OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL

INSURANCE

27 APRIL 2020

Contents

Summary

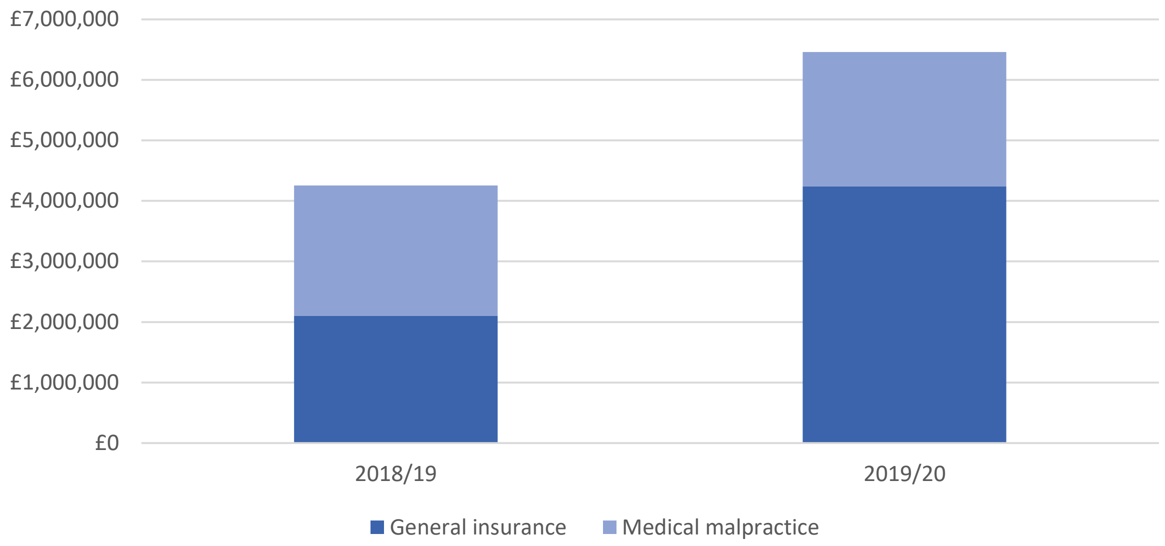
Introduction

1. A key tool for the mitigation of risks faced by an organisation is the use of insurance. The States of Jersey (the States) use both external insurance and self-insurance via an Insurance Fund to mitigate risk. The insurance function is managed by a small team supported by external brokers and advisors.

2. The cost to the States of taking out external insurance increased by £2.2 million from 2018/19 to 2019/20, largely due to an increase in general insurance premiums. The States have also increased the provision for self-insurance in each of the last three years to 31 December 2019 and (to a lesser extent) the Insurance Fund. The States commission periodic actuarial reviews to make recommendations as to the funding level required. At the date of the last actuarial valuation, on 31 December 2018, the Insurance Fund stood at £6.7 million. This was enough for the Insurance Fund to meet the estimate of expected self-insurance funding requirements. However, the actuarial report noted that, if an allowance were made for a buffer to provide 75% confidence that the Insurance Fund would be able to meet these costs, the Insurance Fund would need to be increased by £0.8 million. A proposal to increase the Insurance Fund is subject to a business case for 2020, although this will now be reviewed against other priorities for funding in 2020 in light of the Coronavirus pandemic.

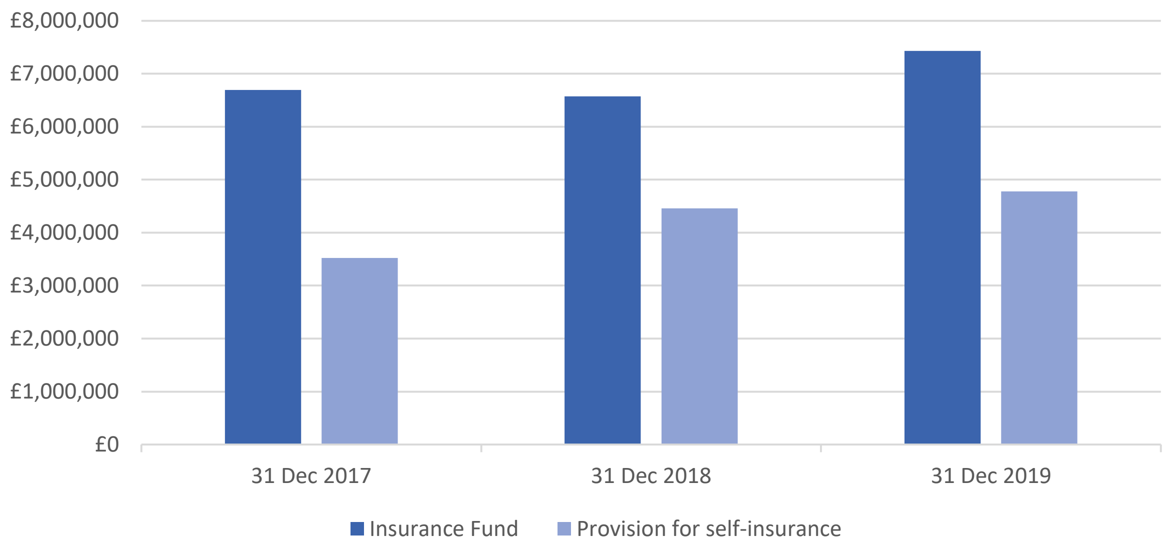
3. Key data for insurance and self-insurance are shown in Exhibits 1 to 3.

Exhibit 1: The increasing cost of external insurance



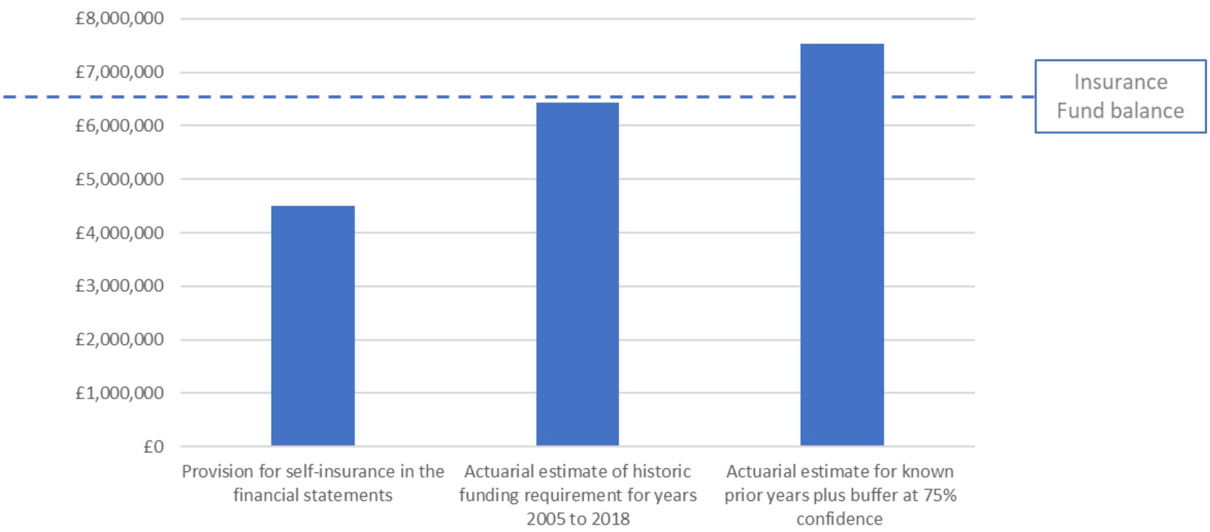
Source: States of Jersey Insurance Strategy and Improvement Plan

Exhibit 2: Increases in the Insurance Fund and provisions for self-insurance



Sources: States of Jersey Annual Report and Accounts for the years ended 31 December 2017, 31 December 2018 and 31 December 2019.

Exhibit 3: Comparison of the Insurance Fund to estimates of the States' self-insurance liability and the Insurance Fund balance at 31 December 2018



Sources: States of Jersey Annual Report and Accounts for the year ended 31 December 2018, Self-insurance fund review for Government of Jersey, August 2019

4. Effective use of insurance to mitigate risk involves:

- effective identification through risk management processes of existing and emerging risks that might have financial consequences;
- effective quantification of risk at departmental and corporate level;
- identification of risk appetite;
- developing a clear policy for insurance and self-insurance;
- informed decision making, taking into account risk appetite, on the quantum and terms for external insurance and self-insurance;
- effective arrangements for tendering external insurance;
- effective operational arrangements to ensure that insurance cover is maintained; and

- effective arrangements for identifying and managing insurance and self-insurance claims.

5. Such arrangements should be underpinned by effective liaison between all parts of the States to identify, evaluate, mitigate and monitor risks.

6. In the context of the States, effective use of insurance as a tool of risk management also requires effective liaison with States-owned entities to obtain assurance about their insurance arrangements for the most material risks they face.

Key findings

7. The key findings from my review are as follows:

    - Until recently, there has been little governance oversight of the States' insurance arrangements. The Risk and Audit Committee does not consider insurance issues and there has been no separate insurance board, committee or equivalent to consider strategic and key operational issues. During 2019 the Civil Claims Board was established but it does not have formal terms of reference that reflect its current scope and membership.

    - The States do not have a robust or systematic approach for identifying existing and emerging insurable risks.

    - The States' arrangements for procuring insurance have fallen short of best practice. Whilst I recognise that deficiencies in the procurement practice will not have been the primary driver of an increase in premiums, it is possible that they will have contributed.

    - Officers are aware of some important areas where insurance cover is not fully in place. The arrangements in place for monitoring claims from uninsured risks are improving and the States are taking appropriate action to secure alternative insurance where they are able to do so.

    - In contrast to the good practice information available for claims made against the Minister for Health and Social Services, the States have poor management information on past and current general insurance claims.

- This means that the States do not have up to date information on potential liabilities or the means to identify and learn from the past and from new and emerging issues.

- The mechanism for recharging contributions to departments does not provide any financial incentive for departments to improve their risk management arrangements or seek to reduce the number or financial impact of their claims.

Conclusions

8. The States have recognised that they face significant challenges in developing their arrangements for insurance and have drafted an ambitious and forward-looking Insurance Strategy and Improvement Plan. This is a timely and much needed document.

9. The effective implementation of the Insurance Strategy and Improvement Plan will, however, be dependent on ensuring that the insurance function has the capacity to deliver it and is supported by stronger governance and oversight arrangements for insurance.

10. The focus of the strategy is on developing an improvement programme to address key challenges. As a result, it does not include some areas I would normally expect a strategy for a more mature insurance function to include. As the planned improvements are implemented, the strategy will need to be developed to ensure that it continues to be up to date and relevant.

11. As part of the strategy implementation, the Government of Jersey plans to consider whether to establish a captive insurance company. This follows a review by the States' brokers that concluded that a captive insurance model '*would work in satisfying the strategic and operational drivers of the Government of Jersey'*. A captive insurance company would be responsible for providing insurance for the States, building up reserves, taking out external insurance where appropriate and reimbursing departments suffering losses. It is important that in considering whether to establish a captive insurance company, the States take account of the benefits that can be obtained from improving existing arrangements as well as an assessment of the lessons learned from the recent insurance procurement exercise.

Objectives and scope of the review

12. The review has evaluated the effectiveness of arrangements for:

- governance and oversight;
- identifying existing and emerging risks that might have financial consequences;
- quantifying risk at departmental and corporate level;
- identifying risk appetite;
- developing a clear policy for insurance and self-insurance;
- making informed decisions, taking into account risk appetite, of the quantum and terms for external insurance and self-insurance;
- tendering external insurance;
- ensuring that insurance cover is maintained;
- identifying and managing insurance and self-insurance claims; and
- assessing the adequacy of the arrangements of Specified Organisations (as listed in Schedule 2 of the Public Finances Law) for insurance of the most significant risks that the States face.

13. The review has not extended to:

- a follow up of the recommendations made in the previous C&AG report on risk management;
- the detailed insurance arrangements in place within controlled entities; and
- the operation of the Health Insurance Fund.

Detailed findings

Governance and oversight

14. The insurance function sits within the recently established Risk and Audit Directorate of the Treasury and Exchequer Department. It comprises a full-time risk advisor who has finance and administrative support and who reports to the Director of Risk and Audit. For the last four months of 2019 and the first part of 2020 the advisor post was occupied by an interim member of staff. A permanent risk advisor took up the post in February 2020. The risk advisor is supported by external advice from brokers and other insurance advisors. General insurance claims handling is outsourced. Medical malpractice claims handling sits within the Health and Community Services Department.

15. Other than through the routine line management of the risk advisor, there has, until recently, been little oversight of the States' insurance arrangements. The terms of reference of the Risk and Audit Committee do not refer to insurance and there has been no separate insurance board, committee or equivalent to consider strategic and key operational issues such as:

    - risk appetite;
    - insurance strategy and policies;
    - new and emerging insurance risks;
    - updates on claims that have been received;
    - the adequacy of the Insurance Fund; and
    - whether the current model of insurance is appropriate.

16. During 2019, two officer forums at which insurance issues are discussed have emerged:

    - A departmental risk management group at which insurance issues are considered as part of the wider risk management framework. However, insurance is not referred to in the terms of reference other than to note that representatives of the insurance function will be in attendance.

- The Civil Claims Board was established in early 2019 for officers to discuss and share information about insurance and civil claims. During the year, the areas covered by the Board, the meeting frequency and those attending have evolved. The Board currently meets once every two months and is attended by the Chief Executive, the Treasurer, the Director of Risk and Audit, the Director of the Civil Division and other key officers. The creation of the Civil Claims Board is a welcome development in the monitoring of both insured and uninsured claims. However, the terms of reference of the Civil Claims Board still needs to be updated to reflect its revised scope and membership.

17. A three-year Insurance Strategy and Improvement Plan has been drafted. This is an ambitious, timely and much needed document that sets out three key objectives (See Exhibit 4).

Exhibit 4: Objectives set out in the Insurance Strategy and Improvement Plan

‘Objective 1

To develop a high performance and mature risk managed approach to the management of operational, insurable risk within the Government of Jersey.

Objective 2

To ensure that quality and affordable insurance arrangements which meets the needs of the Government of Jersey are provided and deliver sustainable financial performance of the insurance and self-insurance arrangements.

Objective 3

To deliver effective and efficient insurance services to Government of Jersey departments, its Arm’s Length Organisations and others.’

18. The Insurance Strategy and Improvement Plan recognises that the States face some significant challenges in respect of insurance. These include the increasing cost of premiums, poor information about claims and a perceived lack of understanding by departments about the impact of their actions on risk and insurance costs. The focus of the strategy is, therefore, on developing an

improvement programme that addresses these challenges, including considering whether to establish a captive insurance company.

19. The Insurance Strategy and Improvement Plan sets out actions for each objective but dates for completion have still to be agreed. Given the ambitions set out in the Insurance Strategy and Improvement Plan, once it is approved the States will need to re-assess the level of resources required to deliver and implement it.

20. The Insurance Strategy and Improvement Plan focusses on the future development of the insurance function and does not include some areas I would normally expect a strategy for a more mature insurance function to include. For example:

- there is no reference to the governance arrangements in place including, for example, the respective roles of the Risk and Audit Committee and the Civil Claims Board;

- the Insurance Strategy and Improvement Plan discusses the need to revisit and develop an assessment and use of risk appetite, rather than setting out the States' current assessment of risk appetite and how it is applied; and

- the Insurance Strategy and Improvement Plan does not set out key policies, including for determining:

    - departmental excesses;
    - deductibles;
    - the funding level for the Insurance Fund; or
    - the circumstances in which the Treasurer might exercise discretion in applying the Insurance Fund to meet the cost of uninsured losses.

21. As the planned improvements are implemented, the strategy will need to be developed to ensure that it continues to be up to date and relevant.

Recommendations

R1 Review the governance structure for overseeing insurance. In doing so, the States should:

- consider the role of the Risk and Audit Committee in respect of oversight of insurance. This might include, for example:
  - review of the Insurance Strategy and Improvement Plan;
  - receiving an annual insurance report; and
  - gaining assurance that appropriate insurance arrangements are in place for key risks.
- review existing officer forums that consider insurance issues and ensure that their role and purpose is reflected in their terms of reference; and
- set out the arrangements for approving and monitoring the Insurance Strategy and Improvement Plan.

R2 Agree dates for addressing the actions set out in the Insurance Strategy and Improvement Plan and ensure that there are sufficient resources to deliver and implement it.

R3 Review and update the Insurance Strategy and Improvement Plan as it is implemented.

Identifying existing and emerging risks

22. For the 2019 insurance retendering exercise, the identification of risks was led by the newly appointed insurance broker. Their work in preparing for the retender included:

- discussions with departments and Specified Organisations;
- a detailed analysis of previous claims; and
- the broker's knowledge of industry-wide emerging risks.

23. However, other than this one-off exercise, the States' insurance function does not engage proactively with departments and does not have a systematic methodology for identifying existing and emerging insurable risks. In particular:

- little or no use is made of corporate and departmental risk registers. Departments make annual insurance declarations, but these only provide base data, such as level of expenditure and assets held by departments and so are not a useful source of information for identifying risk; and
- whilst some analysis of claims that have been received is carried out, the claims data provided to the States' claims handlers is in a format that is difficult and time-consuming to analyse. As a result, this analysis is not produced on a regular or timely basis and is not used systematically to inform the insurance function's understanding of risk.

24. There are examples of where the insurance function has identified new and emerging risks (for example, in relation to cyber risks and risks associated with making operating theatres available for surgeons to carry out procedures for private patients). However, these have not been identified as part of a systematic process of review.

25. The Insurance Strategy and Improvement Plan recognises the need for greater engagement with departments and a more systematic approach to identifying new and emerging risks. The strategy proposes:

- increasing the awareness of the insurance function and its activities by departments, for example through developing service level agreements and improving the insurance information available on MyStates;

- carrying out an assessment in consultation with the States' insurers and insurance advisors and for this information to be captured in a register of insurable risk;

- considering the most appropriate way of ensuring that insurance matters are considered early in the development of major programmes and projects;

- investigating procuring an 'in-house' insurance claims management system to improve the insurance function's ability to interrogate claims data; and

- reviewing departmental risk registers to establish the links between identified operational risks and the insurance that should be arranged to mitigate those risks.

Recommendations

R4 Implement planned improvements to increase the awareness and knowledge of departments of the insurance function and its activities by, for example, improving the insurance information available on MyStates and developing service level agreements.

R5 Develop a systematic approach to identifying and documenting existing and emerging insurable risks. As set out in the Insurance Strategy and Improvement Plan, this should include:

- regular reviews of corporate and departmental risk registers;

- developing new processes such as developing and maintaining an insurable risk register;

- considering insurance matters at an early stage in the development of major programmes and projects; and

- more efficient and effective analysis of claims data.

Quantifying risk

26. The Insurance Fund is valued on a regular basis, using actuarial techniques. The last valuation was undertaken in August 2019 by the States' insurance advisors and before that in 2017. These valuations take account of historical claims data, projected outcomes and an estimate of claims that have not yet been reported. The August 2019 valuation concluded that:

- the best estimate of the total historical funding requirement for years 2005 to 2018 was £6.4 million;
- adding a provision for known prior years plus a buffer at 75% confidence increases the total funding requirement to £7.5 million; and
- as at 31 December 2018, the Insurance Fund stood at £6.7 million and so if funding were required for the buffer, the Insurance Fund would have a deficit of £838,000.

27. The States are currently considering a business case for increasing the level of funding, based on the August 2019 valuation. The decision-making process is not supported by a formal policy setting out, for example, whether the funding level should be at best estimate or whether allowance should be made for a buffer and, if a buffer were required, at what level of confidence.

28. The States' claims handlers set a reserve for each claim. This is an estimate of the total liability to be funded (from the departmental excess, the Insurance Fund and by external insurers). An external review carried out by the States' insurance advisors in 2017 concluded that reserves were reasonable with a small amount of "acceptable over-reserving". The information on reserved amounts is collated and analysed by the insurance function and published as part of its quarterly reports.

Recommendation

R6 Put in place and implement a policy for determining at what level of funding the Insurance Fund should be maintained. For example, this might set out whether the funding level should be at best estimate or whether allowance should be made for a buffer and, if a buffer were required, at what level of confidence.

Risk appetite

29. The States periodically commission advisors to estimate their insurance risk appetite. This was most recently carried out in 2019 as part of a risk finance optimisation review which was subsequently used to determine the level of insurance procured in the 2019 retendering exercise. The previous review of insurance risk appetite was in 2013.

30. The Insurance Strategy and Improvement Plan discusses the need to revisit and develop the States' assessment and use of insurance risk appetite in developing the approach to insurance. However, other than this, insurance risk appetite appears to be a concept that is confined to technical reports from advisors on insurance. It is not clear how insurance risk appetite derives from the States' overall risk appetite and risk tolerance levels.

Recommendation

R7 Set out how insurance risk appetite is derived from the States' overall risk appetite. In doing so, consider how risk appetite can be communicated and used to support strategic decisions and wider risk management arrangements.

Policy for insurance and self-insurance cover

31. For insured risks, the States bear an element of self-insurance which is shared between departments and the Insurance Fund. This is achieved through a system of insurance excesses and deductibles:

- **Insurance excesses** – departments incur costs for each claim up to a defined excess. For most insurance classes the excess is £500 but is much higher for medical insurance (£300,000 of which £50,000 is borne by Health and Community Services and £250,000 by Treasury and Exchequer). Amounts above the excess are paid to departments from the Insurance Fund. The Insurance Strategy and Improvement Plan has noted the need to consider whether departmental excesses should be increased.

- **Deductibles** – for each class of insurance, the Insurance Fund bears the cost of all claims up to an agreed deductible. Amounts above the deductible are reimbursed to the Insurance Fund by the external insurers.

- Deductibles for general insurance have been set based on best practice advice from the States' broker as part of the 2019 tender and procurement process. These range from £100,000 to £500,000. Medical malpractice insurance is arranged separately from general insurance. The medical malpractice deductible, based on advice from the States' medical malpractice brokers, is £250,000.

32. The States have not set out their policy for determining excesses and deductibles.

- Without a formal policy for excesses, officers and advisors do not have a framework to consider whether excesses are sufficiently high to provide an incentive for departments to improve their arrangements for risk management but not so high as to expose departments to unacceptable financial losses.

- Determining deductibles is an important part of the process of balancing the expected costs of self-insurance and the likely cost of insurance premiums. I would, therefore, expect the States to set out a formal policy on their approach. This would enable the States to provide clear instructions to their brokers and provide a framework for evaluating recommendations made.

33. In addition to paying the excess for each claim made, departments also bear some insurance costs through contributions to the Insurance Fund. These are set as part of the annual budgeting process. The contributions made by departments do not reflect the costs incurred by the Insurance Fund or how successful departments have been in reducing the number or financial impact of their claims. As a result, the recharging mechanism does not provide transparency for departments to enable them to understand the costs charged or any financial incentive for departments to improve their risk management arrangements. The Insurance Strategy and Improvement Plan has noted the need to consider whether the recharging mechanism should be revised to address this issue.

34. The States are aware of some key risks that are not insured including sea defences and the impact of environmental events. Losses arising from uninsured risks are not funded from the Insurance Fund although I note that the Insurance Fund can be used to fund such risks subject to the approval of the accountable officer. Whilst I understand that the possibility of insuring these risks has been considered, this consideration has not been documented. Nor have the States set out their policy for determining which risks should be insured and those that should remain uninsured or how losses from uninsured risks might be funded.

35. The Insurance Strategy and Improvement Plan notes that the creation of a captive insurance company might provide an opportunity to manage financial losses arising from currently uninsured risks.

Recommendation

R8 Establish and set out policies for insurance, self-insurance and the arrangements for funding. These should include:

- determining which risks should be insured and those that should remain uninsured;
- for insured risks:
  - how departmental excesses and contributions to the Insurance Fund are determined; and
  - how deductibles are set to ensure that they are within the States' risk appetite and provide an appropriate balance between the expected costs of self-insurance and the likely cost of insurance premiums; and
- for uninsured risks, how potential losses are to be funded.

Decision making

36. The decision on the level of external insurance to be procured for 2019 was based on advice from the States' insurance broker following best practice by using costing models that took account of:

- estimates of the States of Jersey's risk appetite;
- the likely frequency and severity of claims; and
- the expected cost of insurance premiums.

37. The States' interim insurance advisor supported the broker's advice with a clear summary of the key issues for the Principal Accountable Officer.

38. Based on an initial feasibility study by the States' insurance brokers, the Insurance Strategy and Improvement Plan proposes that the States consider establishing a captive insurance company. The company would be responsible for providing insurance for the States, building up reserves, taking out external insurance where appropriate and reimbursing departments suffering losses.

39. The feasibility study notes that as well as potential benefits of establishing a captive insurance company, there are substantial set up and running costs. When considering whether to establish a captive insurance company, the States should compare the potential benefits and costs with their current arrangements. This comparison should take account of the improvements that can be made to the Insurance Fund such as those set out in this report and the Insurance Strategy and Improvement Plan.

Recommendation

R9 Consider explicitly the benefits that can be obtained from improving existing arrangements as well as an assessment of the lessons learned from the recent insurance procurement exercise as part of the decision as to whether to establish a captive insurance company.

Tendering external insurance

40. The arrangements for tendering for insurance have fallen short of best practice. Whilst I recognise that deficiencies in the procurement practice will not have been the primary driver of the increase in premiums, it is possible that they will have contributed.

41. Through their insurance brokers, the States negotiated a three-year contract from 1 January 2016 (renewable annually) with their existing insurers for general insurance. Contrary to the requirements of Financial Direction 5.1 (which was in force at the time), there was no open tendering process for this contract. Following issues raised by the insurers in December 2015, the existing contract was extended to 29 February 2016 and the terms of the new contract were renegotiated. On 26 February 2016, the States instructed their brokers to renew the insurance in line with the new terms. A formal request for exemption from Financial Direction 5.1 was not prepared until March 2016.

42. The three-year contract was renewed in 2017 and 2018 and ultimately extended to September 2019 to allow additional time to prepare for a full tendering process. Under Financial Direction 5.1 exemptions were sought and obtained for each annual renewal and the extension. Whilst there were good reasons for exempting the contract from open tendering from January 2016 to September 2019, the exemption forms that I have been provided with show that requests for exemption were made either immediately before or after the renewal date. Similarly, there was no open tendering process for the annual renewal of medical liability insurance between 2016 and 2019 and exemption forms have been completed immediately before or shortly after the start of the contract. I would expect exemptions from procurement arrangements to be obtained in a timely manner. Where an exemption is not obtained before the start of a contract or date of renewal or extension, I would expect a breach to be declared.

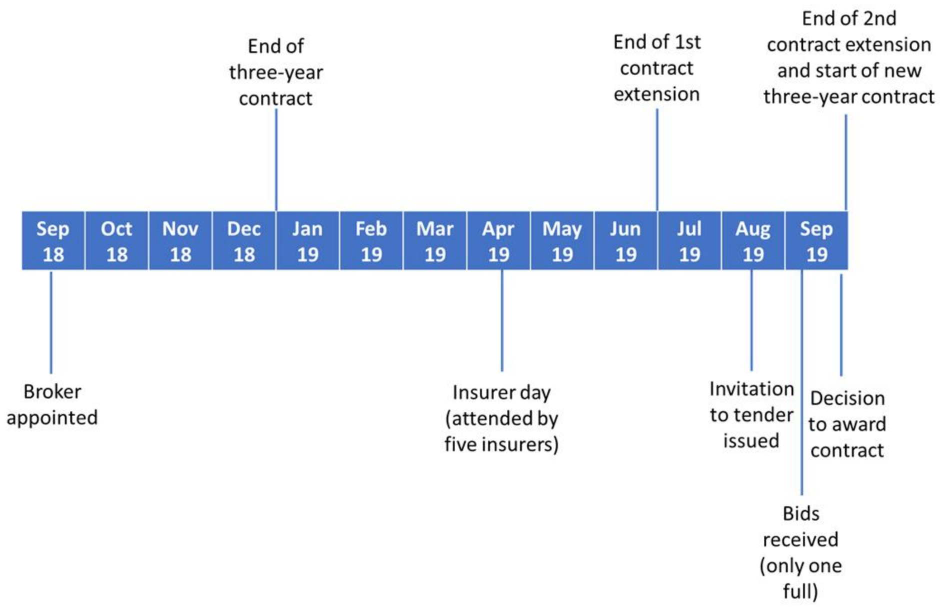
43. A full tendering process for a new three-year general insurance contract took place during 2019. However, only the States' existing insurer responded in full to the tender and proposed a significant increase in premiums for the same levels of cover. The increase was ultimately restricted by the States' acceptance of a higher level of risk, as recommended in the Risk Finance Optimisation Report prepared by the States' brokers.

44. The States were expecting premiums to increase because of market pressures. However, there were a number of deficiencies in the tendering process which may have also contributed to the increased premiums:

- Despite extending the previous insurance contract to nine months beyond its end date, the States were only able to offer a very short time frame for potential bidders to respond to the tender (see Exhibit 5).

- The States had only recently engaged a new insurance broker to lead the procurement process. Had the broker been engaged earlier in the renewal cycle, this would have provided more time for the new broker to fully understand their new client and the existing insurance programme and so ensure their best representation of their client's interests to the insurance market.

Exhibit 5: Timeline for tendering of three-year insurance contract



Recommendations

R10 Undertake a review of the lessons learned from the procurement process for 2019 and develop an action plan to improve the procurement of insurance in future years.

R11 Ensure exemptions from the procurement requirements set out in the Public Finances Manual are obtained in a timely manner. Where an exemption is not obtained before the start of a contract or date of renewal or extension, this should be declared as a breach.

Ensuring insurance cover is maintained

45. The States renew their insurance cover annually and have a record of their insurance premiums from 2005. However, there are some important areas where cover is not in place or may not be fully effective. The arrangements in place for monitoring claims arising from uninsured risks are improving and the States are taking appropriate action to secure alternative insurance where they are able to do so.

Identifying and managing claims

46. Claims made against the Minister for Health and Social Services are handled in-house by the Legal Services Manager who:

- maintains a confidential database recording and tracking all claims and potential claims;
- liaises with medical malpractice insurers, senior management, medical defence organisations and insurers, members of the public and the legal profession; and
- prepares management and internal reports in relation to claims and potential claims and any learning and governance.

47. The States have outsourced their arrangements for claims handling for other insurance claims. A review by the States' insurance brokers in 2019 found that there was a high standard of claims handling with experienced handlers who were thorough and knowledgeable.

48. However, the States do not have adequate management information to manage the claims handling contract or to take preventative action to reduce the incidence or impact of future claims.

49. Service levels and responsibilities of claims handlers are not clearly set out and performance is not monitored as a matter of routine. This limits the ability of the States to hold their claims handlers to account and manage performance.

50. The States are provided with a monthly claims data pack, but this is not in a format that enables easy analysis. As a result, the States do not have complete, relevant or timely information about their claims. This limits the ability of the States to identify new and emerging issues and take preventive action.

51. The insurance function has attempted to collate information from the monthly claims pack and monthly meetings with claims handlers and summarise these in quarterly reports. However, these quarterly reports have limited circulation and do not provide an effective vehicle for management action. For example:

- key issues are not summarised;
- important information is missing, for example the maximum expected loss for very high risk claims;
- where potential areas for improvement are identified, these are not expressed in the form of recommendations or shared with the relevant department; and
- the reports are produced several months after the period to which they relate.

52. The Insurance Strategy and Improvement Plan recognises the need to improve the quality of claims data held by the States and proposes considering whether to procure an in-house insurance claims management system.

Recommendations

R12 Agree service levels for the claims handling contract, how performance is to be monitored and the arrangements for taking remedial action**.**

R13 In deciding whether to bring claims handling in-house for the whole of the States, consider the good practice and learning from the arrangements put in place for claims made against the Minister for Health and Social Services.

R14 Regardless of whether a new in-house insurance claims management system is procured, review the claims information that is available to consider how to provide a more timely and useful analysis. This review should focus on areas where management action might be needed, set out clear recommendations and be communicated to those responsible for implementing improvements.

Arrangements for Specified Organisations

53. Specified Organisations are listed in Schedule 2 of the Public Finances Law and comprise:

- Andium Homes Limited and its subsidiary companies (if any);
- Jersey Post International Limited and its subsidiary companies (if any);
- JT Group Limited and its subsidiary companies (if any);
- Ports of Jersey Limited;
- States of Jersey Development Company Limited and its subsidiary companies (if any); and
- Jersey Overseas Aid Commission.

54. The States' requirements for their Specified Organisations are set out for each organisation in memoranda of understanding. These require each organisation to *'take out and maintain in effect'* appropriate insurance. However, the overarching requirements of the memoranda of understanding are not supported by service level agreements setting out responsibilities of the States, the insurance brokers and the Specified Organisation. The Insurance Strategy and Improvement Plan recognises the need to put such service level agreements in place.

55. Accountable Officers for Specified Organisations provide annual insurance declarations but the States do not review or monitor the arrangements put in place. As a result, the States do not have assurance that Specified Organisations have insurance arrangements in place or that they are within the States' risk appetite.

56. In practice the States provide core insurance requirements (in respect of office buildings, for example) and the cost is recharged in full to the Specified Organisations. Where Specified Organisations require additional insurance,

they do so either through the States’ insurance brokers or by making their own arrangements.

Recommendation

R15 Agree responsibilities, service levels and monitoring arrangements for insurance with Specified Organisations. These should include the arrangements for providing the States with assurance that Specified Organisations manage their insurance risks within the States’ risk appetite.

Appendix One

Audit Approach

The review included the following key elements:

- review of relevant documentation provided by the States; and
- interviews with key officers within the States.

The documentation reviewed included:

- the Insurance Strategy and Improvement Plan;
- reports from brokers and other professional advisors including on the Insurance Fund, risk finance optimisation, captive feasibility (2013 and 2019) and claims handling;
- procurement documentation including the Report to Principal Accountable Officer on the outcome of the 2019 Government of Jersey insurance renewal tender and exemption certificates;
- memoranda of understanding of Specified Organisations;
- terms of reference, agendas and minutes of relevant meetings; and
- other internal documentation including Insurance Performance Quarterly Reports, summary of premiums and broker fees and insurance recharging calculations.

The following officers were interviewed:

- Director, Risk and Audit
- Director, Treasury and Investment Management
- Director, Civil Division
- Senior Accountant, Insurance Management

- Legal Services Manager, Health and Community Services
- Interim Risk Advisor, Insurance
- Enterprise Risk Manager
- Chief Internal Auditor

I would like to thank all officers who have contributed to this report.

The fieldwork was carried out by an affiliate working for the Comptroller and Auditor General.

Appendix 2

Summary of recommendations

R1 Review the governance structure for overseeing insurance. In doing so, the States should:

- consider the role of the Risk and Audit Committee in respect of oversight of insurance. This might include, for example:
  - review of the Insurance Strategy and Improvement Plan;
  - receiving an annual insurance report; and
  - gaining assurance that appropriate insurance arrangements are in place for key risks.

- review existing officer forums that consider insurance issues and ensure that their role and purpose is reflected in their terms of reference; and

- set out the arrangements for approving and monitoring the Insurance Strategy and Improvement Plan.

R2 Agree dates for addressing the actions set out in the Insurance Strategy and Improvement Plan and ensure that there are sufficient resources to deliver and implement it.

R3 Review and update the Insurance Strategy and Improvement Plan as it is implemented.

R4 Implement planned improvements to increase the awareness and knowledge of departments of the insurance function and its activities by, for example, improving the insurance information available on MyStates and developing service level agreements.

R5 Develop a systematic approach to identifying and documenting existing and emerging insurable risks. As set out in the Insurance Strategy and Improvement Plan, this should include:

- regular reviews of corporate and departmental risk registers;

- developing new processes such as developing and maintaining an insurable risk register;
- considering insurance matters at an early stage in the development of major programmes and projects; and
- more efficient and effective analysis of claims data.

R6 Put in place and implement a policy for determining at what level of funding the Insurance Fund should be maintained. For example, this might set out whether the funding level should be at best estimate or whether allowance should be made for a buffer and, if a buffer were required, at what level of confidence.

R7 Set out how insurance risk appetite is derived from the States' overall risk appetite. In doing so, consider how risk appetite can be communicated and used to support strategic decisions and wider risk management arrangements.

R8 Establish and set out policies for insurance, self-insurance and the arrangements for funding. These should include:

- determining which risks should be insured and those that should remain uninsured;
- for insured risks:
    - how departmental excesses and contributions to the Insurance Fund are determined; and
    - how deductibles are set to ensure that they are within the States' risk appetite and provide an appropriate balance between the expected costs of self-insurance and the likely cost of insurance premiums; and
- for uninsured risks, how potential losses are to be funded.

R9 Consider explicitly the benefits that can be obtained from improving existing arrangements as well as an assessment of the lessons learned from the recent insurance procurement exercise as part of the decision as to whether to establish a captive insurance company.

R10 Undertake a review of the lessons learned from the procurement process for 2019 and develop an action plan to improve the procurement of insurance in future years.

R11 Ensure exemptions from the procurement requirements set out in the Public Finances Manual are obtained in a timely manner. Where an exemption is not obtained before the start of a contract or date of renewal or extension, this should be declared as a breach.

R12 Agree service levels for the claims handling contract, how performance is to be monitored and the arrangements for taking remedial action.

R13 In deciding whether to bring claims handling in-house for the whole of the States, consider the good practice and learning from the arrangements put in place for claims made against the Minister for Health and Social Services.

R14 Regardless of whether a new in-house insurance claims management system is procured, review the claims information that is available to consider how to provide a more timely and useful analysis. This review should focus on areas where management action might be needed, set out clear recommendations and be communicated to those responsible for implementing improvements.

R15 Agree responsibilities, service levels and monitoring arrangements for insurance with Specified Organisations. These should include the arrangements for providing the States with assurance that Specified Organisations manage their insurance risks within the States' risk appetite.

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