

BMC AGM, 31 March 2019

Agenda Item 8

Paper A

Membership subscriptions & Combined Liability insurance

This paper provides supporting information on the background to the subscriptions resolution as proposed to the BMC AGM on 31 March 2019.

Executive Summary

- Liability insurance has been a central part of the BMC membership package for over 30 years providing assurance to clubs and individuals that cover is in place in the event of major accidents or claims against members and clubs.
- Many clubs see this insurance cover as essential for them to continue operating as a club. The fact that all BMC members have liability insurance gives peace of mind to landowners, and this has underpinned many access agreements across England and Wales over the years; access to some sites is specifically dependant on this insurance.
- Historically the scheme has benefited from low claims, so we have been able to maintain annual premiums at a fairly low level. This situation has now changed following a £5m+ claim for an accident in a mountaineering club. The BMC's annual premium is set to increase significantly – total £450k increase over 2019 and 2020.
- This has been a live situation over January and February and final terms are yet to be agreed with insurers (situation as of 21 February). Premiums will increase by c.£200k in February 2019 and a further £50k in January 2020. A £6.00 subscription increase is proposed to cover this cost and fund wider organisational development work.
- The BMC will cover the 2019 premium increase from reserves and a year-end deficit of -£124k is forecast. The subscriptions uplift will bring the BMC back into surplus in 2020 and replenish reserves. Advice from insurers is that further premium increases beyond 2020 are possible depending on claims.
- BMC subscriptions compare favourably with other relevant organisations in the UK and overseas. Since 2009 inflation (RPI) has increased 38% whilst all BMC subscriptions have increased well below inflation over this period.
- Action is being taken to safeguard the liability insurance scheme for the future. Three task groups are being set up to review a. the scheme as a whole, b. the BMC's technical advice on belaying, and; c. the BMC's financial position and future options.
- Members are asked to support the subscriptions increase to enable the BMC to continue developing its work for members, maintain a strong reserve and sustain the liability insurance scheme at the necessary £15m level of cover.

1. Wording of AGM Resolution

The Board, in consultation with National Council, recommends annual subscriptions for all categories of membership are raised by £6.00 (£12.00 for family membership) in order to address the substantial increase in Combined Liability Insurance premiums, sustain and develop the BMC's services to members and maintain a level of financial reserve in line with policy. Increases to be effective from 1 May 2019 for individuals (including families, students, under 18s & unwaged), 1 October 2019 for student clubs and 1 January 2020 for all other clubs.

Note: To assist cash flow in clubs with an AGM scheduled before 1 May 2019, this will include an option to defer payment of all or part of the subscriptions uplift to January 2021.

2. Rationale

The background to this resolution is dominated by an unprecedented insurance claim that impacts significantly on future premiums for the BMC's Combined Liability insurance scheme. Whilst the claim, which relates to a serious climbing accident, is still not fully resolved, it does provide a salutary reminder of the value of third party insurance cover for individuals and clubs in situations where liability may be alleged. The amount to be paid out in relation to this claim is expected to be over £5m. There has always been a culture of personal responsibility within climbing, mountaineering and hill walking (backed up by the BMC's participation statement) and very few claims have been made on this insurance scheme over the years: (7 claims settled since 2005 totalling £173k).

Since the late 1970s, the BMC has provided liability insurance for members and this is widely seen by clubs and individuals as an important or essential part of the membership package (see Section 12 below for a summary of the cover provided). The current scheme is underwritten by Hiscox and Zurich with a £15m cover limit, and with Howden (formerly known as Perkins Slade) as broker. The scheme offers wide-ranging cover to individuals, clubs, club officials and club members in the event of injury, financial loss or damage to property arising from negligence. The collective buying power of the BMC, combined with our rate of low claims, has allowed this insurance to be purchased at a low cost over the years with the premium being apportioned evenly across the membership (i.e. everyone pays a small amount).

Immediately before Christmas, the BMC was advised of a large claim (arising from a serious injury to a club member) and this has led to detailed consideration over January and February of our underwriting options and the impact on premiums. This has been a complex and protracted process and the financial implications have been changing on a weekly and daily basis.

3. Level of insurance premium increase

The position as presented by Howden to the BMC Board on 11 February is for a substantial increase in premium. Compared to the 2018 rate this amounts to an increase of c.£200k from 1 February 2019* with a further increase of £50k in January 2020. This represents an additional outlay of £450k across the 2019 and 2020 financial years. For 2019 this additional cost will be covered from reserves and as a result a year end deficit of at least £124k is currently anticipated.

*Note: the final agreed level of premium increase is still a live issue; on 21 February the BMC office was advised of a further £20k per year increase over and above the figures quoted here.

4. Covering the immediate additional costs

Given the short notice the BMC has had in addressing this situation, the first opportunity to recover the additional premium cost is through a subscription increase in the next renewal cycle. For individuals, renewal is on the anniversary of the individual joining date, so (allowing a four-weeks beyond the AGM for the office to communicate and implement the changes) the new rate will apply from 1 May 2019. For student clubs, the next renewal will be 1 October 2019 and for all other clubs it will be 1 January 2020.

It has been estimated that a £6.00 increase per member implemented to these timelines across all categories of membership will yield sufficient additional income to cover the additional £450k cost incurred in the 2019 and 2020 financial years. In fact, this subscription uplift is estimated to have a net impact of £53k across the two years with 2020 currently showing a forecast surplus of £177k (before any organisational development costs are factored in). This brings the reserves at 31 December 2020 to a marginally better position than at 31 December 2018.

5. Uniform increase across all membership categories

National Council and Board are aware that previous subscriptions increases have been based on a similar percentage applied to club and individual subscriptions. In the current circumstances, however, it is considered that the insurance benefits are the same across all categories of membership, there is an argument in fact, that clubs actually benefit more from this insurance as it includes cover for club officials. This factor is relevant in the context of the current claim, which in part is being brought against the club concerned.

6. Payment deferral option for clubs with AGM's scheduled before 1 May 2019

It is recognised that some clubs will have held their own AGM's before the BMC AGM on 31 March so may not be in a position to react to the subscriptions increase. To avoid those clubs from needing to reconsider their subscription levels before their next scheduled AGM, the BMC will offer these clubs a facility to defer payment of all or part of the £6.00 uplift to January 2021. Clubs will be invoiced in the usual way for the total subscription amount including the uplift: it is only the payment of the uplift element that can be delayed, subject to application being made to the BMC. This will have a modest impact on the BMC's cash reserves, estimated at a maximum £42k on the basis that one-third of club members are within clubs holding early AGM's. The awaited contribution from clubs in this situation would be included within debtors when the 2020 accounts are compiled.

7. Financial reserves

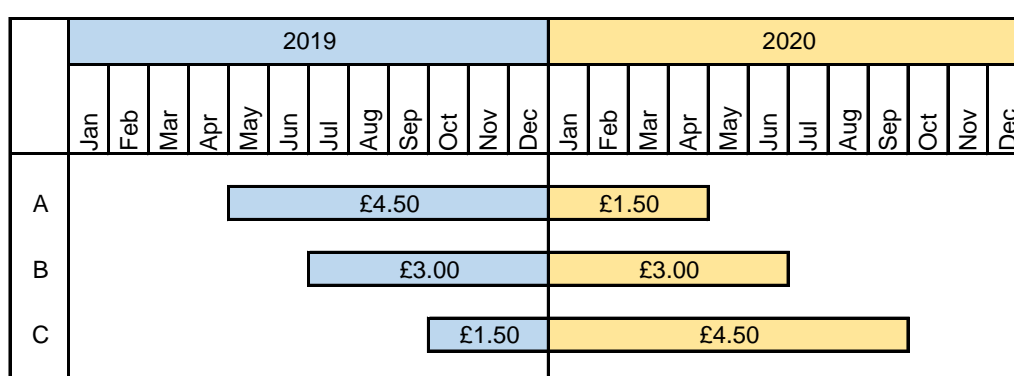
The BMC's reserves policy is to retain funds available for general purposes of a minimum of three months and maximum of nine months in value of annual expenditure: i.e. between 25% and 75% of annual expenditure.

The policy clarifies that, 'reserves are required in the short term to ensure the BMC has adequate working capital to meet its general business commitments, including those to staff, and to protect the work of the BMC against threats such as a fall in the level of income. In the longer term, such reserves provide a strategic financial support to the planning processes of the BMC'.

As of 31 December 2018, following final audit of the accounts, our reserves are shown as £1,180k, which is approximately 41% of the expenditure of £2,826k in 2018. The level is

therefore towards the lower end of the target range (25% to 75%) and the proposed increase of £6.00 is designed to retain reserves at a broadly similar level. As the level of expenditure increases as a result of the higher insurance premium, the reserves need to be increased to remain in the agreed range. The projected 2019 year-end reserve currently stands at 35%.

When considering the connection between subscription increases and the annual accounts, it should be noted that the timing of individual member subscription payments leads to a deferred income situation, hence not all of that income contributes to the operational surplus in the year it is received. The following chart shows how a £6.00 increase is allocated to the financial years 2019 and 2020 under three scenarios, A = subscription due 1 May 2019, B = subscription due 1 July 2019 and C = subscription due 1 October 2019. For example in Scenario A the 2019 allocation is £6.00 / 12 x 9 = £4.50 and the 2020 allocation £6.00 / 12 x 3 = £1.50.



The impact of this deferral, taken alongside the 1 January 2020 date for increasing club subscriptions, is that in accountancy terms the additional income is distributed approximately as £85k in 2019 and £400k in 2020 financial years.

8. The position beyond 2020

The forward profile of insurance premiums in two years' time will be a key factor in determining the subscriptions required from January 2021 onwards. Following a lengthy period of low claims (both in terms of scale and volume of claims), Howden has stressed that the current large claim significantly changes the actuarial view of risk on the BMC scheme and that further increases can be expected in the future. Premiums beyond 2020 will be conditional on the claims record so it is conceivable we may again find ourselves needing to cover a premium increase from reserves.

It is too early to comment on the position in relation to subscriptions for 2021, but the BMC is committed to ensuring value for money for members and will bring forward proposals which are underpinned by that principle.

9. Investing in developments

The proposed increase in subscriptions is needed to cover the premium increase, and by not drawing too deeply on reserves it will also allow some leeway to implement important organisational development work stemming from the Organisational Review process in 2017/18. Some of these new initiatives are already ready for Board review, including the recommendations relating to membership engagement: Others are awaited, including those

relating to partnerships, Wales, competition climbing and volunteers. The Board is actively pursuing new income streams, an important aspect of which is consideration of a digital-only membership package aimed at younger people with potential for launch in late 2019.

10. Related actions being taken by the Board

The issues arising from the insurance claim are occurring at a time when the Board is embarking on a thorough review of finances, to ensure alignment between strategy, deliverables sought by members and financials. An initial report will be reviewed in May, and the outcome of the full review will impact the BMC's financial plan for 2020 and beyond. In the meantime, alongside the initial stages of this review, an office cost-saving exercise is underway.

In parallel with this, a task group will review all aspects of the Combined Liability scheme, with a report to the May Board meeting. A technical group has also been established to investigate the circumstances of recent accidents and review the BMC's good practice advice on belaying. This group will report on 1 June 2019.

The overall aim is to ensure the services provided by the BMC represent excellent value for money and fulfil the expectations and requirements of all membership categories.

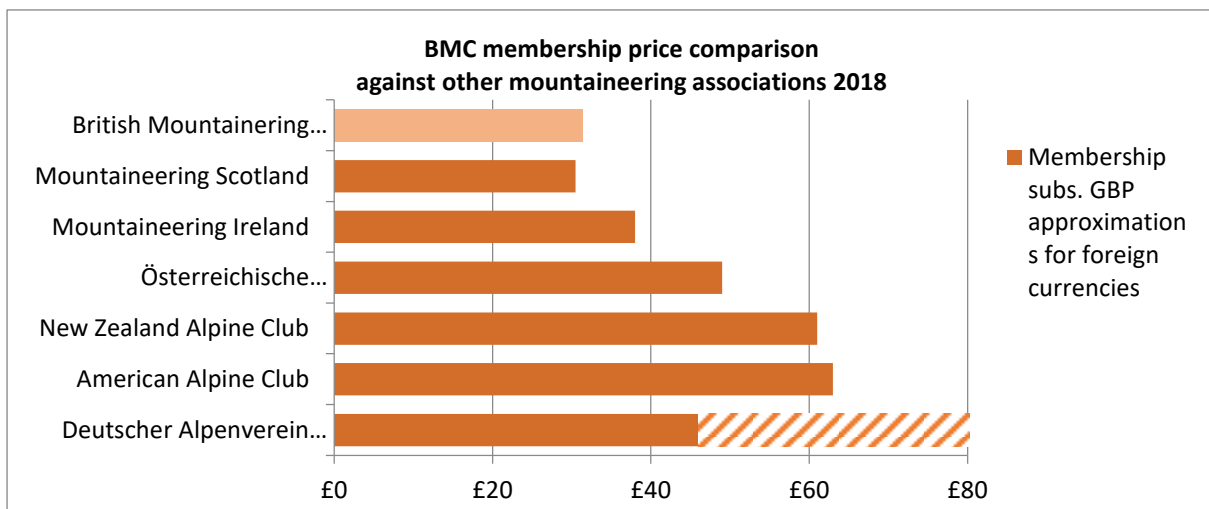
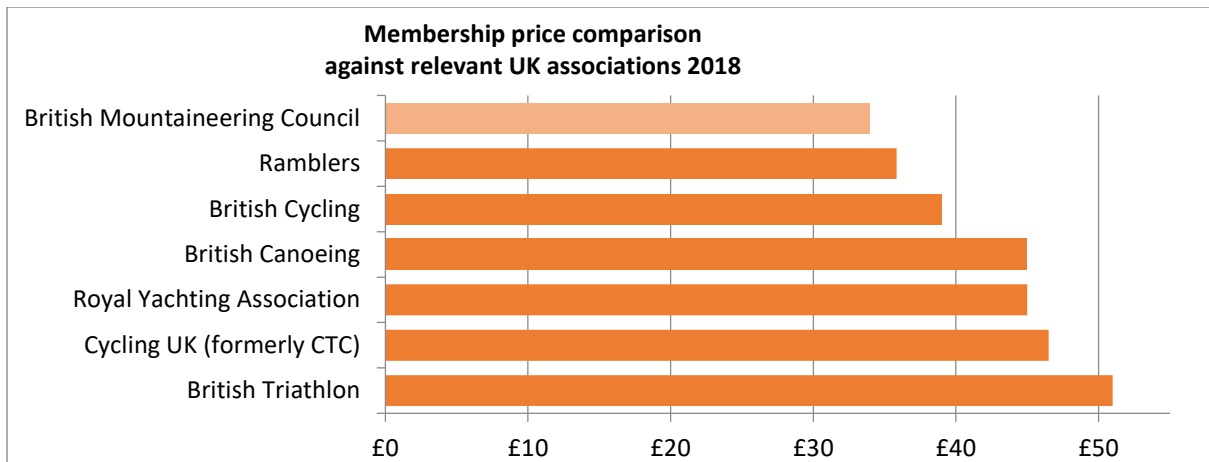
The financial plan going forward will be based on agreed priorities taking account of recognised risks. In the event of the subscriptions resolution not gaining AGM support, a serious financial situation will be created and the Board will be forced to immediately review the BMC's broad work and services for members including the viability of Combined Liability scheme.

In summary, the course of action set out in this paper is based on recognising:

- That current circumstances create a need for a step change in the cost of membership.
- That this is mainly a consequence of the insurance claim and its impact on premiums.
- The need to maintain an appropriate level of cash reserve to cover further premium increases and budget shortfalls.
- The importance of delivering on commitments made in 2018 to the changes set out by the Organisational Review Group.

11. Past subscription increases and comparisons with other organisations

BMC subscriptions compare favourably with other similar UK-based sporting organisations and overseas mountaineering associations. Over the last decade, the BMC has increased subscriptions on two occasions only: 2014 (£1.50 uplift for all membership categories) and 2018 (£2.50 uplift for individual members and £1.00 for club members).



12. Summary of BMC Combined Liability Insurance cover

This insurance covers the following:

- **Public Liability:** Accidental bodily injury to third parties and/or damage to third party property arising out of your insured activities.
- **Products Liability:** Accidental bodily injury to third parties and/or damage to third party property arising out of any goods sold or supplied by you (including refreshments).
- **Provision of Advice:** Loss (financial or otherwise) arising out of Errors and Omissions. For example, bad advice (instruction/coaching) or failure to act.
- **Libel & Slander:** Protection against the consequences of defamatory statements, this is important in respect of any communications produced, or forums held online.
- **Abuse:** Abuse concerning children and vulnerable adults. Protection for damages awarded against the organisation (specifically for abuse, the alleged individual perpetrator does not receive any cover).
- **Directors & Officers:** Protection for director, officers and senior managers against claims arising from their decisions or action taken.