Summer 2006 Issue 25 the magazine of the British Insurance Brokers' Association

the broker

B I B A

Customer confusion:
why disclosure matters

Terrorism cover alert:
advising your clients

Technology taskmasters:
brokers' online innovations

Please circulate to:

Name:

Name:

Name:

Name:

Name:

Name:

Please write in key employees in the spaces above

The shifting sands of capital

Is Bermuda's gain London's loss?

the broker

BIBA contacts

Eric Galbraith
Chief Executive
020 7397 0201
galbraithe@biba.org.uk

Peter Staddon
Head of Technical Services
020 7397 0204
staddonp@biba.org.uk

Graeme Trudgill
Technical Services Manager
020 7397 0218
trudgillg@biba.org.uk

Paul Garland
Membership Manager
07808 166124
garlandp@biba.org.uk

Steve White
Head of Compliance and Training
020 7397 0222
whites@biba.org.uk

Doreen Campbell
Office Manager
020 7397 0219
campbelld@biba.org.uk

Lindsay Campbell
Executive Assistant
020 7397 0221
campbelll@biba.org.uk

Leighann Burtrand
Communications Co-ordinator
020 7397 0223
burtrandl@biba.org.uk

Kirsty Gordon
Membership and Broker ASSESS
020 7397 0224
gordonk@biba.org.uk

This magazine is about you and for you – so we do rely on your contributions. Please contact Leighann Burtrand with your news and views. Her details are in the contact list above.

BIBA House, 14 Bevis Marks, London EC3A 7NT

Design: Beetroot Publishing
Print: SMP
Advertising: Mainline Media

WELCOME

Many personal lines customers don't understand from whom they are buying their cover. They may not know that there are benefits to using a broker or that a supposedly "cheap deal" from a direct writer could, in fact, be poor value – or even the wrong product.

BIBA was very concerned when last year the Financial Services Authority (FSA) decided to change disclosure requirements. Direct writers now need to reveal less about their status when contacted by customers. We recently conducted independent research, which we will be presenting to the regulator. This showed that many are confused about the different roles of brokers and insurers. BIBA wants to see this issue tackled and will be campaigning for the FSA's decision to be overturned.

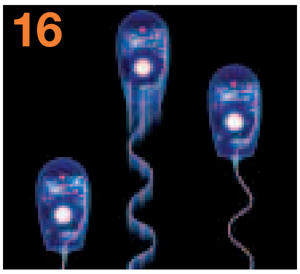
Turning to the global insurance market, one hot topic is whether London is under threat from Bermuda. Journalist Adrian Ladbury provides a perceptive view.

Finally, I enjoyed meeting many of you at *making the difference*, this year's BIBA Conference held in Brighton. It was hard work, but we had a fantastic time and it would be great to hear your feedback on the event.

Leighann Burtrand
Editor of *the broker*

INSIDE SUMMER 2006


10


16


33

Eric Galbraith, BIBA's chief executive, provides an update on the issues that matter to brokers

I will be looking to extend BIBA's existing structure to reassess the issues of smaller brokers

Brighton rocked

I'm delighted so many of you attended the BIBA Conference in Brighton. We received excellent feedback on the speakers, programme and quality of the exhibition, although it is recognised that the layout on two floors was not ideal.

This was one of the biggest events held by the Metropole Hotel in recent years and I hope you will agree their staff worked extremely hard to ensure that we were well catered for.

I feel it is important for us to unite as an industry – so much more of our work now is done remotely and there are too few opportunities for us to get together. The BIBA Conference provides the ideal forum for this. Next year, it's in London – from 23 to 25 May.

Take it to the Max

As I explained during my conference address, Max Taylor, the current BIBA chairman, has decided to stay on in this role for a third year. This is excellent news for us because it allows us to set in place a nominations committee. This will be the most effective way of making senior appointments within BIBA in the future. Max has made an important contribution to BIBA for the past two years as chairman and we look forward to benefiting from his experience for a third.

Showing small brokers that we mean business

Smaller brokers are often superb businesses with loyal customers. But there is no getting away from the fact that they are under considerable pressure to meet regulatory requirements and other business challenges from within and outside the industry.

I am informed that there is a perceived impression that BIBA is an association for larger brokers. This is not accurate as our many smaller members will testify. But I want to find out if there is a way that we can do even more to encourage small brokers to access the services that we offer, and to attract more new members.

Over the past year, BIBA has set up focus groups to represent the issues of each segment and in the coming months I will be looking to extend BIBA's existing structure to reassess the issues of smaller brokers.

Market-led solutions

I would like to update members on terms of business agreements (TOBAs) and our work on payment protection insurance (PPI). On TOBAs, check out the news item opposite – I would ask members to adopt this change as soon as possible. Second, as far as PPI is concerned, the market has been asked to resolve this issue, which is not an 'insurance problem'; more a lender's challenge.

PPI has already been the subject of scrutiny by the Financial Services Authority (FSA) and now the Office of Fair Trading is beginning an investigation into the market. At BIBA, our overwhelming concern is to achieve a fair deal for consumers. We have no problems with PPI as a product and indeed, we see it as valuable when it is correctly sold in appropriate circumstances. But, we currently do not have a competitive environment and too often, PPI is being sold bundled in with loans at disproportionately high cost.

Wider choice will mean a better deal, which is why we want to see change and the possibility of the product being unbundled. Consumers also need to understand that they can shop around. I will continue to put our point of view across to the FSA and the OFT. I don't want to see this issue fudged.

How to fund the FSCS

The FSA has announced four possible options for funding the Financial Services Compensation Scheme (FSCS), one of which is their recommended option. We are currently assessing which, if any, of the options put forward will best favour brokers. I would ask members to let us know if they feel there is an equitable formula so that we can make representations on your behalf to the regulator.

Congratulations to Lord Sheikh

It is great to hear that Mohamed Sheikh, chairman and chief executive of Camberford Law, has been appointed a life peer.

BIBA has worked closely with Camberford Law for many years and the company is one of our scheme providers.

Mohamed is also a former BIBA regional chairman, board director and a member of the National Council of the CII.

Email Eric Galbraith at galbraithe@biba.org.uk

RIGHT TO REPLY

Make change happen

Marc DonFrancesco

It's said that if you do what you've always done, you'll get what you always got. In my view, this is not so – you'll probably get a lot less.

So, we must keep a mindset to thrive, not just survive. It is about using more imagination and the belief that brokers should be on the top table, with say, bankers and accountants and be rewarded accordingly.

It is about looking out, not in, avoiding comfort zones, and not over focusing on internal issues. FSA requirements have caused extra work, but how about making a virtue of your improved systems and controls and educating customers about this?

Too often, brokers are sucked into selling just on price. Customers are becoming wiser and many care about being offered insurers with good service and claims paying ability.

A broker's skills are needed more than ever in a world where reinsurers collaborate with capital markets, alternative risk transfer is no longer a 'closed book' to many, and 'virtual insurer' is well recognised insurance parlance.

It's about grooming a new generation of talent. There is a backlash brewing against the dumbing down of skills. Customers are getting tired of automated call centres – nothing beats reality.

Differentiation matters. In Towergate's case, it's about distribution. The vast majority of our business comes from brokers. We aim to make their lives easier through access to a range of products and effective decision makers.

Brokers need to tell their clients what differentiates their firm and drive the message home. Australian film director Baz Luhrmann advised: "Do one thing every day that scares you". This can certainly apply to a number of brokers. They would do well to find some thinking time, consider what would make their clients' lives easier and take the bold step of reinventing their image.

Marc DonFrancesco is group head of marketing for Towergate Partnership

Do you agree with Marc? Let us know – email editor Leighann Burtrand at burtrandl@biba.org.uk

All clear with new TOBA wording

BIBA has produced a new wording for terms of business agreements (TOBAs), which will remind customers of commercial brokers that they can ask for details of commission.

Transparency over commission and fees is an important market issue and BIBA wants to ensure its members meet regulatory requirements.

BIBA's recommended wording to members is: *Prior to the conclusion of each insurance contract, or upon renewal, we will remind you of your right to be advised of the level of commission which we receive from underwriters. You are entitled, at any time, to request information regarding any commission, which we may have received as a result of placing your insurance business.*

The wording is in line with that already recommended by BIBA's London Market Brokers' Committee.

BIBA's chief executive, Eric Galbraith, said: "Following discussions with the FSA and a number of our members, we have decided to recommend that all our members make changes to the TOBAs they have with commercial customers. I would urge members to incorporate it into their commercial customers' TOBAs as soon as possible."

Disclosure of remuneration to commercial customers was raised in the FSA's 'Dear CEO' letter on conflicts of interest last year and addressed further by its chief executive John Tiner in his speech at the FSA's Insurance Sector Conference in March 2006.

BIBA boosts its HQ team

There are a number of new recruits to bolster BIBA's staff at its head office in London's Bevis Marks.

The new joiners and their positions are:

- **Ellen Crawshaw** – training administrator
- **Steve Foulsham** – technical services officer
- **John Hadley** – commissionaire
- **Rebecca Pledge** – communications assistant
- **Gurmukh Shehri** – assistant accountant
- **Sunel Victor** – administrative assistant.

Head of technical services Peter Staddon said: "We're delighted to welcome them all. We're a small and close-knit team here but everyone, in their particular role, is dedicated to our members."

Brighton attracts industry cream

This year's BIBA Conference – *making the difference* – attracted a record 2,000 delegates and exhibitors.

As the event closed, chief executive Eric Galbraith said: "We've received a lot of positive feedback. I've been extremely pleased with the quality of the programme – I think it is one of the best we've held. I would now welcome feedback from all of those who were there."

In his hard-hitting opening address, Mr Galbraith addressed a number of issues, including regulation. "In the first 15 months of regulation by the FSA I have serious concerns that the general insurance intermediary sector has been shoe-horned into a regulatory environment designed for larger and higher risk financial services products," he said. He stressed though, he was heartened to find the FSA was looking, where possible, at principle-based, rather than prescriptive, regulation.

Mr Galbraith called for the market to put in place a structure to respond to future issues: "Market-led solutions are an opportunity for the market and not just the regulator."

But he also expressed concern over the EU competition review, which is currently being undertaken. "We have to realise that those investigating will want to find something to report on. I want to make sure that they consult with us and realise that we are already highly competitive and that the UK model is the right one," he added.

Delegates were inspired by a number of top-flight speakers at the event. These included Lord Coe, who explained how underdog London had won the Olympic bid. Former Labour "spin doctor" Alastair Campbell gave a presentation on his role as Prime Minister Tony Blair's right-hand man, while mountaineer Joe Simpson gave his account of a near-death experience while climbing in the Peruvian Andes.

Mr Galbraith added: "I was hugely impressed by them all and certainly there was something we could learn from all of them. Alastair Campbell's clear-minded vision on objectives, strategy and tactics certainly had me thinking on the importance of being focused."

The conference once again held a range of seminar sessions and provided plenty of opportunities for networking.

Lord Coe addresses the conference

PR man: Alastair Campbell makes his comments

How the numbers stacked up

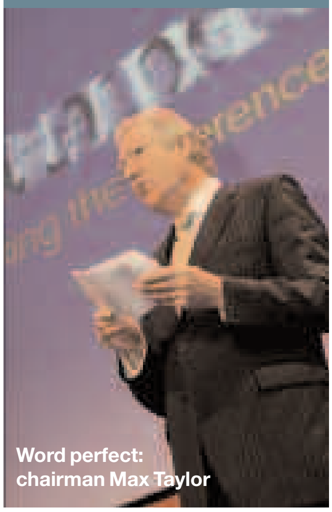
- 337 broking companies represented
- 821 individual brokers present
- 44 insurance companies represented
- a first-time major presence from a medical insurer – BUPA
- 531 individual insurer staff present
- 16 different press organisations present – 62 journalists in attendance
- six major premium finance providers present
- around 90 others with connections to the industry present, such as loss adjusters, software houses and the ABI
- these included representatives from the FSA, FSCS, Guernsey Financial Services and the CII

London's ExCeL hosts BIBA 2007

BIBA is now gearing up for next year's conference and has announced this will take place between 23 and 25 May at ExCeL, in London's Docklands.

Mr Galbraith said: "We ask members and exhibitors to put this date into their diaries. This conference is an excellent forum for all segments of the industry and I would encourage all firms, large and small, to participate."

Companies that exhibited this year will automatically be sent booking details for 2007 as soon as they become available. Further information on the conference programme and promotional opportunities will also be posted in the coming months on the BIBA website.



Word perfect: chairman Max Taylor

MEMBERSHIP MATTERS

So much for the shrinking broker market. This year, to date, we have signed up 121 new BIBA members. This is impressive going – last year, we had 142 new joiners.

I'm well aware that there is consolidation in the market. We do lose some members because of this – so far this year we have lost around 16 as a result of takeovers. But it is clear that the overall trend for BIBA is growth – our numbers are getting stronger all the time.

We're attracting new members for a variety of reasons. BIBA's campaigning stance is increasingly high profile and I feel the practical help we offer members in terms of compliance support and regulatory updates is second to none. Our schemes mean a member could more than cover its membership subscription alone for little effort. Then there is the simple fact that few of us like to feel alone in an industry. Our focus over the past few years has been to grow in the regions and increase the number of events we offer. These have recently included conferences in Scotland, Wales and the Midlands. And all have proved well attended and excellent networking opportunities.

We will continue to represent the interests of all members – large and small. There is strength in numbers, especially in the current regulated environment. We're delighted to welcome all new members.

Paul Garland
BIBA's membership manager

Young stars recognised

BIBA's regional committees have completed the process of selecting entrants for the Sheikh Abdullah Young Broker of the Year Award.

Most regions have held selection events to find the brightest and the best. Winner of the Central region is Daniel Beeson, 34, who is broking manager with north London firm, Hamilton Leigh Risk Solutions.

Daniel entered the insurance industry in 1992, when he joined Norwich Union and moved to broking in 1997 when he joined Hamilton Leigh. He was nominated by his manager, Jill Hamilton who said: "He is a phenomenally conscientious worker who goes the extra mile. He is known as a font of all knowledge – far wiser than his years and a jack of all trades, being technically competent in commercial insurance at a high level."

Meanwhile, BIBA's Yorkshire and Northern region selected Charlotte Mottershead. Charlotte – known as Charlie – is 24 and a commercial account handler at Doncaster broker, Atkinson Smith. She was nominated by her line manager, Beverley Brown.

Charlie gained experience in personal lines and small business, before joining the company's core commercial team in April 2004. She now looks after some £250,000 in commission and fee income and handles an annual gross written premium of £1.5 million. She has also had a key role in implementing Atkinson Smith's new computer system. In December 2004, she achieved Dip CII and is now embarking on her ACII.

Daniel (right) receiving a certificate and cheque from Jeremy Wilson, chairman of BIBA's Central region

Regional executives – contacts

Yorkshire and Northern
Ian Raper
01274 209748
raperi@blueyonder.co.uk

Merseyside, West Cheshire, North Wales, Isle of Man and Greater Manchester
Bob Nicholls
07831 423628
nicholrobe@aol.com

Scotland
Clive Hurn
07836 609 960
clivehurn@btinternet.com

West of England
Barry Blakley
07766 235037
blakleyb@biba.org.uk

West Midlands
Bob Darwin
0121 3547760
bobdarwin@blueyonder.co.uk

Anglia
Jo Morgan
01638 565880
jo@memltd.com

South East and Central
Diane Smyllie
01959 701793
smyllied@biba.org.uk

United regions link up to hold roadshow

Greater Manchester region and Merseyside, West Cheshire, North Wales and Isle of Man region have linked up to host a BIBA roadshow on 13 June.

The Schemes Roadshow and Compliance Update will be held at Haydock Park Racecourse, which is at Newton-le-Willows in Lancashire. The speakers are Steve White, BIBA's head of compliance and training, and Ian Woodman, relationship manager from the Financial Ombudsman Service.

The event will also provide an opportunity for members to meet BIBA schemes providers. It starts at 10am and ends at 3pm. Admission is free and lunch is provided.

To reserve a place(s) please contact Bob Nicholls at nicholrobe@aol.com or by telephone on 07831 423628.

PRESS BRIEFING

Lynn Rouse

Have you ever felt your broking rivals are punching above their weight in terms of media coverage? Have there been times when you and your colleagues have bemoaned the fact that a smaller and 'less influential' competitor has yet again bagged a disproportionate amount of column inches? There tends to be a simple reason behind such perceived inequalities – and, contrary to popular belief, it's not lazy journalism.

Relationships with the press need to be built up and trust imparted from both sides. In that sense, this is no different from any other kind of business relationship: those that work hard at them, are willing to voice their opinion and give a straightforward answer, will win out.

During the last 18 months, the UK's broking fraternity has been called upon by the FSA to display transparency at all times and encouraged to whistle-blow on poor practices. Well, that's all trade journalists have ever asked of the companies operating in the industry they write about.

With tight deadlines to work to, we value the F-words above all others: we want contacts to be fast, frank and forthcoming.

So here are a couple of thoughts on increasing exposure. If you have a story to tell, consider offering it on an exclusive basis to one publication – this could secure you more prominent coverage.

Equally, be willing to share market intelligence and make off-the-record comments. Journalists understand there are times where it would be professional suicide to be credited, but tip-offs can be substantiated elsewhere. Finally, and as a longer-term strategy, ask to be put on any mailing lists available to receive details of forward feature articles, enabling you to proactively contact the writer when relevant.

Lynn Rouse is deputy editor of *Post Magazine*

Regulation release hits the target

BIBA research reveals the true cost of regulatory compliance

A press release from BIBA and the Federation of Small Businesses (FSB) on the disproportionate cost of regulation for smaller brokers captured the media's attention and received widespread coverage.

BIBA members provided the research material and the results were analysed by the compliance team. Of the 430 responses received, it was found that on average, a company spends 3.7 per cent on meeting regulation. But for companies with less than £100,000 in income that figure rises to 5.20 per cent, compared with 1.13 per cent for companies with an annual income of more than £100,000,000.

Eric Galbraith, BIBA's chief executive, was quoted in the release saying: "This new research makes it clear that the Government needs to do more to ensure that regulation is proportionate. Excessive regulation can be damaging for all businesses, but it is not good enough that the smallest companies are having to spend five times more than the largest simply to keep up with regulatory demands."

It also included a comment from Stephen Alambritis, head of Parliamentary affairs for the FSB, who said: "It is clear that the disproportionate cost of regulation, outlined in this research, needs to be addressed by the Government. Our country's economic health depends on the success of small businesses. Regulation, both its volume and complexity, is a major issue for all small businesses. I urge the Government to review the cost of regulation on insurance brokers as a matter of urgency."

BIBA communications co-ordinator Leighann Burtrand adds: "Regulation is a complex issue but this release explained in straightforward terms how smaller brokers are unfairly penalised in terms of cost. The story was picked up by nationals including *The FT* and *The Daily Telegraph*, but was also used in many regional papers."

IMAGE: REX FEATURES

Net tightens on uninsured drivers

BIBA is focusing on press and Parliament to encourage tougher penalties for uninsured drivers.

The message to the media has been that a fine of £100 is totally inadequate in terms of acting as a deterrent and is often far less than the price of comprehensive cover. The Road Safety Bill is currently passing through Parliament and BIBA is campaigning for higher maximum fixed penalty fines and a dedicated enforcement agency.

BIBA received a mention in the House of Commons during the Bill's second reading debate. The press has also been following the story and technical services manager Graeme Trudgill was recently interviewed on Sky News.

Bottle-nosed Dolphin *(Tursiops truncatus)*
Dolphins deposit most of their body fat into a thick layer of blubber that lies just underneath the skin. This insulates the dolphin, streamlines the body and also functions as an energy reserve.

Long term development demands substantial reserves.

Anticipating and providing for possible future needs is not just prudent, it is an essential characteristic for survival.

Over the last 150 years we have supported an ambitious and energetic approach to business, yet maintained our commercial integrity and financial stability through perilous times by a policy of realistic and judicious reserving. A position that means you and your clients can have full confidence in our ability to pay their claims.

St. Paul Travelers – your natural selection.

ST PAUL TRAVELERS

St. Paul Travelers Insurance Company Limited
St. Paul Travelers Syndicate Management Limited
St. Paul Travelers Professional Risks Limited

www.stpaultravelers.co.uk

BIBA has commissioned market research to prove customers often don't understand the differences between brokers and direct insurers. **Rachel Gordon** reports

At the end of 2005, the Financial Services Authority (FSA) amended its status disclosure requirements, which meant that direct insurers no longer need to provide the same – or as much – information to customers as brokers. BIBA believes the regulator has acted against consumer interests – and has conducted research to prove it.

This found that over half of the sample of insurance customers interviewed did not know or fully understand the role of a broker or the differences between using one and going to an insurer direct.

Despite this and because of the FSA ruling, direct insurers are now more likely to keep their customers in the dark. In particular, they need not explain that they are a direct writer, or that there is no choice on offer. They are no longer required to provide a demands and needs statement where the sale is non-advised, or give out their full address, regulatory status and how consumers can verify this.

The customer may only realise they have not had the benefit of a broker's advice if they read the policy summary sent out after the sale – and many do not study this.

Brokers, however, are required to make full disclosure to customers. This also means that the sales process when using a broker is likely to take longer and this could also lead some consumers to feel that buying direct is somehow more straightforward and therefore better. Above all, far from having a level playing field, the regulator has contributed

The research low-down

BIBA commissioned market researcher Fresh to conduct the project. We questioned a small but representative sample of male and female customers – some 90 in total in a mix of ages and in a variety of professions – who purchased personal lines insurance through brokers, which was primarily motor and home cover.

Our aims were:

- **to determine customer perceptions, attitudes and expectations regarding the purchase of insurance through brokers**
- **to assess the perceived differences between insurers and brokers**
- **to explore the consumer's view regarding the supply of insurance information and the value of such data**
- **to determine how they valued the importance of 'advice' versus 'information'.**

The research – undertaken in March 2006 – was conducted by telephone and all 90 respondents were questioned either immediately pre or post renewal to ensure the buying experience was recent. No incentive payments were made.

Why the FSA m

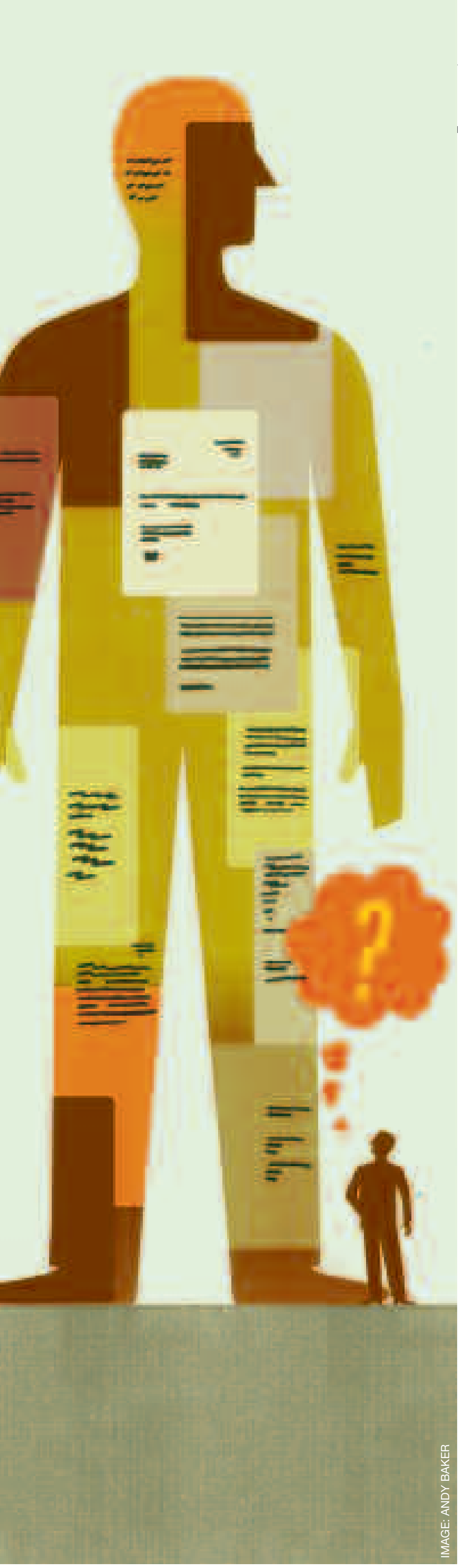


IMAGE: ANDY BAKER

BIBA's research: the shock results

Confusion reigns
Nearly 80 per cent of the sample claimed to know they were dealing with a broker and not an insurer, while just over 20 per cent claimed they didn't know. But, when the 80 per cent was asked to explain what a broker was, nearly 13 per cent could not supply a definition. Many of the definitions supplied by the others showed limited understanding. It was found that over half the respondents either did not know and/or were confused about the role of their broker.

Price is not always right
Our research showed that consumers stated their prime reason for using a broker was to obtain "the best deal" and "for cheaper insurance". It was found 75 per cent of customers in the sample said this was the key factor for them.

The second motivating factor was "convenience", and "saving time", while thirdly, consumers stated they used a broker for the benefits of "advice "and "range of choice".

This shows there is work to be done in convincing customers that the lowest price is not always best.

Advice versus information
Education around the benefits of advice is also required. It was found that the benefits of a broker's advice, if given, had directly influenced a purchase in around 50 per cent of cases. But generally advice from a broker in a driving insurance purchase is low. This still shows that many do not appreciate the advantages of receiving advice from an independent expert, as opposed to simply receiving factual or marketing literature direct from an insurer. And respondents were evenly split when asked what was more important – broker advice or insurance information.

Ignorance is not bliss
It was found that some respondents who were uninformed about insurance and the role of brokers – some 20 per cent – may be honest about their comprehension, but many claimed to know and their lack of comprehension was only evident when asked to explain in detail broker and insurer differences.

Loyalty remains
Even though there is confusion, BIBA's research revealed that many brokers' customers are loyal. Of those questioned, just over 60 per cent said they had remained with a broker for more than five years.

towards a two-tier system where consumers are likely to be further confused and potentially, short-changed when buying insurance.

Steve White, BIBA's head of compliance and training, believes the FSA's decision to remove status disclosure requirements is in direct conflict with its statutory objectives. "It won't be made clear if a consumer speaks to a direct market that they are not checking the market and disclosure has been watered down for one set of providers in the market. It puts consumers in a worse position now than when the General Insurance Standards Council was around – and yet the FSA was meant to bring in higher standards."

BIBA is convinced that the regulator is misguided in its actions and it will be making representations to the FSA that status disclosure should be the same across the market.

Over the longer term, it is clear that there needs to be far more consumer education.

BIBA wants the FSA to study this research and take immediate action. Beyond this, there is also an important role for brokers to do all they can to ensure customers do understand – and appreciate – the difference they offer.

ust think again


Business
17
Market

Bill May advises brokers that terrorism cover is appropriate – and indeed essential – for many of their clients

Canary Wharf: devastation after the 1996 IRA bomb attack

Be prepared

Every business in the United Kingdom should be aware that the threat of terrorism is a constant risk that needs to be considered equally alongside more traditional fire or flood scenarios.

Well in excess of £600 million has been paid out to cover insured property and business interruption losses since 1993. This figure does not include claims resulting from the London bombings of July last year.

Perhaps more strikingly this takes no account of losses suffered by businesses that opted not to insure against terrorism related losses. Nor does it factor in the full extent of losses suffered by those businesses who, although purchasing terrorism insurance, failed to make a full recovery of their loss. This was as a result of the inadequacy of their basic coverage to which their terrorism insurance would be attached.

The combination of these uninsured losses will have resulted in a final figure for terrorism-related property and business interruption losses in the region of £4.8 billion, i.e. an additional £4.6 billion in uninsured losses alone.

But, some brokers may be of the opinion that clients outside London are less concerned about insurance against terrorism.

They should be reminded that 40 per cent of Pool Re funded terrorism losses have occurred outside the capital. Using the same ratio of uninsured to insured loss would put some £1.7 billion as uninsured losses outside the London area in this period.

While the following comments relate solely to property and consequent business interruption exposures, in purely monetary terms, acts of terrorism can impact on other classes of insurances. These include life, motor insurance, employers' liability, personal accident and medical insurance.

Despite this, there are many businesses that elect not to purchase terrorism insurance.

It has been claimed that less than one in 10 SMEs currently have terrorism insurance added to their basic property and business interruption policies.

This proportion contrasts starkly against the estimated seven in 10 in the larger corporate sector who have opted to purchase terrorism insurance.

So, why in particular do SMEs fail to recognise the risk to their business of a terrorism event and how can we change this?

It seems the treatment of terrorism risk is seen as a standalone issue when assessing the risk of disruption to business. But, it should be incorporated as an integral part of the business continuity planning process in exactly the same manner as other risks. And, it is part of the broker's advisory function to assist the client in this integrative process.

Aftermath of the 1993 IRA bomb attack in Bishopsgate, London

IMAGES: EMPICS/REX FEATURES

Covering terrorism risk is not an inertia purchase. Clients are quite used to being quoted on an all risks basis and it is probably rare for a client to ask for a separate quote to be given excluding say, earthquake, on the basis that there has never been one here in recorded history. This needs to be changed over time and requires the assistance of insurers. We need to arrive at a situation where terrorism cover is automatically included in the all risks pricing without being separately priced out.

Then there are those businesses that fail to make a full or adequate recovery under their terrorism insurance or otherwise have their claims rejected as not being covered.

So, when terrorism insurance has been purchased, how can it fail to respond adequately or not respond at all?

It should be made clear that terrorism insurance – other than specific stand alone products offered by certain Lloyd's syndicate – can only respond in the same way as the basic property and business interruption policy that is being reinsured.

The cover provided by insurers under the Pool Re scheme is basically a broad all risks wording with few exclusions – these being war and allied risks, riot, civil commotion and cyber risks, such as computer viruses and hacking.

Terrorism insurance is granted as a buy back to the terrorism exclusion. But there remains the potential for a gap in cover to occur should the definition of terrorism in the exclusion be broader than that of the buy back.

While in general the UK property insurance market is able to offer so-called wrap cover to address this potential gap, it remains essential to check this is actually achieved. An example might be that of a loss incurred in controlling or preventing an act of terrorism. A further area for potential concern will arise should the definition of damage in the original policy be more limiting than the buy back.

Equally, if property is not covered or limited in amount or specifically excluded from cover under the original policy, then the terrorism insurance can only respond in similar fashion.

These gaps in cover are likely to arise more often on claims considered under the business interruption section, where there are numerous extensions of coverage available, but which may not necessarily be purchased – usually owing to cost considerations. It may be that a nearby property is damaged during a terrorism incident which results in access to an insured property being denied or significantly compromised, resulting in a loss of expected income at the property.

> Covering terrorism risk is not an inertia purchase

While the loss is undeniably a result of terrorism – unless a denial of access extension has been purchased under the general cover of the original policy – then no claim for lost income will be allowed.

How then can you maximise the return on a purchase of terrorism insurance in the unfortunate event that it is called upon to respond to a claim? Tips include:

- develop a loss scenario specifically for a terrorism event, much as you would for fire/explosion/flood
- analyse the available policy coverages and extensions that are needed to respond to this scenario
- quantify the potential losses that might arise
- apply the results to the existing policy coverages and limits
- fill in the gaps.

In order to assist UK businesses in becoming as resilient as is realistic in given circumstances, the Government has made available to businesses large and small a wealth of information and tools. The primary portal is: **www.preparingforemergencies.gov.uk**.

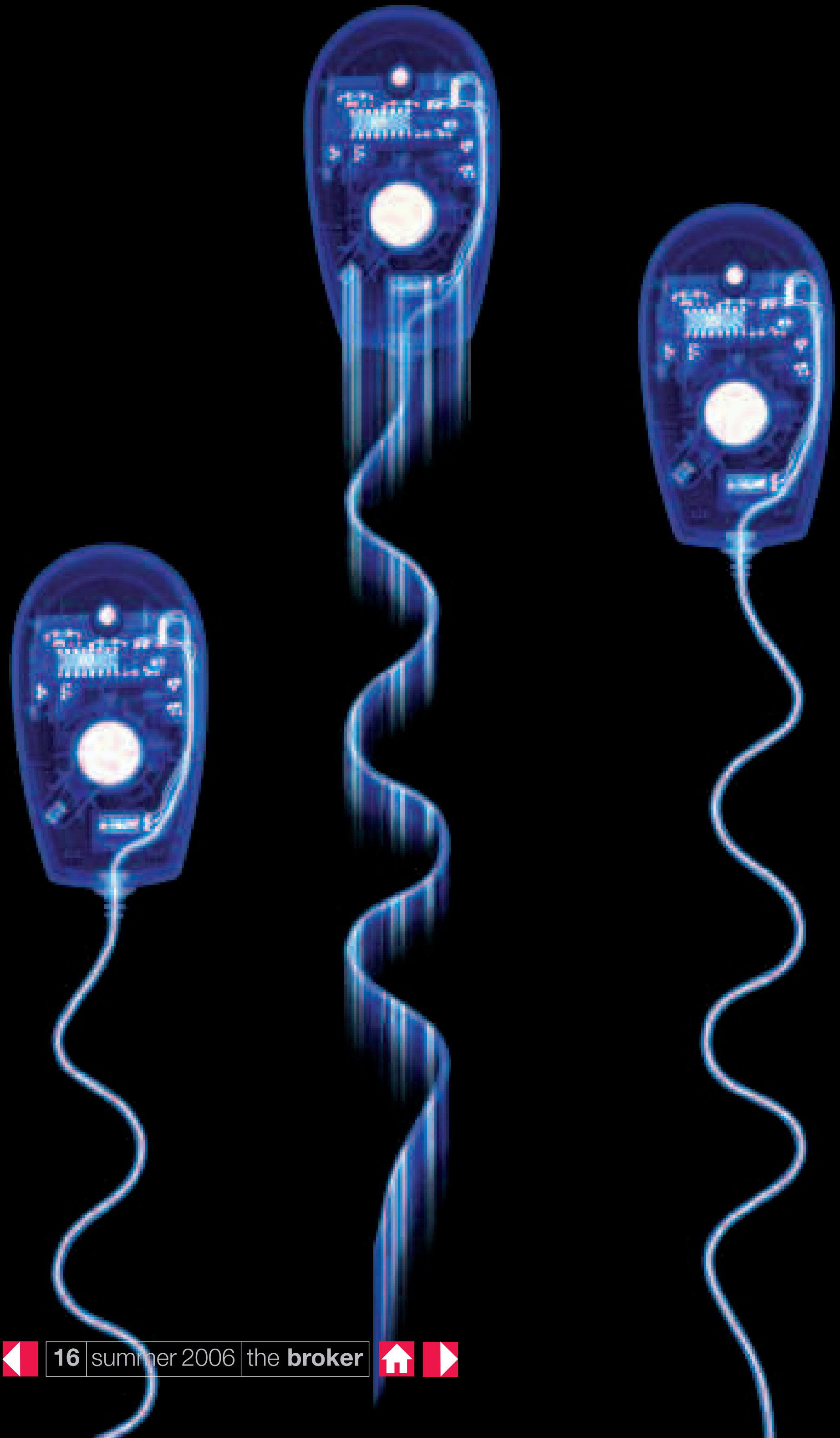
Additionally, from 15 May, local authorities have a statutory duty to provide advice and assistance to local businesses on their preparations for responding to emergency situations.

Now is the ideal time for brokers to improve their technical knowledge in this area as necessary and assist their clients with this vital cover.

Bill May is on BIBA's technical property committee and a former member of OECD Terrorism Insurance Group

Virtual champions

Brokers have long been criticised for being slow to adapt to technology. But **Katy Dowell** questions if this is accurate, as she finds examples of online excellence



A number of brokers are discovering and implementing innovative ways to distinguish themselves from the competition through online technology.

This is in contrast to the image that insurers at times suggest, which is that some brokers are reluctant to use the internet for trading, let alone to develop their own systems.

Certainly, insurers are beginning to use commission enhancement to tempt brokers into using the i-market system. But can brokers be accused of holding up the technology train, or are they in fact sensibly reserving their views on the online portal until insurers show it can produce results?

These are early days and time will tell whether the i-market system is a sure-fire success. Beyond this, insurers may be accurate in their accusations that some smaller brokers are falling behind, and are failing to stay ahead in the big switchover to online systems. On the other hand, these brokers may simply say it is the insurance giants who are not investing sufficiently in service levels and are using technology as a foil.

Meanwhile, there are brokers who are keen to adopt new systems in the race to stay ahead – and their focus has been on utilising the internet to maximise their business performance. Here we give three examples:

“”

Time will tell whether the i-market system is a sure-fire success

www.tempcover.com

Motor intermediary Temporary Cover was launched as a separate trading business by its broker parent, Fyfe Group in April 2006. The online system is designed to issue temporary motor policies within three minutes – revolutionising how this motor cover is sold.

Alan Inskip, development manager, (right) said the project took three years to come to fruition because of insurers' reluctance to back the system.

"Then slowly but surely we built a relationship with Royal & Sun Alliance," Mr Inskip explains. "Essentially we are offering temporary cover for vans and cars of any range. That includes borrowing a car or a van, or companies that need short-term hire."

It is an area which www.tempcover.com believes has been neglected because of the high costs and low profits associated with the policy. However, the broker has designed a system which, it says, slashes costs and saves time.

We had 450 brokers register within a week

"The majority of systems don't cater towards this type of cover. This one links in with the Motor Insurance Database and the average time it takes for a policy to complete is below five minutes."

Mr Inskip says although it operates in a niche field, the online facility has been met with enthusiasm: "After we went live, we sent out a mail drop to 10,000 brokers. We had 450 brokers register within a week and 25 policies sold, which is a healthy starting point."

He says there has been a notable cultural shift in attitudes towards technology, with more and more brokers embracing advancements. "Brokers are beginning to recognise we need to move forward to keep the clients."

www.callbruce.co.uk

Financial investment in technology is the largest obstacle blocking the way to the modernisation of the broking community. This is the view of Edinburgh-based Bruce Stevenson, which was ahead of its time when it launched a new internet division, CallBruce, two years ago.

This operates as a business-to-business service for intermediaries, and direct to the public. The division's managing director, Allan Russell (right), says he expects a profit at the end of 2006.

There have been considerable start-up costs, but over the long term, Mr Russell is convinced the benefits far outweigh the burdens. He says the investment will pay off both for Bruce Stevenson and allow intermediaries – such as those selling mortgages – to earn a valuable source of additional income.

On motor and home, CallBruce wholesales online so that brokers can "get a quote, accept, pay and receive a policy" in one transaction.

The system also serves small end commercial business while more complex risks are passed over to sister company Bruce Stevenson Risk Management.

CallBruce will pass all information from the system to the back office.

"The IFA networks do a bit of household and motor business," says Mr Russell. "They just don't want to have to do all the back office work. We will do that." The broker has access to up to 3,000 insurance sellers.

According to Mr Russell, insurers have been supportive and the panel includes AXA, Norwich Union, Zurich, RSA, NIG, Groupama and Allianz Cornhill. He adds he is looking forward to using i-market: "Integration would be beneficial to us."

Integration would be beneficial to us

RG Ford

In 2005, Chelmsford-based broker RG Ford launched a system which allows brokers to upload the Motor Insurance Database (MID) online.

Pressure has mounted on brokers to step up investment in technology as the MID gets closer to cutting its deadline on updating driver details from 14 days to seven. But the system is aimed at combating the problems posed by the MID's tight deadlines.

Aimed at clients with fleet policies, it enables policyholders to self-administer vehicle schedules, have the amendments approved by the policy underwriter, and upload the vehicles details onto the MID within 24 hours.

The secure system links with the ABI vehicle code database to give the insured access to every registered vehicle in the UK. The broker is automatically notified if any changes are made to the cover and can then email the amended information to the underwriter.

A link allows insurers to update the MID

A link to the MID uses a file transfer system to allow the broker to upload fleet policy changes to the database in real time. "The system allows insurers to update the MID, or we can update it overnight," says chief executive Giles Ford. "So the problems associated with the 14 day deadline – to make permanent vehicle alterations – are eradicated."

The system's designer and IT manager, George Preston (left), says the brokers' intranet took two years to get off the ground, but the fleet programme "didn't take more than six months to develop". The broker will move to a paperless office from next year. "We didn't have the room for more filing cabinets," says Mr Preston.

IMAGE: GETTY

Capital challenge

London has long been the centre of the insurance universe, but is it a sinking ship compared with new pretender, Bermuda? **Adrian Ladbury** looks behind the figures to discover who's winning the battle

The arrival of more than £10.8 billion of new capital into Bermuda and a paltry £700 million into listed London operations after the US storms of last year set the alarm bells ringing in London again about the threat posed by the colony to its titular master back home.

To date, some 14 new reinsurance companies have been created in Bermuda to take advantage of the improved underwriting conditions post-Hurricane Katrina backed by about £4.4 billion of fresh money.

Another £700 million was pumped into so-called 'sidecars' that are usually used by existing players to expand capacity in the most affected lines while limiting the downside for the sponsoring company.

London saw no new companies created to take advantage of the post-Hurricane Katrina upswing and, to rub salt into the wounds, two of its leading players – Amlin and Hiscox – opted to launch new Bermuda companies.

Of the £723 million raised in London by listed Lloyd's operations after the hurricane the lion's share was actually used to fund Bermuda subsidiaries.

Amlin raised £215 million for its new operation, Hiscox £170 million for its new operation that has taken former head of the LMA Rob Childs over to the island and Omega accounted for £90 million for its new operation Omega Specialty.

Advent raised £30 million to fund losses, Catlin somewhat belatedly raised £35 million to take advantage of 2006 opportunities and Kiln raised £73 million to buy capacity that is not necessarily the same.

SVB raised £110 million to set up a new

FSA company but this is rather more of a rescue operation than a bullish attempt to take advantage of improved conditions.

And this is by no means a new trend as Bermuda has been growing at a much faster rate than London in terms of both capital and premium for a long time.

After the terrorist attacks on the US in 2001, Bermuda was the main beneficiary in terms of fresh capital and subsequent premium growth.

Capacity

Bronek Masojada, chief executive of Hiscox, stressed this in his recent speech to the FSA's annual conference when he said that the capacity was there in late 2001 to take advantage of spiralling rates, but the premium was not. He said that this was primarily a failure of distribution but it also reflected the perceived advantage that Bermuda has over the old master in capital circles. The figures back him up.

According to figures presented at the same conference by Chris O' Kane, head of Aspen, premiums ceded from the US to unaffiliated and affiliated alien reinsurers between 2002 and 2004 have risen dramatically in Bermuda but stagnated in other centres such as London and Germany.

His figures show that in 2002 Bermuda wrote some $16 billion of the ceded US premiums against $8.9 billion in Germany and $4.3 billion in the UK. In 2003, Bermuda wrote $21.3 billion against only $7.1 billion in Germany and $5.3 billion in the UK. In 2004, Bermuda managed to amass $24.8bn while Germany managed only $7.1 billion again and the UK $4.4 billion.

Thus over the period Bermuda increased its premiums by 24 per cent and accounted for 47 per cent of the total. Germany's annual growth rate was minus 11 per cent ending up with only 14 per cent of the total cake, while the UK only managed to increase premiums by one per cent to wind up with eight per cent of the total share.

Mr O' Kane also showed the tremendous growth of the Bermuda market over the last quarter of a decade or so. Between 1984 and 2003 the Bermuda industry's capital and surplus has grown annually by an average of 12 per cent to rise from $10 billion to a massive $87 billion. "It's very big," said the former London catastrophe underwriter.

The comparative gross written premium figures tell the story well over the last decade. Between 1995 and 1999 the comparative strength of the two markets was equal with Bermuda reporting $23 billion in 1995 against London's $29 billion up to $30 billion for Bermuda in 1999 against London's $36 billion.

From 2000 onwards, however, the tables turned quite dramatically. In 2000, Bermuda overtook London with $38 billion of gross written premium against London's $34 billion. By 2004 the gulf had widened massively, with Bermuda reporting $95 billion and London only $48 billion.

So if there is a battle between London and Bermuda for capital and premium the island in the middle of the ocean appears to be winning easily on both counts. Bermuda keeps on growing while London appears to be standing still.

But statistics can be both brutally revealing and beguilingly misleading at the same time, depending upon how you choose to read them and what you are attempting to use them for.

Thoughtful

Leading London equity analyst Chris Hitchings of KBW typically did not mince his words in a recent note on the London market when he contended that a more thoughtful analysis of the numbers suggested that London is in far better shape than the headline figures suggest, particularly when compared with its supposed arch-rival Bermuda.

He basically pointed out that there is little point in raising large chunks of fresh capital to write huge amounts of premiums if all you are going to do is throw it all away on losses. Comparatively, London is in better shape, he contends.

A large chunk of his analysis is worth repeating word for word because it was somewhat taken out of context when originally printed, underlining the sensitivity of this debate currently.

"In the post-Hurricane Katrina environment, Lloyd's should be celebrating its position. To the popular question of why most of the new capital raised since Katrina has been in Bermuda rather than in Lloyd's, the simple and unequivocal answer is that Bermuda needed it and Lloyd's did not.

"The popular view in London is that Bermuda is some kind of paradise for the insurance industry. It does not look like that in Hamilton: 2005's hurricanes have devastated those in the industry there, not just their balance sheets but their fundamental business models and the reputations of their managements.

"Rating agencies are seriously concerned: S&P has issued a general warning of potential downgrades. Of KBW's universe of 12 Bermudian insurers and reinsurers, we estimate that over half would not offer acceptable (A – or above) security had they not raised capital (and one, PXRe, does not; even having done so). Overall, the $10 billion of new capital raised by our group represented 32 per cent of their prior equity capital.

Security

"For Lloyd's, in contrast, despite a level of hurricane loss representing a similar proportion of its capital base to that of the Bermudans, the conclusion of the rating agencies is positive and Lloyd's trades on with little question on its security. The general view is that the market's internal risk-based capital (RBC) system has worked well. The funding of the growth in capacity, estimated at £230 million – 44 per cent of the capacity increase – has all come from existing resources. Lloyd's will increase premiums by more than Bermuda in 2006," stated Mr Hitchings. He has a good point, or two.

As figures presented by Ewan Gilmour, chief executive of Chaucer and deputy chairman of Lloyd's, at a recent meeting of the High Premium Group showed, more than half (£5.7 billion of the £10.8 billion) in fresh capital raised by the Bermudians was used to finance existing companies.

And, the $700 million used for sidecars was actually largely used to protect the core business under pressure from the rating agencies that are in the process of placing far higher capital charges on US catastrophe business.

As Mr Hitchings was at pains to point out, in the round, one can strongly argue that Lloyd's is on the offensive while Bermuda is shoring up its defences as its largely mono-line approach is increasingly thrown into question.

So why does London's more diversified and recently vastly improved performance not result in capital flow to London rather than Bermuda?

Mr O' Kane thinks it is largely a question of perception rather than reality.

"London gets a much more diversified book of business. All the big brokers are

> The popular view in London is that Bermuda is some kind of paradise... it does not look like that in Hamilton

here and you can write pretty much all you want. That is not true of Bermuda which is specialist and producing large losses. That may change – as the Bermudians are increasingly forced to diversify – but it's 18 years on and still a narrowly drawn market in volatile lines," he said.

"Most of the new capital raised was on the New York Stock Exchange (for Bermuda) and this is because it feels it understands the business. If London wants to succeed from an equity trading perspective, it needs to counter that perception," continues Mr O' Kane.

Cumbersome

This is where market reform comes into play. London and Lloyd's in particular has a bad reputation from a process perspective. It is regarded as an expensive and cumbersome market in which to do business compared with black-box Bermuda and other slick markets like Zurich, despite the obvious advantages that its big and sophisticated infrastructure brings.

Contract uncertainty, inability of the market to process business electronically at the same pace and efficiency as rival markets and baggage of history such as the broker accreditation system – the sheer complexity of it all – makes it that much more difficult for investors to commit their cash, regardless of fiscal considerations.

But things are changing. Partly thanks to the carrot and stick approach taken by the FSA, there is a definite light at the end of the certain contract tunnel.

The arrival of a fresh new chief executive officer at Lloyd's, the continued success of the Franchise Board and the collapse of Kinnect, plus the rise of the G6 solution offer real hope.

There are still powerful forces at play that are determined to resist the winds of change because they fear that the proverbial baby, such as the annual venture, will be thrown out with the bathwater as blinkered zealots and oligopolists take control.

But it looks like the reformers – or bullies, depending upon your perspective – are winning out as the G6 – backed by big hitters such as Dennis Mahoney at Aon and Graham Chilton at Benfield – is making serious progress alongside the contract certainty route path now under Brit's Dane Douetil's charge.

The stakes are high, but finally the market appears ready to take the gamble and move on. "If these issues are not tackled it will fall into a state of genteel decline," said Mr Masojada at Hiscox. "I did not come to London to participate in a decline, I came here because I felt it was the world's centre for insurance," he says determinedly.

IMAGE: ©LONDONPICS.CO.UK/PHOTODISC

the broker provides an update for members on key issues to help them run their firms more effectively

Why staff must stub it out

By the end of 2007, all workplaces in the UK must be smoke free. The law has already been changed in Scotland and the message must be to all smokers to stub out their fags at work.

Peter Done, managing director of Peninsula, which offers consultancy services in HR, employment law and health and safety says his firm conducted research and found 97 per cent of bosses had already banned smoking at work.

"Some 93 per cent of workers who we polled believed that smoking should be outlawed in the workplace and one needs to remember that a percentage of those polled were smokers. It looks like the proposed new laws have the backing of most workers in the UK," he adds.

Despite this, he says many employers are unclear about the smoking ban. This is backed up by consultant Croner. Its health and safety expert Trevor Davies says: "Changing and implementing a smoking policy takes time in terms of devising it, making employees aware of it, and training people to enforce it."

Mr Davies recommends that there should be consultation with employees and employers should also offer support to staff who want to give up smoking.

IMAGE: GETTY

Is your auditor up to scratch?

Brokers holding client money – under the terms of statutory, non-statutory and agency agreements – are required to have this audited, which is yet another cost to meet regulatory requirements.

This is explained in Supervision Section 3 of the FSA *Handbook* and the latest date that the first reporting period can end is 53 weeks after the date of authorisation.

But, has your auditor done a good job? John Needham, financial services audit manager with Littlejohn Frazer, says this is the ideal time to audit their performance.

"There is no doubt that some smaller auditors who are not up to speed with the FSA regulatory environment," he says.

Mark Grice, partner with Mazars, adds: "The FSA *Handbook* requires firms to appoint an auditor that has skills, resources and experience that are commensurate with the nature, scale and complexity of the broker's business. To satisfy these rules, it's necessary that any auditor has both experience of the sector and an appreciation of the FSA's system of regulation."

He explains the best preparation any broker can make for a client money audit is to ensure all relevant documentation is easily accessible and ready for inspection by the auditor.

The audit does not need to be sent to the FSA, but the regulator can request to see it.

Building on success

Email marketing can provide an effective and cost efficient solution for many brokers.

Pancentric, developer of direct email marketing software Enabler, was among the exhibitors at the recent BIBA Conference. The firm has worked extensively with insurer AXA in its email broker communications, but as director Simon Fenn comments, the technology is equally suited to small and medium-sized enterprises.

Email marketing has marked cost benefits – it costs 26p to send a letter, while an email is just 1p. If required, Pancentric can also supply content, including producing newsletters. "Tools such as Enabler offer ready-made ways to get started. In a short time brokers can see results and savings. As early as possible they need to build a good database of clients' email addresses supplemented with profile information," Mr Fenn says.

He reminds brokers it is illegal to send customers unsolicited "spam" marketing emails, but many clients will welcome useful information and opt in to receive this. "This can be a great way to help build a brand. The software also allows brokers to survey customers, which helps find out what they need and to cross sell. You build up useful management information and can find out when emails are most effective."

Enabler is the preferred email marketing service for i-market, the commercial insurance e-commerce portal. Registered brokers benefit from a 50 per cent discount on the Enabler system.

Top tips

- **offer an incentive to encourage clients to opt-in to receiving emails**
- **don't over-sell in communications – keep messages balanced**
- **if you send a newsletter, consider including topical business content, as well as information about your firm**
- **talk to clients about special offers and prices**
- **give reasons why clients should revisit your website**
- **explain your services and products**

HR LATEST

Staff absenteeism costs industry billions of pounds a year, with stress-related claims rising. An employee assistance programme (EAP) could provide an effective solution.

EAPs originated in the US during Prohibition. Their purpose was to help wean employees off bootleg liquor and the country retains the highest take-up – across 55 per cent of the working population. This compares with 15 per cent in the UK, but it seems there is a growing need over here.

According to Colin Whitehead, sales director of EAP provider ICAS, mental health is a factor in as much as 90 per cent of workplace absences. But, there are ways to alleviate the problem and the Court of Appeal (Hatton v Sunderland) ruled that an employer which "offers a confidential counselling service with access to treatment is unlikely to be found in breach of duty of care".

John Miller

Some providers offer only telephone counselling, but more comprehensive arrangements include face-to-face counselling, consultancy, access to training and treatment and management information feedback.

Management information is important in identifying trends, and utilisation rates – an EAP's effectiveness can be measured by how frequently it is used.

Telephone-only based services – which are offered by a number of health insurers – cost from £6 per employee a year. The cost for more comprehensive schemes is around £15 to £50 per employee a year. EAPs also help contain health and income protection premiums – and in time, liability insurers should reflect the beneficial impact on claims costs in their rates. Providers quote returns from £3 to £18.50 for every £1 spend, following reduced absenteeism, improved performance and other savings. A number pay commission, typically 10 per cent.

A useful reference is the Employee Assistance Professionals Association – the website can be found at **www.eapa.org.uk**

John Miller is regional director with Layton Blackham Group

IMAGE: GETTY

BIBA's regional training programme offers brokers access to a range of relevant, affordable – and accessible – courses. **Rachel Gordon** reports

We're close to you

Now that brokers are trading in a regulated environment, training has moved centre stage. It is essential to show that employees are meeting the required standards, but beyond this, the competitive market means that knowledgeable people are at a premium.

Steve White, BIBA's compliance manager, recently took over responsibility for training, in addition to his regulatory responsibilities. He says improving the regional course schedule has been a key focus.

"Training has always been one of the most important benefits BIBA offers. But we also listen to what members want and it is not always practical for them to travel to London, where we have an existing programme of courses. I have looked to extend what we offer in the regions and increase the amount of in-house training we provide."

The training is typically run at a member firm's premises and, if required, can be opened to other employees of local brokerages. "These courses don't have to be on our published schedule. We are able to provide bespoke training and members can contact us to discuss their needs. This can be a cost-effective way forward where you perceive there is a knowledge gap."

For those wanting to attend the core training courses as listed in the schedule, the regional venues for Spring/Summer 2006 include Belfast (Alexander Forbes), Birmingham (Footman James), Bristol (Cunningham Lindsey), Leeds (Zurich Insurance), Leicester (Cunningham Lindsey) and Manchester (HSBC). London courses are held at BIBA House in Bevis Marks.

A small number will continue to be run in London only. These include those on the London Market, management and a number of technical intermediate and advanced topics. BIBA Scotland continues to hold its own training courses for members.

This year sees a number of new topics introduced on the regional schedule, including Conflicts and Treating Customers Fairly and Client Money.

BIBA's courses are run on a not-for-profit basis and the fees merely cover the cost of the running them. The one-day regional training courses are held at a flat rate of £150 per delegate for members and £230 for non-members.

To find schedules of BIBA's regional and London training, check out the website at www.biba.org.uk

Goss goes for in-house training

Broker Goss & Co, now part of Jelf Group, has been using BIBA's in-house training courses for several years. Goss's general insurance operation has around 180 staff, based in offices in Reading, Guildford, Cheltenham and Newton Abbott. The company has a dedicated training manager, Ginny Murray. She says that BIBA takes a lot of the strain away from organising courses.

"They have a database of trainers who are all tried and tested. I know that someone will come in who knows their stuff. I can call BIBA's training team and explain what I need and they will build around that. If courses are held in-house, it is often just much easier than travelling to London."

Ms Murray travels round the various Goss offices, keeping in close contact with line managers and with staff appraisals, so that she can identify training needs. "My message to staff is that it is all about developing yourself. There are huge opportunities for those who want to get on, and we can provide training in so many areas – from leadership skills to better report and letter writing. This is in additional to all the core technical areas and the requirement of our staff to take CII examinations."

Members only

A business continuity planning facility is the latest addition to the BIBA product range. **Graeme Trudgill** provides the low-down on this and other latest scheme news

The BIBA stable of schemes and facilities is a key benefit for members and is constantly being improved. In this issue of *the broker* we look at the new business continuity planning solution for members if the worst happens to their own office, along with the latest news on the BIBA unoccupied property scheme.

Keep empty premises protected

Schemes specialist Camberford Law has more than 10 years' experience of underwriting uninsured properties under a binding authority. As part of its exclusive deal with BIBA, the company is offering a 30 per cent reduction in rates, which means premiums are among the most competitive available.

According to director David Ottewill: "This is the same binding authority we have been underwriting risks on as when we started and the lead insurers have remained with us for the whole period." He says Camberford Law is among the market leaders because it provides a quality product, good service and has the backing of an A-rated insurer.

"We can insure residential and commercial properties within the arrangement. In most cases, the full range of perils can be provided, subject to individual underwriting and appropriate security. Our belief is that a property represents a large asset for any individual or company and therefore the starting point needs to be that as many perils as possible should be insured," he explains.

Camberford Law can automatically provide property owners' liability cover and, in the right circumstances, can add loss of rent or contents cover.

In addition, it can provide quotations for sums insured up to £10,000,000 and so has the capacity to underwrite most risks.

Contact Gemma Fleuster on 020 8315 5029 or gemmaf@camberford-law.com

Preparation is key

BIBA has linked up with Broker Continuity Planning to provide a new facility that supplies work area recovery space, including full broker IT services.

Not only does this scheme provide a disaster recovery solution, but

BIBA's schemes: the full range

1 Accident, Sickness and Unemployment
2 BIBAlet
3 Business Travel
4 Commercial Combined
5 Credit Insurance and Bonds
6 Cyber-Liability
7 Electronic Marine Cargo
8 Excess Liability
9 Haulage and LGV Insurance
10 High Net Worth
11 Home
12 Loss Recovery Insurance
13 Marine Cargo
14 Motor
15 Non Standard Property
16 Personal Accident
17 Holiday Travel
18 Unoccupied Properties
19 Vehicle Data Check
20 Web Based Directors and Officers

BIBA facilities

21 Broker Continuity Planning
22 Contract Law Services
23 Data Protection
24 Financial Compliance Support
25 Healthcheck
26 Insurer Security Services
27 Members' Own PI Insurance
28 Personal Lines Administration
29 Premium Finance
30 Risk Management
31 Telecoms
32 Conflict Investigation Service

importantly, it helps members comply with FSA regulations.

Paul Dyer, Broker Continuity Planning's managing director, says: "There are responsibilities within the FSA's rules to ensure that clients are not prejudiced in the event of a disaster affecting a member's premises. A firm should have in place appropriate arrangements having regard to the nature, scale and complexity of its business, to ensure that it can continue to function and meet its regulatory obligations in the event of an unforeseen interruption.

He adds that having a written plan is not enough – it must be capable of action and tested.

Benefits include:

- seats are sold on a three year contract basis at a cost per seat. BIBA has negotiated a discount of 30 per cent for year one, 20 per cent for year two and 10 per cent for year three
- reduced minimum seat order of only five staff
- certificate for members to keep with their business continuity plans as evidence for the FSA
- nine sites around the country, with more due in 2006
- monthly instalments available
- Broker Continuity Planning will test the profile once a year
- sites can cope with multiple invocations
- confidentiality agreement.

Each site has been specially created for the insurance market and offers up to 100 seats in a modern office, fully cabled and fitted with new seats, desks, telephones and Dell hardware.

Broker Continuity Planning will visit BIBA members who want the full IT service, profile their IT environment in advance and store this centrally. This ensures the back-office software provided by a broker's suppliers matches when it is loaded with backed data. Alternatively, members who have an ISP/ASP system can utilise the hardware and the internet connection without the need for pre-profiling. No contracts will be taken with a member who is nearer than 800 yards of another client.

Contact Paul Dyer on 0870 411 1890 or info@brokercontinuity.co.uk

Graeme Trudgill is BIBA's technical services manager

PIMATTERS

How much cover is enough?

It is never easy to decide exactly how much cover is enough to protect against potential liabilities, but Colin Plumb provides some guidance…

Certain professions, such as accountants, solicitors and surveyors, are all given guidelines, but other than the FSA requirements, brokers are given freedom of choice.

For insurance intermediaries, the FSA compels firms to have at least £1.5 million in aggregate or £1 million for each and every claim and this would probably sufficient for smaller firms.

The difference between 'each and every claim' and 'aggregate' cover is significant. An aggregate sum insured means that the limit should be sufficiently high enough to cope with any amount of potential claims in any particular year, while each and every claims cover is more flexible. Unfortunately, the insurance market is still not particularly willing to give each and every claim cover for financial services activities. Therefore, when calculating the sum insured, it very much depends on the split of business and where a broker expects liabilities to come from.

Colin Plumb

One safety net is for the broker to make sure their clients are sufficiently insured. It is easy to overlook the size and nature of a potentially catastrophic loss – if the insured is a builder and sets fire to a listed building, or an insured drives down a train embankment into the path of an oncoming express train, then the potential losses are huge. Both these examples are from real life and in each the sums insured were completely insufficient to meet the claims. If the broker had given inappropriate advice about the limits, then they can be certain that an errors and omissions claim would have followed.

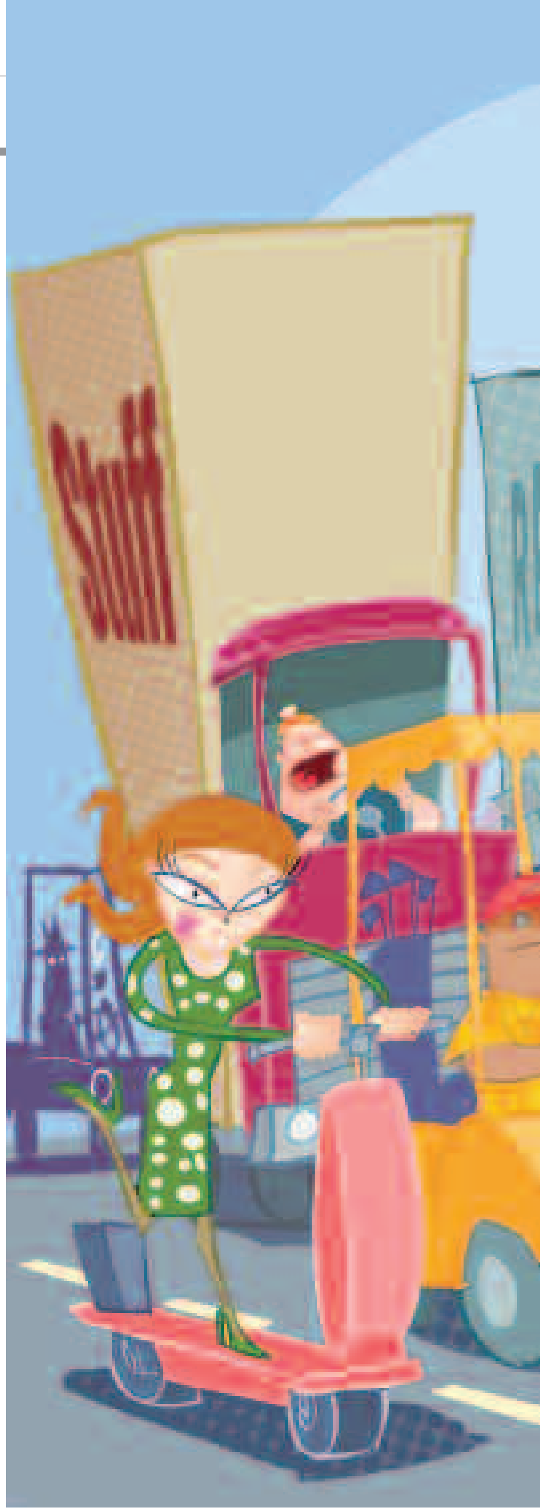
So, the rule must be, first, work out the maximum possible loss that clients could sustain and then to calculate how much as a broker you would stand to lose for not arranging their cover properly. Another factor to consider is whether the broker's limit is 'costs inclusive' or 'costs in addition'. The former means that the limit also has to cope with any legal costs in defending a claim, which can mount up alarmingly quickly. 'Costs in addition' gives more scope, because the underwriters will agree to pay those legal costs without impacting upon the actual limit chosen. Unfortunately for financial services operations, the 'costs inclusive' basis of coverage is still the most common.

A benefit of a competitive market is that this year brokers will be able to use any saving they achieve to increase their sum insured.

Colin Plumb is a partner with Professional Risks Insurance, part of the BIBA-accredited broker, First City Partnership

A drive for clarity

When and where do different vehicles need Road Traffic Act (RTA) cover? **Roy Rodger** provides answers



Many BIBA members request clarification on various motor topics. In particular, they seek accurate definitions and want to know when a vehicle should be covered for road traffic accidents, and when public liability cover will suffice.

This question has been made more complicated with the insertion of the words "other public place" into the Road Traffic Act in 2000.

Discussions surrounding the change have highlighted situations where individuals, whether members of the public, staff, or, in the case of golf and country clubs, paid-up club members, could be exposed to injury from mechanically-propelled vehicles (MPVs).

In many cases, the MPV may not fall within the definition of the Road Traffic Act 1988 Part VII S. 185. This states a "motor vehicle" is a mechanically-propelled vehicle intended or adapted for use on roads.

The golf buggy, the luggage trolley and the zoo bus are, in many cases, a direct derivative of the ubiquitous milk float, which is certainly intended for use on roads.

Private or public?

Using the example of a private golf club, we need to question just how 'private' most of these are. In many cases, most private courses advertise that visitors are welcome.

In addition, we have competitions such as The Open where the course and its facilities are swamped by paying spectators.

For these reasons, a 'private' establishment can be very public indeed.

In all of these situations, people are exposed to MPVs – on the course, on paths, on access roads and in car parks. Sooner or later, there will be a claim large enough to attract the attention of the public liability underwriter or, alternatively, there will be no insurance at all and an enterprising solicitor will involve the Motor Insurance Bureau.

> "Sooner or later, there will be a claim large enough to attract the attention of the public liability underwriter or, alternatively, there will be no insurance at all"

Just think about it – perhaps at Hoylake in July 2006, Colin Montgomerie has a three-foot putt for The Open, and he catches his fingers in the door of a golf buggy driven by a 15-year old volunteer. It is only in such an extreme case that we could expect to see a definitive legal judgement and whether "intended or adapted for use on roads", or

IMAGE: STEVE MAY

"other public place" will actually be clarified or expanded upon.

Licences

Take the situation where a main dealer has a reception and showroom area and a separate workshop. The reception area is obviously public and customers are encouraged to browse. On this basis, a browser injured by a shunting car has a Road Traffic Act claim.

On the other hand, he may see his own car up on the ramp in the workshop, and walk in there to ask the mechanic about its progress. If he is run down in the workshop is it a Road Traffic Act or public liability claim?

An added complication is the licence scenario. The Road Traffic Act of 1988 (Section 110) and 1991 (Sections 17, 18, 19) refer to "on a road" only when talking about a licence.

As far as I am aware, the added words "... or other public place..." were only inserted into the Road Traffic Act 1988 Part VI relating to insurance. The implication is that you don't need a licence to drive a vehicle in a public place, as opposed to on a road. Let us assume in the above showroom example, the vehicle is being moved by a 16-year-old trainee. Will the motor insurers refuse indemnity under the licence condition? There is every possibility that they will. Where does that leave the policyholder if it is decided that the claim is a Road Traffic Act claim? The public liability (garage internal risks) insurers may well decide it's outside their policy. It would appear that we have situations where compulsory motor insurance is required but a licence to drive the vehicle is not. And this can only serve to confuse matters even more.

Historically, many commercial motor insurers have waived the licence requirement in circumstances where it is not required by law. This is a legacy from before "... other public place" at a time when the Road Traffic Act insurance requirements and the licence requirement broadly matched up.

Clarification

Now there appears to be an anomaly. Would any sensible client risk an unlicensed driver in a public place, as opposed to a road, until these issues were cleared up?

Until we have clarification we must assume that, if the location is within the Road Traffic Act, then a licence is needed. On this basis, the best advice we can give to our clients is to effect motor covers wherever appropriate and with an underwriter who is genuinely prepared to assess the risk. It is also makes sense to place any non-motor liability covers with the same insurer as the motor covers in order to limit the number of potential gaps in cover.

This would not be a complete resumé if the article did not touch on the subject of powered scooters, mini motorbikes and other 'toys' which we see being driven, usually on pavements, by young children. It is a concern that they are not regarded as falling within the Road Traffic Act 1988 S.143 requirement for compulsory insurance. The answer may be that they are not "...intended or adapted for use on roads". Despite this, the evidence before us is that these vehicles are used on roads, on pavements, in parks and in playgrounds. Maybe we should look again at what S. 185 says. The section does not go as far as specifying whose "intention" it refers to. Is it the intention of the designer, or the manufacturer, or is it the intention of the purchaser and the driver?

At present, there appears to be no requirement for compulsory third party insurance for these vehicles and it is understood that most household insurers do their best to exclude this liability. It would appear to be once again a case where we need a spectacular claim involving such a vehicle before the insurance community wakes up to its responsibility.

Roy Rodger is a BIBA motor insurance trainer

BIBA PARTNERS

NORWICH UNION

MMA INSURANCE

CHUBB

Allianz Cornhill

ZURICH

ST PAUL TRAVELERS

FORTIS

CAPITA Insurance Services

Cunningham Lindsey

Groupama Insurances

CNA

AXA

ROYAL & SUNALLIANCE

ECCLESIASTICAL

AIG

NIG

STERLING looking after tomorrow

HISCOX

PREMIUM CREDIT

towergate underwriting

All above board

Managing conflicts of interests is a priority for all those involved in running a brokerage. **Steve White** provides guidance on this crucial issue

Arrow 2, the latest compliance visits being made by the FSA, are likely to focus on conflicts of interest. For managers, this should be top of the agenda.

Last November, the FSA sent out 'Dear CEO' letters which outlined concerns and stated: "The process for identifying and mitigating conflicts of interest is not, in most firms, sufficiently developed at present."

The activities of all brokers will be under scrutiny, but commercial brokers are particularly under the spotlight. Not only does this tend to be higher premium business, but the regulator is well aware that many clients do not request information about commission.

A conflict arises when the broker's own interests conflict with the customer or the firm is unable to act in one customer's best interests, without adversely affecting another. Brokers need to have in place a formal conflict management policy and instil the appropriate management culture to ensure it is implemented within the business.

A first port of call for those wanting the basics is to read BIBA's two guidance notes on this topic, which are on the BIBA website. If further and more specialist help is required, we offer the BIBA Conflict Investigation Service, run in conjunction with law firm O'Connors and Steeles, where members can commission a confidential internal risk assessment.

It is important to remember that the FSA does not expect brokers to eradicate conflicts of interest, indeed, this would be impossible. By its very nature, the relationship between brokers, insurers and clients creates a conflict. Brokers act as agents of the client, but in most cases, are remunerated by the insurer.

Conflicts of interest are primarily, but not exclusively, financial and these are just some of the areas which brokers should ensure are on their radars:

> "The activities of all brokers will be under scrutiny"

- profit share, volume and over-rider agreements with insurers
- corporate hospitality and gifts from insurers
- binding authorities and claims handling arrangements with insurers
- training and other business support from insurers
- soft loans provided by insurers
- office sharing with underwriters
- brokers' staff remuneration, bonus schemes and appraisal arrangements.

The purpose of a conflict management policy is to set out a clear statement on how potential conflicts can be identified and the management processes which are in place to minimise these risks. As a brief guide, these should include:

- a statement of the firm's (in particular senior management's) commitment to treating customers fairly and operating within the insurance industry's codes of practice and regulatory principles
- a statement of each business activity which could give rise to a potential conflict (as identified by the risk assessment)
- evidence of control systems in place – such as registers, information barriers and complaints procedures
- details of when the policy will be reviewed and by whom
- details of which members of management are accountable for conflicts
- information on relevant staff training.

Managing conflicts of interest is a major and ongoing matter which all brokers need to be up to speed with. There is no doubt that many firms do need to improve their ways of working in this area – and to set up their own documented policies – but there is help out there and we are ready and waiting to deal with any queries that members may have.

Steve White is BIBA's head of compliance and training

IMAGE: GETTY

The problem solvers

BIBA's technical team is on hand to answer your queries…

Is self-insuring a solution?

Q: Can you advise on a company self-insuring its employers' and public liability risks? It has expanded over the years, with the inevitable increase in premiums. Can you advise on the legalities of self-insuring employers' liability in particular, as this is a legal requirement?

A: Public liability is not compulsory but no insurance could leave the business exposed and also, dependent on the business, proof of insurance may be required as part of winning contracts.

The employers' liability regulations allow for such policies to contain a deductible, but only on the basis that the authorised insurer will deal with and settle the loss and then recover from the deductible from the employer.

But, being a long-tail exposure, these deductibles can accumulate and an affordable annual amount may cause a shock in a few years if gradual exposure disease claims start to occur. Insurers may also require letters of credit in respect of the deductible amount which may also increase each year to take account of the accumulated liabilities.

These accumulation exposures can be mitigated, but the broker needs to understand the exposures in order to negotiate a solution with the insurer.

IMAGE: DICK BOGIE

When in the Irish Republic…

Q: I have a UK client undertaking a civil engineering construction project in the Republic of Ireland and I have arranged public liability cover locally, to include the third party working risk in respect of self-propelled plant, either the property of or hired to my client.

For UK risks, I would recommend Road Traffic Act motor cover for self-propelled plant on site, whether or not registered for road use, in view of change in RTA legislation under Statutory Instrument 2000, No.726 – The Motor Vehicles (Compulsory Insurance) Regulations 2000.

Will the public liability cover be adequate in the Republic of Ireland, or is there also a need for RTA cover? The plant will only operate within the confines of the site. There will be other contractors working on the site. My client will be using its own plant sent from UK and plant hired in from either Northern Ireland or the Republic.

A: The RTA in the Republic is worded in a similar way to the UK Act – all vehicles must have this cover while being used in an area to which the public have access. It is a grey area, as there have been no court cases to clarify if a building site is one to which the public have access.

We recommend that all site vehicles should have RTA cover as a 'belt and braces' insurance. It will be up to the public liability insurer to interpret the policy wording in relation to the use of the vehicles and they should confirm that their policy will indemnify the insured in respect of any accident.

Regional training: special requests

Q: I have a specific training need that is not catered for by BIBA's Regional Training Programme. Can BIBA help?

A: In addition to the published training programmes, we facilitate bespoke training events for members. These can either be in-house, where a member asks us to provide a trainer for a specific course at the broker's premises, or open, where a group of members ask us to provide a trainer at an agreed local premises.

These bespoke events can include technical subjects, business and managerial skills, compliance. In fact, whatever you training needs, it is likely that we can provide a competitive solution. Contact either Steve White or Miranda Bell at BIBA House.

Email questions to:
Regulation questions:
whites@biba.org.uk
Technical questions:
staddonp@biba.org.uk / trudgillg@biba.org.uk
Visit the BIBA website for further guidance on technical issues – www.biba.org.uk