

Date: 8 December 2015

Item: TfL Insurance Position

This paper will be considered in public

1 Summary

- 1.1 This paper sets out TfL's insurance arrangements and strategy as requested by the Committee at its meeting of 8 October 2015, and is the first of what will be annual papers to be presented to the Committee.
- 1.2 A paper is included on Part 2 of the agenda which contains exempt supplemental information and documentation. Subject to the decision of the Committee, this paper is exempt and is therefore not for publication to the public or press by virtue of paragraph 7 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to action which might be taken in relation to prevention, investigation or prosecution of a crime.

2 Recommendation

- 2.1 **That the Committee notes the paper and the supplementary information on Part 2 of the agenda.**

3 Background

- 3.1 TfL's insurance programme is designed to provide protection against the more severe losses, while retaining an acceptable level of risk within the business.
- 3.2 The principal vehicle for the retention of risk for the major classes of business, namely Property, Casualty (being Employer's and Third Party Liability) and the annual construction insurance is TfL's wholly-owned insurance subsidiary, London Transport (Insurance) Guernsey (LTIG) which provides cover above the excesses or deductibles retained within the business.
- 3.3 LTIG was established in 1994 by permission of HM Government with the purpose of reducing the cost of insurance to TfL's predecessor bodies, and has made underwriting and operating profits in every year of its existence, apart from one.
- 3.4 It has no employees of its own but is managed by managing agents who report to a Board which currently comprises three local non-executive directors and two from TfL.
- 3.5 TfL then purchases insurance above the levels of risk retained by LTIG from the commercial market, using an insurance broker, currently Aon, as consultant, to help determine the most appropriate insurers having regard to their financial security, premium terms, quality of service, and claims service. The appropriate level of risk retained within LTIG is determined by its capital strength and periodic

actuarial studies of potential claims levels, which allows the brokers to obtain the best terms from commercial insurers in the light of the insurers being protected from all but a catastrophic loss. Insurers also provide aggregate protection to cap LTIG's or TfL's potential losses in any one year.

4 Insurance Programme in Detail

- 4.1 Property Damage for TfL's assets is provided on an All Risks basis, with a loss limit per occurrence of £400m, and an annual aggregate limit of £1bn, based on an analysis of TfL's largest exposures. LTIG provides cover above the business deductibles to a total of £10m each and every occurrence and in the annual aggregate, with the commercial market providing the balance
- 4.2 The first £3.5m each and every occurrence, above the business deductible, limited to an annual aggregate of £9.5m for Third Party and Employer's Liability, is provided by LTIG, with commercial insurers providing the balance of cover up to a limit of £250m any one occurrence, unlimited in the annual aggregate. This also provides Third Party Liability insurance for construction projects placed within the annual construction insurance programme.
- 4.3 TfL's default position is that we will arrange insurance for construction projects. Those that fall within certain parameters are insured by an annual construction insurance programme. LTIG takes the first £1m of each loss, limited to £3m in the annual aggregate, with the commercial market providing cover above those limits. This cover is intended for the LUL CAPEX works, and for Surface Transport works where no significant tunnelling or heavy civils work is involved. More complex works, such as the Northern Line Extension, Tottenham Court Road, Bond Street and Victoria station projects are covered by project-specific insurance arrangements, not involving LTIG.
- 4.4 There are a number of other insurance covers, the principal ones being Motor Liability for the TfL fleet vehicles, Crime, Directors' & Officers' Liability, and Pension Trustees' Liability, which are all insured solely with commercial insurers.
- 4.5 The main insurance policies are currently subject to a three year agreement with insurers, providing guaranteed premiums and scope of coverage, subject to certain conditions, until expiry of the agreement on 30 June 2017. In advance of that date, a full marketing exercise will be carried out to identify the most suitable insurance programme design, and the best available terms.
- 4.6 A structure chart for the main insurance covers is attached as Appendix 1, and a copy of Aon's current Broking Strategy Paper, which explains TfL's current insurance strategy in greater detail, is included as Appendix 2.

5 Claims

- 5.1 TfL has made no claims for asset damage from commercial insurers since the terrorism attacks in July 2007, where approximately £10m was recovered. Prior to that, some £26m was paid by insurers for the Telstar House fire in 2004. There have been no other significant Property Damage losses since the Kings Cross fire in 1987.

- 5.2 TfL has made no claims for third party or employer's liability from commercial insurers since the Kings Cross fire in 1987. Annual claims average around £6.5m in total, with few claims even exceeding the deductible, currently £175k, and thereby breaching the threshold for coverage by LTIG.
- 5.3 TfL engages loss adjusters to investigate the more serious or complex asset damage incidents, and in the event of their forming insurance claims, and where insurers' liability is agreed, to achieve settlement from insurers. In the event of a major incident out of normal office hours, the loss adjusters provide a 24 hour service.
- 5.4 Similarly, TfL uses independent claims handlers to investigate all third party or employee incidents which either form claims or have the capacity to do so. TfL engages external solicitors for claims involving litigation, or where specialist legal advice is required.

6 Current Issues

- 6.1 Group Insurance is considering whether specific insurance for cyber risk is required. TfL has some cover for first party losses under the Crime cover, but liability to third parties arising from cyber events is excluded from the Third Party Liability cover. IM are currently undertaking a detailed risk assessment, and when this is available we hope to work with them to identify any significant exposures where insurance can act as an effective mitigation, beyond any measures put in place to control them.

List of appendices to this report:

Appendix 1: Structure Chart for TfL's insurance programme

Appendix 2: Broking Strategy Paper

Exempt supplemental information is included in a paper on Part 2 of the agenda.

List of Background Papers:

Summary of current significant open claims

LTIG Full Year Report and Accounts 2014/15

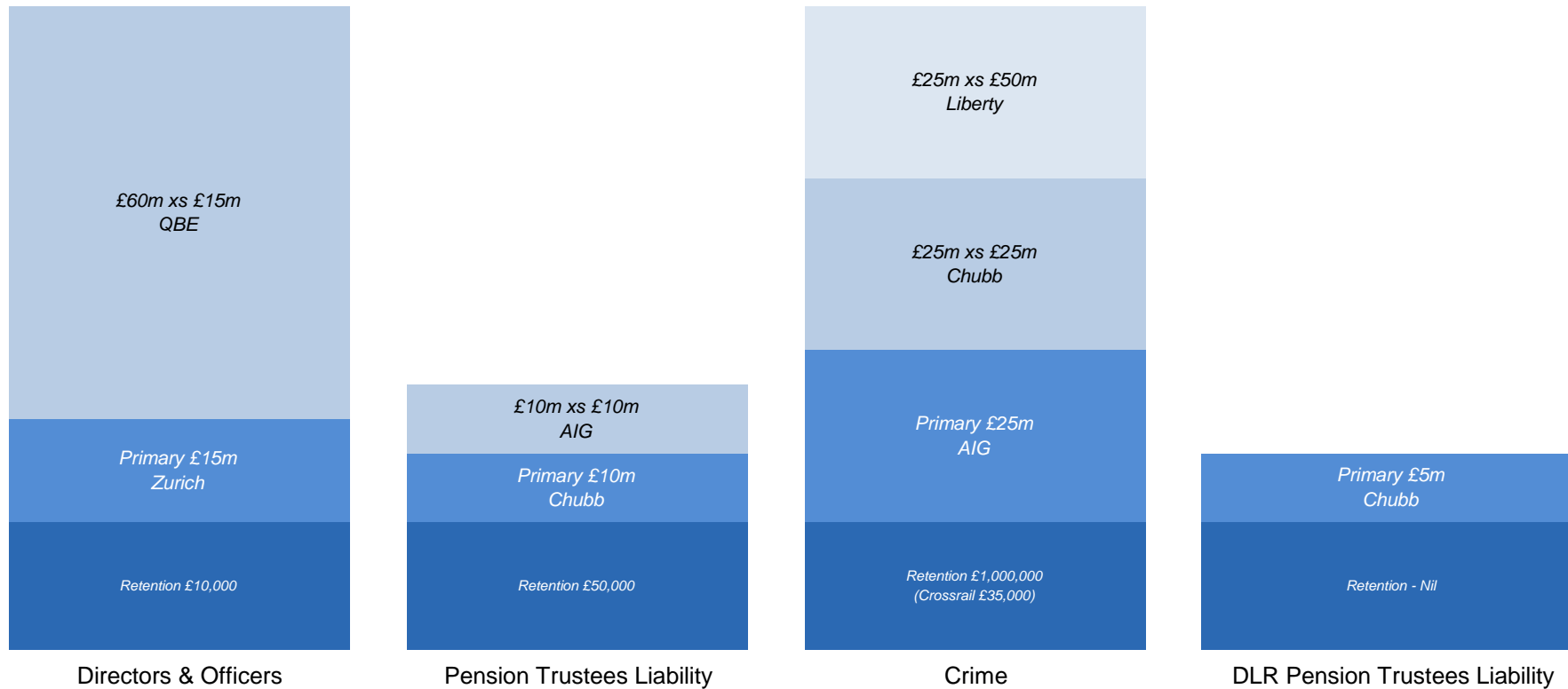
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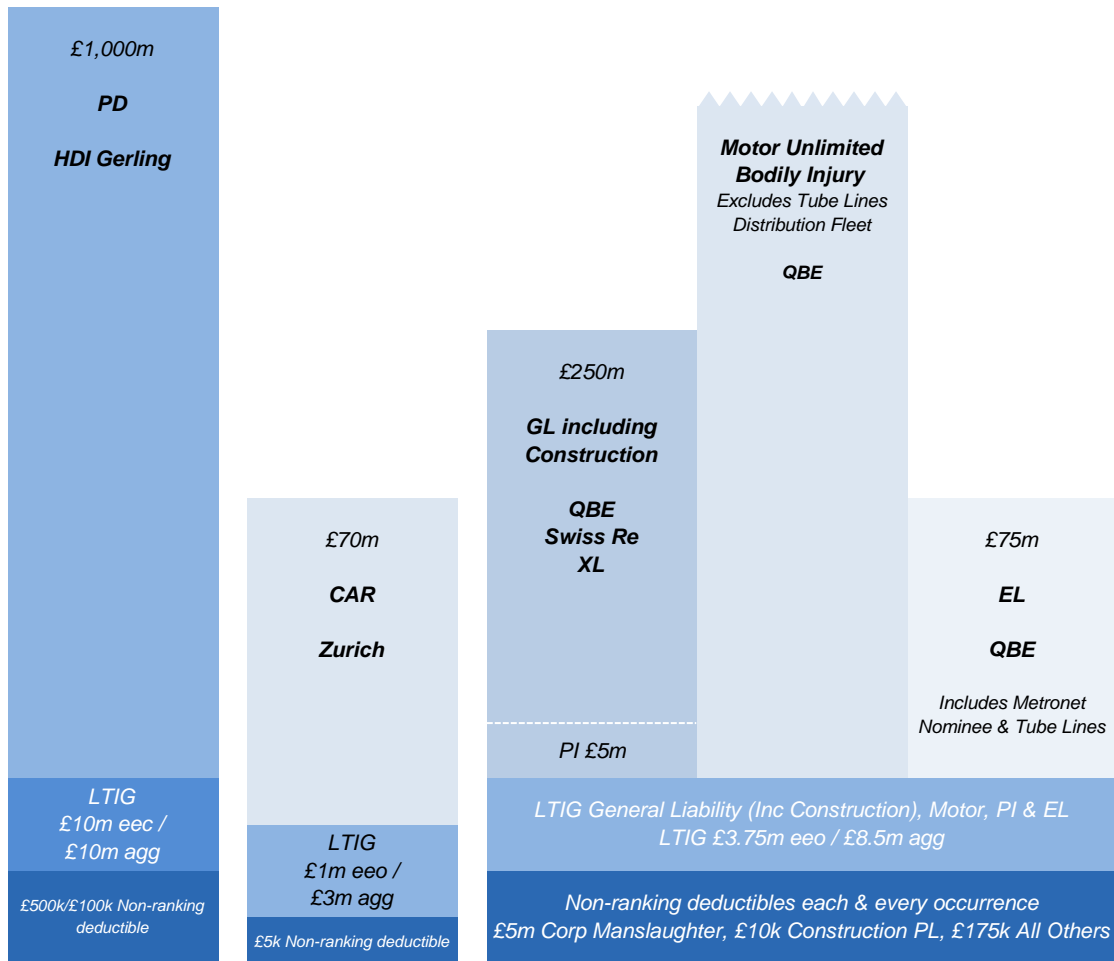
Financial Lines Insurance Programme Structure Chart

Appendix 1



Primary £15m D&O Zurich
 Excess D&O £60m xs £15m QBE
 Primary £10m Pension Trustees Chubb
 Pension Trustees £10m xs £10m AIG
 Primary £5m Pension Trutees (DLR) Chubb
 Primary £25m Crime AIG
 Crossrail Crime Deductible Buy Down AIG
 Excess Crime £25m xs £25m Chubb
 Excess Crime £25m xs £50m Liberty

Insurance Programme Structure (Property, Casualty and Construction)



Note: Reinsurance for the Property Programme arranged with a limit of £400m.



UNDERGROUND

Transport for London

2015 Broking Strategy Paper

June 2015

Introduction

This paper codifies the numerous work streams and activities either, in track, pending or indeed planned as preparation for the next full review of Transport for London (TfL) Risk Financing Programme structure, namely the expiring of the main insurance programmes at renewal 2017.

The background context is the very successful outcome of the 2014 insurance programme renewal's, namely:

- Total Cost of Risk (TCoR) saving of £2,189,603 from the Property, Casualty and Construction programmes (the overall external premium reduction for Property/Casualty and Construction being 25% of the expiring spend)
- Property, Casualty and Construction programmes placed into three year long term deals to coincide with both the expiry of the Primary Casualty QBE programme and the opportunity to include the Crossrail operational programme in the 2017/18 renewal/programme negotiations
- UK Power Networks and Docklands Light Railway Property policies being incorporated within the programme structure
- The purchasing within the premium savings of an additional Property programme layer, increasing the limit to £400m and an additional Casualty programme layer increasing the limit to £250m.
- Repositioning of London Transport Insurance (Guernsey) Limited (LTIG) on the Property programme from £5m each and every loss with £10m in the annual aggregate to £10m each and every loss with £10m in the annual aggregate with the business case being underpinned by actuarial analysis and following detailed discussions with the captive managers
- Primary Casualty QBE programme; remaining within the existing 5 year long term agreement and as such expiring at renewal 2017
- Tenanted Properties and Tube Lines Motor Fleet policies remaining on standalone basis following a robust exercise to include within Property and Casualty programmes
- The introduction of HDI-Gerling (Property lead market) and Swiss Re (first excess Casualty layer) as new markets to TfL, along with the strengthening of Zurich's position, whilst repositioning the previous lead business partner markets of AIG and RSA
- The increased focus on the identification of risk and exposures by the Property, Casualty and Construction insurance markets and the introduction and sponsorship of risk management initiatives
- Increased focus on the working relationships with the key insurer business partners

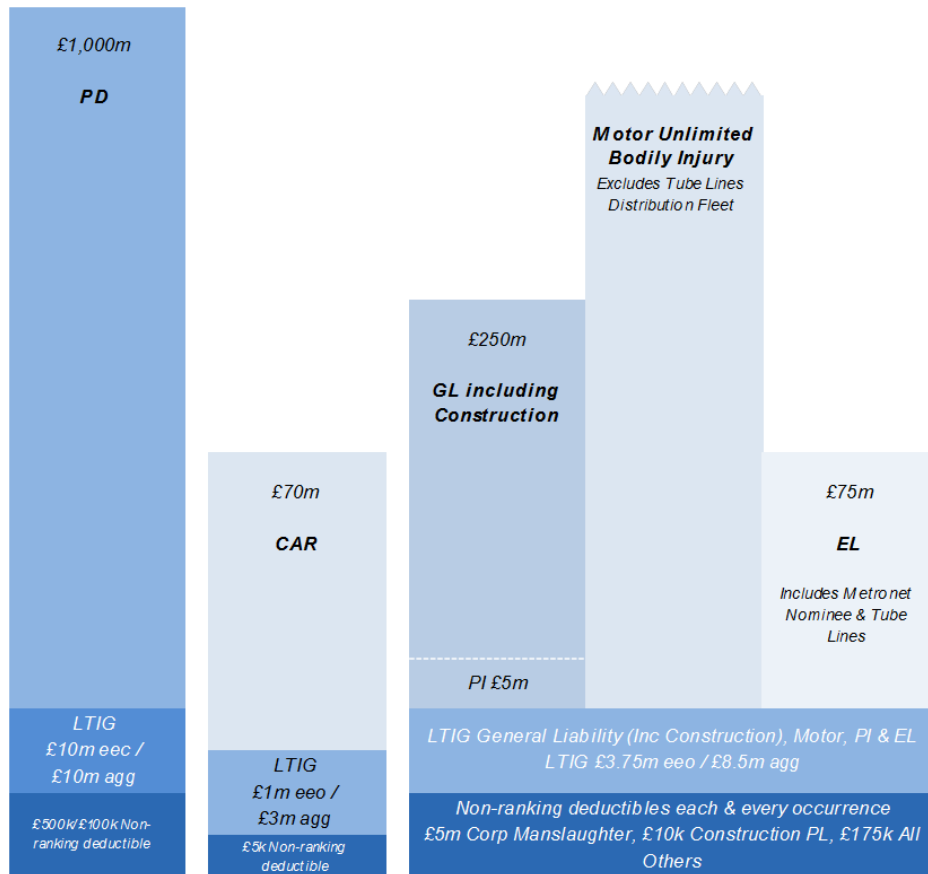
The insurance programmes were subsequently renewed at their first anniversary on 1st April 2015, in line with the long term agreements. Milestones included TfL's decision to discontinue Pool Re Terrorism and the placement of a stand - alone Property policy for the Crossrail Stations.

All our strategic thinking being captured within the 2015 - 2016/17 Strategic and Operational Framework document and in more detail within the 2015 Client Promise Plan.

Existing Risk Financing Programme

The following summarises the current position for both the structures and existing premium spend for the Property, Casualty and Construction programmes.

Risk Financing Programme Structures



Note: Reinsurance for the Property Programme arranged with a limit of £400m.

Premium Summary

Class of Insurance	2015 Premium
Property	£3,930,810
Casualty	£5,009,355
Construction	£778,578
Other Lines	£1,670,319
Total (excluding IPT/VAT)	£11,389,062

Note: Figures include LTIG premiums.

Programme Evolution

Central to the design and structure of the programme is its ability to positively respond to TfL's business requirements, from a risk and insurance perspective, which at the present time are:

- Delivery of the Mayor's Transport Strategy
- 2014 Business Plan and in particular the five key initiatives; Infrastructure Investment Programme, Expansion of Network, Crossrail Operational Exposures , Capital Projects and Commercial Revenue Opportunities
- Delivery of major construction projects including, Northern Line and Bank underground station
- West Anglia mainland route
- London Overground - Barking to Gospel Oak
- Liverpool Street to Shenfield (new rolling stock)

In addition the outcome of the Comprehensive Spending Review in Q4 of 2015 may have an effect.

We will continue to position your captive, LTIG, to ensure the optimum benefit and that it remains at the centre of TfL's risk financing strategy.

Expansion opportunities at present include;

- Construction - Taking an 'Owner Controlled' approach to insurance for the Street Management/Highway contractors
- Revisiting the inclusion of Tenanted Properties and Tube Lines Motor Fleet policies

Assessing Insurable Risk

There are several Risk Management Projects agreed with Insurers and TfL which will help underpin and shape the insurance programme including;

- Insurable Risk Review
- Catastrophic Claims Modelling
- Claims Scenario Testing
- Property Control Survey Programme
- Construction PD/BI EML Study
- Casualty Claims Cost Reduction Review
- Cyber / Technology Risks
- Motor Fleet Risk Management Project
- Bus Operators' Claims

Furthermore, discussion has taken place with Dave O'Brien, Head of Risk Management, Rail & Underground Finance, regarding TfL's risk management strategy for the financial year 2015/16 and we understand that the focus will be to drive risk management maturity and improve the understanding of key strategic and operational risks.

This will involve such initiatives as enhancing risk management awareness and operational efficiencies through improving Risk Management Information System (RMIS) integration.

This strategy will inform the focus of risk management initiatives across the business for the financial year ahead. Further to this strategy, select areas for Aon risk advisory support have been identified with TfL stakeholders with the aim of finalizing agreement on those projects going forward.

Key strategic areas of focus include:

- Risk Management leadership; enhance risk leadership and maturity (including RMIS)
- Risk Understanding; increase risk understanding to enhance insurance strategies
- Risk Reduction; improve risk mitigation and liability exposures
- Claims Management; drive operational performance and cost efficiencies in claims

Ongoing Insurance Market Management

We will continue with the successful initiatives of Insurer Relationship Mapping and bespoke meetings with the Key Strategic Insurer Business Partners.

Insurer Relationship Mapping

This is our innovative approach to monitor, manage and develop your relationship with the insurance market. We ensure that key business partner relationships are maintained and developed. We also identify alternative partners, both as competition to your current insurers and also to plan for future engagement, ensuring that your longer term risk financing strategies are achieved.

This initiative includes:

- Management data to track both premium and capacity by policy over the past four years
- Identification of current and potential business partners
- Service review based on ten key weighted criteria, which has been reviewed and tracked annually
- Annual timeline of insurer engagement

This initiative was started in 2011 to provide a benchmark and four years on, we now have comprehensive data mapping the historical engagement whilst allowing planning for the future.

Key Strategic Insurer Business Partners

These bespoke meetings commenced in April 2014 with HDI-Gerling, QBE, Zurich and Swiss Re.

The meeting frequency is every three/four months and they are held separately with each of the insurers with a cross section of senior representatives, including the principle underwriters and relationship managers in attendance.

Also in attendance is Nigel Blore and on occasion members of the TfL Group Insurance Department, along with numerous members of the Aon team, including the Strategic Account Management, Technical Director, the Aon Global Risk Consultant and a selection of the Placing Brokers.

Whilst the Agenda is structured to address current and future issues of interest, it includes as a minimum:

- TfL Business Update: TfL
- Road Map/Strategic Planning: Aon
- Business Update & I.P. Sharing: Insurers
- Risk Management Activity Update: AGRC
- AOB

These meetings have proven to be successful, in particular building upon an already strong foundation to both increase insurer's engagement and knowledge of TfL business activities, risks and exposures.

As part of the on-going development of these relationships and by way of responding to the immediate business challenges, as well as planning for the future, we will ensure engagement from the QBE property team and focus now on alternative insurance markets to Swiss Re for the first excess Casualty layer.

We will also look at how the (re)insurance market is developing and ensuring that we identify any opportunities for TfL.

Programme Modelling Exercise

This will be undertaken in July/August 2016, with a proposal issued for 'sign off' by LTIG in May 2016.

This will represent Aon's proposal to evaluate insurance programme alternatives for TfL's main insurable risk classes. The purpose of the project will be to ensure that TfL (alongside Aon as its transactional insurance broker) does everything it can to stimulate competitive tension in the insurance market place and differentiate themselves amongst many large corporate risk financing approaches.

The outcome is clear; as a bi-product of creating viable alternative programme structures and then determining the optimum risk financing programme structure, Aon will ensure that the most competitive risk transfer premium is achieved.

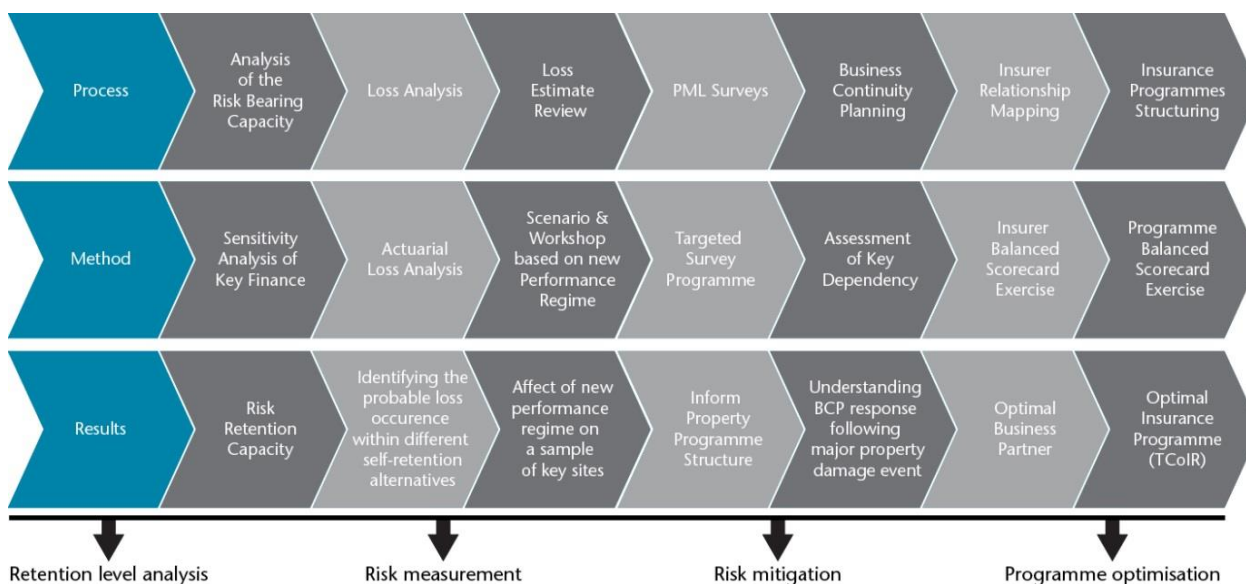
There are many benefits in using advanced data and analytics to optimise insurance programme design:-

- Looks beyond just what has happened in the past and forecasts what could happen in the future; providing a more complete understanding of the exposure
- Provides insight into how the insurance market observes the risk and paves the way for Aon's brokers to have the most impactful conversations with insurers
- Instigates competitive tension within the insurance market through increased/renewed appetite for the risk
- Provides the basis for alternative programme options to be clearly evaluated
- Informs the optimum position for LTIG
- Ultimately, identifies the programme option with the lowest Total Cost of Risk (TCoR), (retained cost + risk transfer premium), within TfL's acceptable level of volatility
- This approach is expected and highly valued by the insurance market
- Historically has proven to be very successful

We would propose that the approach taken in 2013/14 is utilised to ensure that we deliver in accordance with your risk financing objectives, through a combination of:

- Financial analysis
- Actuarial modelling
- Insurance market options

The programme design framework we will deploy is summarised below, and will be linked to the review of programme strategy via the Balanced Scorecard Exercise.



Balance Scorecard Exercise

Once the financial results are complete, Aon will build upon the programme analytics to evaluate each programme alternative against a wider set of criteria on a balanced scorecard type approach. The additional categories each programme will be scored against include:

- Coverage;
- Stability; and,
- Flexibility

The individual criteria is based on Aon's knowledge and experience of carrying out similar analysis in the past, though it is expected that these will be discussed and agreed with TfL.

The balanced scorecard approach will allow TfL to apply relevant weightings to the individual elements of the programme design piece, so that the output determines the optimum programme design based on both qualitative and quantitative aspects.

The outcome of such analysis will be presented in the following format.

Programme strategy balanced scorecard - Whole programme		LOW RETENTION Increased risk transfer and lower deductibles with LTIG involvement		CURRENT APPROACH Full Insurance With Significant LTIG Involvement		EVOLUTION Current approach but with greater integration of construction exposures & Tubelines motor and EL		BLENDED AND MULTILINE PROGRAMME Significant captive retentions with multi-year cross class primary		CAT PROGRAMME High level "cat" cover only purchased	
Evaluation criteria	Weight 1-5	SCORE	WEIGHTED	SCORE	WEIGHTED	SCORE	WEIGHTED	SCORE	WEIGHTED	SCORE	WEIGHTED
A. COST											
1 Minimised external premium spend	3	-2	-6	1	3	1	3	2	6	2	6
2 Minimised total cost of risk	5	-1	-5	1	5	2	10	2	10	-1	-5
3 Insurer competition maintained as pricing control	3	-1	-3	2	6	1	3	0	0	2	6
4 Low frictional costs including premium taxes	2	-2	-4	0	0	0	0	0	0	2	4
5 Low administration costs	3	1	3	1	3	2	6	2	6	1	3
			-15		17		22		22		14
B. COVERAGE											
1 Broadform coverage with minimal exclusions	4	1	4	1	4	2	8	2	8	0	0
2 Commercially fit for purpose	4	2	8	2	8	2	8	2	8	1	4
3 Full legal and contractual compliance	4	2	8	2	8	2	8	2	8	1	4
4 Business interruption / ICOW options	2	1	2	1	2	1	2	1	2	1	2
5 Best practice insurer technical support	3	1	3	1	3	1	3	1	3	-1	-3
			25		25		29		29		7
C. STABILITY											
1 Stable access to capacity	4	-1	-4	1	4	1	4	2	8	2	8
2 Control / Avoidance of dependencies	3	-1	-3	1	3	1	3	-1	-3	1	3
3 Long term insurer relationships maintained	4	1	4	1	4	2	8	2	8	1	4
4 Sensitivity (rise in costs) to TfL loss events	2	-2	-4	1	2	1	2	1	2	2	4
5 Sensitivity (rise in costs) to external market loss events	2	-2	-4	1	2	1	2	1	2	2	4
6 High quality counterparties	5	1	5	2	10	2	10	2	10	2	10
			-6		25		29		27		33
D. FLEXIBILITY											
1 Programme can develop with TfL's responsibilities	3	1	3	1	3	2	6	2	6	1	3
2 Programme can extend to affiliated entities	4	2	8	2	8	2	8	2	8	-1	-4
3 Ability to bring in new lines of risk	3	1	3	1	3	2	6	2	6	1	3
4 Able to respond to TfL's changing budgets	4	-2	-8	1	4	1	4	0	0	2	8
5 Sensitivity to leading edge programme structure risk	3	2	6	2	6	1	3	1	3	-1	-3
			12		24		27		23		7
TOTALS			16		91		107		101		61

Weights

1 = Unimportant to the objectives
 2 = Fairly important to the objectives
 3 = Important to the objectives
 4 = Very important to the objectives
 5 = Extremely important to the objectives

Score

-2 = Detrimental to the objectives
 -1 = Negative impact on the objectives
 0 = No effect on the objectives
 1 = Positive impact on the objectives
 2 = Critical to the objectives

Broking Strategy

Renewal 2016

At this stage it is envisaged the main programmes Property, Casualty and Construction will be renewed in line with the existing long term agreements to 1st April 2017. However, the renewal strategy will be discussed and agreed with TfL in September 2015 as part of the 2016 pre renewal strategy engagement and 'demands and needs' statement issued accordingly.

Renewal 2017

Our broking strategy will be formed as part of the 2017 pre renewal activity and presented to TfL in September 2016, building upon our Marketing Strategy, as outlined below;

As part of the overall engagement with the insurance market, we will support TfL with the content and delivery of the 'Insurance Market Forum' in October/November 2016.



Conclusion

To recap the purpose of this document is to share with TfL our current thinking and we look forward to discussing its contents with you in due course.

Ashley Ratchford
Strategic Account Director

Chris Sutton
Strategic Account Director

About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, best reinsurance intermediary, best captives manager, and best employee benefits consulting firm by multiple industry sources. Visit aon.com for more information on Aon and aon.com/manchesterunited to learn about Aon's global partnership with Manchester United.

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