

Contract Certainty Code of Practice Guidelines

  	<h2>Introduction</h2> <p>The insurance industry is required to make a substantial improvement in the degree of contract certainty that exists between an insurer and the insured by the end of 2006. In order to help achieve this the Association of British Insurers (ABI), the British Insurance Brokers' Association (BIBA) and the Institute of Insurance Brokers (IIB) have published a Code of Practice that became effective from 1st October 2005. The purpose of the Code is to make clear to policyholders, intermediaries, and insurers the totality of coverage when General Insurance policies are inceptioned and renewed. Conforming to the Code is not mandatory. However, adoption of the principles will assist members to demonstrate compliance to ICOB and manage operational risk. Failure by the insurance industry to demonstrate sufficient progress in achieving contract certainty will result in the FSA imposing its own solution on the insurance industry.</p> <p>These guidelines restate the Code, provide guidance on implementation of the contract certainty principles, and highlight some important changes to the expected processes operating between brokers and insurers.</p> <p>Throughout this document, insurers and insureds include reinsurers and reinsureds.</p> <p>This work has been completed with guidance from both the Non-Subscription Steering Group and the London Market Reform Group.</p>
	<h2>Definitions</h2> <p>London Market Contracts are London Market insurance and reinsurance, bureau, and non-bureau, including declarations under any delegated underwriting agreement.</p> <p>For the sake of clarity this includes all such contracts, whether insurance or reinsurance, single or mixed market (including overseas placements via a London broker), open market or binding authority/lineslip business, and whether traded via paper or electronically.</p> <p>Non London Market Contracts are all FSA-regulated insurance and reinsurance other than London Market business.</p> <p>Contract certainty is achieved by the complete and final agreement of all terms (including signed lines) between the insured and insurers before inception. NB for the Non-London market, signed down lines are irrelevant.</p> <p>In addition:</p> <ol style="list-style-type: none">i) The full wording must be agreed before any insurer formally commits to the contract.ii) An appropriate evidence of cover is to be issued within 30 days of inception or renewal date for Commercial business or within 5 working days of inception or renewal date for Retail business <p>Appropriate evidence of cover issued to the insured can be a combination of:</p> <ol style="list-style-type: none">i) Full policy wording and schedule of cover for new business;ii) Revised schedule of cover with either referenced and/or full text of endorsements for Mid Term Adjustments (MTAs) and Renewals. <p>In order to achieve the timelines set out above, brokers should submit an unambiguous presentation of the risk to be covered to insurers. Brokers may choose the format of the presentation submitted whilst insurers may choose whether to accept this or insist on their own minimum requirements. In order to help define the format of the presentation made by brokers, BIBA have published a model presentation template (www.biba.org.uk)</p>




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	<h2>Targets and Measurements</h2> <p>The London Market has a set of quantitative targets, for the proportion of contracts that meet the definition of contract certainty. These targets are progressively stretching over time. Due to the way that the Non-London Market operates, it was recognised that such targets would not truly reflect the progress members would have made in integrating contract certainty principles into the way they operate. The Non-London Market has agreed a target of full compliance to the code, by the end of 2006. Progress in achieving this target will be evidenced through a quarterly survey of all ABI, BIBA and IIB members using specific questionnaires. The questionnaire will provide both qualitative and quantitative results. The qualitative information will help non-complying parties identify their areas to address, and will be solely administered by the trade associations; ABI, BIBA and IIB. The quantitative results of the survey will be anonymised, aggregated, and fed back to the FSA. The FSA will then consider if sufficient progress has been demonstrated by the industry in achieving contract certainty.</p> <p>Whilst completion of the questionnaire for Retail business is not required, companies may complete it voluntarily as any evidence supplied will assist members to demonstrate compliance to ICOB and manage operational risk.</p> <p>Each organisation is responsible for its own performance to the FSA. It will thus need to collect and maintain data on contract certainty performance for each individual contract. The market has developed a checklist that organisations may use in helping to assess whether a contract is certain.</p>
	<h2>Contract Certainty Principles for the Non-London Market</h2> <ol style="list-style-type: none">1) Brokers will provide submissions that satisfy the contract certainty definition and checklist to obtain firm quotes and place firm orders.2) Each insurer will be satisfied that the submission meets the contract certainty definition and checklist before formally committing to the contract, ensuring that any conditions or subjectivities are clearly expressed.3) Brokers will notify all terms to their client and obtain their client's agreement before inception unless they have authority from the client to agree cover on their behalf.4) Brokers and insurers will ensure that post-inception amendments are documented and agreed as endorsements.5) Brokers and insurers will each collect and maintain data on their contract certainty performance at individual contract level.6) Brokers and insurers will ensure that appropriate evidence of cover is issued within 30 days of inception for Commercial business and 5 working days for Retail business.
	<h2>Detailed Guidance</h2> <p>The following section of the Code of Practice provides guidelines for the achievement of contract certainty. They may not represent the only way of achieving the contract certainty objectives and fulfilling the Code of Practice, and should not be interpreted as prescriptive. These guidelines have been produced to assist organisations in implementing the changes in process that may be needed to achieve contract certainty.</p> <p>Contract Certainty documentation, relating to the Non-Subscription Market, can be found on the ABI, BIBA, and IIB web-sites.</p>




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 	<p>Principle 1: Brokers will provide submissions that satisfy the contract certainty definition and checklist to obtain firm quotes and place firm orders.</p> <p>Guidance</p> <ol style="list-style-type: none">1) Quality checking: High quality presentations are the foundation upon which contract certainty is established. To achieve this brokers will use the contract certainty checklist and a model presentation template.2) Insurer quality checking: Brokers will provide the necessary information to allow the insurer's technical checks to be made.3) Form of wording presentation: Where a broker knows the wording that they wish the risk to be placed on then this wording must be complete and will be a combination of:<ul style="list-style-type: none">• wordings and/or clauses;• either referenced and/or full text.Brokers may choose which combination is submitted to insurers; insurers may choose whether to accept this or require a different approach. If a broker fails to provide the wording, or an insurer is not willing to quote on that wording, then the insurer will provide their choice of wording with their firm quotation. A broker or client may then choose whether to accept that quotation or not.4) "As expiring terms" wordings etc: The insurer may follow the policy form of another insurer i.e. "As Original, As expiring terms", etc. The wording may then be considered to be specified as long as the prior wording is either attached or clearly identified, and hence could be obtained to resolve coverage disputes.
	<p>Broker Action(s):</p> <ol style="list-style-type: none">1) Prepare risk presentation to the standards recommended by BIBA and IIB.2) Ensure that the contract certainty checklist is used to quality assure the submission.3) Consider whether to quality check the submission against known insurer.4) Ensure that the necessary information for insurer technical checking is included within the submission e.g. claims history.5) Consider whether the required policy wording can be supplied with the presentation, and if so the preferences of the insurers in relation to the form of wording presentation.

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  	<p>Principle 2: Each insurer will be satisfied that the submission meets the contract certainty definition and checklist before formally committing to the contract, ensuring that any conditions or subjectivities are clearly expressed.</p> <hr/> <p>Guidance</p> <ol style="list-style-type: none"> 1) Quotes: A firm quote should be given only where the insurer has ensured that the submission meets the contract certainty definition. An indicative quote may be given where the submission is not compliant, but rework will be reduced if all submissions are compliant prior to quotation. 2) Full wording: This must be agreed before any insurer formally commits to the contract. 3) Insurer quality checking: For consistency, insurers will use the contract certainty checklist. The aim will be to perform all necessary contract certainty checks before formally committing to the contract 4) Subjectivities: Issues may remain outstanding after inception, for example an outstanding survey requirement. Subjectivities should be imposed within the quotation. The responsibilities and timescales for resolution, and the consequences of failure must also be clearly specified. Where a subjectivity is outstanding at inception then it must be stated as a fully clausured condition of the coverage given. <hr/> <p>Insurer Action(s):</p> <ol style="list-style-type: none"> 1) Ensure that the submission fully and clearly specifies all relevant risk details and do not formally provide a quotation contract unless this is the case. 2) Ensure that each subjectivity is fully specified within the submission. 3) Ensure that the broker is aware of the information required by the insurer for their technical checking purposes. 4) Provide feedback to brokers regarding the quality and format of submissions. 5) Review systems/procedures to allow evidence of cover to be issued within 30 days for Commercial business and 5 working days for Retail business
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  	<p>Principle 3: Brokers will notify all terms to their client and obtain their client's agreement before inception unless they have authority from the client to agree cover on their behalf.</p>
	<p>Guidance</p> <p>1) Notification to client: The broker will ensure that all terms are notified and agreed.</p>
	<p>Principle 4: Brokers and insurers will ensure that post-inception amendments are documented and agreed as endorsements.</p>
	<p>Guidance</p> <p>1) Brokers and insurers commit to this principle.</p>
	<p>Principle 5: Brokers and insurers will each collect and maintain data on their contract certainty performance at individual contract level.</p>
	<p>Guidance</p> <p>1) Market targets for the achievement of contract certainty: By the end of 2006, Non-London Market Contracts will be expected to achieve the stated definition of contract certainty. The London Market has a set of quantitative targets, for the proportion of contracts that meet the definition of contract certainty. These targets are progressively stretching over time. Due to the way that the Non-London Market operates, it was recognised that such targets would not truly reflect the progress members would have made in integrating contract certainty principles into the way they operate. The Non-London Market has agreed a target of full compliance to the code, by the end of 2006. Progress in achieving this target will be evidenced through quarterly reporting to the FSA. The FSA will then consider if sufficient progress has been demonstrated by the industry in achieving contract certainty.</p> <p>2) Monitoring performance: Each organisation is individually responsible to the FSA for its own performance, using the contract certainty checklist to assess compliance. Failures to achieve contract certainty should be recorded. Progress in achieving this target will be evidenced through a quarterly survey of all ABI, BIBA and IIB members using specific questionnaires. The questionnaire will provide both qualitative and quantitative results. The qualitative information will help non-complying parties identify their areas to address, and will be solely administered by the trade associations; ABI, BIBA and IIB. Brokers and insurers will also notify each other and, where necessary, the insured where a failure of contract certainty materially affects coverage. The quantitative results of the survey will be anonymised, aggregated, and fed back to the FSA.</p>
	<p>Broker Action(s):</p> <p>1) Maintain statistics and provide completed quarterly questionnaire to either BIBA or IIB. 2) Record failures and advise the insurer and insured appropriately.</p>
	<p>Insurer Action(s):</p> <p>1) Maintain statistics & record failures and provide completed quarterly questionnaire to ABI 2) Record failures and advise the broker appropriately.</p>

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