

Executive Summary

2014 Analysis of Self Insurance Funds for



**Review Meeting
22nd October 2014**

1. AGENDA

- The Forecasting Methodology
- Liability Development Factors
- West Berkshire recommended Fund Size – actuarial forecast
- Suggested reserves
- MMI Scheme of Arrangement – current position
- Provisions / Reserves (FRS12 / IAS 37)
- Suggested “internal premium” injection to support future policy years

2. Executive Summary

- Last review carried out in September 2014 (based on loss data deemed to be as at 31st May 2014)
- Objective of review was to forecast IBNR and IBNER, and to suggest a range of risk issues where West Berkshire may consider it prudent to maintain a reserve
- IBNR (incurred but not reported) – reflects “development tail”
- IBNER (incurred but not enough reported) – reflects potential for adverse loss development
- Review created a forecast position as at 31st March 2015
- JLT forecast as at 31st March 2015 was provisions of £1.17m plus reserves of £1.24m = total of £2.41m
- **Note:** *JLT’s methodology and approach is regularly independently peer reviewed.*

3. The Forecasting Methodology

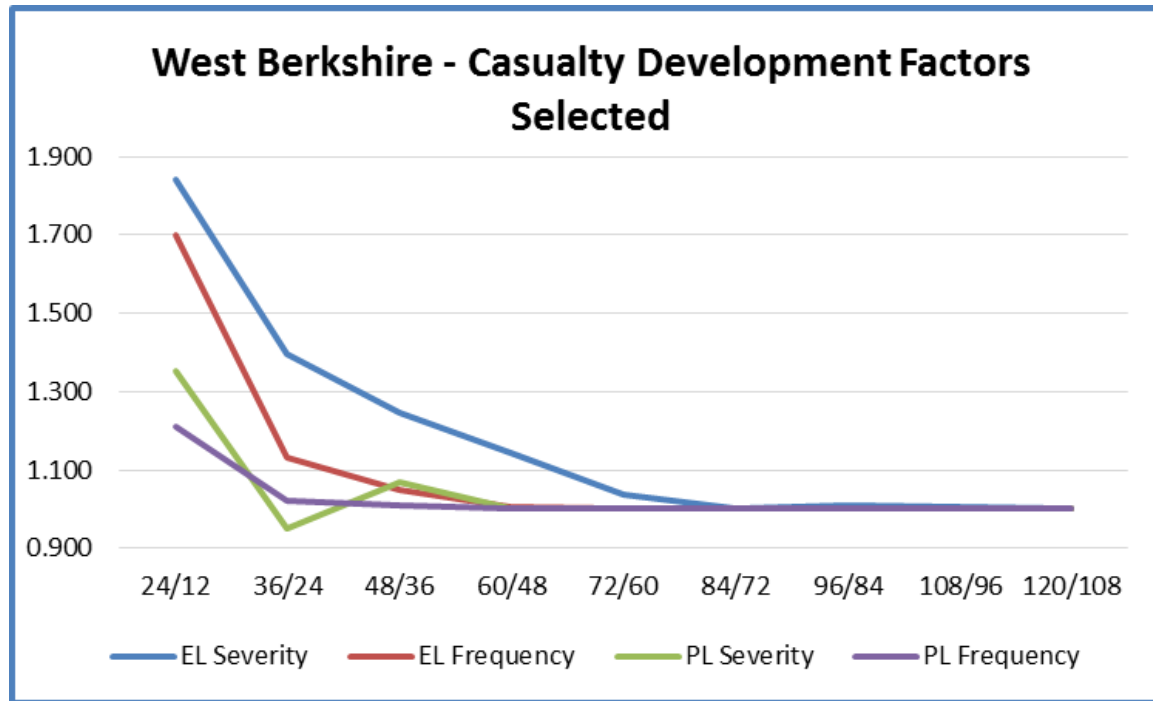
- JLT has used the Chain Ladder (Link Ratio) Method applied to the progression of incurred losses, plotted at annual intervals, in the form of a triangulation. Example:

PUBLIC LIABILITY - SEVERITY

		2007	2008	2009	2010	2011	2012
2007	Paid	46,764	228,534	589,784	614,654	648,311	702,949
	O/S	469,779	624,116	358,060	255,462	137,638	109,456
	Incurred	516,543	852,651	947,843	870,116	785,949	812,405
2008	Paid		55,170	196,338	316,611	493,130	524,202
	O/S		1,470,675	1,492,814	1,201,206	849,079	150,825
	Incurred		1,525,845	1,689,152	1,517,817	1,342,208	675,027
2009	Paid			36,901	126,496	368,507	640,462
	O/S			861,397	991,626	867,222	596,405
	Incurred			898,298	1,118,123	1,235,729	1,236,867
2010	Paid				98,537	273,735	541,562
	O/S				995,530	1,202,282	964,295
	Incurred				1,094,066	1,476,017	1,505,857
2011	Paid					66,792	278,112
	O/S					1,320,705	1,503,689
	Incurred					1,387,497	1,781,802
2012	Paid						54,418
	O/S						1,533,761
	Incurred						1,588,178

- No West Berkshire-specific triangulations were available. We have therefore used development factors drawn from a cohort of triangulated data for a group of comparable authorities

4. Casualty Development Factors Selected



5. Recommendations - Legacy Policy Years

- Forecast of remaining liability to West Berkshire within the fund each and every loss retentions for all liability and property claims occurring in 2013/2014 and all prior policy years:

Table A - Recommended Provisions / Reserves on Legacy Years as at 31st May 2014

Risk	U/W Years	Reported Outstanding Claims	IBNR	IBNER	Total	
EL	2013/2014 and prior	£509,900	£53,100	£163,600	£726,600	A1
PL	2013/2014 and prior	£828,300	£267,700	£-238,300	£857,700	A2
Property	2013/2014 and prior	£64,700	£106,000	£15,800	£186,500	A3
		£1,402,900	£426,800	£-58,900	£1,770,800	

Grand Total **£1,770,800** Sub-Total A

Roll forward to 31st March 2015

Adjustment in IBNR	£150,000	-(£150,000)
Forecast paid claims between 1st June 2014 and 31st March 2015	-(£462,200)	

Reported Outstanding Claims	IBNR	IBNER	Total
£1,090,700	£276,800	£-58,900	£1,308,600

6. Pro-Rata of 2014/2015 Policy Year

- Assuming the programme is renewed in Nov 2014 with same deductibles as expiring.

Table B - Recommended Fund Injection to Support 2014/2015 Policy Year

Risk	Policy Year	Full Year at "Expected" Case Sscenario	Expected % Paid by 31/3/15	Pro-Rata to 31/3/2015	Provisions as at 31/3/2015	Reserves as at 31/3/2015
EL	2014/2015	£229,600	0%	£95,000	£9,500	£85,500
PL	2014/2015	£348,900	2%	£144,300	£35,400	£106,100
Property	2014/2015	£251,000	25%	£103,800	£38,900	£38,900
		£829,500		£343,100	£83,800	£230,500
					B Total 1	B Total 2
						£314,300

7. Suggested Reserves for a range of risk issues

Table C - Suggested Additional Reserves (for consideration by the Authority)

		Optimistic	Suggested	Pessimistic	
Residual IBNR	x% of A1	£72,700	£181,700	£290,600	C1
	x =	10.0%	25.0%	40.0%	
Emerging Claim Type Buffer	y% of A1 + A3	£79,200	£158,400	£396,100	C2
	y =	5.0%	10.0%	25.0%	
MMI Scheme of Arrangement Levy re former Newbury DC	z% of cumulative paid + O/S since 1993 less £50K	£24,000	£76,400	£141,800	C3
	z =	11.0%	35.0%	65.0%	
MMI Scheme of Arrangement Levy re West Berkshire's exposure to the former Berkshire County Council	z% of cumulative paid + O/S since 1993 less £50K	£87,700	£279,000	£518,100	C4
	z =	11.0%	35.0%	65.0%	
Withdrawal of PL asbestos cover by market		£25,000	£50,000	£75,000	C5
Non medical negligence IBNR on Public Health Transfer from PCTs effective 1/4/13		£25,000	£50,000	£75,000	C6
		£313,600	£795,500	£1,496,600	
	Grand Total		£795,500		C

Total Forecast Fund size as at 31st March 2015 (Table A + B + C) = **£2.418m**

8. MMI - Current Position

1. A 15% levy was invoiced in January 2014 and due for payment in February 2014.
2. We assume that West Berkshire has paid its share of the 15% levy (£119K in respect of your share of the former Berkshire County Council plus £32.7K in respect of the former Newbury DC).
3. As at 30th June 2014, MMI had received 98.6% of the £104.5m that was raised by virtue of the 15% levy.
4. As at 30th June 2014, MMI's balance sheet has a deficit of £76.1m after allowing for the above levy.
5. In order to extinguish MMI's accumulated loss as at 30th June 2014, a further 11% levy would be required.
6. The scheme administrator considers that it is necessary to allow further time to elapse before determining if a further levy is required and if so how large that levy needs to be.

9. Summary of Forecast Provisions / Reserves at 31/03/15

Forecast Provisions and Reserves as at 31st March 2015

(Including pro-rata injection on 1st November 2014 to support part of 2014/2015 policy year)

Tables A + B + C above

Basis of Allocation	Provisions	Reserves
Reported Outstanding Claims	√	
IBNR		√
IBNER		√
Residual IBNR		√
Emerging Claim Buffer		√
MMI Levy	√ part	√ part

Policy Years	Element	Provisions	Reserves	Totals
2013/2014 and prior	EL	£509,900	£216,700	£726,600
2013/2014 and prior	PL	£828,300	£29,400	£857,700
2013/2014 and prior	Property	£64,700	£121,800	£186,500
2014/2015	EL	£9,500	£85,500	£95,000
2014/2015	PL	£35,400	£106,100	£141,500
2014/2015	Property	£38,900	£38,900	£77,800
Legacy	Residual IBNR		£181,700	£181,700
Legacy	Emerging Claims		£158,400	£158,400
Legacy	MMI Levy - former Newbury DC		£76,400	£76,400
Legacy	MMI Levy - former Berks CC		£279,000	£279,000
Legacy	Withdrawal of PL asbestos cover		£50,000	£50,000
Legacy	Public Health transfer IBNR		£50,000	£50,000
	Adjustment for movement in IBNR to 31/3/15	£150,000	-\$150,000	£0
	Less forecast paid claims 1/6/14 to 31/3/15	-\$462,200		-\$462,200
Totals		£1,174,500	£1,243,900	£2,418,400

10. JLT Rationale for Provision / Reserve Split

- **Provisions**

are required to be recognised when (*they meet FRS12 / IAS 37 definition*):

1. The local authority has a present obligation (legal or constructive) as a result of a past event,
2. It is probable that a transfer of economic benefits will be required to settle the obligation, and
3. A reliable estimate can be made of the amount of the obligation

JLT's suggestion = reported outstanding claims, including 15% of reported outstanding claims in MMI era

- **Reserves**

In the absence of any statutory basis (other than in Scotland) sums held to meet potential and contingent liabilities are reported as earmarked reserves where these liabilities do not meet the requirements of FRS12 / IAS 37

In addition, FRS12 says – “a contingent liability should be disclosed if the possibility of an outflow of economic benefit to settle the obligation is more than remote”

JLT's suggestion = 100% IBNR, IBNER, Residual IBNR, Emerging Claim Types, potential future MMI levies and other reserves

11. Forecast Aggregate Stop Breaches

- We are predicting a liability aggregate breach for the 2009/2010 policy year and the latest paid within West Berkshire's deductible exceeds aggregate by £54K. Has an aggregate breach recovery been received from insurers?

Check of EL/PL Cross-Class Aggregate Breaches

U/W Year	Forecast Ultimate Losses within				Latest Paid within Fund Limits	Net amount to Deduct from recommended provisions now
	Aggregate	Retention	Breach?	Amount of Breach		
2003/2004	£325,000	£152,126	0	£0	£152,126	£0
2004/2005	£340,000	£162,697	0	£0	£162,697	£0
2005/2006	£340,000	£169,235	0	£0	£169,125	£0
2006/2007	£600,000	£51,235	0	£0	£46,224	£0
2007/2008	£625,000	£368,564	0	£0	£288,301	£0
2008/2009	£500,000	£495,901	0	£0	£377,441	£0
2009/2010	£500,000	£709,151	1	£209,151	£554,098	£155,053
2010/2011	£500,000	£424,128	0	£0	£123,043	£0
2011/2012	£500,000	£190,234	0	£0	£38,194	£0
2012/2013	£375,000	£337,295	0	£0	£25,273	£0
2013/2014	£450,000	£394,048	0	£0	£3,768	£0
						£155,053

12. Future Year Injection (Casualty Deductible staying at £100K)

Annualised Projected Claims Cost within Fund Limits

Risk	Policy Year	Best Case	Expected	Worst Case
EL	2014/2015	£127,400	£229,600	£531,900
EL	2015/2016	£131,200	£236,500	£547,900
EL	2016/2017	£135,100	£243,600	£564,300

Risk	Policy Year	Best Case	Expected	Worst Case
PL	2014/2015	£258,900	£348,900	£584,300
PL	2015/2016	£266,700	£359,400	£601,800
PL	2016/2017	£274,700	£370,200	£619,900

Risk	Policy Year	Best Case	Expected	Worst Case
EL/PL	2014/2015	£386,300	£578,500	£1,116,200
EL/PL	2015/2016	£397,900	£595,900	£1,149,700
EL/PL	2016/2017	£409,800	£613,800	£1,184,200

exceeds current aggregate

Risk	Policy Year	Best Case	Expected	Worst Case
Property	2014/2015	£185,400	£251,000	£332,000
Property	2015/2016	£191,000	£258,500	£342,000
Property	2016/2017	£196,700	£266,300	£352,300

Risk	Policy Year	Best Case	Expected	Worst Case
EL/PL/Property	2014/2015	£571,700	£829,500	£1,448,200
EL/PL/Property	2015/2016	£588,900	£854,400	£1,491,700
EL/PL/Property	2016/2017	£606,500	£880,100	£1,536,500

Net Present Value of Annualised Projected Claims Cost within Fund Limits

Assumed annual interest rate:	1.0%
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Risk	Year	Best Case @NPV	Expected @NPV	Worst Case @NPV
EL/PL/Property	2014/2015	£555,600	£806,100	£1,407,300
EL/PL/Property	2015/2016	£572,300	£830,300	£1,449,600
EL/PL/Property	2016/2017	£589,400	£855,200	£1,493,100

13. Future Year Injection (Casualty Deductible moving to £200K)

Annualised Projected Claims Cost within Fund Limits **AS IF £200K Casualty Deductible**

Risk	Policy Year	Best Case	Expected	Worst Case
EL	2014/2015	£127,400	£316,200	£693,100
EL	2015/2016	£131,200	£325,700	£713,900
EL	2016/2017	£135,100	£335,500	£735,300

Risk	Policy Year	Best Case	Expected	Worst Case
PL	2014/2015	£273,800	£362,800	£802,500
PL	2015/2016	£282,000	£373,700	£826,600
PL	2016/2017	£290,500	£384,900	£851,400

Risk	Policy Year	Best Case	Expected	Worst Case
EL/PL	2014/2015	£401,200	£679,000	£1,495,600
EL/PL	2015/2016	£413,200	£699,400	£1,540,500
EL/PL	2016/2017	£425,600	£720,400	£1,586,700

exceeds
current aggregate

Risk	Policy Year	Best Case	Expected	Worst Case
Property	2014/2015	£185,400	£251,000	£332,000
Property	2015/2016	£191,000	£258,500	£342,000
Property	2016/2017	£196,700	£266,300	£352,300

Risk	Policy Year	Best Case	Expected	Worst Case
EL/PL/Property	2014/2015	£586,600	£930,000	£1,827,600
EL/PL/Property	2015/2016	£604,200	£957,900	£1,882,500
EL/PL/Property	2016/2017	£622,300	£986,700	£1,939,000

Net Present Value of Annualised Projected Claims Cost within Fund Limits

Assumed annual interest rate:	1.0%
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Risk	Year	Best Case@NPV	Expected@NPV	Worst Case@NPV
EL/PL/Property	2014/2015	£569,700	£903,200	£1,775,000
EL/PL/Property	2015/2016	£586,800	£930,300	£1,828,300
EL/PL/Property	2016/2017	£604,400	£958,300	£1,883,100