

whiteboard

Keeping you informed about risk and insurance

March 2011

A flood of claims

Floods are becoming more frequent and severe, at the very same time that the government is cutting back on flood defence spending. Businesses need to ensure they are protected and have made the right preparations for claims. By Sarah Coles



Floods in the UK are becoming increasingly frequent and damaging. In the face of this, the government has made deep cuts to spending on flood defences, meaning organisations must assess what steps they can take to protect themselves and to maximise the chances of recovering the full value of a claim.

Malcolm Tarling, a spokesman for the Association of British Insurers (ABI), says flood risks have been rising throughout “living memory” but that the industry only began to focus on the phenomenon in 2000. “The severe flooding that year was a wake-up call to the industry and the government for what was to come, and we began researching the issue,” says Tarling.

The ABI research shows that since 2000, insurers have paid out £4.5 billion to customers whose homes or businesses have been hit by

flooding. This is a real terms rise of 200 per cent on the £1.5 billion paid in the previous decade. It has been estimated that the total value of assets under flood risk exceeds £200 billion – more than the UK’s budget deficit. The flood map published by the Environment Agency confirms how serious the threat has become across the country.

Six million properties at risk

Even more worryingly, there is a growing number of claims for flash floods in areas with no history of flooding, raising the possibility that spending on draining surface water is inadequate and that weather patterns may be becoming more severe. Tarling says the risks will continue to rise. Some 3.8 million properties are believed to be at risk of

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news in brief

Rounding up the latest news and developments from the world of insurance

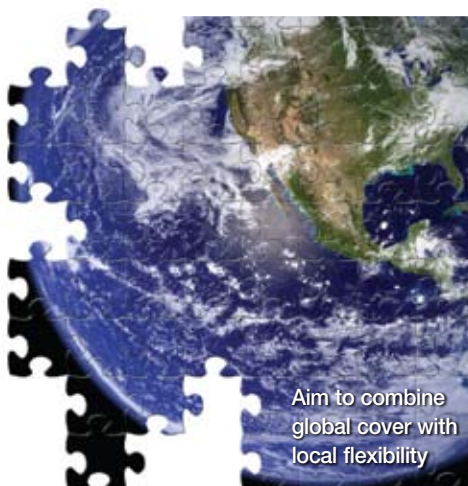
Do you need a global insurance programme?

Businesses that operate in more than one territory increasingly assume they need a global insurance programme. However, Ian Scott, Partner at JLT Specialty, warns this approach could leave them paying over the odds for cover.

Running a business with some overseas assets is not the same as being genuinely global. A company may have sales offices overseas or one manufacturing location, or it may operate low-risk businesses in a handful of territories. In such instances, a global insurance programme may not be the most effective solution.

A global programme offers benefits over a fragmented, localised programme in that it enables control from the centre and better risk management, and facilitates adherence to group standards. However, there are drawbacks. Scott says: "You lose out because you immediately restrict the number of insurance carriers who can participate in the business, reducing competition and potentially missing an opportunity to drive down premiums."

But while a localised programme with a central difference in conditions/difference in limits (DIC/DIL) policy may be cheaper, control can be sacrificed. Tracey Clayton, Global Service Executive, JLT Specialty, says there could be additional risks: "The cover may be so different locally that you could be exposed to all sorts of things. On the liabilities side, DIC/DIL may pick up everything after the first £1 million. However, in territories with less



Aim to combine global cover with local flexibility

developed insurance markets, the limit may be £250,000, so the company may suddenly find itself exposed in the event of a claim."

Middle way

Scott points out there is a middle way, using the JLT Specialty Global Service Team. This is a dedicated, multilingual outfit based in London that coordinates local policies, making sure they are compliant, complementary, and do everything the company expects. The team ensures there are no overlaps or unexpected gaps and keeps a close eye on coverage. "We have found this to be the perfect solution for several clients who were previously frustrated with the limited options available," says Scott.

Food & Drink dinner

JLT Specialty held the first in a series of networking dinners for the food and drink industry in February. The event, co-hosted by Eversheds and Catalyst Corporate Finance, welcomed guests from some of the UK's best known food & drink businesses.

Ross Warburton MBE, Executive Chairman of Warburtons and former President of the Food & Drink Federation, gave the opening speech and hosted an after-dinner question and answer session. He provided insights into the board-level thinking behind recent innovations, including a gluten-free loaf, and outlined plans



Jonathan Miller (JLT Specialty), Ross Warburton MBE (Warburtons), Catherine Eley (Eversheds)

to relaunch the Warburton branding. He also emphasised its commitment to sustainability and its multisite solution to the food miles debate.

Jon Miller, Associate, JLT Specialty, says: "We were delighted that Ross was able to share the secrets of his success. Innovation is the key to growth and will remain so as consumers become ever more sophisticated."

New office in South Africa

Jardine Lloyd Thompson Group plc has formed a South African company to provide increased choice to domestic insurance buyers, enhanced access to international markets, and experience and specialty skills. A new office opening in Johannesburg underlines a belief in the potential of South Africa.

950 is the number of natural catastrophes recorded globally in 2010, with 90 per cent being weather-related events such as storms and floods.

\$130 billion

is the amount of overall losses resulting from natural catastrophes in 2010.

\$37 billion

is the approximate amount of the overall losses that were insured. This puts 2010 among the six most loss-intensive years for the insurance industry since 1980.

SOURCE: Munich Re

Corporate manslaughter sanctions clear

The first prosecution under the Corporate Manslaughter and Corporate Homicide Act concluded in February, and the scale of the fine imposed holds a vital lesson for businesses.

The fine imposed was £385,000 to be paid over 10 years with £38,500 due every year. The total fine equates to more than a year's turnover. Warren Dann, a Partner with JLT Specialty, says: "Now the precedent has been set, the expectation must be that future court decisions will follow a similar proportional approach."

He highlights: "In times of economic constraints there are occasions when more cost-effective, but possibly less safe, policies are adopted. Such an approach should be immediately identified and addressed, because if the worst happens then the above case demonstrates the eventual fine is likely to be far in excess of the costs of implementing an appropriate health and safety regime."

Motor insurance reforms could trip up unwary firms

Two pieces of legislation designed to reduce the cost of claims and cut uninsured driving must be fully understood to avoid increasing fleet risks, says Steve Vachre, Motor Specialist at JLT Specialty.

The first of these is the Ministry of Justice's new process for road traffic accident claims, introduced in April 2010 with the aim of streamlining low-value personal injury claims. It sets out three stages of a claim, imposes time limits for each stage to be completed and offers fixed costs to claimants' solicitors at each stage, bringing down the cost of claims.

Know your responsibilities

However, many companies remain in the dark about the implications for their business. Vachre says: "The legislation says that claims have to be reported by the insured, and the insurer must accept liability within 15 days in order to meet the time limit at that stage of the process. If a company doesn't report a claim within this time, or doesn't confirm what has happened, it falls outside the system; the fixed costs no longer apply, and the cost of claims may well be considerably higher.

"Companies need to be clear about their responsibilities so they can comply with the legislation. Failure to do so will impact on their



claims costs and subsequently on their insurance premiums."

The second new law is Continuous Insurance Enforcement, which will make it illegal to own an uninsured car. Vachre says: "A lot of fleets insure using a blanket certificate and either the client, the broker or the insurance company will update the details of each vehicle on the Motor Insurance Database. There's a concern that an error or delay in updating could mean clients are perceived to be in breach of the law. One insurance company has said that 50 per cent of brokers have no knowledge of these regulations."

If a business accidentally breaks the new law by owning a car without insurance there will initially be a £100 fine and the car will be clamped, which could affect an employee travelling on business. Ultimately, prosecution and a fine of up to £1,000 could follow.

“ You are the experts in your business and you make the decisions – your business objectives, not insurers’, should drive loss mitigation and business recovery. ”

Echelon Claims Consultants outline claims management tips in the wake of the Queensland floods at www.echeloncl.com/claims-media-resources/claims-guidance-tips/queensland-flooding/

The top three issues for insurance valuations

A number of factors are causing valuations to fluctuate dramatically, which could leave companies over- or under-insured unless they stay up to date. Gareth Williams, Associate Director of insurance valuation company Rushton, says there are three key reasons why valuations are changing.

1 UK building costs, which dictate the reinstatement value, have fallen to around 2004 levels, down some 17 per cent from their peak in late 2007. Those who have left three years between valuations could benefit from a full valuation now, which could reduce the sum insured and possibly the premium. It will also provide a sound basis for annual updates rather than relying on unreliable indices.

2 In October 2010 the latest update to the Building Regulations came into force in England

and Wales, with Scotland due to follow shortly. The update covers, for example, the energy efficiency requirements for new buildings. Any rebuilding will need to meet tighter regulations, such as those on insulation and energy loss under Part L. The full cost implications are yet to filter through, so there is a potential shortfall in what valuers are using to assess buildings and the construction costs. The difference could be as much as 5 or 10 per cent and will not be reflected by indexing existing values.

3 Replacement costs of plant and machinery are also changing. Many manufacturers source machinery outside the UK and there have been huge fluctuations in the strength of sterling. If a business has not valued plant and machinery assets recently there is a major risk of being over- or under-insured.

Blogroll

The latest blogs from Jardine Lloyd Thompson's website www.jltgroup.com

Global Risk Solutions

Diana Accordi looks at what the consequences are of the EU Directive in respect of Environmental Impairment Liability. It states that you can be responsible not only for clean-up costs following a pollution incident but also for the costs involved in reinstating the environment as it was before the incident.

> www.jltgroup.com/jlt-specialty/blogs/global-risk-solutions/

Real Estate

Peter Doyle highlights the issues facing the insurance market in 2011, including a far from ideal Combined Operating Ratio. He concludes that insurers will need to place greater emphasis on underwriting profit.

> www.jltgroup.com/jlt-specialty/blogs/connect-to-real-estate

Global Risk Solutions

Kip Berkeley-Herring looks at the challenge of identity crisis in the continuously evolving risk landscape of the communications, technology and media sector. He shares the results of recent research that considers how the insurance market is responding to the changing needs of the industry and how it is managing increasingly complex risks.

> www.jltgroup.com/jlt-specialty/blogs/global-risk-solutions

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A flood of claims

Cover story continued

>> surface water inundation and 2.4 million are exposed to river and coastal flood. Within those figures are a million properties that are exposed to both risks.

Against this backdrop, government spending on flood defences has been cut. In his Comprehensive Spending Review in October 2010, the Chancellor George Osborne revealed that just £500 million a year would be spent on flood defences from 2011 to 2015 – a reduction of £216 million and substantially less than the Environment Agency’s recommended total of £1 billion a year by 2035.

At the moment there has been little impact on insurance terms for most businesses. Insurance remains available for mid corporate and large businesses and it is unusual to have to consider flood risk in any depth when negotiating price and cover, unless the business has a particular flood risk or there has been past claims

“You don’t need to live near a river or on a flood plain to be at risk.”

Adrian Lamasz, JLT Specialty

experience. Even then, cover is available in the vast majority of cases.

Practical steps

For those at risk of flooding, there are simple physical measures that can protect the property and contents and help a business present the best possible case to insurers. Some of these measures will help keep flood water out of a building, such as raising floors, covering air bricks, landscaping to ensure water runs away from the building and erecting barriers.

Chris Tabbitt, a Partner at JLT Specialty, adds: “There are also practical steps that can minimise the damage caused if flood water enters the building. For example, businesses can ensure electrical sockets and lights are positioned above a certain level.” Other options include using resilient building materials – particularly at a low level – fitting pumps, and placing high-value plant, machinery and stock above ground level.

Managing high risk

JLT Specialty can help businesses that are considered high risk, by considering their specific circumstances and helping them devise appropriate strategies. Adrian Lamasz, Partner, Birmingham at JLT Specialty, explains: “In some instances we are able to demonstrate an event was a one-off, so insurers are less concerned. In cases where there is an ongoing risk, the insurer is concerned about material damage, but also business interruption and consequential loss. We can work with the client on a flood plan that will demonstrate the client’s resilience to floods.”

Planning for floods

It’s essential to have a business continuity plan. Most businesses have a plan in place but the biggest failing of many is that they don’t stress-test the plan or keep it up to date. Lamasz says: “We can work on a flood recovery and contingency plan. It

About Echelon Claims Consultants

Echelon is an international, multi-disciplined, claims consultancy practice. It specialises in the resolution of large, complex and contentious claims across a broad range of industries and the provision of pre-loss services that improve claims process and efficiency. This incorporates a specialist Liability Claims Consulting Practice which has substantial experience in Defensibility Evaluation, Claims Leakage Analysis, Reserve Analysis and Catastrophic Injury Claims Support. For more information: www.echeloncl.com.

The Environment Agency flood map reveals the areas most at risk of flooding



...for flood risk management

- 1 Take practical steps to minimise the damage caused
- 2 If you are considered high risk, work with your broker and insurer to devise appropriate strategies
- 3 Test the policy
- 4 Set up a claims plan and major loss plan
- 5 Establish claims protocols

gives the insurer comfort that the client understands their exposure and is managing it, so they don't have to worry that a claim for business interruption is going to be excessive."

A claims plan is also vital and comprises three parts: testing the policy, setting up a major claims plan and establishing claims protocols. Candy Holland, Managing Director of Echelon Claims Consultants, says: "You need to stress-test the policy. Consider potential flood scenarios that could affect the business and consider how the policy would respond and how the claims pan out. Often the first test any

“ Many businesses don't realise they need to capture data and evidence of loss-mitigating decisions taken from day one of the loss. ”

Candy Holland, Echelon Claims Consultants

policy gets is the claim itself and then it's too late to consider whether the policy is going to respond as expected."

Major loss plan

Businesses also need a major loss plan, to sit alongside the business continuity plan. This will set out how to deal with a major claim. Holland says this could take the form of a timeline, outlining what would be done in the first 24 hours, 72 hours, or the first week. She says: "What is surprising is that many organisations don't have a plan. It needs to lay out what you will do, who will be involved, what the communications process will be, and what information you need to capture and the procedures in place to capture it."

This plan should establish that processes are in place to gather the evidence of loss for your claim. The onus is on the insured business to substantiate a claim, providing detailed documentary evidence of costs incurred and financial losses. Holland explains: "Many people don't realise the level of information and detail they need to support the claim. They don't realise they need to capture data and evidence of loss-mitigating decisions taken from day one of the loss, and they don't appreciate that often this needs to be in a different format to the way they usually record their data."

Without the right information, the insurer may apply a large discount, or demand the data is produced, Holland warns. "Two or three months down the line, the business may ask the insurer for money and the insurer may insist on the data before they pay. If you don't have this data, going back to produce it is complex and time-consuming," she says.

The third strand is claims protocols – setting out with your insurer how a claim will be handled. This will include, for example, understanding how policy claims conditions will apply in practice and naming the experts that both parties will appoint so there is no ambiguity.

quick facts !

- ✓ Since 2000, insurers have paid out £4.5 billion in flood claims – a rise of 200 per cent on the previous decade.
- ✓ Some 3.8 million properties are believed to be at risk of surface water inundation and 2.4 million are exposed to river and coastal flood. Of those, a million are at risk of both.
- ✓ Just £500 million a year will be spent on flood defences in the UK from 2011 to 2015 – a reduction of £216 million and substantially less than the Environment Agency's recommended total of £1 billion a year by 2035.

Even when all the above are in place, a claim will absorb time and resources and require expertise. Holland says: "You need to ask whether you have that available in-house, or whether you need help from external consultants." Businesses should also check whether their policy has a claims preparation clause to cover the cost of hiring that expertise (see page 7).

The changing nature of flooding in the UK means it is not only impossible to tell whether premises will flood but also to be certain of your level of risk. As a result, all businesses must be satisfied that they are prepared for any eventuality – with the right cover, the right planning and the right approach to claims. Lamasz points out: "A flash flood can happen to anyone. You don't need to live near a river or on a flood plain to be at risk of flooding, so everyone needs to address this issue." ■

find out more

To discuss any of the issues raised in this article contact

Adrian Lamasz on 0121 626 7813 or
Adrian_Lamasz@jltgroup.com

talking points

Jargon buster

Presumptive indemnification

Generally D&O policies assume a company will indemnify the director to the full extent permitted by law. In reality this is often not the case and therefore conflict may arise.

Securities entity coverage

D&O usually covers claims brought against individuals. In jurisdictions such as the US, a company can be sued for securities law violations as if it were a person. Under this coverage, the entity is covered for these claims.

Outside directorship coverage

This covers directors asked to serve on the board of another entity by the insured. This is for claims in excess of coverage by that entity's indemnifications and D&O policies.

'A' side DIC (difference in conditions)

Where a company will not indemnify the director – for example, in the case of criminal allegations – this is a dedicated excess that will pay instead.

Master class

Mike Lea, Head of D&O Liability, JLT Specialty

Directors' & Officers' liability: getting it right

Q What is D&O cover?

This insurance protects the personal assets of company directors from allegations brought against them in relation to the duties they assume in running the company. It can cover civil fines and penalties, where insurable, and defence against either civil or criminal charges, along with the ensuing settlement, award or judgment. It covers all legal costs including appeals up to the final adjudication or the point at which the director admits guilt.

Q Who needs it?

Any company director or officer who assumes personal duties of care in their capacity of running a company. Public companies are most at risk, especially if shares are listed on US exchanges or if they are in regulated industries. Other factors that increase the risks include high volatility of the stock such that share prices can be dramatically affected by anything the management says or does.

Q What are the common claims?

Claims can be brought by employees, shareholders, competitors, clients, customers, investors, regulators, or other stakeholders. In the UK, most D&O insurance payments are in defence of a regulatory investigation. Industry regulators will often call a director to testify at such investigations on behalf of the company. In addition, claims alleging fraud on the part of the management of companies have increased dramatically during the recent financial crisis.

Q What are the pitfalls that could catch me out?

Many D&O policies rely on the completion of a proposal form. This is a potentially invidious position, as



English law enshrines a duty to disclose everything that could be material, which is impossible for D&O because it is so difficult to anticipate all the potential triggers of a D&O claim.

Another consideration is that most D&O programmes are placed with multiple insurers arranged in layers. When a claim strikes, directors are not going to know what to do to defend themselves, and any delay can have a detrimental effect on the claim. We can create a claims protocol document or agreement that assists all insurers in mounting a coordinated defence for the director.

Q What are the implications of getting it wrong?

Without the right policy language around disclosure and robust claims protocol, a director's defence may be compromised, delayed, or even excluded under the policy. There are also instances where an insurer has rescinded the policy, asserting that the source of a claim, such as financial restatement by the company, constitutes a misrepresentation of the underwriting information and therefore invalidates the policy. The umbrella could be taken away just as it starts raining.

Q How do I go about getting it right?

D&O litigation is a rapidly moving and developing world, with new regulations and statutes being introduced. The only way to ensure your policy is up to date is to engage with a broker who specialises in this area. The D&O policy is rarely tested but when a claim comes along, it must respond and defend the most important people in the organisation and protect their reputations.



...for D&O buyers

- 1 Do not fill out a proposal form unless you have to and if you do, check the policy to ensure that it is not written in reliance on the content of the proposal form
- 2 When deciding which programme structure to purchase, take into account your company's overall attitude to risk and insurance purchasing
- 3 Meet your insurer and its claims team before the policy is bound
- 4 Avoid changing D&O insurers often for cheaper cover elsewhere – this may be a false economy
- 5 Make sure coverage is regularly checked to be up to date with the latest statutes and regulations

Did you know...

Perils of DIY claims management

Preparing an insurance claim can be a time-consuming business. At the extreme end of the spectrum, something like a complex business interruption claim can take hundreds or even thousands of hours. If the claim is prepared internally, this means taking people away from their essential day-to-day work. Companies also have to be realistic when considering whether they have the necessary skillset internally, or whether they are taking people away from vital work in order to do something for which they are not equipped.

If staff lack the knowledge to prepare the claim effectively, it can lead to investigations, delays in payment, reductions in the total sum paid and in some instances, result in a claim not being paid at all.

This can have a catastrophic effect on the business. Take, for example, a business interruption claim after a fire. There are all sorts of elements involved in preparing a claim that non-experts may not know. For instance, they may not know what data they need to be

capturing, so if the insurer asks for details further down the line, they will not be able to provide them. This could cause a delay or even reduce the final payment.

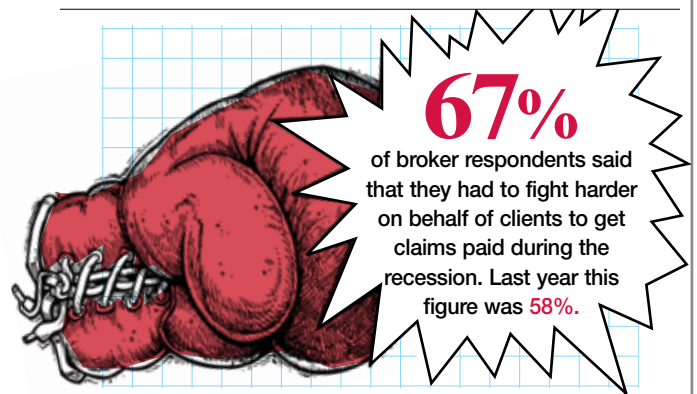
With a major claim, any delays, reduction in payment or refusal to pay at all could easily force a company to shut down. There are plenty of businesses who have been faced with making a major claim, been fully insured for it, yet seen problems with making the claim.

The alternative to trying to handle a claim yourself is to employ a professional, which comes at a cost. The solution in some cases is to have a Claims Preparation Clause written into the policy. This clause is more commonly seen in property damage or business interruption policies and means the policy will pay for the claims preparation to be handled by a professional company, up to an agreed limit.

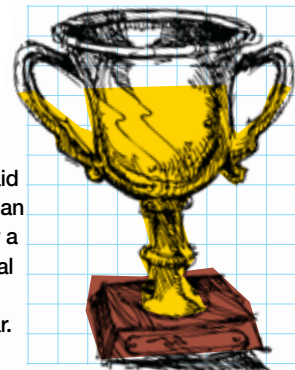
These are not compulsory clauses and are therefore not consistently applied, but can offer an attractive option in certain types of insurance and within certain industry sectors.



93% of broker respondents regularly negotiate up to a **20%** uplift on claims on behalf of clients.



67% of broker respondents said that they had to fight harder on behalf of clients to get claims paid during the recession. Last year this figure was **58%**.



76% of broker respondents said that they had secured an increased payment for a claim following an initial lower offer from the insurer, in the past year.

SOURCE: BIBA MEMBER RESEARCH SEPTEMBER 2010

Back to basics Machinery breakdown

Most businesses, particularly in manufacturing industries, are heavily reliant on key items of machinery and plant. Damage or breakdown can cause an immediate halt to production, causing a potentially critical interruption to the business.

Such costly and disruptive events are typically the kind of incidents against which businesses protect themselves through their insurance. However, a commercial property all-risks policy will exclude damage to machinery and plant that results from breakdown, explosion due to internal steam/fluid pressure or collapse.

Specialist machinery breakdown cover is available, usually as a separate policy, to bridge this gap. The policy can provide for the repair or replacement of machinery, plant and commercial boilers, including damage caused to own surrounding property.

A policy can be tailored to the needs of an individual business, to provide cover either for all machinery and plant at the premises or for selected items only. A machinery business interruption policy can be added on to protect against financial losses resulting from a breakdown.

Machinery breakdown cover is provided by a relatively small number of specialist insurers but it is not usually expensive. It is a traditional part of the UK commercial insurance market and as such, premium pricing tends to mirror that of the wider market, which is currently highly competitive.

Claims tend to be relatively infrequent but when there is one, the damage can be extensive and expensive, making cover a vital part of a commercial insurance programme. When buying the cover, brokers must ensure that it dovetails effectively with the standard property cover so that in the event of a claim, the policy pays out as intended.



Terrorism: look before you jump into the pool

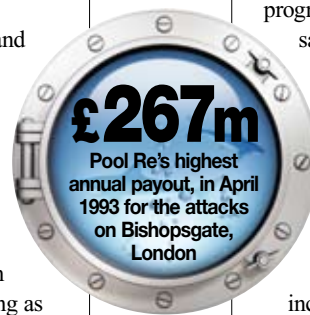
Businesses looking for terrorism cover have invariably been able to find the answer in the pool. However, there are standalone alternatives to consider.
By Kelly Crouch

At a time when businesses are working hard to ensure every part of their insurance programme is as efficient and cost-effective as possible, terrorism has been the anomaly. While all other insurance classes require a review of the market and a competitive tender, most businesses have one answer for terrorism cover – they go to the pool. However, this is not the only option, and it is well worth taking the alternatives into consideration.

In November 2010, Sir Paul Stephenson, London's Metropolitan Police Commissioner, said the UK was facing the most dangerous period in the fight against terrorism since the summer of 2007. Organisations realise that they cannot

afford to ignore this risk and the vast majority have bought insurance from the Pool Re scheme that will cover the business in the event of a terrorist attack.

It is one of the most established and comprehensive insurance pools in the world. While others have issues with gaps in cover, Pool Re is a trusted option for many thousands of businesses. In a market that insurers have traditionally been reluctant to enter, it provides a comprehensive solution to terrorism exposure, with the government acting as a reinsurance backstop. The coverage may include nuclear, chemical and biological acts of terrorism if these are not excluded by the all-risk policy.



Drawbacks of the pool

However, the pool isn't without its faults and in many ways it lacks flexibility. For example, reinsurance pricing is offered at set rates dependent upon location. Likewise, coverage has to follow the terms and conditions for property insurance, with the same deductibles. In addition, it must be purchased for a whole portfolio of assets and the insured cannot 'cherry pick' locations for coverage. This does not stop the pool from being effective – it simply means there is room for improvement.

There is also the question of the kinds of terrorism that are covered. The pool was

originally structured as a response to political terrorism from the IRA. In the intervening years, the terror threat from other sources has grown, whether it is people acting on religious grounds or ideological ones such as animal rights. There is a question over whether damage caused by these alternative kinds of terrorism could be covered. From experience, it seems that the pool is likely to respond positively. However, there is no absolute certainty.

Businesses could be forgiven for assuming there was no alternative but to live with the limitations of the pool. However, the market is changing. Many underwriters have left the pool and can therefore offer standalone terrorism insurance for UK assets. For some years, this has been one of the fastest-growing lines of insurance.

Standalone insurance has the advantage that it can be tailored to the needs of the business, in terms of limits and deductibles and of locations. This means you are only paying for what you need. Where the insured has overseas locations, these can be packaged with UK locations into a group programme, which allows further cost

savings and consistency of cover across the group. Meanwhile, extensions can include those specific to the peril, such as loss control following a terrorist event, and those that may not be included in all-risk cover, such as contingent business interruption, denial of access and civil authority increased costs.

The fact that more underwriters are leaving the pool means there is increasing capacity and the market has become even more competitive. However, it will not always be cheaper than the pool because the pool is structured to be affordable.

It is important to consider all alternatives and make an informed decision. By obtaining options from the standalone market and comparing them with the pool, you can be assured that you are buying competitive and comprehensive cover. ■



For information on JLT's terrorism risk insurance, visit www.jltgroup.com/terrorism-risk-insurance/ or contact Kelly Crouch on 020 7528 4242 or Kelly_Crouch@jltgroup.com

quick facts!

Before making a final decision on terrorism cover, businesses need to:

- ✓ decide whether the pool covers the specific risks they face
- ✓ consider whether a policy that allows tailored cover for different locations would be more beneficial
- ✓ obtain options from the standalone market and compare them to the pool to ensure comprehensive cover.

Fixing your weakest link

Globalisation and technology are pushing the boundaries for supply chains. Businesses need to manage any resulting pinch-points to protect themselves. By Nathan Skinner



SCAIR™ in brief

SCAIR™ is a software solution that enables you to map critical supply points and estimate your exposure. Once your supply chains are mapped out, you can model various types of failure in the network. This process generates a risk profile for

each site, or supplier, for each threat across each of your products. The aim is to identify those links in the supply chain that would hit your bottom line hardest if they were interrupted, which enables the business to prioritise its risk management efforts.

Globalisation and technological advancement are allowing companies to push the boundaries of low-cost production. They are creating more efficient supply chains but in the process they are establishing increasingly complex and interlinked ones. In fact, a recent survey of business leaders by McKinsey revealed that 69 per cent say their supply chain risks have increased in recent years. The smallest component can often cause the biggest loss, so it is essential to understand where the pinch-points are in your supply, and investigate and manage appropriately.

Cradle to grave approach

Protection lies in identifying, quantifying and understanding potential problems – and risk managing the pinch-points before they arise. Tim Cracknell, a Partner in JLT Specialty's Risk Consulting practice, says the first step is to understand where the vulnerabilities lie. He recommends a "cradle to grave" approach to risk assessments, from raw materials right through to the customer so as to identify clearly all the key vulnerabilities in the supply chain.

Pinch-points may occur when a company has a single source for a specific material or component within its supply chain. This is particularly prevalent in certain sectors, such as electronics, pharmaceuticals and aviation, which rely on specialist suppliers. But the problem can affect any type of company with uniqueness in its supply chain – notably those with niche products, regulatory constraints or contractual tie-ins. An interruption at a critical pinch-point in the supply chain without appropriate risk management can have serious knock-on effects to the business.

In 2008, for example, there was an extensive recall of the blood-thinning drug heparin by multiple pharmaceutical companies, because the material they all used shared a single source and was extracted in small, localised workshops in China. Similar problems are experienced in the technology industry, which relies on

continual innovation in a fast-moving marketplace. Bespoke integrated circuits are a particular issue in this sector.

Suppliers' suppliers

This increased use of single suppliers means it is essential to understand their weak points, so businesses should be addressing the risk profile of their suppliers. One key question concerns the suppliers' suppliers. In-depth upstream analysis of this type in the supply chain is a complex process and companies are

looking for systematic solutions that help them to assess their supply chain risk profile. JLT's Supply Chain Analysis of Interruption Risks (SCAIR™) is one such tool. It helps organisations to gain increased visibility of their supply chain risks and enables risk management decisions to be made to help minimise the losses, through business continuity, contractual risk management and specific

insurance solutions.

Catherine Geyman, Risk Management Consultant at Intersys, which developed the SCAIR™ system, explains: "The software helps to identify points of vulnerability in the supply chain, not just within your own internal sphere of control but further up the chain into the materials supplied to your

suppliers. It helps companies to understand how disruption could affect their business and whether or not they are prepared with contingency plans to deal with the problems as they arise."

Justifying spending

Complex organisations with thousands of products need this kind of systematic approach to filter and prioritise their key dependencies and ensure business continuity. But supply chain visibility is useful for all types of organisations. It can help business managers to quantify risk so that they can justify expenditure on a mitigation plan. This is particularly important in today's business climate where money is tight, says Geyman.

Cracknell concludes: "From this point it's then possible to identify a maximum loss scenario around which insurance buying can be tailored or mitigation of the risk with business continuity can be deployed. This could involve looking for another supplier and building up a relationship with them or changing stock-holding policies." ■

“It shows companies how disruption could affect their business and whether they are prepared.”

Catherine Geyman,
Risk Management
Consultant, Intersys

find out
more

For more information, visit www.jltgroup.com/Supply-Chain-Risk-Management or contact Tim Cracknell on 020 7558 3941 or Tim_Cracknell@jltgroup.com

Focus on

Construction

The construction sector finds itself under enormous pressure in the current environment and there are several key concerns affecting those buying insurance and managing risk. By Lee Coppack

Each month more than 200 UK construction companies fail. That figure is lower than it was in 2009, but at any time, hundreds of companies in the industry face financial stress. With cuts in public spending likely to make the situation worse, contractors must keep fit to trade successfully over the next two years by keeping a close eye on risk and costs. They are under a number of different pressures at the moment and each must be fully considered to stop costs from escalating and protect the business.

Quality of cover

Contractors and their subcontractors need suitable cover. In a competitive market, construction companies are looking to cut premiums, while insurers will be considering restricting components of cover to compete on price. They are also likely to look more closely at claims. Cheaper insurance that would not provide cover in key instances, or increase the chance of claims being contested, is a false economy and could have a considerable effect on costs down the line.

As Stuart Winter, Partner and Construction Practice Leader for Regional Partnership at JLT Specialty, points out, it is essential to ensure that there is adequate coverage in critical areas and to check the policy wording. There is also much to be gained from benchmarking cover and costs against industry peers.

Winter says having an expert to do this on your behalf can reap rewards: "A broker who knows the construction market has a

broad view of policies and the technical knowledge to compare them. Warranties or restrictive conditions combined with a tough attitude by insurers mean it can be more difficult to get claims paid," he says.

Monitor subcontractors' cover

Contractors need to keep a close eye on their subcontractors. If a subcontractor fails to renew its policy or chooses anything less than an A-rated insurer, it may mean a loss could finish it off. As Winter points out, this will "push the liability up the contract chain", increasing the contractor's claims and therefore its costs.

In some instances, it may have an even more dramatic effect, as contractors may have a condition in their own policy requiring that subcontractors maintain cover at a certain level. If this is expressed as a warranty or condition precedent, then if the subcontractor's policy fails to pay out, the contingent risk cover held by the contractor may fail to operate and leave them facing massive losses. A rigorous mechanism for checking, validation and referral is a must.

Health and safety

Health and safety is key in construction. However, the tough market for contracts means firms may increase risk through lack of experience if they move outside their usual trades in the search for work.

This is one reason why it is essential that insurers know when construction firms diversify. Winter explains: "Diversifying into new types of work or new trades can affect any firm's insurance if their insurers



“A broker has a broad view and the technical knowledge to compare policies.”

Stuart Winter, Partner,
JLT Specialty

aren't kept up to date. It creates the potential for the insurers to reject a claim for non-disclosure. Failure to declare working at height or straying into restricted activities, such as asbestos removal, are examples.”

Credit insurance

The market for credit insurance remains restrictive. While there are new products to protect against supply chain failure,

these tend to be restricted to the higher end of the supply chain, mainly due to premium costs. Where credit cover is available, it tends to be expensive and restrictive. With good intelligence it is often possible to reduce exposure, which is better than simply seeking to transfer it.

Disputes

Don't assume disputes will go away. Many sources predict that the move in recent years towards partnering contracts will give way to a return to conventional contracting in the wake of reduced work and pressure on price. Financial stress brings a more litigious climate, which can be costly. As Winter points out: "Many contractors are looking into 'after-the-event' legal insurance as a means to fund the litigation process.”

It is worth asking your broker to look at the policies to see how well they are likely to behave in common scenarios. When you renew your policies, the broker can give a view on the most robust protection within your insurance budget and help protect you from escalating or unexpected costs. ■

quick facts

Construction insurance exercise kit

- ✓ **Forewarned** – look for the signs associated with a potential problem: delay in providing documents, excuses, change in cover or change to a new insurer.
- ✓ **Enquire** – if in doubt, ask. Have all new activities been notified to insurers? Make sure they have no excuse to deny a claim.
- ✓ **Teach** the teams what to look for and what to be aware of. Make sure the business is aware of the high cost of failure in time and money.
- ✓ **Tell insurers** when circumstances change.
- ✓ **Stay informed** – not just about premium value or cover limits but about the quality of cover – your own and the supply chain's. Are the suppliers experienced in the sector or are they straying into new territories?
- ✓ **Stand firm** – ensure that you are fully protected and rigidly enforce checking procedures. Where you concede, you may be exposed.
- ✓ **Talk** to a professional adviser.

find out more

For more information on construction insurance visit www.jltgroup.com/construction-insurance/ or contact Stuart Winter on 020 7528 4756 or Stuart_Winter@jltgroup.com

About JLT

JLT Specialty Limited (JLT) is the largest member of Jardine Lloyd Thompson Group plc, a company listed on the FTSE 250 index of the London Stock Exchange. The Jardine Lloyd Thompson Group is a risk management adviser, insurance and reinsurance broker and provider of employee benefit administration services and consultancy advice.

JLT provides market-leading industry knowledge and expertise in specialist fields to some of the world's largest companies. What sets us apart is the

quality of our people and the environment we have created. It allows individuals to work together as a cohesive and focused team without internal boundaries, promoting personal accountability and responsibility for the benefit of our clients and other stakeholders.

Our Regional Partnership division provides risk and insurance services for midsized to large corporate clients. Clients benefit from a blend of deep sector knowledge and technical expertise, coupled with the ability to

translate options and recommendations into a language that is clear and easy for all to understand.

We have offices located in Birmingham, Leeds, Liverpool, London, Maidenhead, Manchester and Southampton. This means we have an in-depth understanding of regional issues and that clients benefit from informed advice and support on their doorstep. This local service is backed up by additional expertise at the centre – a unique combination that guarantees best in class solutions.

JLT Specialty Limited Global specialty insurance broking and risk management services

Energy & Marine

Energy

- Upstream and downstream energy including oil and gas, power and renewables

Marine

- Shipowners and operators
- Ship builders
- P&I Clubs
- Ports and terminals

Construction & Real Estate

- UK and European contractors
- Major power, civil engineering, building, infrastructure and PPP projects
- Real estate investors, managers and developers

Financial Risks

- Financial and professional services
- Managerial liability
- Credit, political and security risks
- Sport and entertainment
- Accident and specialty

Regional Partnership

- Birmingham
- Leeds
- Liverpool
- Maidenhead
- Manchester
- Southampton
- UK mid market/ large corporate
- Corporate recovery risks

Global Risk Solutions

- General retail - FT 250
- Utilities
- Communications, technology & media
- Life science, specialty chemicals, food & drink
- Transport and engineering
- Risk consulting
- Global service team
- Leisure

Aerospace

- Airlines
- Airports
- Aviation products
- Aircraft maintenance & repair
- Airport service providers
- Space

Claims

- Specialist claims service for clients
- Echelon Claims Consultants Limited

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and finally...

Editor's letter

A passion for innovation



Warren Downey: moving towards greater specialism

We trust you have enjoyed the second issue of *Whiteboard*, our publication offering news, opinion and articles addressing insurance and risk management issues, as well as broader topics that affect UK companies. We are aiming to find stimulating subjects, covering issues that matter to you, so please let us know if we can improve or address topics particular to your company or industry.

JLT Specialty enters 2011 as the *Insurance Times* National Broker of the Year, which we feel confirms the path we are on to provide regional specialist insurance solutions. The award particularly recognised our work with our team to develop them as professionals, our passion for innovation and our work in the

community. We feel that these three factors combine to help us outperform our competitors and serve you, our clients (and future clients), more effectively. It is a year since we merged our UK operations with JLT Specialty (our London-based broking arm) and we have seen a real, tangible broadening and deepening of our capabilities as a result of this link.

Rather than rest on our laurels, we have this month taken time out with many members of our team in Stratford-upon-Avon to consider how we can continue our progress towards greater specialism, effective delivery and further innovation. We reinvigorated our work around striving to be a trusted business adviser and we challenged ourselves to keep you more informed of our areas of expertise.

We continue to invest in our business and since our last edition, have made five key hires that extend from the *Insurance Times* Young Broker of the Year Leon Walker (business development) to a veteran of the industry in Roger Scholes, broker leader, and Nigel Bartlett, business development, a well-known character throughout the north of England. We are enjoying getting to know our new colleagues and hope you will too!

These are challenging times for our economy and the health of our country and we wish you trading success in the coming months. If we can support you in any way please do not hesitate to contact any member of our team or myself.

Warren Downey
Managing Director, Regional Partnership



10 ways to increase your insurance costs

Cutting insurance costs may be in vogue, but there are some organisations that seem committed to bucking this trend. So how do they do it?

- 1 Don't review your programme. The major advantage here is that you won't be tempted to renegotiate to take advantage of the market.
- 2 Don't build relationships with alternative insurers. This will make you fully dependent on one insurer and a hostage to their costs.
- 3 Alternatively, go out to tender every five minutes. This should ensure no one wants your business, which should drive up premiums nicely.
- 4 Don't worry about finding a balance between the risk you retain and the risk you transfer. If cost is your major consideration, you'll need to transfer it all.
- 5 Don't worry about overlaps in your programme. Duplications are an excellent way to increase costs.
- 6 Don't review your supply chain risk exposure. You need to leave this to chance and then any kind of failure will be pleasantly expensive.
- 7 Don't worry about health and safety paperwork and procedures. If you trust to luck you can ensure that any claims will result in hefty payouts.
- 8 Don't challenge your claims reserve. It is often different to the sum paid out and as long as you don't challenge it, you can inflate your experience.
- 9 Don't build a relationship with a broker. The more they know about you, the more risk that they will secure the right cover at the right price.
- 10 Don't keep your broker informed of any changes. They will only update your insurance cover and disclosures, which risks leaving you fully covered.