Internal Audit Report

Insurance Services

30 June 2023

CS2203

Overall Assessment	Substantial Assurance

Contents

Executive Summary

Overall opinion and summary of findings

Our review found that there is a generally sound system of governance, risk management and control in place in relation to Insurance Services within the Council, with the foundations of an effective insurance process clearly established.

The Insurance Manager and Assistant Insurance Manager have taken proactive steps to improve the efficiency and effectiveness of the Council's insurance services in recent years. This has resulted in a well organised insurance process which addresses the key areas we expect organisations to consider in establishing an effective process.

The recommendations in this report aim to provide opportunities for the Council to build on these foundations and continue to take the insurance process to the next level of maturity.

- **Raising the profile of insurance services within the Council** – there is widespread praise for the way the current Insurance team has raised the profile of insurance and enhanced interactions across Services – this was highlighted consistently by key stakeholders. There are opportunities to build on this further through internal marketing / training initiatives or the planned updates to the Orb (intranet) pages.

- **Linkage between insurance and the corporate risk management process -** the Insurance team is keen to establish a close relationship with the Corporate Risk Team, the structure of which is currently being reviewed. Best practice examples of how the Council might further formalise the link between insurance and the wider risk management approach are provided.

- **Cyber insurance and risk:** the cyber insurance market is a challenging environment, particularly in relation to local government. Some emerging areas and developments which we recommend the Council closely monitors are outlined.

Areas of good practice

- High levels of specialist insurance, claims & public sector experience shown by the Insurance team (not always evident in teams in other organisations).

- The Insurance team is viewed as approachable and proactive helping across the Council to highlight and solve specific insurance and claims-related issues.

- The Insurance team has clear objectives for next steps, including developing further the "self-serve" insurance information on Orb, drafting an insurance strategy for the tender process which incorporates the wider risk appetite of the Council, and improving access to the claims handler's online systems.

- An insurance contracts register is held, and Long Term Agreements are tracked closely to ensure renewal on expiry.

- The Council has proactively built resilience into the Insurance team by appointing a Senior Insurance Officer and strengthening key processes.

- Key insurance decisions (e.g., cover to purchase, size of limits/deductibles) are made through a wide-ranging governance process which includes input from the Head of Finance, Corporate Leadership Team, and the Finance & Resources Committee.

- Further automated functionality has been brought into the claims management system and there is a logical approach to the restrictions placed on insurance claims data on systems.

- The Council has built a proactive and value-adding relationship with Aon, who recognise improved engagement from the Council in recent years.

- The topics of insurance discussions are evolving to reflect the latest risk profile of the Council, e.g., recent consideration of cyber insurance.

- A recent tender exercise in relation to Edinburgh Trams was well received by the insurance market and the Trams team.

- The Insurance Manager chairs ALARM Scotland - a professional membership association which supports risk and insurance professionals – which provides opportunities for networking and technical discussions.

Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority Rating
1. Insurance Management Framework	🟢	🟢	Finding 2 – Linkage between insurance and the corporate risk management process	Advisory
			Finding 3 – Cyber insurance and risk	Advisory
2. Insurance Claims	🟢	🟢	No findings	N/A
3. Training and Awareness	🟢	🟢	Finding 1 – Raising the profile of insurance services within the Council	Low Priority

See Appendix 1 for Control Assessment and Assurance Definitions

Internal Audit Report: CS2203 – Insurance Services

Background and scope

The Council's insurance process and programme reflect the unique and evolving risk exposures of the organisation. The annual insurance premium now represents a significant cost and stands at over £2.5m, with significant sums also spent on retained losses (i.e., below insurance policy deductibles).

Key covers include (but are not limited to) Property, Motor, Public Liability, Employers Liability, Medical Malpractice, Professional Indemnity and Personal Accident & Travel. These are placed with a variety of insurers/managing agents (including AIG and QBE/RMP). Significant policy deductibles (up to £1m) mean that the Council retains portions of risks before they are transferred to the insurance market.

The Council's Insurance team sits within the Finance & Procurement element of the Corporate Services Directorate. The Insurance team comprises an Insurance Manager, Assistant Insurance Manager, a Senior Insurance Officer and two Insurance Officers. It is supported by the insurance brokers - Aon - and other key external parties (e.g., claims handling agents and loss adjustors). A broker tender process is planned in 2026.

The next tender for insurance is due in early 2024. The Council's key policies tend to take the form of long term agreements (LTAs) spanning several years. We highlight that the recent and ongoing hardening in insurance market premiums (which has led to premiums increasing and insurance terms becoming more onerous for certain covers) and the Covid-19 pandemic have provided a challenging backdrop for the insurance process. The capacity available in the Public Sector insurance market continues to be more restricted than its commercial counterpart.

The Council deals with a variety of insurance claims/incidents, with pothole and public liability claims being particularly prevalent. Reserve funds are held in relation to Liability and Property exposures.

Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key controls established to ensure the Council manages its insurance needs appropriately.

Risks

- Strategic Delivery
- Financial and Budget Management, Programme and Project Delivery
- Health and Safety (including public safety)
- Resilience, Reputational Risk
- Technology and Information

Limitations of Scope

The following areas were excluded from scope:

- The Council's approach to accounting for insurances and associated insurance claims (we note this is a wider finance requirement governed by LASAAC accounting guidelines).
- Assurance on whether the current insurance policies provide best value to the Council (which is determined through the Council's governance and procurement processes).
- Reviewing individual insurance claims to assess if they have been managed appropriately.

Reporting Date

Testing was undertaken between May and June 2023.

Our audit work concluded on 27 June 2023, and our findings are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Raising the profile of insurance services across the Council

Finding Rating	Low Priority

Fieldwork discussions with a range of stakeholders highlights widespread recognition for the way the insurance team has raised the profile of insurance and enhanced interactions with different Council services. Whilst some stakeholders agree these interactions and associated training activities meet their needs, some Services team members are keen that this momentum is built on.

This could be achieved through consideration of the following areas as part of future internal insurance marketing and training initiatives or as part of the planned updates to the insurance intranet / Orb contents.

It was also noted that incorporating consideration of insurance into projects earlier would be beneficial. The Insurance Manager has regular interactions with those leading larger scale projects. However, discussion with some Service Directors highlights that they are keen to understand how they can further support the Insurance team with recognition that insurance plays an important role in many projects but is not always considered sufficiently early as part of the project process (a view also shared by the insurance team).

Risks

- **Strategic Delivery –** some services may not fully understand how insurance works at the Council and/or provide inaccurate or late information to the Insurance team.

Recommendations and Management Action Plan: Raising insurance services profile

Ref.	Recommendation	Management Action	Action Owner / Lead Officer	Timeframe
1.1	The Council should consider inclusion of the following areas within future internal insurance marketing and training initiatives or as part of the planned updates to the insurance content on the Orb. • Providing an overview (at a high level) to aid understanding of what key insurance policies do (and do not) cover, including any key policy terms, exclusions, or compliance obligations relevant to specific teams. • Setting out the specific triggers for when to engage the Insurance team on specific insurance or claims matters to ensure specialist input is sought. • Getting the Insurance team's expert view on what insurance/claims-related training (either internal or external) certain individuals/teams should be doing and making this mandatory where needed (where it is not already). • Providing information to support understanding of the rationale for specific self-insurance / deductible levels and why they were chosen.	As this was in the Insurance Managers objectives for 2023/24, work has started on a review of the pages on the Orb with a view to making them more explanatory and empowering for services to access. Significant training has already been delivered over the past year across the Council in relation to contract risks.	**Owner:** Deborah Smart, Executive Director of Corporate Services **Lead:** Ruth Kydd, Insurance Manager	31/01/2024

			Owner	
	• Guidelines on when and how new properties/assets or exposures (or changes to existing ones) should be updated or added to policies, which should reduce the likelihood that exposures are added at a late stage (as the Insurance team is reliant on different Services communicating when things change). This could also represent a standing agenda item in the regular meetings with Property Services and other relevant teams. • Building on the established claims reporting to Corporate Leadership Team to support teams in understanding on the Council's stance on claims defensibility and its importance.			
1.2	It is recognised that the Insurance team does not have capacity or a need to get involved in all projects across the Council, however the Council should consider ways to include consideration of insurance earlier as part of projects where beneficial including: • providing clarity on the triggers which should lead to the Insurance team being involved in discussions, e.g. project size/type, stage of project, involvement of key partners (such as Network Rail), etc. • establishment of a high level "insurance principles" document for use in specific circumstances, for example a new vehicle being purchased, or a new building being purchased/built. This could include key initial insurance considerations for the relevant teams to ensure cover is considered or specialist input from the insurance team is sought.	This will form part of the Orb pages with information around each area.	**Owner:** Deborah Smart, Executive Director of Corporate Services **Lead:** Ruth Kydd, Insurance Manager Key Project Officers/Leads (to support on project-related recommendations)	31/01/2024

Finding 2 – Linkage between insurance and the corporate risk management process

Finding Rating	Advisory

The Insurance Manager is a member of various senior forums across the Council which enables the Insurance team to keep up to date with key risk developments. Insurance is also a key area of risk within the Corporate Services Risk Register and is discussed at the directorate risk committee.

The Council is currently reviewing the structure of its Corporate Risk team, which presents an opportunity to further enhance interactions between insurance and risk management in the Council. The Insurance team is keen to form a close relationship with the Corporate Risk Team once it is established.

Fieldwork discussions with the Council's broker also highlights that they would welcome the opportunity to have more targeted strategic discussions on future and emerging risks.

Some practical examples of how the Council could formalise the link between insurance and the wider risk management approach from a strategic and operational risk management perspective are provided.

Recommendations and Management Action Plan: Insurance and risk management

Ref.	Advisory Recommendations
2.1	The Council should consider ways to strengthen and formalise the link between insurance and the strategic risk management approach. This could include commentary within the Council's Enterprise Risk Management Policy (and any supporting strategic risk documents) to reflect the role of insurance within the wider risk management framework, for example as a key treatment option for risks.
2.2	The Insurance team should work with the Corporate Risk team and Services to further strengthen and formalise the links between insurance and wider operational risk management across the Council. This should include reviewing the risk registers as part of the future annual insurance tender/renewal processes, to identify which risks may be insurable in nature, to identify any recent changes to the risk register and whether they might impact on the insurance portfolio/structure.
	Risk registers and emerging /future risks should also be discussed with the broker as part of a pre-renewal strategic discussion, adding an external viewpoint on key risks.

Finding 3 – Cyber risk and insurance

Finding Rating	Advisory

Cyber insurance (and the wider financing of cyber risk) has become a key challenge for organisations of all types, with difficult insurance market conditions making it harder than ever to secure appropriate and affordable cover. From an insurer perspective, increasing numbers of ransomware attacks and business interruption claims has resulted in cyber becoming a less profitable area of insurance for them in recent years. Insurers are therefore being much more selective when it comes to taking on risks.

The local government / public sector market for cyber insurance is particularly challenging. Through working closely with both insurance buyers and the insurance market (insurers, underwriting teams and brokers), it is clear that cyber insurance premiums are often increasing - sometimes significantly, with many in the market unable to secure cyber insurance quotes.

Policy terms, sub-limits and co-insurance are also often being reviewed by insurers frequently. The "underwriting bar" has shifted with organisations often needing Multi-Factor Authentication (MFA) and Endpoint Detection and Response (EDR) in place to get a quotation.

Organisations are now seeking not only the financial protection cyber insurance can offer, but the extended services policies can provide, for example pre and post breach support.

There are a number of emerging / new insurance products, such as "active" insurance options which aim to combine insurance coverage with practical security support for insureds in relation to risk assessment, protection and response capabilities.

Parametric insurance products are also starting to be developed in the cyber space. These pay out when specific parametric measures (such as amounts of downtime or amount of suspicious activity) are triggered, though these are initially being marketed predominantly in the commercial sector.

Cyber insurance is only one way to finance overall cyber risk and the current market conditions are leading many organisations to increasingly explore other means of financing their cyber risk, e.g. self-insurance. Many are finding that quantifying the risk in financial terms (at least at a high level through scenario analysis) can help to bring some clarity to the size of potential risk exposures.

Discussions with the Insurance team noted that the outsourcing of ICT to CGI, the Council's ICT delivery partner, means that any potential procurement may be challenging as the terms of the contract are commercially sensitive. Through the Insurance team, the Council currently has explored options to complete a proposal form however have not yet determined whether the risks are sufficient to require the procurement of a standalone cyber insurance policy. This is a useful example of the Council being proactive in monitoring key emerging risks.

Participation in ALARM Scotland also provides the Council with regular opportunities to hear updates on the cyber insurance market within the public sector space.

Recommendations and Management Action Plan – Cyber insurance

Ref.	Advisory Recommendation
3.1	The Council should continue to review developments in the cyber insurance market (and wider cyber risk financing space) so that it can regularly compare the pros and cons of purchasing cyber insurance and opting for alternative risk financing measures on this important and topical area.

Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed	🟢	Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory	🟢	Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity	🟠	Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity	🔴	Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	**N/A**	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings	
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.