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Insurance | Risk Management | Consulting

MUNICIPAL MUTUAL INSURANCE (MMI) LIMITED

January 2025

SUMMARY

This note is intended to provide you with an update on the position of Municipal Mutual Insurance (MMI) following the recent publication of their accounts as of 30 June 2024[1], as well as recommendations to ensure you can cover your self-insured liabilities.

Current position

MMI introduced its initial funding level set at 15% in January 2014, along with an additional 10% levy implemented in April 2016. Consequently, members of the Scheme of Arrangement are now self-insured for 25% of any future claim payments. These levies may be adjusted in response to future claims experience to ensure the scheme can fulfil its obligations to creditors.

Commentary on June 2024 accounts

Within the 2023/2024 accounts, G.H. Hughes (Director) has indicated a profit of £nil for the company in the past year (2022/2023 profit was £nil). Grant Thornton remain as the external auditors.

Some of the key comments outlined in the strategic report are:

- The current accumulated loss on the balance sheet is £nil, as it was last year.
- There has been a strengthening in the IBNR provision, which reflects increasing costs in the expected number of mesothelioma claims and an increase in the number of abuse claims reported during the year.
- There has been an increase in the number of outstanding claims and a higher volume of claims reported in-year.
- Increased income from investment activities due to higher interest rates.
- No increases to the levy (from 25%) are currently anticipated.

Due to the latent nature of some claims, MMI's independent actuaries (KPMG) projections are subject to substantial uncertainty; therefore, it is not possible to guarantee that the total levy percentage of 25% will remain sufficient.

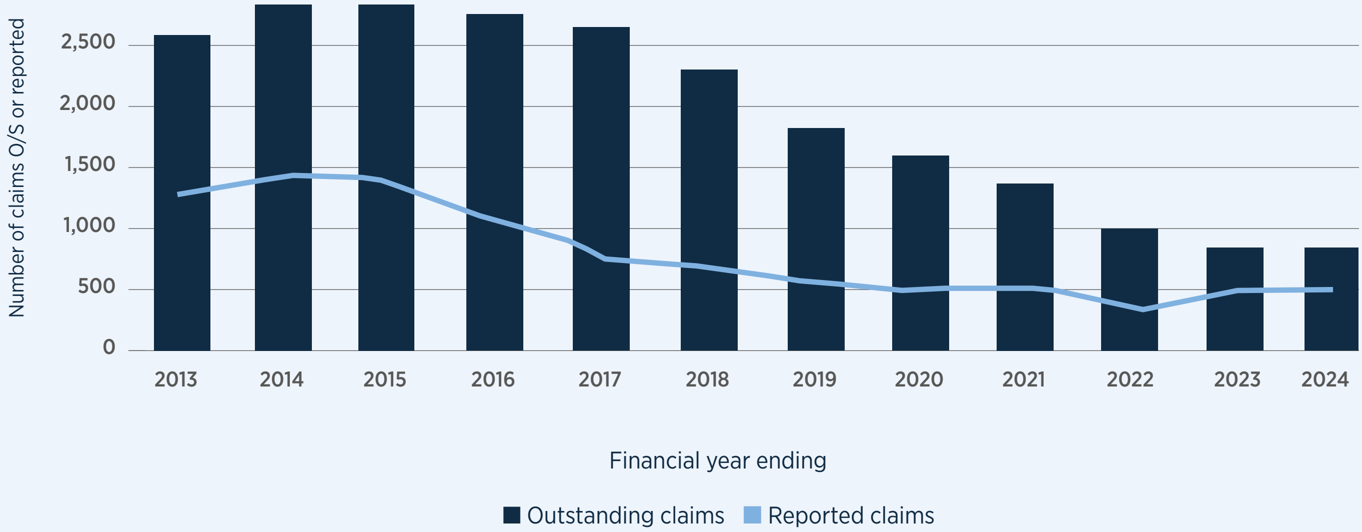
[1] "Annual Report and Accounts Year to June 2024," *Municipal Mutual Insurance.*

MMI claim trends

The following chart shows numbers of outstanding claims and newly reported claims over recent years. There has been a broadly decreasing number of claims reported annually and outstanding in recent years; however, given the high numbers, there is still significant residual uncertainty.

There has been a slight uptick in the number of reported claims in 2023 and 2024 attributed to mesothelioma (EL) and abuse (PL) cases.

Outstanding and annual reported claims 2013-2024



Key risks

According to MMI, the IBNR provision has been strengthened over the past two financial years (2023 and 2024) due to higher-than-expected claims. Higher claims than provisioned remains the primary risk for potential levy increases if adverse future claims trends continue beyond year-to-year variations that are to be expected.

More than two-thirds of MMI's liabilities are provisioned for employers' liability and the rest cover public liability. The largest cost drivers for each are mesothelioma and abuse-related claims, respectively.

Mesothelioma and abuse claims are subject to greater uncertainty due to their exceptionally long latency period that can span decades. Future claims will be subject to the outcome of legislative, technological, epidemiological, economic and changing public attitudes that are yet to occur. As a result, the actual reporting and cost of emerging claims may be materially different from MMI's actuarial estimates. The following comments aim to provide broader market context on the most critical claim types.

Asbestos: Industry-wide analysis published by the Institute of Actuaries[2] regarding asbestos-related claims in the UK suggests that the number of claims reported annually has reduced in the most recent five or more years, both for mesothelioma and for other asbestos-related diseases, and the market data suggests steadily increasing levels of average cost on settled claims. These observations are consistent with the trends seen for MMI, and general declines in numbers of notified cases suggest that the peak of reporting of claims has passed, which is reflected in the projections of future claims. There are significant uncertainties remaining, especially in relation to the average claims cost. Treatments such as immunotherapy have the potential to increase the cost of treatment and increase life expectancy, resulting in longer periods of remedial payments.

Abuse: The projected number of future reported abuse cases in MMI's mid-point scenario has reduced by over 40% in the past four years, which reflects the reduced notifications in recent years. However, there remains significant uncertainty associated with claims of this nature, and further instances of widespread abuse may surface in the future, which could potentially result in a considerable number of cases being reported.

[2] https://www.actuaries.org.uk/practice-areas/general-insurance/research-working-parties/uk-asbestos

Additional areas that create further uncertainty in relation to abuse claims are:

1) The Independent Inquiry into Child Sexual Abuse (IICSA) presented its Final Report[3] in October 2022. This report made several recommendations that could impact MMI financially. Following the publishing of this report, the government responded by (a) committing to establish a redress scheme for victims of child sexual abuse[4]; and (b) to review limitation rules in respect of abuse cases. The impact of the scheme will depend on the structure and financing of it, as well as the effect that it has on civil claims. Wider public awareness through other measures adopted may have an impact on the propensity of victims to come forward in the future.
2) The 2017 *Armes vs. Nottinghamshire County Council* judgment at the Supreme Court extended the doctrine of vicarious liability on the part of local authorities with respect to actions of foster parents. This means that even in the absence of clear fault on behalf of the authority, they may still be liable for compensation to victims. It appears that the original policy wording may obligate MMI to provide cover for this instance of vicarious liability. This has the potential to result in an increase in claims for local authorities, though this still is not evident in MMI's reported case numbers.
3) In Scotland, the Limitation (Childhood Abuse) Act 2017 removed the three-year time bar as a defence for personal injuries resulting from childhood abuse after 1964. There is yet no clear evidence of heightened claims reporting as a result, but this may change. In addition, the government has now opened a scheme to allow survivors of abuse the opportunity to apply for financial redress[5]. Although there have been a reasonably significant number of claims submitted to this scheme, the impact on claims to MMI is yet unclear.

It is likely that MMI's actuarial advisors will continue to monitor and allow for such developments in their incurred but not reported (IBNR) estimates, and hence they have not underestimated forecasts given the current level of knowledge and the uncertainties involved.

Additionally, new types of latent claims may emerge in the coming years for which no provisions have so far been made. We note that MMI's actuaries assume that the run-off of claims will continue until 2060, indicating the long-term nature of this uncertainty.

Gallagher recommendations

Immediate claims payments: In view of the current claims management process under the scheme, members of the scheme are advised to review their reserving policy to continue to ensure adequate funds are available to pay claims from their own funds. There remains a potential delay between those claims paid in full by the Member and the time taken to receive reimbursement of the 75% from MMI in respect of those settled claims.

With effect from 11th January 2025, the personal injury discount rate, also known as the Ogden Discount Rate (ODR), increased to 0.5% from minus 0.25% set in 2019. This is the rate used to calculate the present value of lump sum awards in personal injury claim settlements for future loss earnings and care costs[6]. In principle, the ODR should reflect investment returns on lump sum awards if invested in low-risk assets. The increase largely reflects how interest rates have increased since 2022 and brings England and Wales into line with both Scotland and Northern Ireland.

The increase of the ODR to 0.5%[7] will reduce the lump sum awards on personal injury claims, resulting in life-altering injuries and decreasing claims costs overall. As this will also apply retrospectively to unsettled claims, we may see a reduction in outstanding claims reserves and incurred but not reported provisions. This will offset some inflationary drivers on claims costs seen in recent years, including the 22% increase in compensation for general damages for personal injuries stated in the 17th edition of the *Judicial College Guidelines* published in April 2024.

Historically, lower compensation amounts have increased propensity to settled catastrophic injury claims as periodic payment orders (PPOs). PPOs are court-mandated settlements in which the defendant will pay the injured party annual payments, in lieu of a large sum, for the remainder of their life. This means that MMI will carry the mortality and investment risk, resulting in a longer duration of its liabilities.

[3] https://www.iicsa.org.uk/reports-recommendations/publications/inquiry/final-report.html
[4] https://www.gov.uk/government/news/child-sexual-abuse-redress-scheme-to-be-established
[5] https://www.gov.scot/collections/financial-redress-for-survivors-of-child-abuse-in-care/
[6] "Personal Injury Discount Rates in Scotland & Northern Ireland," *GOV.UK*, 26 Sep 2024.
[7] "Lawyers braced for personal injury discount rate change," *The Law Society Gazette*, 11 Oct 2024.

Reserving for clawback: Based on the latest report and accounts of MMI and the authority's latest individual statement, we would recommend that all our clients reserve for an additional 10% Levy going forward to reflect the long-term uncertainties (both on the asset and liability side of the balance sheet).

This 10% additional levy is broadly consistent with the high forecast sensitivity presented in the 2024 report and encapsulates higher than expected assumptions on average costs, future claims inflation and numbers of future cases than those underlying the mid-case scenario used in the accounts.

Our view has remained consistent over the past couple of years, reflecting the relative stability of estimations in this time. This means that we advise authorities to reserve a total of 35% levy at present. We do not foresee that Central Government will intervene with financial support in the future.

The accounts do not indicate a probability of an outcome exceeding this high forecast scenario, so we are not able to judge the chance of the levy ultimately exceeding 35%.

MMI estimates that it will take between five and ten years before half of the projected outstanding claims and IBNR are paid.

Each authority should continue to review their own individual liability to MMI, as the total claims are, of course, dependent upon the authorities' own historic experience. Please note that our suggested 10% additional levy is not an actuarial projection of the ultimate claims' liability using full actuarial techniques and methods, but instead based on MMI actuaries' high forecast using cautious assumptions. It does not therefore constitute an independent actuarial opinion of the ultimate liability of MMI based on the same data set used and seen by the actuaries commissioned by the Scheme Administrators.

How can Gallagher help?

Gallagher has a long history of supporting the public sector. In recent years, our actuarial services have been called upon to help organisations better understand their exposure to past liabilities under the MMI scheme of arrangement.

Unbudgeted calls on organisations' finances are burdensome, and all indicators suggest that the current economic environment will only increase pressure on the public sector's financial position.

Additional services that may be of interest to you are:

Claims audits — are reserves correct and being managed effectively?

Third-party claims handlers audits — are your contractors managing the claims process with best value in mind? Can you be certain the public purse is being protected at all times?

Insurance programme optimisation reviews — is your insurance programme fit for purpose, or is it still designed to protect the risks you had ten years ago? Do you want a better understanding of your Total Cost of Risk?

Redress schemes — estimation of liabilities should such schemes be developed in the future.

Would you like to talk?

If you would like to discuss how we can help you manage legacy risk or drive efficiency into your insurance and risk financing programmes, please contact the Gallagher Public Sector team.

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