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Contract Certainty The Insurance Industry's View

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Contract Certainty – The Challenge Plan and Progress

- The FSA challenge
- Defining contract certainty
- Evidence of cover
- Measurement and targets
- Legacy Code of Practice
- Process change
- Behavioural change
- Resources for market organisations
- Taking stock and next steps

The FSA Challenge

- November 2004 – Tiner challenge issued
- End “Deal now detail later”
- Governance process agreed
- Market targets agreed, published and shared with FSA
- LMP slip introduced
- LMP slip quality measurement regime

Defining Contract Certainty

- Agreed definition
 - “Contract certainty is achieved by the complete and final agreement of all terms (including signed lines) between the insured and insurers before inception”.
 - In effect
 - “Full wording must be agreed before any underwriter formally commits to the contract”

Evidence of Cover

- Issue appropriate Evidence of Cover within 30 days of inception
- Four agreed types of Evidence of Cover
 - Policy of insurance or reinsurance
 - Copy of the complete slip
 - Certificate of insurance
 - The broker insurance document

Measurement and Targets

- Measurement enables management
- Interim targets
 - 30% by December 2005
 - 60% by June 2006
 - 85% by December 2006
- Checklist published – 6 primary CC attributes and 32 individual measurement criteria
- Aggregated data collection via brokers

Legacy Code of Practice

- Manage market legacy policies and avoid further stock piling
- Definition of legacy policy
- Legacy policies split into three priorities
 - Priority 1 : unexpired policies
 - Priority 2 : all expired long-tail and recent expired short-tail policies
 - Priority 3 : other expired short-tail policies

Process Change

- All firms to introduce a new process model for risk placement
- New responsibilities for brokers and insurers
- Brokers to submit slips that satisfy the CC definition/checklist for firm quotes/firm orders
- Insurers check submission for CC definition/ checklist before bind (conditions or subjectivities clearly expressed)
- Brokers notify all terms to their client and obtain their client's agreement before inception
- Brokers calculate signed lines by inception and notify them to each insurer within 30 days, or at inception on request

Behavioural Changes

- Hearts and minds as much as process change
- Requires variety of techniques
 - Training (contract wording certificate)
 - Career development (wording staff part of placement process)
 - Incentives
 - Thinking earlier
 - Collaboration
- Leadership and Board level engagement essential
 - most important

Resources for Market Organisations

- Early October publication
 - Code of Practice with principles and guidance
 - Two page CC checklist
 - Is this risk contract certain?
- Quality assurance tool
- Subsequent guidance on legacy, exceptions, signed lines, late placements, binding authorities and measurement
- Centrally collected data: LMP slip audit and XIS sourced data
- Contract Certainty Implementation Steering Group
- IUA Project Manager Network
- CII training courses
 - MRG/MRPO stamp of approval

Conclusion

- Board's and CEO's heavily engaged
- Commercial and regulatory imperative
- Process change embedded/Hearts and minds gradually changing
- Initial targets met and FSA expectations exceeded
- No rule making process initiated
- Exceptions being studied and remedies found
- Further dialogue and influence needed beyond London
 - London model becoming the global process
- Great optimism that 85% target will be met