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Aggregate stop loss protection

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Aggregate stop loss protection

An aggregate stop can remove the concern that in a ‘bad’ year the cumulative value of claims up to the level of the excess may be greater than it is in an ‘average’ year.

An aggregate stop kicks in when claims within the excess reach an agreed total. After that, claims for that period of insurance, become the responsibility of the insurer on a ‘ground up’ (or with a modest excess) basis.

The aggregate stop therefore introduces an element of ‘budgetary certainty’. In a worst case scenario the authority’s maximum exposure, for claims below the excess, is capped by the aggregate stop.

Aggregate stops can be particularly useful when an authority is about to move from having conventional ‘ground up’ or low deductible cover to taking on a significant level of self-insurance through higher deductibles. Members and officers can derive some comfort from the knowledge that, although they are retaining more risk, it is not completely open ended.

An aggregate stop is a useful tool but it does not come ‘free’

— the premium will be higher with an aggregate stop than without one.

Limits and pricing are based on actuarial analysis and trending of the available data. If the data is inadequate the actuary will either refuse to quote or will ‘err on the side of caution’. This means the authority will have a higher limit before the aggregate stop would operate and will be faced with a higher premium. It is worth while making the effort to get good, credible, underwriting and claims information.

To get the optimum result, from the authority’s point of view

— lowest aggregate stop and lowest premium charge – the insurer needs to be provided with robust underwriting and claims information which goes back over several years (see checklist overleaf).

Aggregates can be arranged for the main insurance classes

— Property, Liability and Motor – and can be on a ‘cross class’ basis where the aggregate stop applies across two or more classes – e.g. Liability and Motor – at the same time.

Where an authority handles claims ‘in house’, and these claims count towards the aggregate stop, the insurers have an interest in the way the claims are handled, reserved, negotiated and settled. The insurers will need to be satisfied that the claims handling arrangements match their usual requirements and mirror usual insurance claims handling procedures. This is likely to mean that the insurers will want to fully understand the claims handling arrangements before quoting and arrange for periodic claims audits after the cover is in place. If the value of ‘in-house’ handled claims is modest – e.g., say, up to £500 for third party property damage Public Liability claims – insurers may be more relaxed about audits, especially if these claims fall within a ‘non ranking excess’ – that is, they don’t ‘count’ towards the aggregate stop.

Aggregate stops provide a useful risk financing technique which can enable authorities to cautiously and prudently take on increased levels of self-insurance through higher excesses.

This can be particularly helpful when making the transition from ‘conventional’ (low, or no, deductible) cover. After a period, when an authority is more comfortable with higher excesses, self-insurance funds have built up and the risk appetite increases, some authorities may consider that the aggregate stop can be left out of the programme.

At the end of the day, as with most risk financing options, it is a matter of judgement for the authority whether they consider that it is worth paying the extra premium in exchange for the greater budgetary certainty created by transferring the risk that, in a bad year, claims within the excess may be greater than would normally be expected.

Aggregate stop limits and pricing are set actuarially. To enable the limit and premium to be set at the optimum levels, the actuary need good basic underwriting and claims information.

Checklist

Underwriting information

Ideally, underwriting information should be for the past 10 years with estimates for the forthcoming insurance year and should include:

1. wages and salaries expenditure
2. employee numbers (full time equivalent)
3. the population of the area served by the authority (and any significant changes in the past 7 years)
4. for motor exposures, the historic vehicle numbers (including information on 'hired in' vehicles) and the current fleet list
5. changes in the services and functions of the authority for the past 7 years and planned changes in the foreseeable future (for example transfer of housing stock to an association, transfer of leisure services to Leisure Trust etc.)
6. property reinstatement values and current listing of properties with postcodes and reinstatement values
7. details of property insurance programme structure (perils covered, deductibles, loss limits)
8. risk management activities and plans (including spending and budget).

Claims information

Ideally, claims information should be for the past 7 years and should include:

1. triangulated data for Public Liability and Employers Liability claims showing, by insurance years, total number of claims and gross amounts (paid and outstanding totals) and number closed a 'no cost'
2. a listing of all Liability losses (showing amounts paid and outstanding) with a value over 50% of the excess or £25,000 whichever is the lower
3. details of all individual Liability losses valued at £25,000 or more
4. a listing of all motor losses with a value over 50% of the excess or £25,000 whichever is the lower (split between own damage and third party)
5. details of all individual motor losses valued at £10,000 or more (split between own damage and third party)
6. a listing of all property losses showing amounts paid and outstanding and cause of loss.

Further information

For access to further RMP Resources you may find helpful in reducing your organisation's cost of risk, please access the RMP Resources or RMP Articles pages on our website. To join the debate follow us on our LinkedIn page.

Get in touch

For more information, please contact your RMP consultant or account director.

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