

# **Contract Certainty in London Subscription Market**

**Nick Prettejohn**

**FSA Meeting 7<sup>th</sup> December 2005**

## Contract certainty: the definition

- **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.”*
- **And**
  - *“The full wording must be agreed before any insurer formally commits to the contract”*
  - *“An appropriate evidence of cover is to be issued within 30 days of inception”*

## Achievements

- **Code of Practice issued**
- **Contract Certainty checklist issued**
- **Market organisations briefed about these publications**
- **Guidance on measurement issued**
- **Continue to issue FAQs and further guidance**

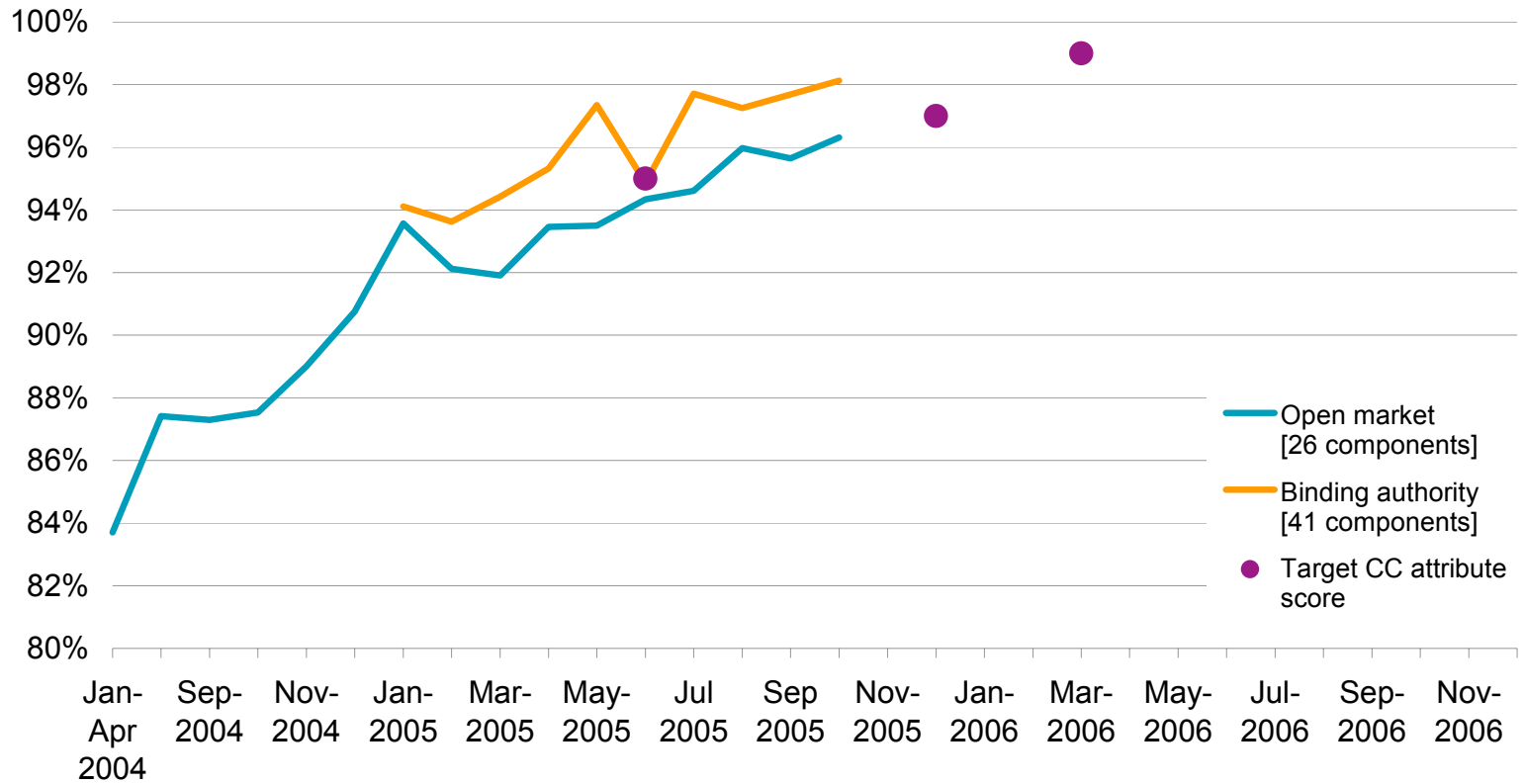
*The following 3 points outstanding in July are now completed and all addressed within Code of practice*

- **Method of communicating signed lines to underwriters;**
  - Within 30 days
  - Available at inception
- **Approach to checking within CC process**
  - Addressed in CoP: do it early, prior to underwriter commitment
- **Method of presenting wording to underwriters**
  - Broker choice to refer clauses or include full wording

## Contract certainty: meeting FSA challenge

- **Key targets agreed and shared with the FSA**
  - LMP slips CC attributes
    - 95% June 2005
    - 97% December 2005
    - 99% March 2006
  - Achieve contract certainty
    - 30% of business end 2005
    - 60% mid 2006
    - 85% end 2006
  - Appropriate evidence of cover – within 30 days

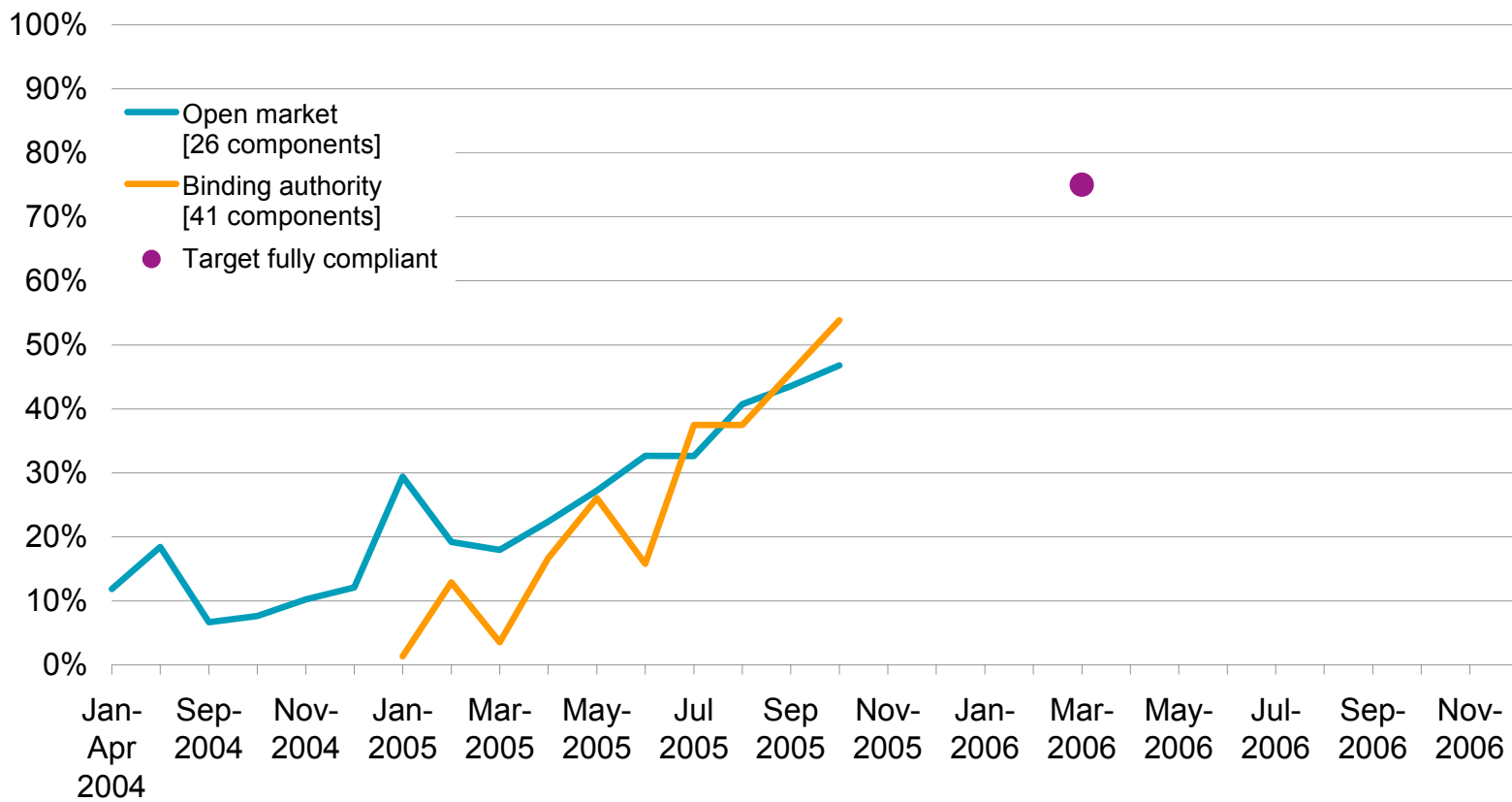
## LMP Slip CC attribute score



Source: MRPO

Notes: The number of binders audited in Sep-05 was not sufficient to calculate a market average

## LMP Slips fully compliant with CC attributes



Source: MRPO

Notes: The number of binders audited in Sep-05 was not sufficient to determine a market average

## CC volume performance

- **Each broker and insurer will collect and maintain its own granular statistics regarding its achievement of CC**
- **Brokers are asked to produce statistical returns for submission to MRPO no later than 45 days after the end of the month being collated**
- **Measurement exercise formally begins with December 2005 inception data**
- **First regular progress report to be available end February 2006**

## Outstanding points and future actions

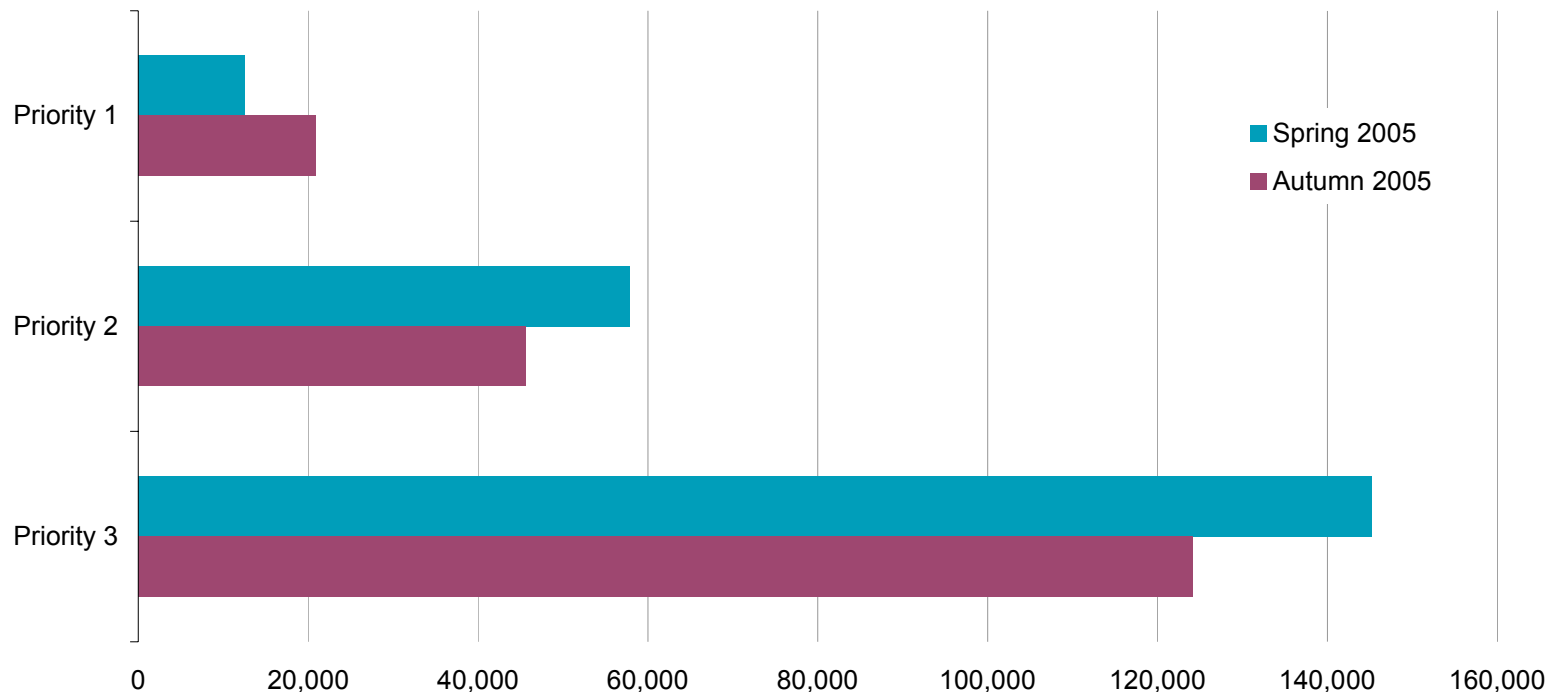
(In addition to presentations, education, measurement and helpdesk activities)

- **Signing Rules**
  - Initial guidance to be published December
- **Late submissions**
  - Proposals to achieve CC being progressed by LMA/CCPB
  - Intention is to issue guidance next year
- **Subjectivities and Line conditions**
  - Analysis continues
  - Intention is to issue guidance next year
- **Challenges (previously known as exceptions)**
  - Intention is to analyse granular data to focus future guidance

## Legacy

- **To reduce number of legacy policies in the Market**
- **Analysed legacy from XIS reports and categorised into 3 priorities:**
  - Current work in progress
  - Priority legacy
  - Other legacy
- **Code of Practice for legacy about to be agreed and to be issued this year which recommends:**
  - Focus on Priority 1
  - Brokers and underwriters to resolve priority 2 legacy policies
  - Only tackle priority 3 where a specific need is identified
- **Number of legacy policies currently reducing**

# Legacy policies - Lloyd's market



Source: XIS/BPR

Notes:

The Spring 2005 dataset excludes 2005 year of account business.

Priority 1: All contracts from 2005 year of account or contracts that have not expired.

Priority 2: All expired contracts for long tail business and expired contracts for 2004 short tail business

Priority 3: All expired contracts for short tail business pre 2004.