

No Uncertain Terms



FM Global—ahead of the curve on contract certainty

For years, complete contract certainty had been something of a holy grail in the insurance industry, a fine goal to work toward, to be sure, but one that consistently eluded the grasp of insurers and their policyholders, many of which relied on binders or slips to provide temporary evidence of coverage until the final policy was issued—sometimes months and, in extreme cases, even *years* after the date of inception.

Then came the claims disputes associated with the World Trade Center losses, which eventually prompted regulators, specifically London's Financial Services Authority (FSA), to take a closer look at the issue. In December 2004, the FSA called for U.K. insurers to make contract certainty a priority, stating that "the full [policy] wording must be agreed before any insurer formally commits to the contract," and that "appropriate evidence of cover is to be issued within 30 days of inception."

"The goal," said FM Global's Robert Beattie, senior underwriting specialist, U.K. operations, "is for the client to have the full policy in his or her hand as soon as it takes effect, so that, if there's a big loss within even the first hour of the currency of that contract, all parties know exactly what the terms and conditions of the policy are—what the insurer is, and isn't, going to pay for."

This idea is not a new one to FM Global. In fact, noted the company's Jeff Beuman, vice president and manager, all-risk insurance products, as early as 2002, the company

began taking steps to deliver policies faster, as part of its client service initiatives. "Contract certainty is the buzzword right now," he said, "but we see it simply as providing better service to our policyholders."

One of the steps FM Global took was to put into place a new policy-writing and premium-registering computer system designed to expedite the delivery of policy information to its clients worldwide. "We set up our 'WorldReach network,' as we call it, to support timely issuing—not just of the master policy, but of all the local admitted policies for a global insurance program," said Beuman. "We also understood that a key obstacle to delivering final policy documentation quickly was the complexity of processing premium on a global basis."

Beuman is quick to point out, however, that such measures address only half the issue surrounding contract certainty. The other half, not mentioned in FSA's definition, involves the clarity of the contract—do two parties, reading the same wording, come to the same conclusions

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regarding what the policy covers? It's one of the reasons FM Global has added claims adjusters to its client service teams: these adjusters can help clients understand, in advance of a loss event, the coverage provided by the policy. "During these 'pre-loss' meetings, they sit down with the client and visualize, for example, damage caused by a hurricane," explained Beaman. "They then perform a mock adjustment, complete with a walk-through of the financial reports needed to adjust the claim. This not only serves to improve the claims process and preempt possibly contentious issues, it also promotes risk mitigation."

In addition to the pre-loss visit, a client can attend a policyholder workshop, where representatives from claims meet with a group of clients to review coverage under FM Global's policies and work through generic loss examples. And, at any time, clients can visit with their client service managers to go over any questions that might have been raised during the renewal process.

Contract certainty is, of course, a two-way street: it would not be possible without the continued efforts of the client, who can significantly improve the process, said Beattie, by providing FM Global up front with the information necessary to calculate the renewal. "Values, for example, and an up-to-date list of locations—if this information is left until the last minute, we'll really have to scramble to finalize the premium or terms accordingly," he said.

Also incumbent on the client, added Beaman, is the awarding of the order for renewal sufficiently ahead of the policy's effective date. "Ideally, for us to get you a product that will respond the way you need it to, on the day you might need it—which could be one minute into the term—we would be given the order 30 to 45 days out," he explained. "If that happens, we'll have your full policy to you on or before the effective date—no binder needed."

So, just how well is FM Global doing on its mission to achieve total contract certainty? So far in 2007, the company's U.K. operations is exceeding the FSA's objective of 90 percent contract certainty, having issued 100 percent of its policies within 30 days of inception. Just as impressive, more than two-thirds of FM Global clients worldwide received their full policies within the same time frame—this compared with the 17 percent of risk managers across the industry, according to a 2006 RIMS poll, who reported receiving their contract within even 45 days of inception.

"We're really working on that last third," said Shivan Subramaniam, FM Global chairman and chief executive officer. "Indeed, in 2007, the company expects to increase the number to 90 percent. "What I'd like," he continued, "is eventually for us to have no binder at all—to simply issue every policy on time."

A lofty goal, but one, said Beaman, that is certainly achievable. And, in doing so, FM Global would no doubt raise client satisfaction, which is central to the issue of contract certainty. Said Beattie, "We're in a service industry, and one of the key deliverables, if you will—apart from paying claims—is the delivery of the policy. If we're able to put the actual contract in every client's hand at inception, that's just another advantage FM Global provides over the competition." [r]

Are You Certain?

How you can help promote contract certainty

- Set up a pre-loss adjustment meeting with your claims adjuster to review policy language in detail and perform a mock adjustment.
- Attend a policyholder workshop to learn exactly how your policy will respond in a loss event.
- Sit down with your client service manager to address any questions that have been raised during the renewal process.
- Provide information such as values and an up-to-date list of locations four to six weeks before inception.