

INSURANCE PROCUREMENT



JOINT CIPS AND AIRMIC GUIDE

THE
CHARTERED INSTITUTE OF
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CIPS / AIRMIC INSURANCE PROCUREMENT GUIDE

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Part 1: Introduction to this Guide

1 Learning Outcomes

For purchasing and supply specialists, the learning outcomes are to develop a better understanding of the following:

- Nature of the insurance market in the UK
- Range of insurances purchased by corporate buyers
- Stages involved in the purchase of insurance
- Exposure data, risk management standards and loss experience
- Role of the insurance intermediary in designing insurance strategy
- Structure and components of complex insurance programs
- Servicing of insurance contracts and responsibilities of those involved
- Compliance and tax implications for multi-national programs
- Importance of established procedures in the event of a claim

For risk and insurance managers, the learning outcomes are to develop a better understanding of the following:

- Approach of Procurement to the purchase of services
- Contribution of Purchasing and Supply Management Professionals
- Role of Procurement in the selection of insurance service providers
- Benefits of involving Procurement in insurance purchase

2 Scope of this Guide

This guide has been jointly produced by the Chartered Institute of Purchasing & Supply (CIPS) and the Association of Insurance and Risk Managers (AIRMIC). It provides an overview of the insurance industry, its structure and the activities involved in purchasing insurance. The guide is intended to provide the knowledge and tools required to match the insurance requirements of an organisation against the offerings in the insurance market.

The guide will be of interest to Procurement Professionals, Insurance and Risk Managers and others with a responsibility for defining insurance requirements, selecting service providers, managing the ongoing relationships with service providers and servicing the insurance contract.

Insurance allows a company to transfer and manage its risk. This sounds simple, but how much or how little risk a company transfers to an insurer will depend on the appetite of the company for risk, the cost of insurance and the further cost of paying for losses as they occur. Without insurance, a large loss will affect the Profit and Loss account and may have a significant impact on the Balance Sheet strength of the organisation. In addition to freeing up liquidity for companies, the insurance industry provides access to advice and expertise on risk management, leading to reduced claims and potentially reduced premiums.



3 Importance of Insurance

It is important to recognise that insurance is a promise to pay in the future. The value of this promise is only as good as the financial strength of the insurer providing that promise. It is crucial to ensure engagement with an insurer that can demonstrate they will be there for the long term and can pay claims both now and in the future. One means of evaluating the financial strength of an insurance company is the credit rating assigned by one of the rating agencies. Buyers of business insurance should monitor the credit rating of their insurance companies. The possibility of introducing cancellation clauses to be activated when an insurance company falls below a certain credit rating should be investigated.

Not all claims originating within the policy period will be settled during this period. In some cases it can take up to 30 years before a claim is made. Employers Liability insurance is a good example of this - where in recent years, asbestosis claims going back 20 years or more are being put forward. At the other end of the spectrum is property insurance, where the nature and size of the loss will almost invariably be identified immediately.

It is also important to note that in some cases insurance is not a free choice but is required by law and companies must demonstrate that cover is in place. In the UK, Employers' Liability insurance and Motor - Third Party insurance are examples of mandatory insurance covers.

There are a number of issues that should be investigated when making the ultimate choice of insurer as they can impact the delivery of the insurance service. When purchasing insurance, buyers need to be aware of the 6C's of insurance buying decisions:

- Cost of insurance, or premium
- Coverage offered and exclusions imposed
- Capacity, or amount of insurance offered
- Capabilities of the insurance company
- Claims handling philosophy and culture of the insurer
- Compliance with insurance and tax laws

In order to ensure that all relevant issues are considered when purchasing insurance, it is usual for large corporate buyers of insurance to appoint an insurance broker or intermediary as professional adviser. The appointment and role of the insurance broker is discussed in more detail later in this guide.



Part 2: Nature of Insurance Contracts

4 Insurance Market

The total insurance market in the UK has been valued in terms of gross premiums as in excess of £200 billion. About three quarters of this is life insurance with the remainder accounted for by the non-life sector, including business insurance. The business insurance market is therefore worth about £50 billion annual premium income in the UK. Freedom of services legislation in Europe means that if an insurer is licensed in any one EU country, it can write insurance in any other EU country.

According to figures from the Association of British Insurers (ABI) in 2005 more than 1,100 companies were licensed to carry out insurance business in the UK. About 870 of these insurance companies were licensed for general business only (such as motor, household and commercial insurance), with the remainder licensed for long-term business (such as life insurance).

Corporate buyers of insurance purchase insurance for a range of risk exposures, as described in a later section of this guide. Typically, corporate insurance is purchased on an annual basis, although long-term agreements covering two, three or more years can sometimes be negotiated. When deciding whether to provide a quote, an insurance company will require detailed information about the company seeking insurance.

This information is often referred to as exposure data and includes details of sales, property values, turnover and / or payroll, depending on the class of insurance under consideration. The exposure data will also include information on the risk management standards achieved in the company, together with information about previous claims. The data associated with the claims history of the company is usually referred to as the loss experience.

A contract of insurance is not just a matter of commercial good faith but is one of utmost good faith. This means that both parties to the contract have a duty to disclose, clearly and accurately all material facts relating to the proposed insurance. It is imperative that the insured discloses all relevant information to the insurer to avoid the possibility of a claim being dismissed on the grounds that information was incomplete or incorrect. Disclosure responsibilities placed on the insured are very onerous, but are currently under review by the Law Commission / Scottish Law Commission.

5 Structure of Insurance Programs

Buying commercial insurance is more complex than buying personal insurance for a car or house. Large corporate buyers of insurance will normally need to buy insurance in layers and the first layer of insurance is usually referred to as the primary layer. Typically, the primary insurer will offer between £5 million and £25 million of insurance cover. The insurance buyer will then need to buy excess layers above the primary layer until a sufficient total amount of cover has been purchased.

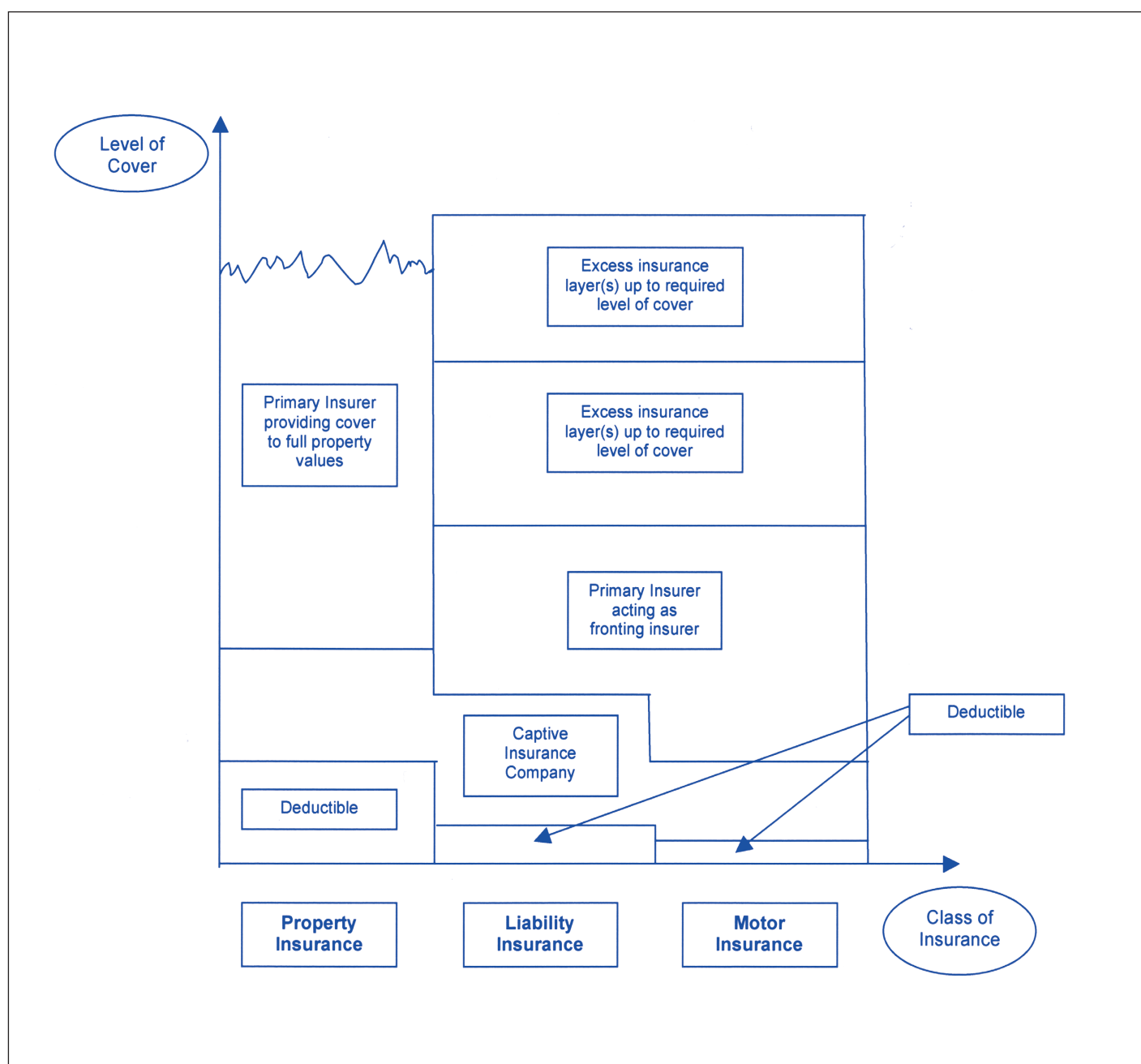
Excess layers will often be purchased with more than one insurance company involved on each layer. This is sometimes the case for the primary layer as well. This arrangement is referred to as co-insurance and it is almost a standard feature of using the Lloyd's insurance market. The insurance companies themselves will insure their own risk exposures in excess of the net amount of risk that they wish to retain. When an insurance company buys insurance to protect itself, this is known as re-insurance and the terms and conditions of a re-insurance contract will influence the coverage that an insurance company is willing to offer to commercial clients.



Large corporations will sometimes include a captive insurance company within their insurance structure. A captive insurance company is an insurance company owned by an organisation that is not otherwise involved in insurance. The purpose of a captive insurance company is to provide insurance capacity for the organisation by using its internal financial resources to fund certain types of anticipated losses or insurance claims. The organisation that owns a captive insurance company is often referred to as the parent of the captive.

In general, captive insurance companies are domiciled in a location that has a favourable regulatory and accounting regime that encourages the establishment of captive insurance companies. Domiciles for captive insurance companies include Guernsey, the Isle of Man, Gibraltar, Malta, Luxembourg, Bermuda and Ireland. The nature of captive insurance companies can vary quite widely. A captive insurance company can write insurance business directly into other countries, even though the captive is not licensed in that country. This is referred to as non-admitted insurance and there are compliance issues surrounding non-admitted policies that need to be carefully considered.

Figure 1: Captive Insurance Company within an Insurance Program





It is more common for a captive insurance company to operate as a re-insurer providing insurance cover to the main insurance company appointed by the organisation. This arrangement provides the insurance company of the organisation, often referred to as the fronting insurer, with the means of receiving reimbursement for certain types of claims up to the financial limits (risk retention levels) agreed with the captive insurance company.

A typical financial structure for a complex insurance program is illustrated in Figure 1. The organisation will accept deductibles or excesses on its different classes of insurance and these may vary by class of insurance. The captive insurance company then accepts the next level of loss up to an agreed limit for any individual loss and also up to an agreed limit for total or cumulative losses during the policy year.

The primary or fronting insurer will be responsible for payment of that part of larger losses that exceeds the captive insurance company limit. The fronting insurer will be responsible for payment of all losses once the cumulative totals for the captive have been breached. For statutory classes of insurance, the primary or fronting insurer will be legally responsible for the payment of the total claim. The fronting insurer will then reclaim the money from the captive insurance company to the extent that the captive insurance company is liable.

This can present a credit risk for the fronting insurance company, although this can sometimes be overcome by the fronting insurance company not making any payment until it has received funds from the captive insurance company. Note that some captive insurance companies accept business from third parties, as well as providing insurance for the parent company. For example, the captive insurance company owned by a travel agency may offer cancellation insurance to customers.

6 Stages of Insurance Purchase

Table 1 provides a simple overview of the stages in the procurement and servicing of insurance contracts. The first stage is concerned with the exposure information, risk management standards, loss experience and risk appetite. It is usual to appoint an insurance broker at this stage to assist with the development of the overall insurance strategy. The insurance strategy and procurement strategy will be considered in the next stage, so that a proposed insurance structure can be developed.

The next stage will be to obtain quotations from potential insurers. When looking at the quote from an insurance company, several issues should be borne in mind. The cost, coverage and capacity being offered by each insurance company needs to be evaluated. The definitions used in the proposed policy, together with any exclusions and warranties that will be imposed also need to be considered carefully.

Definitions and exclusions can limit coverage and should be carefully reviewed. Warranties place specific restrictions on the company purchasing insurance and warranties need to be complied with at all times. The most common warranty is for the insurer to indicate that the premium must be paid within a number of days of inception. Failure to pay the insurance premium by that date will invalidate the whole contract.

One of the most important considerations about the capability of any insurer is the financial stability of the insurance company. It is important to recognise that insurance is a promise to pay in the future. The value of the promise is only as good as the financial strength of the insurer. As previously stated, the long-term financial strength of an insurance company is indicated by the credit rating assigned to that company by the rating agencies. Most insurance brokers continuously monitor the credit rating of insurance companies and provide guidance to clients on the suitability of particular insurers.



The buyer of insurance may need additional services from the insurance company and the capabilities of the insurer to provide these additional services will need to be considered at the time a quote is received. The capabilities of the insurance company be an important reason for selecting that insurer. Likewise, many insurance companies offer security or product liability advice and support to clients.

Table 1: Stages of the insurance purchase process

	Stage	Activities / Comments
1	Details of the Insured	<ul style="list-style-type: none"> ● Collect exposure information ● Review of risk management standards ● Details of loss experience ● Risk appetite of organisation
2	Insurance Structure	<ul style="list-style-type: none"> ● Overall insurance strategy ● Procurement sourcing strategy ● Selection of Intermediary (Insurance Broker)
3	Selection of Insurers	<ul style="list-style-type: none"> ● Evaluation of insurer quotations ● Selection of suitable Insurance carriers ● Amend insurance strategy (as necessary) ● Agree final insurance structure
4	Servicing arrangements	<ul style="list-style-type: none"> ● Define scope of servicing activities ● Agree range of support capabilities ● Schedule stewardship meetings
5	Compliance arrangements	<ul style="list-style-type: none"> ● Achieve contract certainty ● Insurance Premium Tax (IPT) compliance ● Comply with local insurance requirements ● Evaluate warranties on the policy
6	Claims handling	<ul style="list-style-type: none"> ● Claims notification arrangements ● Claims acceptance arrangements ● Agree claims handling protocols ● Establish claims payment procedures



Part 3: Risk Management and Procurement

7 Insurance Needs Analysis

Many large companies have risk management departments that co-ordinate the approach to risk management, evaluate the insurance that is needed and purchase the required insurance. The department will typically be managed by a Risk Manager. In companies without a risk management function, the responsibility for insurance purchasing and risk management decisions may rest with the Treasury Function, Finance Director, Company Secretary or the Managing Director.

Table 2 is designed to help an organisation decide which types of insurance cover are necessary and appropriate. An evaluation of risk exposures may result in the decision to purchase the particular type or class of insurance cover. However, certain types of insurance policies are mandatory. The need for non mandatory insurances is decided by considering the nature, size and complexity of the business. Note that the classes of insurance policies concerned with life and health assurance are usually purchased as optional staff benefits.

Table 2: Insurance Needs Analysis

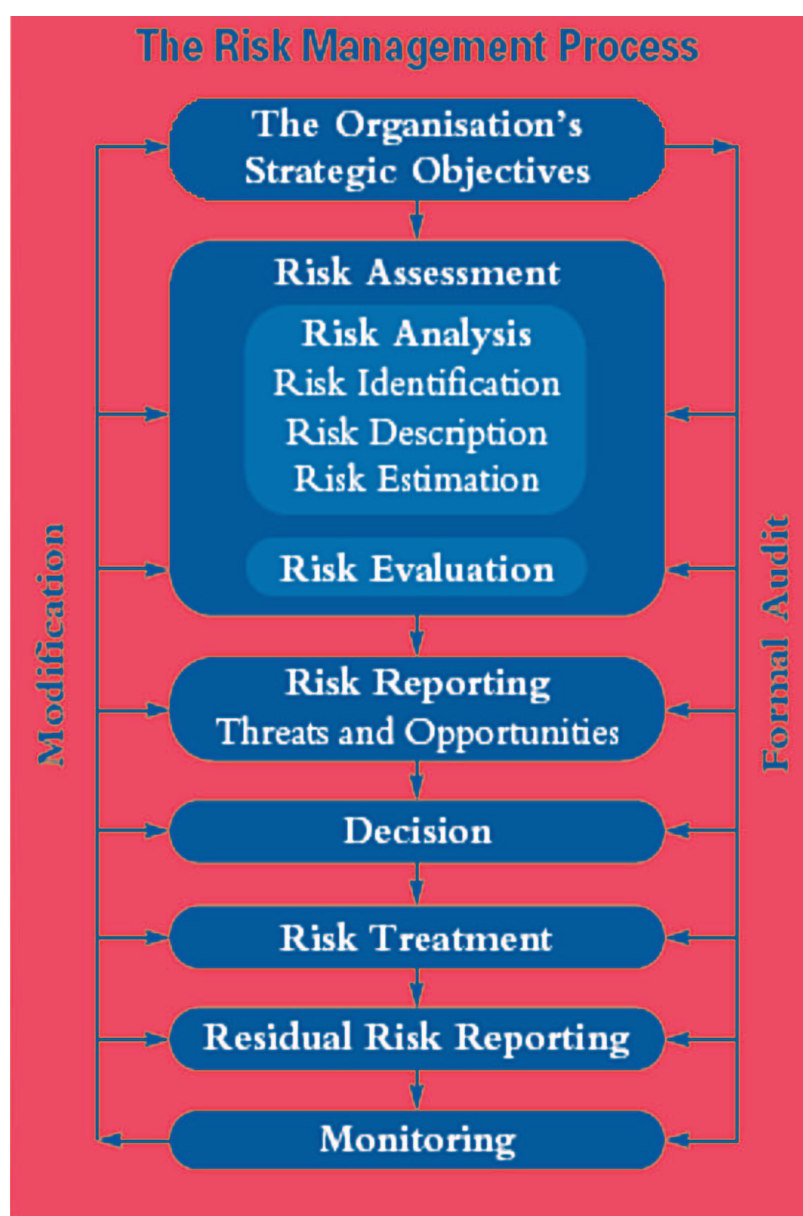
	Feature of the Business	Relevant Insurance
1	Business has employees	<ul style="list-style-type: none"> Employers Liability Employment Practices Liability
2	Employees travel outside the UK in the course of employment	<ul style="list-style-type: none"> Employee business travel
3	Members of the public could be affected by the business activities	<ul style="list-style-type: none"> Public Liability
4	Business supplies products or components to customers	<ul style="list-style-type: none"> Product Liability Product Recall
5	Business provides professional or design advice to customers	<ul style="list-style-type: none"> Professional Indemnity
6	Theft or dishonesty by employees could be a problem	<ul style="list-style-type: none"> Fidelity Guarantee
7	Business occupies business premises	<ul style="list-style-type: none"> Premises insurance
8	Premises has machinery, stock or other contents	<ul style="list-style-type: none"> Contents cover
9	Business depends on reliable operation of machinery or computers	<ul style="list-style-type: none"> Engineering insurance Statutory Examination and Test
10	Business could be disrupted by fire, flood or denial of access to premises	<ul style="list-style-type: none"> Business Interruption
11	Business is involved in transporting goods or products	<ul style="list-style-type: none"> Goods in Transit
12	Business operates motor vehicles on public roads or requires staff to use their own vehicles	<ul style="list-style-type: none"> Motor – Third Party Motor Vehicle – Accidental Damage
13	Business provides life or health benefits to staff	<ul style="list-style-type: none"> Life and health
14	Certain people are essential to the success of the business	<ul style="list-style-type: none"> Key Person
15	Business would suffer in the event of a bad debt	<ul style="list-style-type: none"> Trade Credit
16	Business has directors and / or officers Liability	<ul style="list-style-type: none"> Directors' and Officers'

8 Risk Management Approach

Risk Management is the identification, measurement and economic control of the risks that threaten the assets and earnings of a business. A risk is defined as the peril or hazard that is covered by the insurance policy. An organisation should decide whether there are adequate controls in place to manage the significant risks faced by the business. A decision can then be taken whether further cost-effective controls can be introduced, including evaluation of health and safety standards and assessment of measures in place to protect property against theft and fire.

The cost of insurance is driven by the business sector in which the organisation operates, the exposure data and claims experience. Also, an insurance company will look at the risk management standards and the steps that have been taken to minimise the number and potential size of claims.

Figure 2: AIRMIC Risk Management Process



AIRMIC published a Risk Management Standard in 2002 and this is available from www.airmic.com Figure 2 illustrates the key stages of the Risk Management process. Adopting a risk management approach will protect the business; add value to the business; and support achievement of objectives by:

- providing a framework that ensures a consistent and controlled approach;
- improving decision making, planning and prioritisation of threats to the business;



- contributing to the more efficient allocation and use of capital and resources;
- reducing volatility in the non-essential areas of the business;
- protecting and enhancing assets and company image;
- developing and supporting people and knowledge base; and
- optimising operational efficiency within the business.

Adopting the risk management approach will help the organisation concentrate on reducing the likelihood and consequences of a loss, as well as evaluate what can be done to minimise the extent of damage and the cost of disruption. Business continuity planning is a key part of the risk management process. It involves careful consideration of how the organisation would continue after a serious loss that causes disruption to normal operations.

In relation to those risks that can be insured, the intention of risk management is to reduce the potential for insurance claims and minimise the impact of any losses that do occur. Good risk management standards will make the organisation more attractive to insurance companies, thereby increasing the choice of insurer; and perhaps even reducing the cost.

The amount of insurance purchased will depend on the potential for loss, the level of confidence in the existing controls and the attitude of the organisation to uninsured losses. This analysis will determine the risk appetite of the organisation and the results of this analysis will help decide the limits of indemnity that are purchased and the level of deductible or excess that is appropriate for each type of insurance.

Many large organisations retain a very high level of risk and this retention is often greater than can be tolerated by an individual trading subsidiary. In these circumstances, the group or head office may retain significant levels of risk, often by the use of a captive insurance company. Deciding the level of risk that should be retained in a captive insurance company is an important part of establishing the risk strategy for the organisation.

Finally, it is worth noting that the amount of capital available in the insurance industry to underwrite risks has a significant impact on cost and coverage. When there is excess capital in the insurance industry, rates reduce (and coverage may be extended) and this is known as a soft market. When insufficient capital is available in the insurance market, rates increase (and coverage may be restricted) and this is referred to as a hard market. There is a cycle of hard and soft markets within the insurance industry and this has a significant impact on insurance purchasing decisions.

9 Role of Procurement

Increasingly, many organisations are recognising the value that can be added by the involvement of procurement professionals in purchasing insurance. Involving Procurement can result in several benefits, including transparency and objectivity.

Most organisations are required within their governance structures and through pressures from external stakeholders to demonstrate that they procure goods and services through a transparent process. This is especially true of public sector organisations that must comply with the processes laid down in the Public Procurement Regulations. Failure to comply with these regulations can result in legal action which could lead to damages being payable to an aggrieved party or in certain circumstances, the contract could be set aside.



Procurement professionals are well positioned to provide advice and / or to manage the most appropriate procurement process to meet the needs of the organisation. Procurement can give an objective view and constructively challenge the current supply arrangements, especially where these arrangements are based on long-standing relationships. Procurement professionals will seek to ensure that these conversations are undertaken in the context of a close trust-based working relationship.

Where challenging conversations are needed to resolve an issue, for example on fees, it may be more appropriate for that conversation to be handled by someone from Procurement who will not be involved in the ongoing day to day relationship. This will ensure that there is the minimum impact on that relationship.

Procurement professionals have a wide array of skills, tools and techniques that can be applied to buying insurance services, including supplier relationship management skills and negotiation skills, as well as sourcing strategies and methodologies. Further information on Procurement issues and good practice can be found on the website of the Chartered Institute of Purchasing and Supply (CIPS) at www.cips.org



Part 4: Buying Insurance

10 Appointment of Insurance Intermediary (Broker)

Most large organisations appoint one or more insurance intermediaries to assist with the design of the insurance programs and the purchase of the required insurance. Insurance intermediary is the general term used to describe both insurance brokers and insurance agents. Insurance brokers generally operate as providers of independent advice to risk managers and are usually remunerated (at least in part) by way of a fee.

However, there has been recent discussion about how insurance intermediaries should be remunerated and it is often the case that intermediaries receive remuneration from insurance companies, as well as from the organisation to which they are providing insurance advice. Nevertheless, it is the expectation of risk managers that the insurance intermediary will be acting in the best interests and / or on behalf of the insured at all times.

However, this dual income arrangement can result in conflict of interest for the insurance intermediary. The buyer of insurance should be confident that all potential sources of conflict are disclosed and appropriate arrangements made to minimise the scope for conflict. This is best achieved by complete transparency on behalf of the insurance intermediary as to how they are remunerated. Many insurance intermediaries produce a conflict of interest policy that they are willing to share with their clients.

Insurance agents usually have a relationship with a single insurer, whereas insurance brokers are usually able to undertake a full market review for the client. It is worth noting that the word “agent” has a particular legal meaning and a broker may find that they are (in a legal sense) the agent of an insurance company, even though they are seeking to operate in the best interests of the insured. Where this arises, buyers of insurance should seek specific information about how any conflict of interest that may arise will be managed.

The role of an insurance broker has developed to be much more than simply a price comparison service. They are insurance specialists able to assist the risk manager evaluate and then make decisions regarding the:

- risk profile of its business;
- appropriate risk management approach;
- correct amount of risk to retain;
- activities that should be reviewed;
- mitigation actions that should be considered;
- risk transfer / insurance options;
- whether to involve a captive insurance company;
- risk exposure (underwriting) submission; and
- submission of claims and risk management information;



Large buyers of insurance will undertake an insurance broker review approximately every five years. This review is normally undertaken in the period leading up to insurance renewal, although this need not always be the case. The appointment of an appropriate insurance broker is such an important decision that considerable time and effort needs to be put into the broker review exercise.

The questions that should be asked of the various candidates during a broker review exercise should enable the insurance buyer to determine the experience of the potential brokers in relation to at least the following:

- company industry or sector experience
- specific experience of the risks that the company faces
- sufficient skilled staff to service the account
- claims management, risk engineering and other relevant services

11 Review of Strategic Options

The appointed insurance broker will make a major contribution to the development of the insurance strategy and the design of the insurance programs. These issues will be vitally important to the production of a satisfactory insurance program. Brokers will obtain quotes from the alternative insurance companies and these quotes will set out details of the cost, coverage and capacity being offered by each alternative insurer.

The stages in the selection of suitable insurers are shown in the Table 1. There will be a cycle of the obtaining insurance quotes, amending insurance strategy and reviewing risk appetite in order to develop the final insurance structure. One specific issue worth investigating is the whether limits of indemnity can be reinstated on pre-agreed terms, if a major claim arises that erodes all of the initial insurance cover purchased.

Table 4 sets out the features involved in developing and implementing a suitable insurance structure, together with details of who should be involved at each stage. There is significant broker involvement with data collection and advice on the insurance structure. The placement of the insurances will have oversight from the risk manager and from procurement specialists. The range of services provided by the broker and the selected insurance companies will need to be carefully considered when finalising the insurance structure and procuring insurers to the program.



Table 4: Involvement in Insurance Decisions

Stage	Features	Involvement	Considerations
Data Collection	Underwriting data describing the risk information needs to be collected and validated	<ul style="list-style-type: none"> Insured Broker 	<ul style="list-style-type: none"> Utmost good faith Accurate information Well presented data
Insurance Structure	Suitable structure for the insurance program needs to be developed keeping in mind the risk appetite of the insured and the involvement of any captive	<ul style="list-style-type: none"> Insured Broker 	<ul style="list-style-type: none"> Broker expertise Uninsured losses Attitude to risk Risk Appetite
Procurement/ Placement	Potential insurers need to be identified based on choice available and cost / capacity / coverage offered, as well as fronting capabilities, if required	<ul style="list-style-type: none"> Insured Broker Insurer 	<ul style="list-style-type: none"> Cost / coverage / capacity Market conditions Wordings / exclusions Insurer security Warranties / subjectivities Binding authority
Service and Support	Service arrangements need to be put in place to ensure client loss control and claims handling support, as well as ensuring compliance of the insurance programs	<ul style="list-style-type: none"> Insured Broker Insurer Claims handlers 	<ul style="list-style-type: none"> Capabilities of insurer Compliance / tax Claims data Wordings Local policy / paper Scenario testing Business continuity Disaster recovery

12 Choosing Insurance Partners

When undertaking a review leading to the selection of an insurance partner, a number of questions need to be answered. These questions should be reviewed jointly by the risk manager, procurement manager and the selected insurance broker. The questions set out below cover the 6C's of insurance purchase mentioned earlier, that is cost, coverage, capacity, capabilities, claims and compliance.

Policy coverage

- Does the insurer offer all the types of insurance that the company requires
- What level of cover is the insurer offering and what are the exclusions
- How do these characteristics compare with alternative insurers
- Is the insurer offering acceptable / best available policy wordings
- Can they tailor the wordings to the particular needs of the insured
- When is the premium payable and is there a warranty on payment terms
- What profit share / rewards are offered for low claims experience
- Has the insurer explained the pricing / cost / premium decisions



Relationship Management / Service

- How will the relationship be managed and by whom
- What will the broker / insurer team comprise
- What are the terms of the Service Level Agreement (SLA)
- What management information can be provided and when
- What stewardship or other liaison meetings will take place
- How will servicing issues be managed and escalated
- What is planned to develop the relationship over time
- How will renewal be handled and over what timescale

Multi-national programmes

- How will the insurer meet the geographical coverage requirements
- What service will be provided in all territories across the world
- How does the insurer achieve and demonstrate compliance
- What arrangements are in place to pay taxes around the world

Financial Security

- What is the financial status / rating of the insurer
- What movements in rating have taken place or are anticipated
- Are market developments anticipated that could impact the insurer
- What happens if the insurer credit rating becomes unacceptable

In the public sector, there are additional considerations associated with EU Public Procurement Regulations (PPR). Purchasing and supply management professionals operating in public sector organisations need to be aware of and comply with their obligations under the PPR. Insurance services have to be advertised in the Official Journal of the European Union when the total value over the life of the contract equals or exceeds the published threshold.



Part 5: Account Servicing

13 Post Contract Considerations

When the insurance contract has been placed, there will be several post-contract considerations. Issuing the final policy contracts on a timely basis has been the subject of a recent contract certainty initiative in the UK insurance market. It is important that both the insured and the insurer know what level of protection has been agreed at the point when cover is agreed and contract certainty achieves this objective.

Evidence of cover is required in many territories and several organisations will find that their customers require continued evidence that, for example, public liability or professional indemnity insurance is in place. The provision of the evidence of cover statements, often referred to as local paper, can be undertaken by the insurer or by the insurance broker. Arrangements for providing evidence of cover should be set out in pre-contract agreements.

It is absolutely critical that payment of premiums is made on time as this may be a contract warranty and failure to pay on time will invalidate cover. To ensure premium payments do not get delayed, it may be prudent to have a separate payment process, rather than include premium payment in the standard payment procedure. Attention should also be paid to other warranties on the policy to ensure that these are clearly understood so that the insured can put arrangements in place to always comply with these warranties.

Arrangements for paying local taxes should also be agreed beforehand and implemented as soon as practicable after inception of the insurance policy. The allocation of insurance premium to the operations of the organisation around the world can be undertaken by the underwriter or by the insurance broker. The premium allocation is then used to calculate the insurance premium tax payable on the portion of the premium allocated to a particular territory. Although the risk manager will depend on others to calculate these taxes and ensure that they are paid, the responsibility ultimately rests with the risk manager and assurance should be sought that the taxes have been correctly calculated and paid.

The need to ensure compliance in global or multi-national insurance programs has been mentioned earlier. Compliance issues can arise because an insurer is not licensed within a particular territory. If an insurer is not licensed to write insurance business in a particular territory, then the policy covering risks in that territory is known as non-admitted insurance. Several territories in the world do not allow non-admitted insurance and risk managers should make sure that adequate local arrangements are in place to overcome any non-admitted insurance issues.

14 Servicing and Support Capabilities

In addition to the post-contract issues, there will be many other servicing and support requirements associated with large insurance programs. These will include engineering support, loss control advice (including health and safety) and the appointment of loss adjusters and other third party administrators (TPAs). TPAs include outsourced claims handling operations that manage smaller claims, including those within the deductible on the policy. If a TPA is appointed to handle smaller claims, there will need to be good liaison and sharing of data with the primary insurer.



In addition to the specialist services that may be provided by the broker or the insurance company, organisations should consider the arrangements for routine monitoring of performance and continuing evaluation of insurance market conditions. Typically, insurance brokers undertake stewardship meetings with large clients on at least an annual basis. The frequency and agendas for these meetings should be agreed as part of the overall service level agreements between the insured and the broker / insurer.

Also, protocols should be agreed for dispute resolution both with brokers and insurers. In the case of insurance brokers, arrangements should also be in place to review broker remuneration from sources other than direct fees. The request to brokers to provide information on their remuneration should only be made once with an agreement with the broker will disclose this information regularly and automatically in future.

15 Managing Claims and Losses

As well as purchasing insurance to fulfil mandatory and customer requirements, the reason for buying insurance is to ensure that any claim will be paid appropriately and promptly. Accordingly, the insured should make sure that arrangements are in place describing claims protocols. These protocols will cover arrangements for handling claims, including details of how losses will be reported and the extent of information that is required by the insurers or the PTAs handling the claims.

Management information regarding claims experience should be readily available in order to track loss experience and learn from that experience, so that similar losses are minimised in future. The main requirements related to successful handling of claims are as follows:

- Establish a claims service protocol(s), so that all parties know the procedure before a claim occurs
- Implement incident management plans and business continuity plans and practice them, so that the company is in the best position should an incident occur
- Notify the broker and the insurer of the loss / claim as soon as possible and within any time limit stipulated in the policy
- Keep a record (including photographs, if appropriate) of all details of an incident in order to provide full and accurate information to the insurer

If inadequate, inaccurate or incomplete information was provided at the time the insurance was placed, this will become obvious as the claim is investigated. Therefore, it is important that organisations disclose full information to insurers at the time the insurance contract is purchased. There may also a requirement on the insured to notify any changes to the exposure information during the policy term.

Finally, it is worth noting that although insurance is an FSA regulated industry, the compensation scheme that covers private individuals (consumers) does not generally protect businesses when an insurance provider becomes insolvent. If awaiting payment of a claim a business will be in the same position as any other creditor. In the case of the classes of insurance that are required by law, such as Employers' Liability insurance, the cover would be void in the event of insurer insolvency. To ensure that a business is not put in an illegal position, there is a scheme in the UK to protect claimants against insolvency of insurers providing mandatory insurance cover.



APPENDIX A: Further Assistance

The following organisations can provide further help and assistance with a wide range of risk management and insurance matters.

Association of Insurance and Risk Managers (AIRMIC)

6 Lloyd's Avenue
London EC3N 3AX
www.airmic.com

Association of British Insurers (ABI)

51 Gresham Street
London EC2V 7HQ
www.abi.org.uk

British Insurance Brokers Association (BIBA)

British Insurance Brokers' Association
14 Bevis Marks, London EC3A 7NT
www.biba.org.uk/

Institute of Risk Management (IRM)

6 Lloyd's Avenue
London EC3N 3AX
www.theirm.org

Financial Services Authority (FSA)

Financial Services Authority
25 North Colonnade
Canary Wharf
London E14 5HS
www.fsa.gov.uk

Society of Lloyd's

One Lime Street
London
EC3M 7HA
www.lloyds.com

Further information and guidance on a wide range of purchasing and supply matters.

The Chartered Institute of Purchasing & Supply (CIPS)

Easton House
Easton-On-The-Hill
Stamford
Lincolnshire
PE9 3NZ
www.cips.org



APPENDIX B: Glossary of Terms and Concepts

The insurance industry uses quite a number of technical terms, usually for reasons of precise meaning. Here is a list of the most important insurance terms and concepts. A more comprehensive list of insurance terms and definitions can be found at: <http://www.lloyds.com/Help/Glossary.htm>

	Concept	Description
1	ALL RISKS	Term used to describe insurance against loss of or damage to property arising from any fortuitous cause except those that are specifically excluded from the policy.
2	AVERAGE	A clause in insurance policies whereby, in the event of under-insurance, the claim paid out by the insurer is restricted to the same proportion of the loss as the sum insured bears to the total value of the insured item.
3	CLAIM or LOSS	Injury or loss to the insured arising so as to cause liability to the insurer under a policy it has issued. Loss is another name for a claim.
4	DEDUCTIBLE or EXCESS	Deductible is the amount that a loss must exceed before a claim is payable. Only the amount above the deductible can be claimed. Excess is the amount of the claim to be paid by the insured and it can be either voluntary to obtain premium benefit or imposed by the insurer.
5	EMPLOYERS LIABILITY INSURANCE	Insurance by employers in respect of their liability to employees for injury or disease arising out of and in the course of their employment. This insurance is compulsory in Great Britain and can only be provided by an authorised insurer that is regulated by the FSA.
6	EXCLUSION	A provision in a policy that excludes the insurer's liability in certain circumstances or for specified types of loss.
7	INCREASE IN COST OF WORKING	Under a business interruption policy some cover is provided for additional expenditure incurred by the insured in order to reduce the shortage in production following an insured event.
8	INSURANCE BROKER or INTERMEDIARY	An insurance broker is a specialist with professional skills in handling insurance business. An insurance intermediary acts as the agent of his client, but is sometimes remunerated by a commission (brokerage) from the insurer. It is important that the insured is told how much the insurance broker / intermediary is earning on the account.
9	INSURANCE POLICY	The insured pays a premium to the insurer as a consideration for a contract of insurance or policy. The policy should be issued before the inception (start) date of the insurance cover. It is a document detailing the terms and conditions of an insurance contract and provides evidence of insurance.
10	INSURED and INSURER	The insured is the person / organisation buying the insurance. The insurer is an insurance company or Lloyd's underwriter who, in return for a payment (a premium), agrees to make good any loss or damage suffered by the insured as a result of an insured event.



11	LIMIT OF INDEMNITY	Indemnity is the principle whereby the insurer seeks to place the insured in the same financial position after a loss as he occupied immediately beforehand. The limit of indemnity (or sum insured) is the maximum amount an insurer will pay under a policy in respect of all accumulated claims arising within a specified period of insurance.
12	LOSS ADJUSTER	Independent qualified loss adjusters are used by insurers to carry out detailed investigations of complex and large losses. Although the insurers invariably pay the adjuster's fees, the loss adjuster is an impartial professional person.
13	LOSS ASSESSOR	In motor insurance, the loss assessor is an engineer. In other classes of insurance, the loss assessor is a person who acts for the claimant in negotiating the claim. It is usually only necessary to appoint a loss assessor when the loss adjuster recommendation is unacceptable to the insured.
14	PERMANENT HEALTH INSURANCE	Term used to describe contracts of insurance providing continuing benefits in the event of prolonged illness or disability.
15	PERSONAL ACCIDENT AND SICKNESS INSURANCE	Insurance for fixed benefits in the event of death or loss of limbs or sight by accident and / or disablement by accident or sickness. Accident and sickness may be insured together or separately.
16	PRODUCT LIABILITY INSURANCE	These policies cover the insured's legal liability for bodily injury to persons, or loss of or damage to property caused by defects in goods (including containers) sold, supplied (including as gifts), erected, installed, repaired, treated, manufactured, and / or tested by the insured.
17	PROFESSIONAL INDEMNITY INSURANCE	This policy protects a professional person against legal liability towards third parties for injury, loss, or damage, arising from that person's own professional negligence or the negligence of employees.
18	RISK MANAGEMENT	The identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise. A risk is defined as the peril insured against or an individual exposure.
19	THIRD PARTY LIABILITY	Liability of the insured to persons who are not parties to the contract of insurance and are not employees of the insured. The third party is the person claiming against an insured. In insurance terminology, the first party is the insurer and the second party is the insured.
20	UTMOST GOOD FAITH	Insurance contracts are contracts of utmost good faith or uberrima fides. Both parties have a duty to disclose, clearly and accurately, all material facts relating to the proposed insurance.

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