mutual, we are able to mitigate the effect of large losses on our contributions paid; in that instance a 6% increase between 206/17 and 2017/18.

8.3 In 2017/18 and 2020/21 we also saw an increase in the cost of claims incurred due to the settlement of liability claims and a large motor loss.

9. Conclusion

9.1 Overall the Authority takes a proactive approach to reducing risk related incidents and reducing their exposure to claims. The Authority is an active member of the fire and rescue risk group or FARRG which was set up by the members of FRIC to help reduce risk and improve risk management.

9.2 FRIC is one of, if not the largest collaborations between English fire and rescue services and provides the Authority with value for money. FRIC's product offering remains competitive in what is an extremely limited insurance market.

9.3 FRIC actively works with the National Fire Chiefs Council on emerging risks and other authorities to increase its membership and reduce risk across the sector.

Source Documents:

None