Government Actuary's Department

The impact of COVID-19 on public sector insurance

Survey results

September 2020

Contents

At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes **the standards** we apply.

Introduction

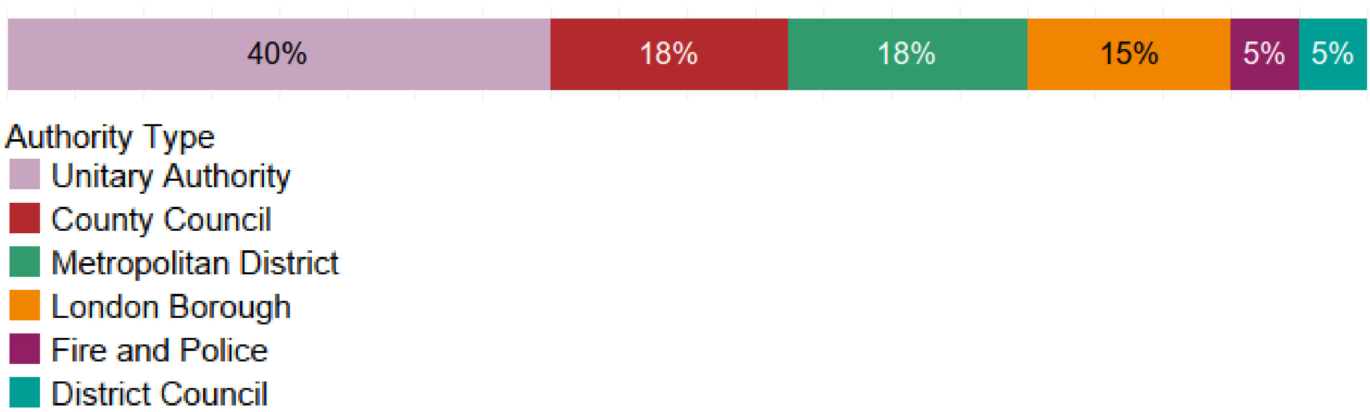
The UK public sector uses different approaches to manage risk. In central government risks are generally retained because the risk can be absorbed more cheaply than in the private sector. However, many organisations, including local government, rely on commercial insurance.

The Government Actuary's Department (GAD) provides actuarial solutions including financial risk analysis, modelling and advice to support the UK public sector. This includes insurance-related advice.

To investigate into the impact of COVID-19 on the public sector's insurance risks, we created a short survey. This was distributed to a range of public sector authorities that buy insurance and completed during July and August 2020.

Our aim was to share the combined experiences and insights of these organisations to help them make sense of the changing insurance market.

We received 80 responses to the survey, reflecting a range of authority types as shown below.



Most of the respondents (74%) worked in insurance roles, with 'insurance manager' being the most common. The rest worked in areas such as finance, audit, risk and assurance.

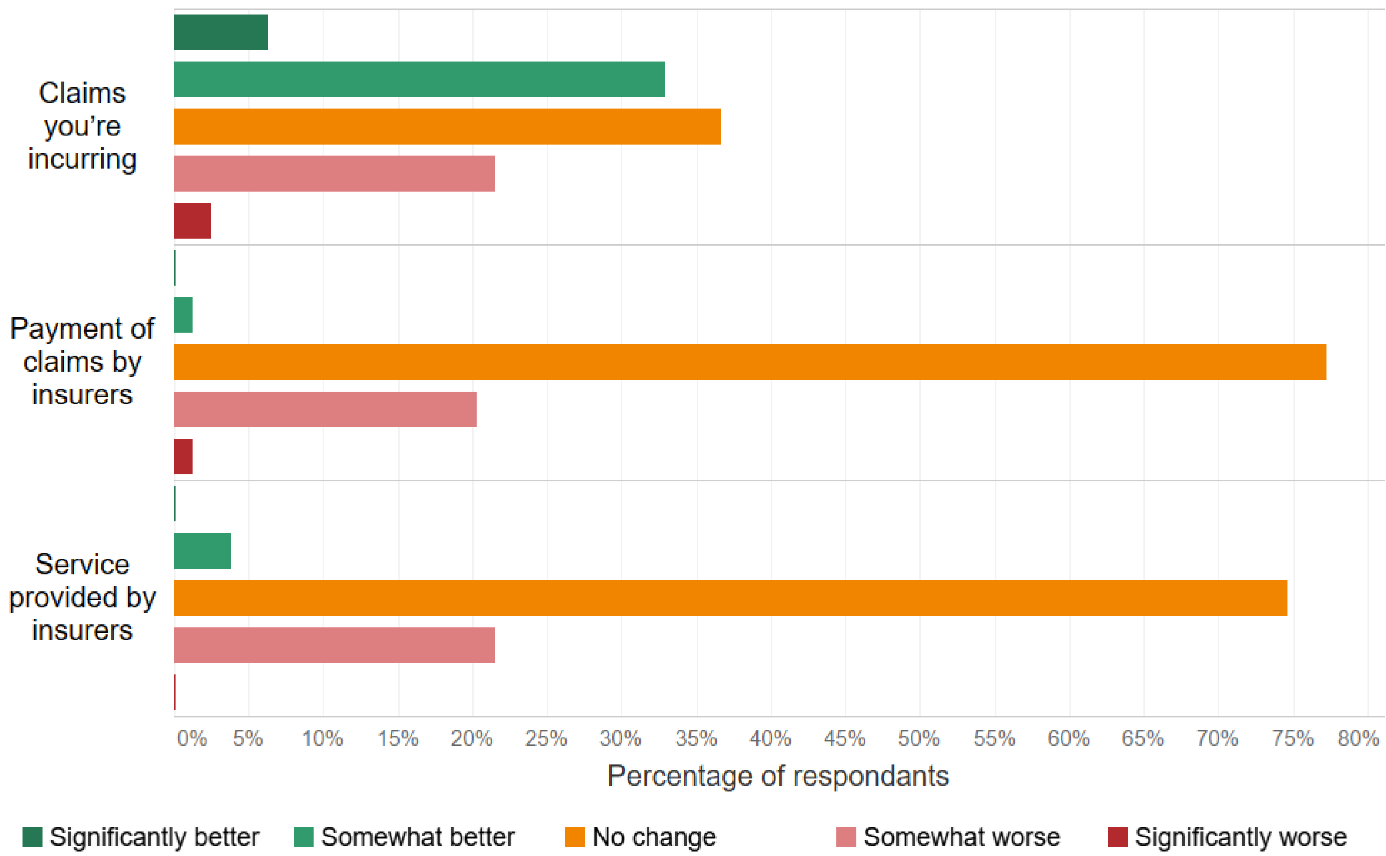
Immediate impact of the pandemic

We asked respondents how COVID-19 had affected their insurance risks, including the:

- claims that they're incurring
- payments of claims by insurers
- service provided by insurers

The responses are illustrated in the graphic below. They show that the impact of the virus on claims experience has been varied, with most respondents (63%) experiencing some change and on average a small improvement.

In contrast, the impact on the response from insurers has been less, with most respondents experiencing no change, but a significant minority reporting a deterioration. When combining the 2 aspects, some 34% reported worse experience in claim payments or service provided or both.



The main reason given for this is that insurers have been struggling with an unprecedented volume of claims on certain lines of business (most notably travel). This has been exacerbated by the impact of COVID-19 on working arrangements. On the other hand, some insurers had been particularly helpful by producing guidance and responding to queries.

There was also concern that insurers of social care providers have been withdrawing from the market.

Why has claims experience been so mixed?

The reported impacts are generally consistent across the different authority types, except for the impact on claims experience, where on average experience was better for metropolitan districts but worse for county councils.

The improvements for metropolitan districts were typically attributed to a reduction in motor insurance claims as the main cause. This is a natural consequence of the reduction in road traffic following the introduction of lockdown measures.

County councils overwhelmingly cited travel claims as the cause of their adverse claims experience. This is unsurprising given the travel restrictions introduced to reduce the spread of the virus and has been a key issue for schools.

It's a mixed picture though. The impact on claims being incurred is primarily driven by the different types of risks. The mix of risks varies within as well as across authority types. So, some county councils (36%) have had better experience overall while some metropolitan districts (21%) have had worse experience.

The reduction in footfall and road traffic contributed to improved claims experience for many authorities, especially at the height of lockdown. However, an increase in cycling has unfortunately resulted in more claims involving cyclists.

Ongoing impact of the pandemic

Some of the immediate impacts discussed above have been temporary, caused by the unexpected introduction of lockdown measures, or alleviated as society has adapted and lockdown has eased. For example, the sharp fall in road traffic in April was gradually reversed over the following months.

But the ongoing impact of the economic fallout and transition to a 'new normal' has yet to emerge. We asked respondents to consider the future impact of COVID-19 on their total cost of risk in the short, medium and long term. The total cost of risk means insurance premiums, claims paid by the authority and other related costs.

Our respondents report a gloomy outlook, as illustrated in the graphic below. While the previous question shows the immediate impact has been mixed, authorities do not expect this to continue.

Over half (54%) expect the cost to increase in the next year. The outlook is worse in the medium term, with most (82%) expecting the cost to increase and a significant proportion (22%) expecting it to be significantly worse. One reason for this jump is the delay until insurance premium increases take effect. On the bright side, some bounce back is anticipated in the longer term, although most (70%) still expect the higher costs to prevail.

Response	Short term (next 12 months)	Medium term (1-5 years)	Long term (5+ years)
Significantly better	0%	0%	0%
Somewhat better	5%	0%	1%
No Change	41%	18%	29%
Somewhat worse	48%	61%	62%
Significantly worse	6%	22%	8%

Why is the cost expected to increase?

Many respondents noted that the market had been hardening and expect COVID-19 to accelerate this trend. The situation is compounded by the general economic outlook, as claims are expected to increase in an economic downturn. Reference was also made to the risk of fraudulent claims.

While significant, the pandemic isn't the only issue that impacts on cost. Respondents identified various challenges specific to their risks and there was a suggestion that the full effect of Grenfell has yet to be felt.

Respondents recognised that the future is evolving and uncertain. Some felt that uncertainty around potential losses could further contribute to insurers increasing premiums or restricting terms of cover. There was also discussion of timing issues, with caveats about the time taken for claims to develop.

There were some differences in outlook by type of authority. Consistent with their recent adverse claims experience, over 90% of respondents for county councils expect higher costs in the short to medium term. Respondents from London boroughs and metropolitan districts were more likely to believe that costs wouldn't change, although that was still a minority view over the medium to long term.

It is possible for the cost to reduce in the longer term. One respondent noted that the pandemic is making all organisations rethink how they deliver services – which should make things better in the longer term. Later in the survey respondents reveal their plans to manage the total cost of risks – actions which have the potential to offset cost increases or even realise savings.

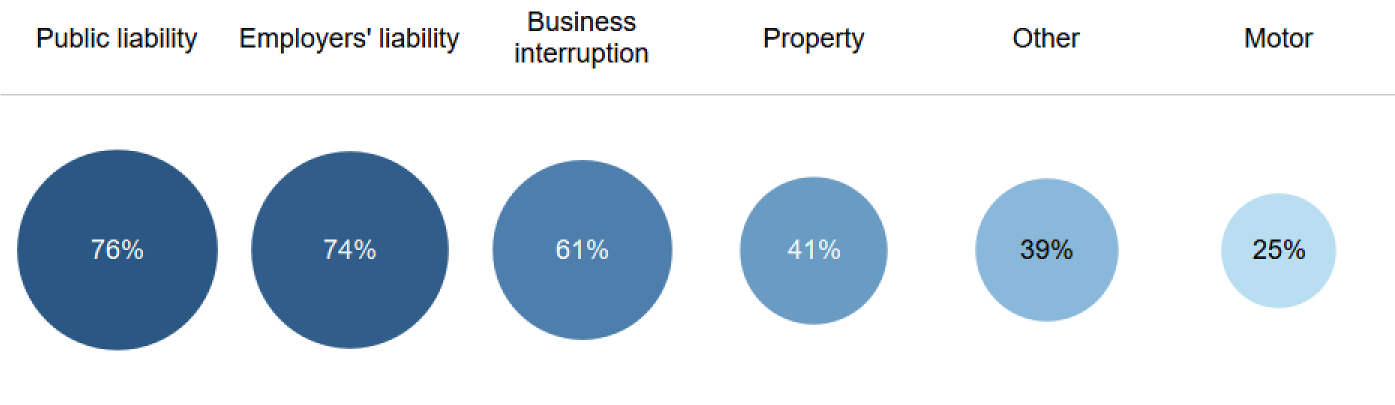
Future impact by type of risk

All the respondents to our survey rely on commercial insurance. Some authorities limit this by choosing to retain a greater share of their risks or to pool them with other authorities.

However, many authorities make extensive use of insurance to manage their risks. We saw this in the previous question, where many respondents talked about the hardening of the insurance market when explaining the expected cost increases.

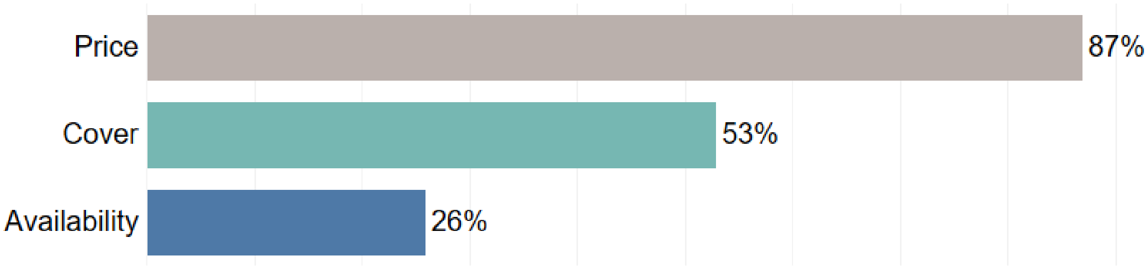
For this question, we asked respondents whether they anticipated adverse impacts for their next insurance renewal. They could choose whether they thought price, cover or availability would be affected for each major type of risk.

There was a clear consensus of the types of insurance for which authorities would be adversely impacted. Public liability was of the greatest concern, whereas motor was of the least. The graphic below shows this in more detail.



Price was the greatest concern for all insurance categories

The general pattern across all insurance types was that the price was of the greatest concern, cover less so, and availability even less. This pattern was consistent for property, public liability, employers' liability and business interruption – and is illustrated in the chart below.



The chart shows that where respondents identified an adverse impact, the vast majority (87%) anticipated an increase in the premiums payable.

The concerns are different for both motor and other insurance. Price is still the main concern for these, however:

- for motor, only a minority (20%) were concerned about cover and very few (5%) thought that availability would be adversely impacted

- for other insurance, authorities had almost equal concern for cover and availability as for price

Other insurance includes travel, professional indemnity and directors & officers.

A small proportion (8%) of respondents did not anticipate that any of their insurance would be adversely impacted.

Impact assessments are based on own experience and insights from brokers

We asked respondents what their answers were based on. Most of the assessments were based on own experience and insurance market insights (85% and 64% respectively). A significant minority (23%) also cited experience of other authorities.

It was clear from the comments that views on the outlook for the insurance market were informed by comments from brokers. Indeed, when we asked if authorities use a broker to take out cover, the large majority (91%) said yes:

Managing the total cost of risk

For the final survey question, we asked respondents what steps their authority was taking or considering, in order to manage the total cost of risk. In normal times, such action is part of prudent financial management to ensure best value for taxpayers' money.

However, COVID-19 has changed the risk landscape, and the anticipation of increased costs compounded by other financial pressures has provided a further catalyst for exploring all options. We received a wide range of comments, with some 90% of respondents describing their plans to mitigate against the impacts of COVID-19 and limit the costs. The word cloud below shows the key words that came up repeatedly in the comments provided.

The responses can be grouped into 3 types: specific responses to COVID-19 risks, a focus on risk management more generally, and a review of the approach to insurance.

Managing COVID-19 risks

Several respondents mentioned immediate steps being taken to deal with specific COVID-19 risks and issues.

Actions taken by authorities to respond to COVID-19 risks included:

- establishing action plans and recovery strategies
- making detailed risk assessments
- introducing new operational procedures including use of personal protective equipment, enhanced cleaning regimes and supporting colleagues working from home
- changes to highway maintenance and promoting social distancing for pedestrians
- ensuring compliance with government guidance
- following specific risk management advice and guidance from brokers and insurers
- proactive engagement with insurers

Such actions should reduce the cost of claims incurred. For example, by ensuring that key service providers are following guidance, authorities will hopefully be subject to fewer public liability claims compared to a business as usual scenario.

Focusing on risk management

Best practice risk management techniques (see box below) are already established practice and are now more relevant than ever.

The approach used by authorities includes:

- a robust risk assessment process
- adopting and continuing with risk reduction measures wherever possible
- monitoring and managing existing and emerging risks
- maintaining claims handling performance to contain claims leakage
- strategic and operational risk management across all risk areas
- reviewing claims experience to identify trends and respond to emerging issues
- ensuring insurance cover still meets evolving needs
- actuarial reviews of the risk portfolio and the total cost of risk to ensure adequate provisions and inform decisions
- horizon scanning to prepare for relevant developments

Reviewing the approach to insurance

Lots of respondents talked about their plans to review the approach to insurance (see box below). While keeping the approach under regular review is part of best practice risk management, the costs of the pandemic have brought a renewed impetus.

When reviewing their approach to insurance, authorities will consider:

- retained risks, from policy deductibles to self-insurance
- in-house risk management and claims handling
- policy coverage and terms of cover
- risk appetite (how much risk the authority is prepared to take)
- the total cost of risk
- actuarial analysis of the risks and optimisation techniques
- advice and insights from brokers and insurers
- different types of insurance cover, including stop-loss insurance
- alternative risk transfer vehicles

These planned reviews are not just about validating retention levels; there is a clear expectation that levels of self-insurance will need to be increased to reduce overall costs.

Consideration of the risk appetite and the nature of the risks is key. Increasing the level of retained risks may reduce the expected costs but may also expose the authority to unpalatable downside risk. Also, to the extent that COVID-19 changes the nature of the risk, extra care is required when relying on past performance to inform decisions.

Some authorities are making use of or considering pooling arrangements as an alternative to commercial insurance. For example, respondents mentioned the Fire & Rescue Indemnity Company (for fire authorities) and the risk protection arrangement run by the Department for Education (for schools).

Other steps suggested to protect against rising insurance costs included negotiating with brokers and running a competitive procurement exercise.

Summary

We conclude with a representative selection of the insightful comments received. These give an overview of the challenges faced by the public sector and insights into how to respond.

> “Lockdown measures significantly reduced the volume of highways related claims.”

> “Insurers have found it difficult to cope with the sheer volume of claims received in respect of travel.”

> “We're seeing an increase in claim numbers with some fraud concerns. We believe this is being driven in part by the economic implications of the pandemic.”

> “We believe the main pressure will be from difficulty in maintaining standards of service in a range of areas (highways maintenance, social care functions, etc) where this can lead to claims.”

> The local authority insurance market has been hardening for some time and has very few insurers.

> We have a system to manage risk across our services and activities. Any service delivery practices that have been changed due to the pandemic are assessed to ensure risk management is a high priority, particularly as services reopen after a period of closure.

> We will be completing annual reviews of insurance requirements, level of cover, deductible and access to the alternative insurance programmes which may offer better value for money. Review of claims activity to identify trends and working with current insurance providers to minimise risk exposure.

> We are planning to review the total cost of risk by evaluating our insurance programme to ensure an optimal balance of self-insurance versus risk transfer.

How can GAD help?

We're financial risk professionals and we provide insurance-related advice to public sector organisations. Our website includes a leaflet that provides more details including case studies. We have supported the government's coronavirus response with help for the trade credit insurance sector and a scheme to kickstart the UK film and TV productions adversely affected by COVID-19.

If you'd like to discuss any of the issues raised in this report or enquire about how we can help, please email enquiries@gad.gov.uk.