

Date: 13 March 2017

Item: Long Term Insurance Renewal 2017

This paper will be considered in public

1 Summary

- 1.1 As requested by members of the Committee, this paper outlines TfL's overall insurance position and describes the proposed postponement of re-marketing our main insurance policies, which are in a long term agreement, for one year from July 2017 to July 2018, as well as continuing the appointment of our third party administrator (TPA) who manages all liability insurance claims on our behalf.

2 Recommendation

- 2.1 **The Committee is asked to note the paper.**

3 Background

- 3.1 TfL buys a number of compulsory and discretionary classes of insurance, in addition to self-insuring a number of risks where it is better value for money to do so. The overarching strategy also considers contractual obligations, the risk profile of the nature and potential of risks and claims that may arise during the financial year relative to the price, terms and scope of purchasing insurance coverage versus self-insuring. Those insurances are shown diagrammatically in Appendix 1.

- 3.2 Compulsory insurances include:

- (a) Employers' Liability insurance – the Employers' Liability (Compulsory Insurance Act) 1969 requires a minimum of £5m annual insurance cover in respect of the organisation's legal liability to employees in the event of death, injury or sickness arising out of negligence or breach of statutory duty;
- (b) Motor Third Party insurance – required for our fleet vehicles, Dial-a-Ride, hydrogen buses and London Transport Museum vehicles; and
- (c) Public Liability insurance – a minimum level of cover of £155m is required as a condition of our operator's licence from the Office of Rail and Road (ORR) to cover claims from third parties for death, injury or damage to property caused by negligence.

- 3.3 Discretionary insurances include:

- (a) Property;
- (b) Construction;

- (c) Third Party Liability;
 - (d) Crime;
 - (e) Directors' and Officers' Liability; and
 - (f) Pension Trustees' Liability.
- 3.4 Terrorism cover and insurance for other risks such as cyber-attacks are not compulsory requirements and those risks are considered when looking at the potential threats, together with the best ways to mitigate those risks financially (such as through contractual risk transfer) above and beyond the operational measures to prevent such incidents from occurring. These risks will, however, form a key part of the strategic review into our insurances referred to below.
- 3.5 Terrorism cover is kept under review, taking into account the possibility of emergency financial assistance that the Secretary of State may provide under section 104 of the Greater London Authority Act 1999 in the event of a disaster.

4 Insurance Programme Structure

- 4.1 London Transport Insurance (Guernsey) Limited (LTIG) is an insurance company domiciled in Guernsey and is a wholly-owned subsidiary of TfL. It was established in 1994 for the sole purpose of enabling TfL and its predecessor bodies to purchase insurance in a more cost-effective manner than relying solely on commercial insurers.
- 4.2 LTIG provides the first level of insurance cover for our Property, Liability and Construction insurance policies above the deductibles (excess) borne by the business, with commercial insurers providing insurance thereafter and also providing protection to cap LTIG's loss should the aggregate of its losses in any given year exceed a specified amount.
- 4.3 LTIG was also used, up until 2015, to purchase terrorism cover from Pool Re as the reinsurer for TfL as only insurance companies are permitted to do so. Pool Re was founded by the insurance industry in cooperation with, and backed by funding from Her Majesty's Treasury, to form a private sector solution to a public policy objective to offer terrorism insurance.
- 4.4 Insurance is generally placed on a three to five year basis by our broker, Aon, to cover our main policy programmes of Property, Liability and Construction insurance beyond the initial level of cover provided by LTIG. Current premiums are £4.2m, £5.4m and £1m per annum respectively. The insurances placed in 2014 are due to expire in July this year but can be extended for a further period of one year.

5 Major Claim

- 5.1 After the recent tram derailment in Croydon, we have been working very closely with all parties involved in handling the insurance claims arising from this tragedy. Both the Liability and Property programmes are involved.

- 5.2 Our brokers have recommended that, in light of the current situation when we are actively dealing with a large claim in the insurance market with our current insurers under existing policies, we extend the current agreement for another year whilst our main insurers respond to the claims arising.
- 5.3 For the same reason, we propose to extend the contract with the TPA for one year to June 2018.

6 Strategic Review of TfL's Insurance Programmes

- 6.1 TfL is currently undertaking a strategic review of our insurance programmes and associated services, which, as well as informing the long term insurance arrangements and TPA going forward, will look at the use of our captive insurer as well as current self-insured risks. We propose to report to the Finance Committee within the next months on the outcomes of the review and our proposed updated approach.

List of appendices to this report:

Appendix 1 – Insurance Programme Table

List of Background Papers:

None

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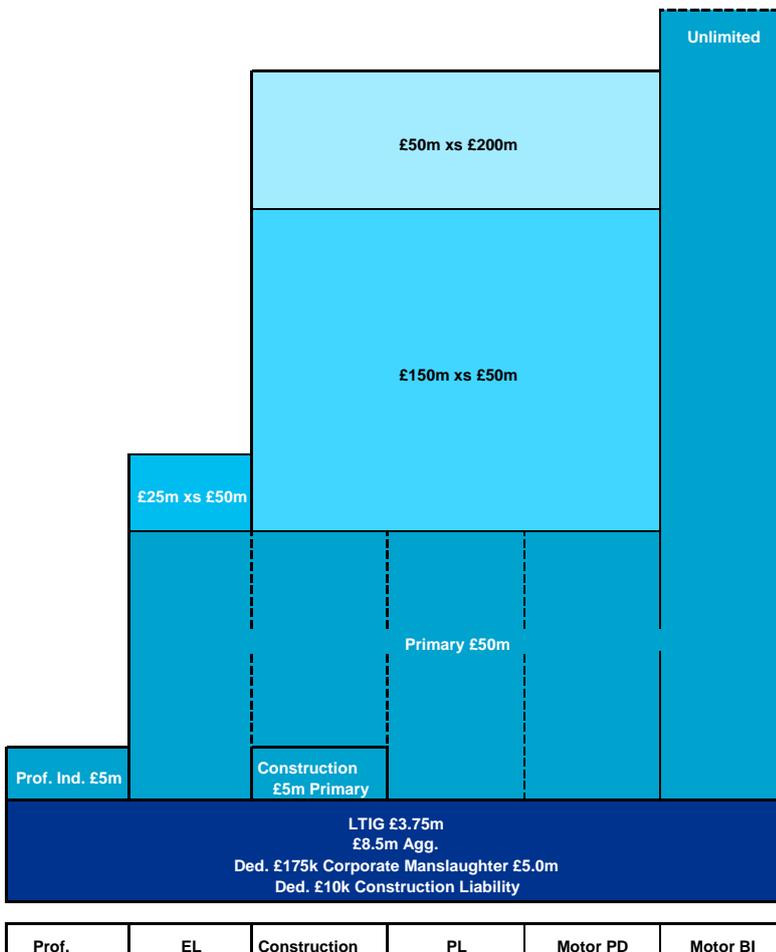
Appendix 1

Property Programme

Construction Programme



Liability Programme



Financial Lines Programme

