

THE REPUBLIC OF BARBADOS

Background

Barbados, a member of the Federated Stagnesia Alliance (FSA) of independent states, is a small island in the Peayell Sea covering about 1,200 square miles and with a population of 500,000. Its capital city and centre of Government is Gilt Town. The island gained independence in the early 1980s and the main language is English. On the back of its thriving agricultural industry and tourism, Barbados prospered, particularly during the 1990s. However, a hurricane hit Barbados and the neighbouring island State of Bulli Hai in 1999. More recent world events have also impacted seriously upon tourism, thus reducing the island's revenues and causing the Government to cut back on public expenditure.

Central Government

The island's elected parliament is called the Futsy and there are 100 Elected Members of the Futsy (EMFs). Re-elected in 2000, the Barbadian Progressives under their Prime Minister, the Right Honourable Markson Spencer, are losing popularity as reducing revenue impacts upon Government spending. There has been considerable criticism recently that cuts have largely affected frontline public services whilst Government spending on administration has been unaffected. There is no Barbadian equivalent of local government and most public services are provided through six Government departments.

- Treasury
- Home Office
- Department of Agriculture, Fisheries and Commodities
- Department of Development and Tourism
- Department of Health
- Department for Local Resourcing

Barbados operates a cabinet system of government and for each Government Department there is a Secretary of State with Cabinet rank, assisted by Ministers with specific areas of responsibility. The civil servants in each Department are headed by a Permanent Secretary.

Service Provision - Competition

Whilst there is no requirement for Government Departments to externalise undertakings where private sector providers exist, nor even to advertise, they must comply with the Government's policy of "Harvesting Maximum Value" (HMV). Under this, Departments must benchmark their costs against external providers to assess their competitiveness, although exclusions from HMV requirements can be granted where it is deemed beneficial for specific reasons to retain services in-house. The general aim of HMV is to test that resources are being used effectively and that the services provided in-house are competitively priced, thus ensuring the achievement of maximum value.

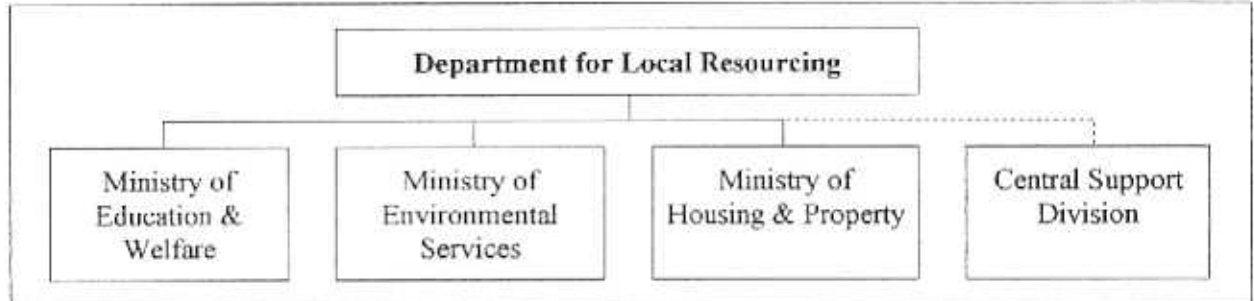
FSA Procurement Regulations

However, where a contract for undertakings is advertised, there must be compliance with the FSA Procurement Regulations. These require all contracts worth over £200,000 to be publicly advertised throughout the Alliance in accordance with prescribed rules and timescales. Most are advertised through the "open" route, whereby any contractors are allowed to tender.

THE DEPARTMENT FOR LOCAL RESOURCING

Ministerial Structure

The Department for Local Resourcing (DLR) is situated at Cannery Wharf on the outskirts of Gilt Town and consists of three Ministries and a Central Support Division providing services such as finance, personnel, legal services and information technology (IT).

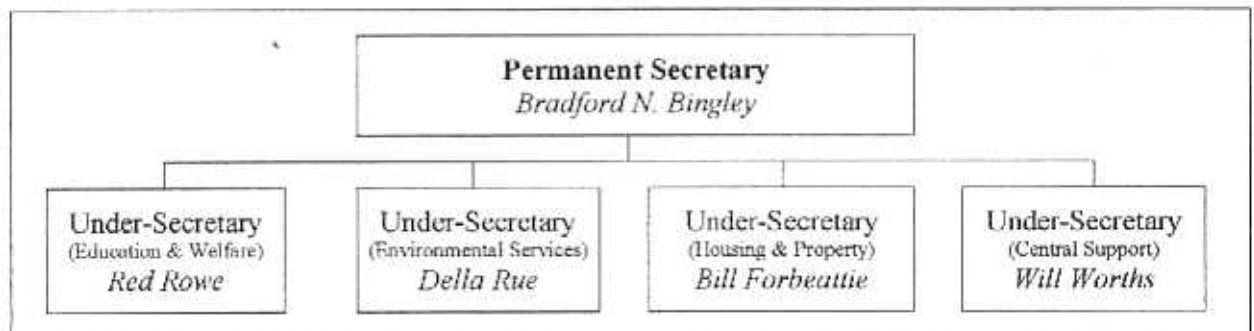


The Secretary of State at the DLR is the Right Honourable Hugh Rowe-Tunnel and his three Ministers are as follows.

- | | |
|--------------------------------------|---------------------------------|
| □ Minister of Education & Welfare | The Right Honourable Mark Coney |
| □ Minister of Environmental Services | The Right Honourable Ron Tokill |
| □ Ministry of Housing & Property | The Right Honourable Mo Lemm |

Civil Service Staff Structure

The permanent civil service staff structure in the DLR is as follows.



The Secretary of State, his three Ministers, the Permanent Secretary and the four Under-Secretaries form the DLR's Executive Board.

Financial Environment

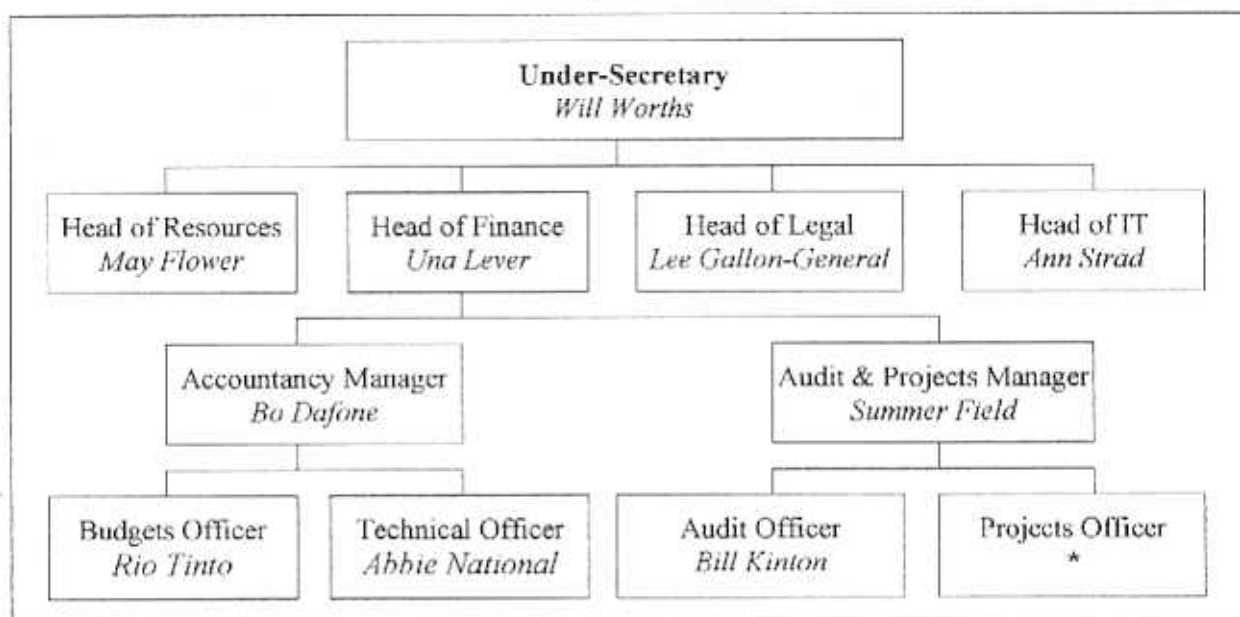
Public expenditure is determined by the Cabinet and controlled by the Treasury, which also provides operational guidance on common financial issues to all Government Departments. Each Government Department receives an annual expenditure vote or budget. This is cash-limited and, in recent years, has been consistently cut in real terms.

The Annual Retail Measure (ARM), based upon the cost of a basket of goods and services, provides the index of inflation in Barbados. On this basis, inflation is currently below 3%. Interest rates are currently 4%, but expected to rise in the medium term. The local currency is the Barbadian £ (£ Sterling parity). There is no VAT or Insurance Premium Tax in Barbados and the financial year for Government operations runs from 1 April to 31 March.

THE CENTRAL SUPPORT DIVISION

Structure

The structure of the Central Support Division of the DLR is as follows.



* You are Taylor Woodrow, the Projects Officer.

Resources Section

The Resources Section covers the personnel, occupational health, health & safety, fleet management and estates functions.

Finance Section

The Finance Section is responsible for managing and monitoring the expenditure vote provided by the Government for the DLR and for the provision of internal audit services to its Ministries. Exchequer and payroll functions are provided by the Treasury and external audit services are provided by the Barbadian Audit Executive (BAE), which reports to the Representatives Accounts Committee (RAC), a cross-party standing committee of the Futsey.

Legal Section

The Legal Section is responsible for the provision of legal advice, procurement and the letting of all contracts as well as various administrative functions, including meetings, insurances and other general support functions.

IT Section

The IT Section covers computer acquisition, operation and support.

INSURANCE ARRANGEMENTS - GENERAL

Background

There is no Government-wide approach to insurance. Each Department is responsible for arranging its own insurances and cover is more commonly wholly placed with major external insurance companies. The insurance arrangements of Departments tend to be on the basis of total cover, known as ground-up cover. This means that insurers meet the whole value of every claim. Where the Department itself agrees in advance to meet part of the cost of certain types of claims, the proportion not met by the insurer is known as the excess.

General Insurance Arrangements

In return for insuring against specified risks, insurers charge their clients premiums. Only a limited number of insurers are large enough to provide insurance for Government Departments. As the frequency and size of claims (claims history) can be volatile over time and between clients, these insurers tend to set premiums partly on a pooled basis amongst similar clients. However, a poor claims history will ultimately mean higher premiums for that client. Treasury guidelines require that all policies put out to tender by a Department are grouped together as a portfolio rather than let separately. This is because some of the smaller more specialist policies would be very difficult to place separately, but will be accepted by insurers on a packaged basis. A successful bidder receives a contract committing the specified Department to renew the policy annually for three or five years. The premiums agreed at the commencement of a contract tend to be held, subject to an annual inflation (ARM) increase, unless the claims history worsens substantially during the contract period. Premiums are usually paid annually (1 April for Government Departments).

Policies

There are a large number of different policies required by Departments, some of which are specific to particular services or operations. Most, however, fall into three main categories.

- Liability - The main policies are Public Liability and Employer's Liability, plus various others, including Libel and Slander and Professional Indemnity.
- Property - The main risks relate to the buildings themselves, including fire and other damage, but property in its wider sense (including contents, cash etc.) is also covered here, as well as the consequential loss due to disruption of revenues or the additional costs of any necessary temporary arrangements.
- Motor - These policies provide comprehensive insurance for a fleet of vehicles, including Government cars and service delivery vehicles.

Determination of Premium Levels

Premiums on policies are normally calculated using a relevant financial base, on which the insurance company levies a fixed percentage as its annual premium. As these percentages tend to be very small, they are more usually referred to in terms of basis points, where 0.01% equals 1 basis point (BP). For example, liability policies are usually charged on the basis of the organisation's total payroll, on which the insurance companies might levy a charge of 0.30% (30 BPs) per annum. Similarly, property insurance premiums tend to be based on a percentage of the current value of the organisation's property portfolio, whilst motor premiums are usually based upon a charge per vehicle.

Stop-Loss

Where clients do fund risks or excesses internally, it is common practice to build into policies a cap on their overall liability with insurers. This is known as a stop-loss arrangement.

INSURANCE ARRANGEMENTS - DLR

Current Insurance Contract

The DLR has for many years had all its insurance policies with Dax Financial Services (DFS), a major provider with an excellent reputation and a large public sector clientele including some other Government Departments in Barbados. The current contract commenced on 1 April 2002 and is due to end on 31 March 2005. Under its terms, the contract could be rolled over (continued) for one further year, subject to negotiation of appropriate terms with DFS. The DLR's insurable risks are all standard and grouped under the three main headings – liability, property and motor. As is usual with Government Departments, all risks are covered on a ground-up basis through the external policies with DFS and there are therefore no excesses on these policies.

Insurance Staffing

As a result of the insurance arrangements in place, there are no specialist insurance staff in the DLR, but there is an administrative officer, Beattie Groop, in the Legal Section of the DLR's Resources Section who is the main contact with DFS. There is also a clerical officer working with her who acts as a post-box, issuing claim forms to Ministries and sending completed claim forms to DFS. The costs of these staff are allocated as part of the overall central administration recharge and are not currently charged to insurance costs.

Insurance Quantum and Budgeting

The total amount payable under the DLR's contract terms to DFS in 2004/05 is £3.0 million. The total cost of insurances is called the insurance quantum and, as the only charges to insurance are currently the external premiums, the quantum in 2004/05 is £3.0 million.

The 2004/05 insurance budget is also therefore £3.0 million in total, but this is apportioned to the various Ministry and Divisional budgets. The cost of premiums is then charged to these same budget heads. The basis of apportionment and charge is currently as follows –

- Budget Using Ministry and Divisional breakdowns of the relevant financial bases, multiplied by DFS's fixed percentage or basis point charge.
- Expenditure The same basis as the budget.

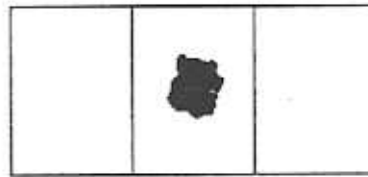
This ensures that budget and expenditure always match, but does not reflect the incidence of claims and provides no incentive to Ministries to take a proactive approach to risk reduction and avoidance.

Claims and Claims Recording

DFS records the progress of all claims and analyses the ultimate outcome of each against the specific policy concerned on its comprehensive proprietary software. It provides the DLR with secure on-line access. This analysed record of claims (claims history) is important in identifying and quantifying risk areas and ultimately has an impact upon the premiums charged. The system does have a client data entry facility for recording claims but the existing insurance arrangements mean that this is not currently used by the DLR.

Risk Management

Risk management is defined as a planned and systematic approach to the identification, evaluation and control of risk, and clearly one important aspect of this is insurance risk. Most organisations are increasingly adopting a broad risk management approach and the public sector is currently under pressure to follow this trend.



Republic Of Barbados

DLR

DEPARTMENT FOR LOCAL RESOURCING

FILE NUMBER : DLR/INS/04/01

HELD BY : Projects

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BEARBADOS TREASURY

To: All Government Departments

2 September 2004

Insurance Arrangements

You will be aware that the Barbadian Audit Executive (BAE) has recently issued a report on Government insurance arrangements and that this was endorsed last week by the Representatives Audit Committee (RAC). The report does not make good reading from the Government's point of view and I set out on the attached sheet my own summary of the main points made.

The Prime Minister and his Cabinet colleagues are embarrassed by the report and have asked the Treasury to prepare a response and an action plan to address the points raised. The problem is that the current ad hoc arrangements make a coordinated approach difficult, at least in the short to medium term, as there are so many different insurance contracts in place. Whilst it is my intention, therefore, ultimately to centralise all insurance through the Treasury, this cannot be done immediately as existing contractual arrangements with external insurers need to be honoured. My outline action plan is therefore as follows.

- Ideally all external insurances will be centralised through the Treasury from 1 April 2008 (this is subject to negotiation with insurers on some contracts and will almost certainly have to slip to 1 April 2010).
- In the meantime –
 - Any current contracts expiring should be renewed through the normal tendering arrangements.
 - Departments should take on board the principles of risk management and introduce structures and approaches to ensure that these are effective.
- When tendering, Departments should –
 - Advertise and contract for a period ending 31 March 2008;
 - Arrange roll-over agreements to 31 March 2010 as a precaution;
 - Consider taking reasonable excesses in-house and financing these through the creation of Internal Insurance Funds.
- Arrangements will be made for regulations to be introduced immediately allowing for the creation of Internal Insurance Funds as a means of self-insuring excesses.
- A Government-wide risk management culture and approach will ultimately be introduced, based upon the best practices established by Departments in the interim.

All Departments are required to comply with the above action points and are strongly encouraged to take a proactive approach to risk management. There is no doubt that the BAE will be monitoring progress very closely.

Jay Pee-Morgan

Permanent Secretary

GOVERNMENT INSURANCE ARRANGEMENTS

BAE REPORT – MAIN FINDINGS

1. *Insurance arrangements for Government Departments are uncoordinated and lack overall direction.*
2. *Unlike the practice on other common financial areas, the Treasury provides little guidance on insurance arrangements and appears to lack expertise in this area.*
3. *As a result, insurance arrangements tend to be ad hoc, with different Departments –*
 - *having different arrangements;*
 - *for different contract periods;*
 - *with different insurers;*
 - *on different terms.*
4. *The quality of the insurance arrangements in place varies considerably from Department to Department.*
5. *Most Departments use external insurers –*
 - *to cover all risks, irrespective of size or degree of risk;*
 - *to provide ground up cover (no excesses met internally);*
 - *to undertake all claims handling and settlement.*
6. *There is, therefore, little consideration of self-insurance within Departments to cover lower risk areas, such as smaller policies or the excesses on larger policies.*
7. *At the same time, there is clear evidence that external insurers tend to settle smaller claims automatically, rarely questioning their value or validity.*
8. *Departments, therefore, have no control over claims experience, at a time when there is clear evidence of an increasing claims culture, and it is claims experience that ultimately determines the premiums payable to insurers.*
9. *Largely as a result of the current arrangements, there is little incentive for Departments to pursue risk management and consequentially this is for the most part extremely weak, if not non-existent.*
10. *At a time when Departments are facing possible cutbacks to front line services, changes to current insurance arrangements and the introduction of a risk management approach offer the potential for financial savings.*
11. *Internal Audit Sections, in planning their programmes, tend to assess risk in terms of asset risk rather than adopting broader risk management criteria.*
12. *The whole approach to insurance arrangements appears contrary to the Government's policy of HMV (Harvesting Maximum Value).*