

Contract Certainty

In a market-wide initiative, prompted by the FSA, the insurance industry is now required to make substantial improvements in the degree of contract certainty by the end of 2006.

The market associations and the FSA agreed on this definition of contract certainty, 'contract certainty is achieved by the complete and final agreement of all terms (including signed down lines) between the insured and insurers before inception.'

In addition, the full wording must be agreed before any insurer formally commits to the contract and an appropriate evidence of cover is to be issued within 30 days of inception.

Historically, in many classes of business written in the London market there has often been a significant delay between the inception of policy coverage and the finalisation of the policy wording. As a result, some insurers do not have an accurate view of the risks that they write; brokers are faced with significant reconciliation issues and the risk of errors and omissions; and the insureds do not have certainty as to the cover they have purchased.

The various London market organisations, Lloyd's, Lloyd's Market Association, Lloyd's Market Insurance Brokers Committee and the International Underwriting Association, have grouped together for this purpose and have set some targets for the London market. They have required that 30% of policies by monthly volume have achieved contract certainty by end of 2005. By the end of June 2006 this is increased to 60% with the final target of 85% by the end of 2006.

Global Aerospace has always taken contract certainty pretty seriously and consequently has a high quality wordings department in its London office. However this new challenge is going to require other areas of the company playing their part.

The underwriters are at the forefront as it is they who agree to the terms and conditions of a policy on the brokers slip. The brokers slip is the key document in achieving contract certainty. Underwriters will now be completing a checklist for each policy that Global Aerospace leads. This checklist will be to ensure that, for example, “the broker’s submission is clear and unambiguous”, or, “are all terms clear and unambiguous?” The underwriters, in looking at these areas of the slip will have to formally check that the wording and all clauses are attached or referenced to the submission. They will also have to check that the premium or rate is clearly identified.

The checklist is an important tool in measuring how effective contract certainty is on Global’s lead accounts. It also will provide us with a means to identify areas of weakness and thereby take corrective measures.