

# WHO WILL BE THE WORDINGS EXPERTS OF THE FUTURE?

23 NOVEMBER 2015

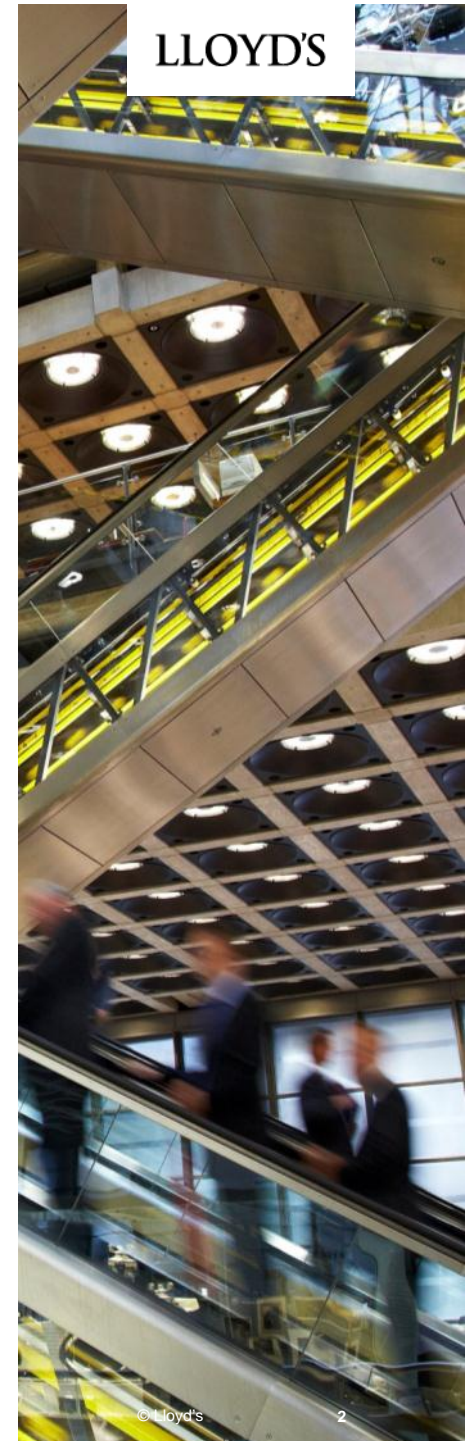


**TOM BOLT**

**DIRECTOR**

**PERFORMANCE  
MANAGEMENT**

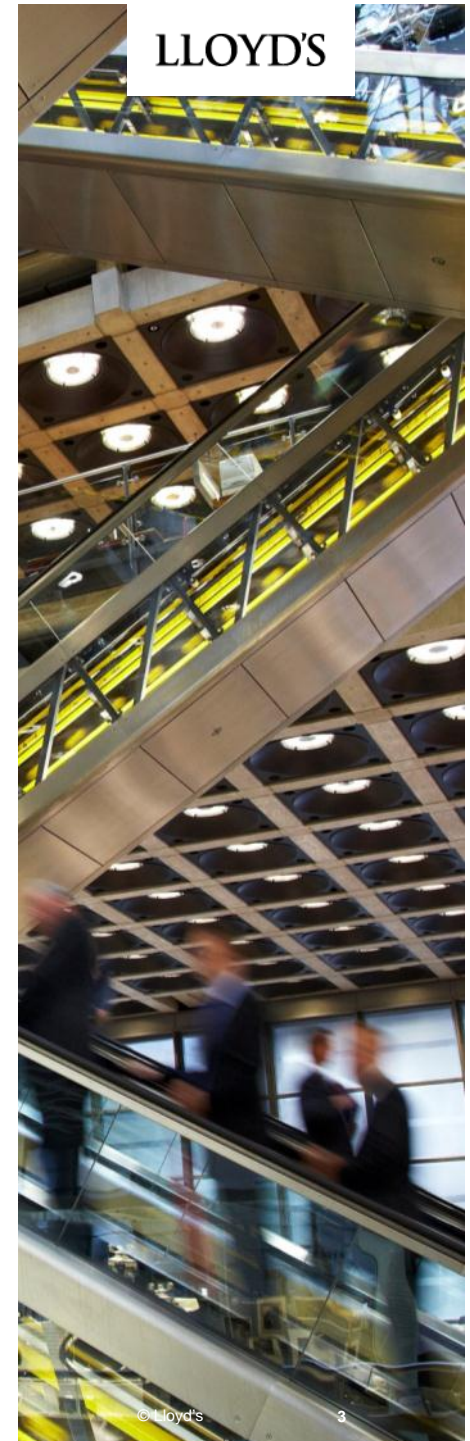
**LLOYD'S**





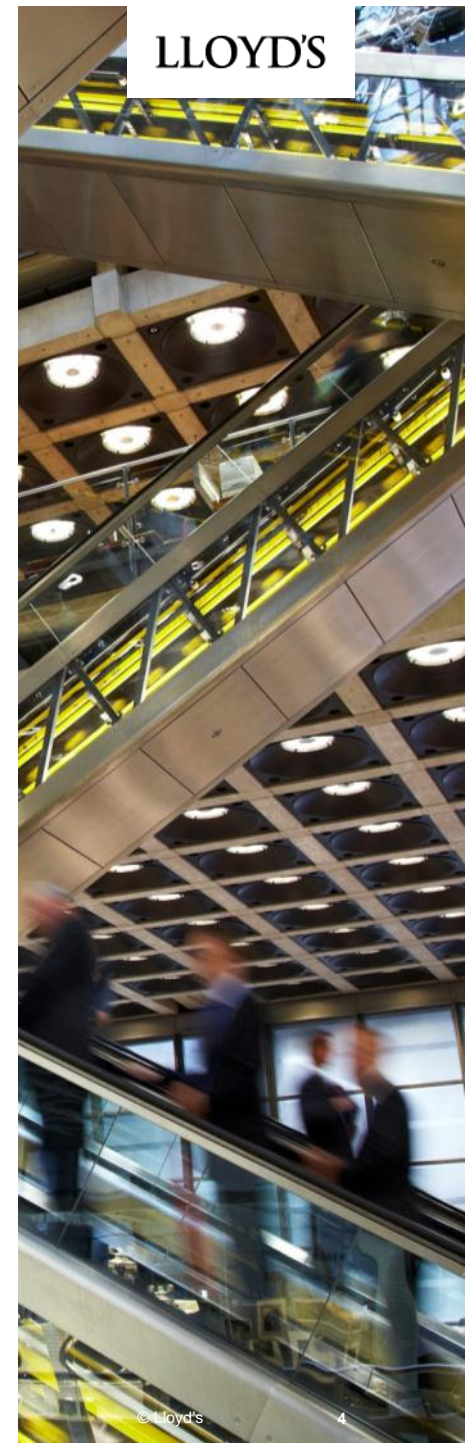
# WORDINGS MATTERS

- Wordings reviews from earlier this year highlighted:
  - inconsistent approach to review of wordings across MAs
  - a desire for a refresh and re-launch of Contract Certainty/ Quality in the market
  - a need to address the talent gap in the market for experienced technical wordings specialists



# WORDINGS MATTERS

- So what have we done?
  - LMA/Lloyd's working on a 10 year plan to identify & train the next generation of wordings experts
  - Looking to use technology better to assist in the review of wordings
  - Learn from Claims disputes – what action being taken to avoid disputed claims - tighten up wording & checking process?
  - Lloyd's Minimum Standards enhanced to include focus on Contract Quality as well as Contract Certainty & ensure checking procedures are robust
- Why important? Influences risk selection & pricing





# Embedding Contract Review in the Underwriting Process

Jonathan Gale

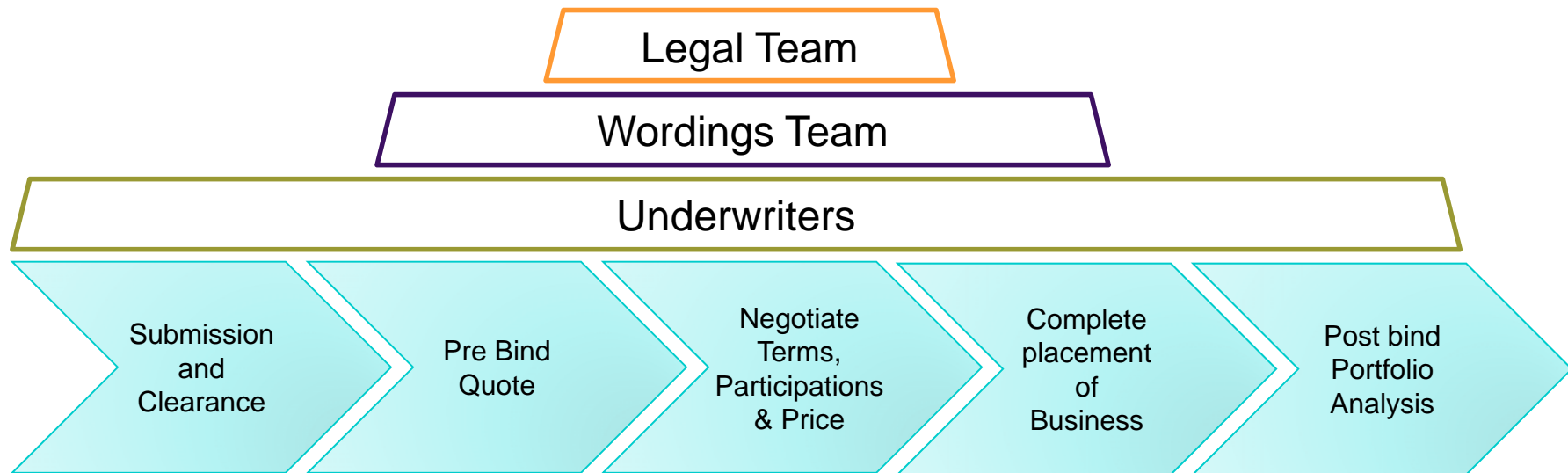
# Embedding Contract Review in the Underwriting Process - XL Catlin 4 Principle Considerations



1. How do we support consistent and safe decision making across 5 Regions?
2. How do we organise ourselves to deal safely and consistently with global brokers?
3. How do we support underwriters to make consistent and safe decisions across 60 pages per contract with 50% of GWP renewing on one day?
4. Is contract certainty and market leading service compatible with a safe review of wordings?

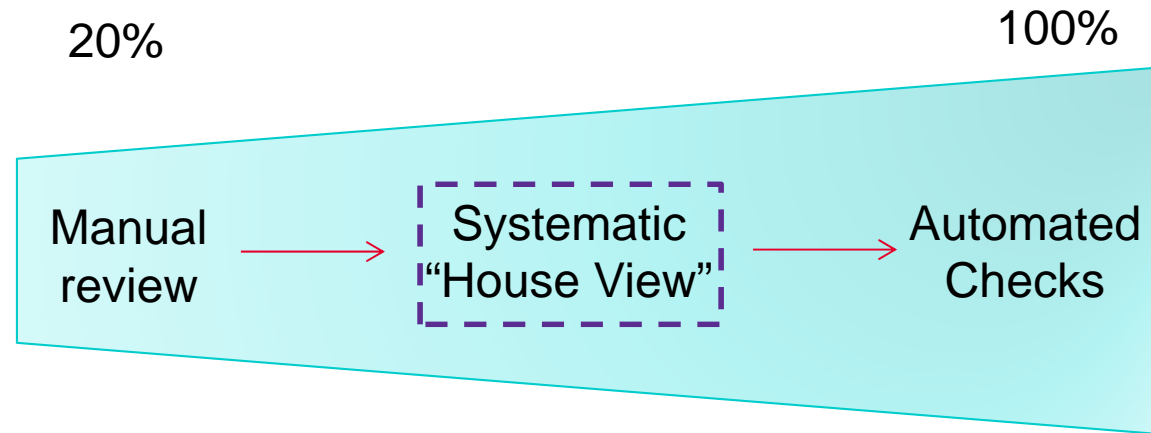
# Contract Review in the Underwriting Process

## - Initial approach



- Develop “House View” - Checks developed in line with market practice and market conditions.
- Expert advice from Wordings Team and Legal Team for exceptions.
- Embed Wordings professionals alongside Underwriters during peak periods.

# Automating Contract Review - Next Steps



- Development and codification of “House View” – Coded Clause Library and Clause Quality checks. Move towards 100% review through automated checks
- Portfolio analysis and real time risk management with Adsensa Insight.
- Ownership of contract terms remains with overall decision maker.
- Allows rapid response to broker/client.
- Powerful training tool for less experienced Underwriters.

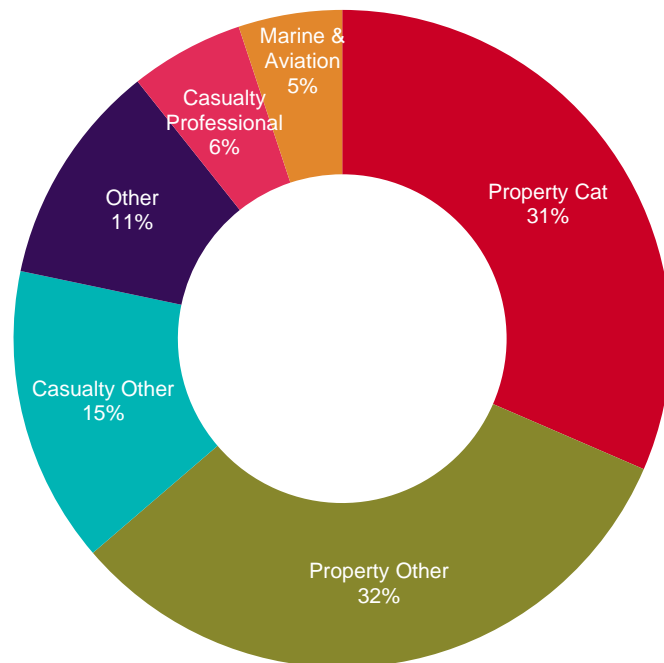


# Overview of XL Catlin Reinsurance - Questions?

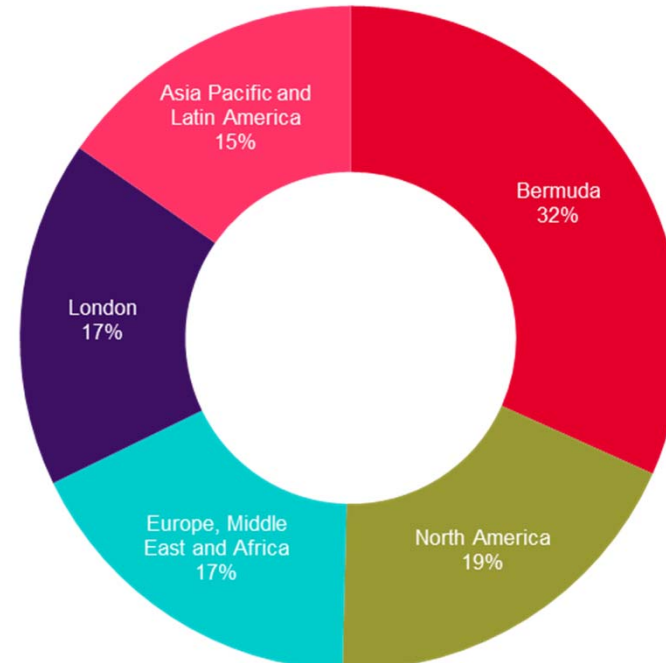


- Backed by USD \$14 billion of total capital
- The ninth largest P&C global reinsurer with multi-line capabilities
- Top three broker market property catastrophe writer in reinsurance

Gross Premiums Written Distribution by Product  
(Six Months Ended June 30, 2015)



Gross Premiums Written Distribution by Region  
(Six Months Ended June 30, 2015)



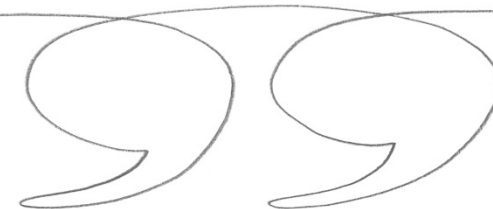
# Who will be the wordings experts of the future?

Mark Bernacki  
Head of Property  
Beazley



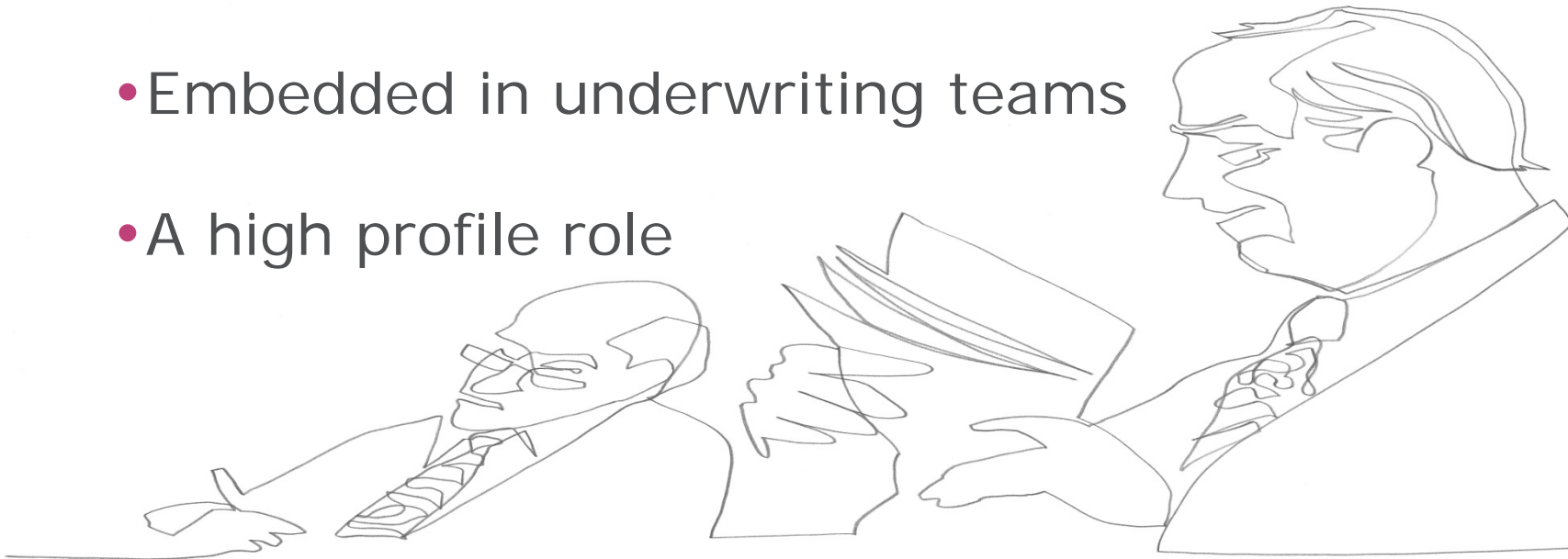
## What I will talk about today

- Wordings at Beazley
- What's changed?
- Who are the wordings specialists of today?
- What's the problem?
- Solving the problem



## Wordings at Beazley

- Our philosophy – Wordings is an Underwriting function
- Our resources – Wordings specialists within Beazley
- Our structure
- Embedded in underwriting teams
- A high profile role





## What's changed?

- 9/11
- Contract Certainty
- Front vs back office
- Broader skill set required

## Who are the wordings specialists of today?

- Broking background
- Broad insurance experience
- Long tenure/experience



## What's the problem?

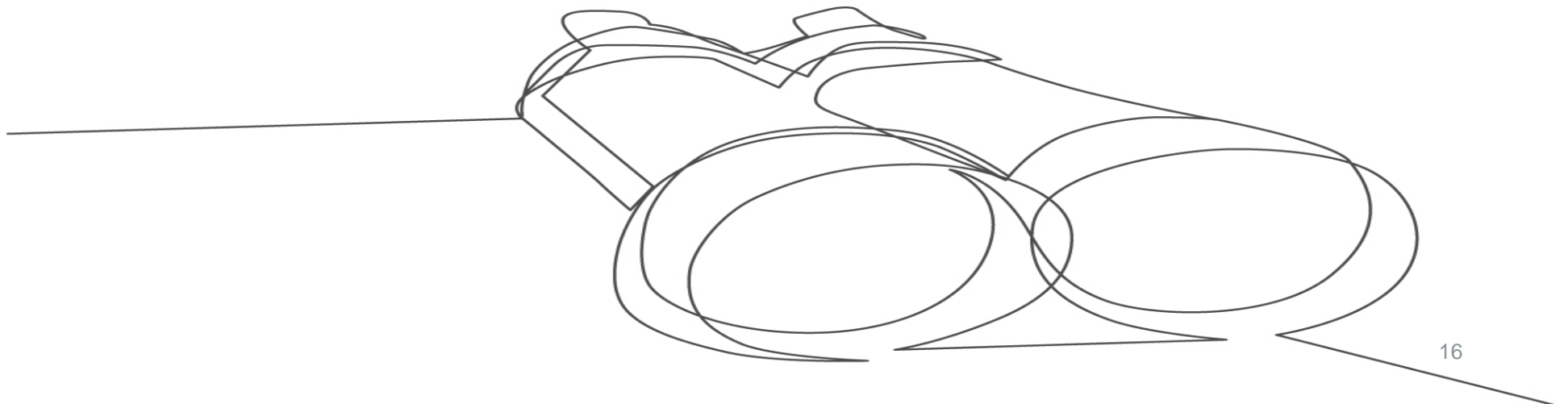
- Wordings isn't attracting new talent
- Supply and demand - we potentially have a people/skills shortage in the future
- A lack of expertise in wordings will in turn undermine elements of the competitive advantage of the London Market

*This is a material issue that we believe we need to address today so as not to suffer tomorrow*



# Solving the Problem

- We need to:
  1. Identify the wordings specialists of tomorrow
  2. Attract them to the role
  3. Invest in developing them so that they have the required expertise





# Identifying the wordings specialists of tomorrow

What do they look like?

## Skills

- Technical/attention to detail
- Negotiation
- People skills
- Enjoy engagement
- Sales
- Business knowledge

## Education

- Business degrees
- Legal

Where do they come from?

## Inside Insurance

- Claims
- Compliance
- Internal Audit
- Brokers

## Outside Insurance

- Procurement
- Para Legal
- Attorneys
- Teachers

## Attracting them to the role and developing them

- Make Wordings a front line role
- Highlight the impact of wordings
- Highlight career opportunities
- Remunerate attractively
- Invest in wordings specific training and development
- Provide clear career progression opportunities

In summary

*A shortage of skilled wordings specialists in the future will undermine the competitive advantage of the London Market.*

*We need to identify, attract and develop the wordings specialists of tomorrow, and, given the time it takes to develop people, we need to do so now.*

# **The Future of the Wordings Community**

**A Brokers' perspective**

**Simon Penaluna**

**Executive Director , Wordings, Willis GB**

The Willis logo is displayed within a dark blue rectangular box. The word "Willis" is written in a white, serif typeface. The box is positioned on the right side of a horizontal bar that has a light gray textured background on the left and a dark blue background on the right, where the logo is located.



## Introduction

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- Past Challenges for the Wordings Technicians
- Regulatory Change and its positive affect on the Wordings Community
- Current Wordings Technician role within Broking teams
- The Future challenges

## Past Challenges

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- Wordings Technicians often worked in insolation
- No involvement in the risk transfer process
- Limited access to the broker who had prepared the Slip
- Rare access to the Underwriter
- Wording could be prepared six months after inception
- Agreement of wording could take years!
- Policy issuance disorganised



## Past Challenges II

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- Wording “tba” or “as expiring” or “as original”
- Clauses identified but not always written into the slip
- Slip likely to contain handwritten Warranties/Conditions Precedent
- Sometimes several years’ worth of Wordings could be agreed at the same time
- Broking houses accumulated hundreds of thousands of policy backlogs
- No regulation and no such thing as Contract Certainty



## Regulation and Change

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- Problems recognised by the Financial Regulator in 2002
- London Market expected to get its house in order
- Concerted effort for the removal of backlogs
- Slip replaced by Market Reform Contract
- A market consistent approach to format and headings on Slips/MRC
- Contract Wording had to be included or identified within the MRC prior to marketing and agreed at the inception of the risk
- No more Wording “tba” at inception
- Duplication was reduced – “Slip (MRC) Wording” forms the contract



## Change in Wordings Role

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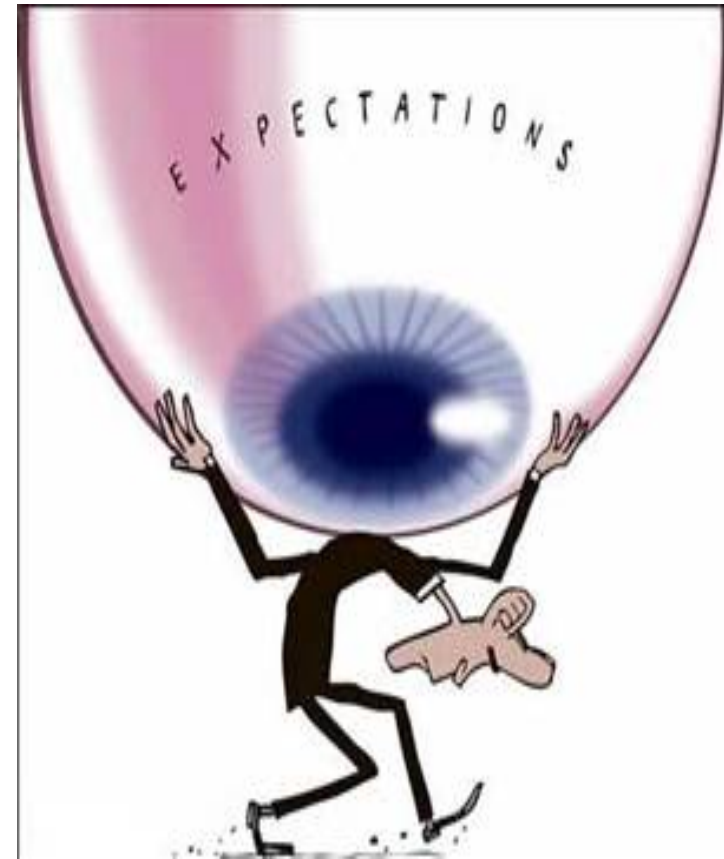
- Role of the Wording Technician rapidly moved from one of the last cogs in the wheel to the forefront of the insurance placement process
- MRC has helped to reduced exposure to Errors and Omissions and reduction in policy disputes
- Less focus on backlogs, more focus on Wordings for new business opportunity and review of existing business
- Greater access to brokers and underwriters to discuss wordings
- Greater knowledge of the risk/client

## Growing Client Expectations

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More focus on:

- Sound Market security
- Cover
- Price
- Insurance capacity
- Risk Managers are more focused on Wordings
- AIRMIC/external consultants are advising clients to constantly challenge insurers/brokers to obtain a better deal



## Present I

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- Prepare/Review Wordings/Compare at any early stage in the renewal process
- Check, Prepare MRC and sign off before the Broker approaches the market
- Wordings around the World can differ substantially
- Making recommendations where the scope and/or clarity of coverage could be improved
- Meetings with Brokers/Clients/Risk Managers/Underwriters/External Lawyers
- Review/handle day to day questions from clients
- Review new Products issued by market
- New issues, such the Insurance Act



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## Present II - Contracts

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### Review Indemnity Agreements in Client's Contracts:

- Does Wording match scope of coverage requirements in Contract
- Additional Insured status for contracting parties
- Waiver of Subrogation
- Joint Ventures responsibilities



## Not just about Spelling, Grammar and Punctuation

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- Ensure consistent identification of defined terms
- Use of damage, Damage, Property Damage, Injury, Bodily Injury, injury, Personal Injury
- Write-Backs to Exclusions – avoiding double or triple negatives
- Watch for Subjectivities without consequences/time limits
- Clarity and understanding with multiple triggers on multi-layered programs
- Duplication or gaps in coverage – dovetailing exclusionary language in wordings with other classes of business (Professional Indemnity, D&O, Marine)



## The Future of the Wordings Community

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Willis

## The Future of the Wordings Community

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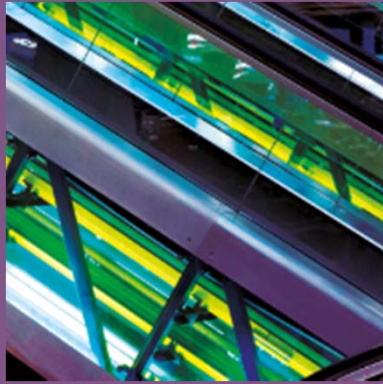
- Wordings community getting smaller (and older)
- Still a need for experienced drafters to look at the complex issues
- Urgent need to transfer specialist Wordings knowledge to new generation of wordings drafters
- Need to encourage new Wordings drafters into insurance environment
- Eliminate the perception that Wordings role is far from glamorous and Wordings “knowledge curve” is lengthy
- Relatively few basic Exams courses and reference manuals
- Few specialised insurance websites (outside the USA)

## The Future of the Wordings Community

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- Can the existing, experienced Wordings (and Claims) community help in training
- Co-ordinated market approach
- Can the insurance industry learn from other industries (accountancy, legal, banking)
- Consider further specialised CII training courses and exams for brokers and future wordings technicians on special wording topics
- Consider market-wide knowledge database on key insurance topics





# Wordings Seminar

LMA Wordings Forum

Interactive session

Disaster movies - covered or not?

Martin Roberts

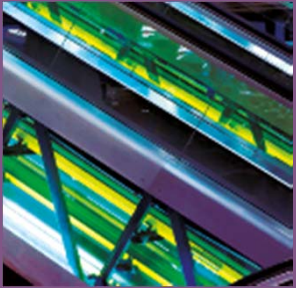
Head of Wordings

Liberty Specialty Markets



INSIGHT CONSENSUS INFLUENCE





# Agenda

The LMA Wordings Forum

What skills do you need to be a wordings expert?

Interactive session

Disaster movies - covered or not?





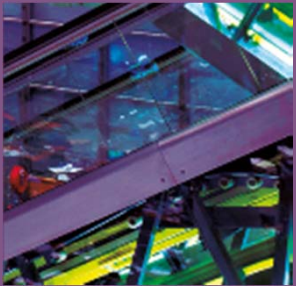
# LMA Wordings Forum

Model wording production a key function of the LMA

Marine and Aviation via joint market committees

Non Marine - LMA prefixed wordings the responsibility of the Non - Marine Committee. NMC composed of chairs from each of the LMA's class specific underwriting business panels

Note - all LMA wordings are purely illustrative and established and distributed for the guidance of Members, who are free to agree different conditions

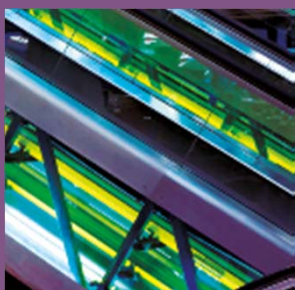


# LMA Wordings Forum

The NMC established the Wordings Forum to provide it with support on technical matters

## Role of the Forum

- Consider developments affecting technical aspects of contracts, e.g. Insurance Act 2015, Conduct Risk
- Respond to NMC and business panel requests for drafting/consensus /agreement to new or revised LMA model wordings
- Provide all LMA members with advice on wordings and technical matters



# LMA Wordings Forum

LMA Wordings Forum structure

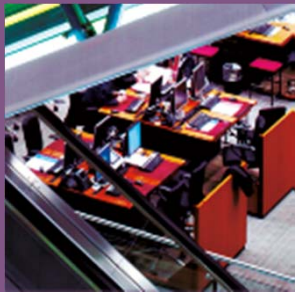
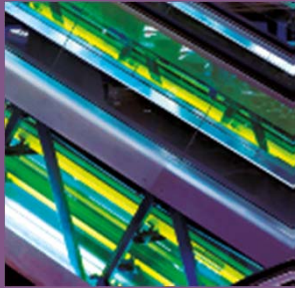
LMA Secretariat - Alison Colver & Frances Shaw

Two standing groups, Steering and Principals.  
Membership currently drawn from 22 Managing Agents

Both groups have regular summary meetings and have established several subject matter specific sub - groups, e.g. Insurance Act 2015, Cyber clauses, Latin America

If you are a LMA member and want further info - please contact Alison or Frances

# What skills do you need to be a wordings expert?



Regulatory  
Compliance  
Understanding of  
legalities

Contract Certainty

Crystal, LWR, QA tool

Underwriting Appetite

Risk checklist

New, amended or unusual  
clause/text

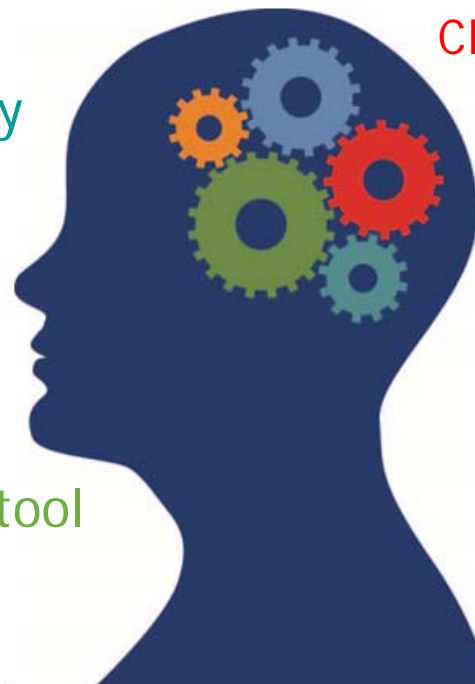
Established clause/text,  
but change in circumstances:

Claims experience

Legal/Arbitral interpretation  
Unexpected loss

Emerging risk

Unusual loss scenario





## Disaster movies - covered or not?

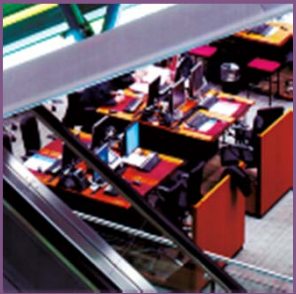
Looking at some fictional loss scenarios and clauses, you decide if you think the claim is covered or not.

Replicating a common market scenario, you are presented with a wording with limited time to review..."everyone else has already agreed".

You have a minute to consider each one and make a selection.

At the end we will look at the results and comment on some of the points you may have considered, but will not be opining on what the correct answer is. . . . .





# Towering Inferno

On the opening night of the Glass Tower, a 138-storey San Francisco skyscraper, the building's architect Doug Roberts discovers the contractors have cut costs by using wiring below the standard he specified.

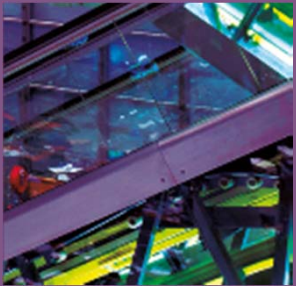
The wiring becomes overloaded during a celebratory lightshow and an unexpected circuit breaker surge leads to a major fire.

The building's property policy excludes:

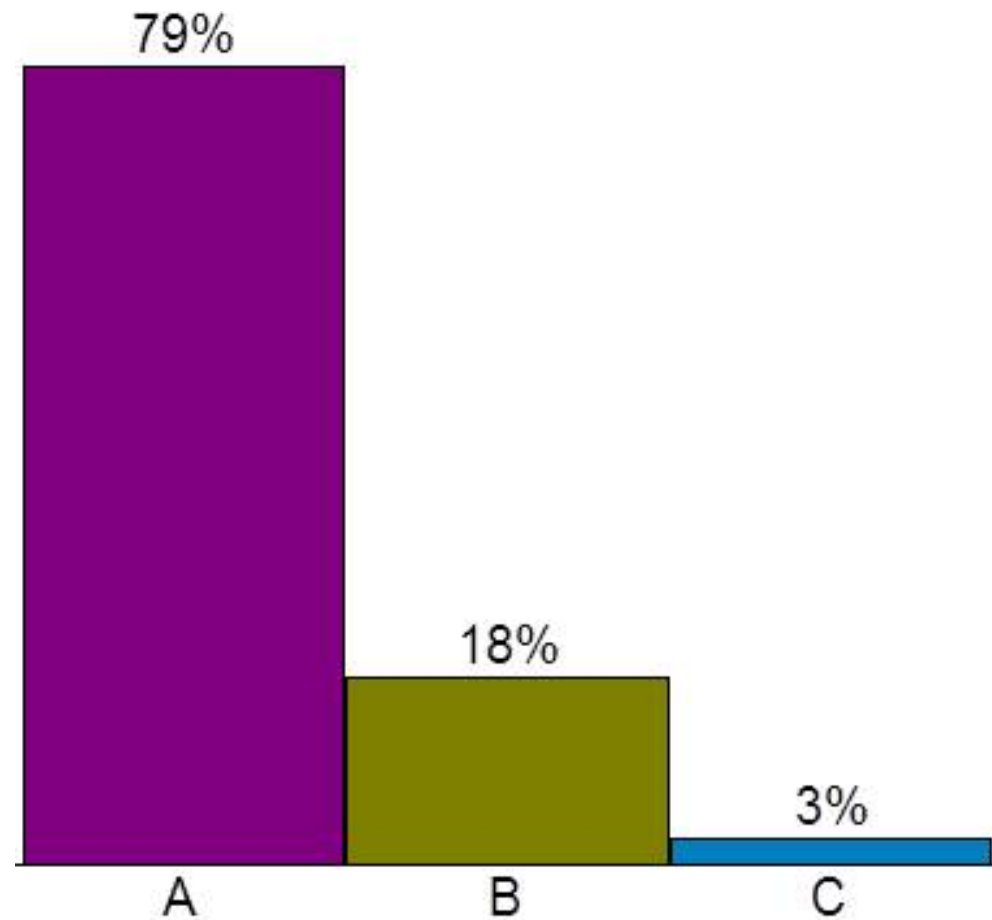
*“loss or damage caused by error in design; faulty workmanship; or faulty or unsuitable materials. However, if fire or explosion results, then any direct physical loss or damage arising directly from that fire or explosion shall not be excluded hereunder.”*

Choose A for covered, B for not covered, C not sure

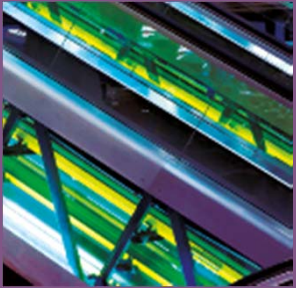




- A Covered
- B Not covered
- C Not sure







## Jaws

A young woman is killed by a shark whilst swimming off Amity Island. Police chief Martin Brody demands the beaches are closed, but mayor Larry Vaughn overrules him, concerned about the loss of tourist revenue over the 4<sup>th</sup> July weekend.

On the 4th of July, Vaughn encourages people to swim at the beach, and Brody is proven right when the shark kills again.

The town's liability policy includes:

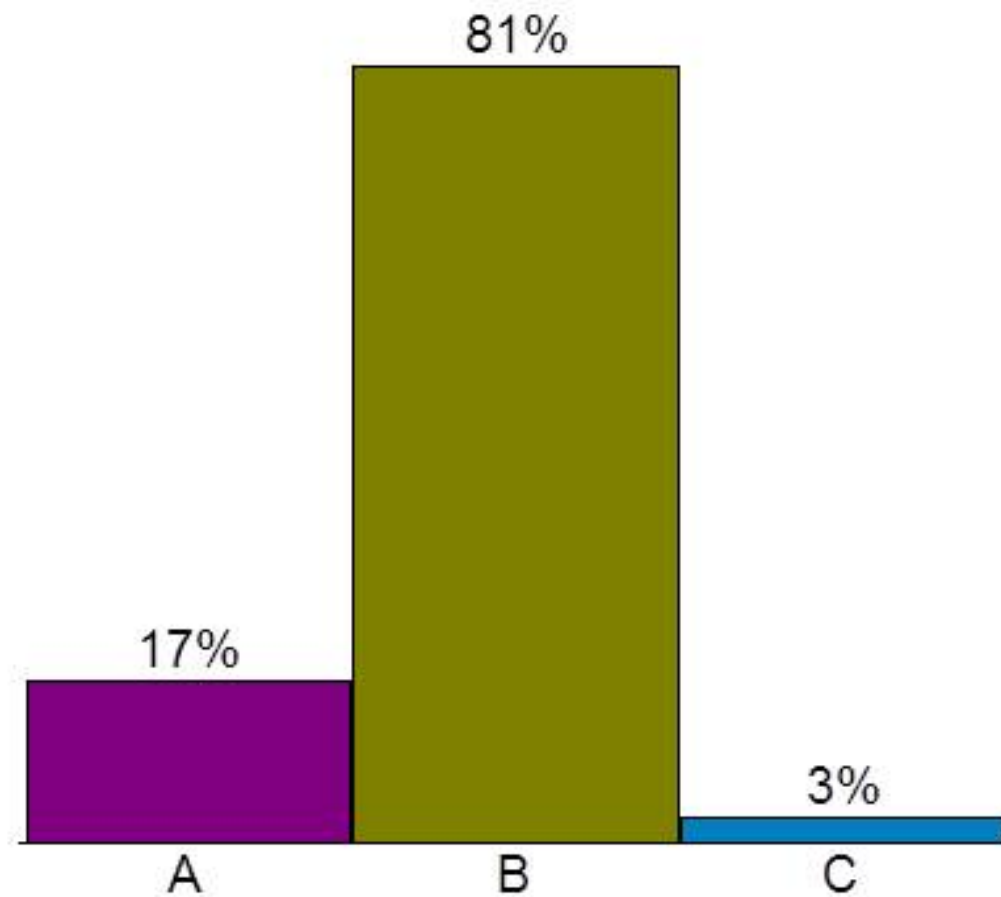
*"It is a condition of this insurance that the insured shall take all reasonable care to prevent any circumstances or to cease any activity which may give rise to liability under this policy and to maintain the premises plant and vehicles in a sound condition."*

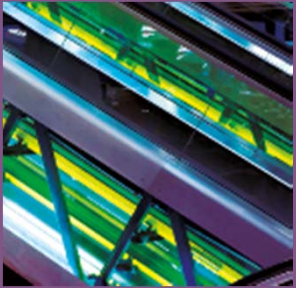
Choose A for covered, B for not covered, C not sure





- A Covered
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# Godzilla

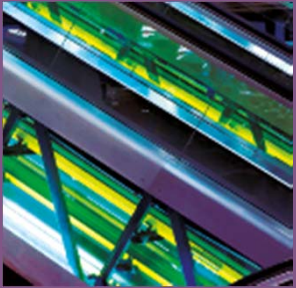
Godzilla is disturbed from its deep underwater natural habitat by hydrogen bomb testing. The Japanese Navy unsuccessfully try to kill Godzilla, but this only angers it. Godzilla then surfaces in Tokyo Bay and unleashes a destructive rampage across the city.

A destroyed building's policy excludes:

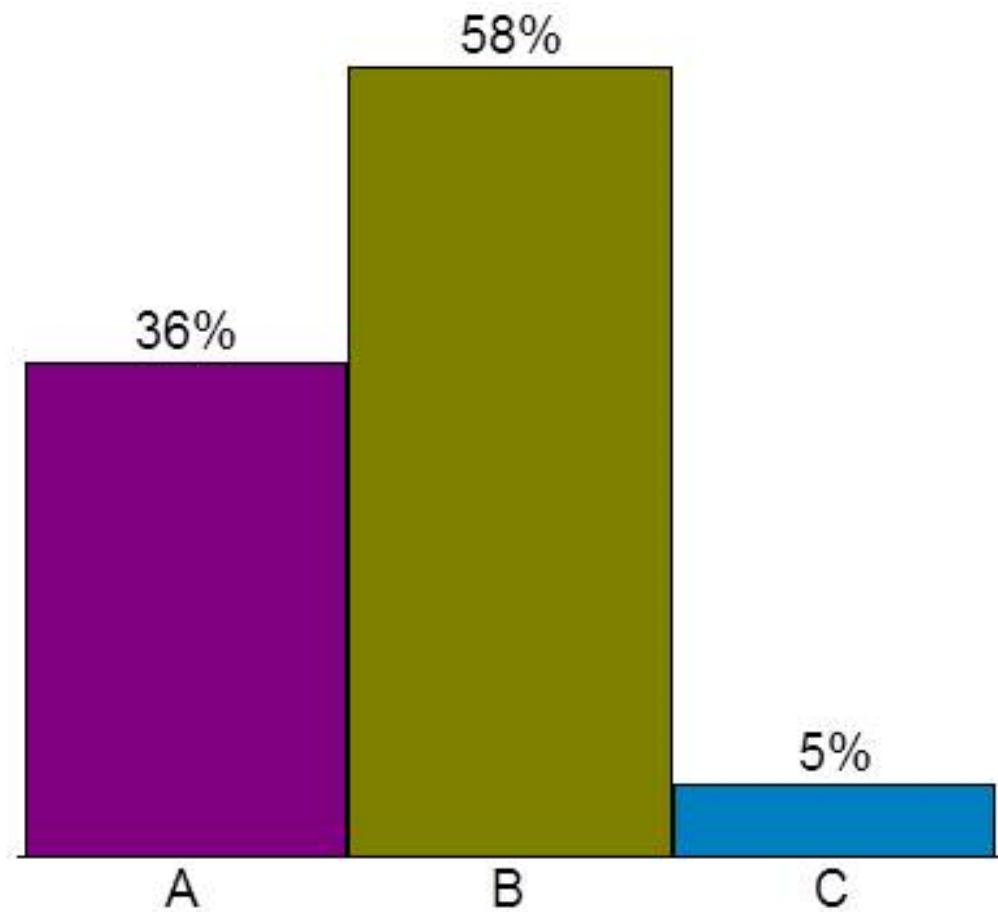
*"any loss, liability, cost or expense, directly or indirectly originating from, caused by, arising out of, or otherwise in connection with any device or weapon employing atomic or nuclear fission and / or fusion or other like reaction or radioactive force or matter."*

Choose A for covered, B for not covered, C not sure





- A Covered
- B Not covered
- C Not sure





# Flight Of The Living Dead

A container holding a scientist infected with a genetically engineered virus which reanimates the dead is smuggled on board a routine flight from LA. The plane encounters a turbulent thunderstorm releasing the scientist and the chain of infection leads to zombies taking control of the 747, which ultimately crashes near Las Vegas.

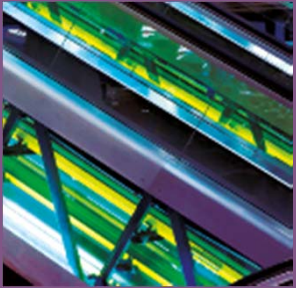
The airline's policy excludes:

*"claims caused by Hi-jacking or any unlawful seizure or wrongful exercise of control of the Aircraft or crew in flight (including any attempt at such seizure or control) made by any person or persons on board the Aircraft acting without the consent of the Insured."*

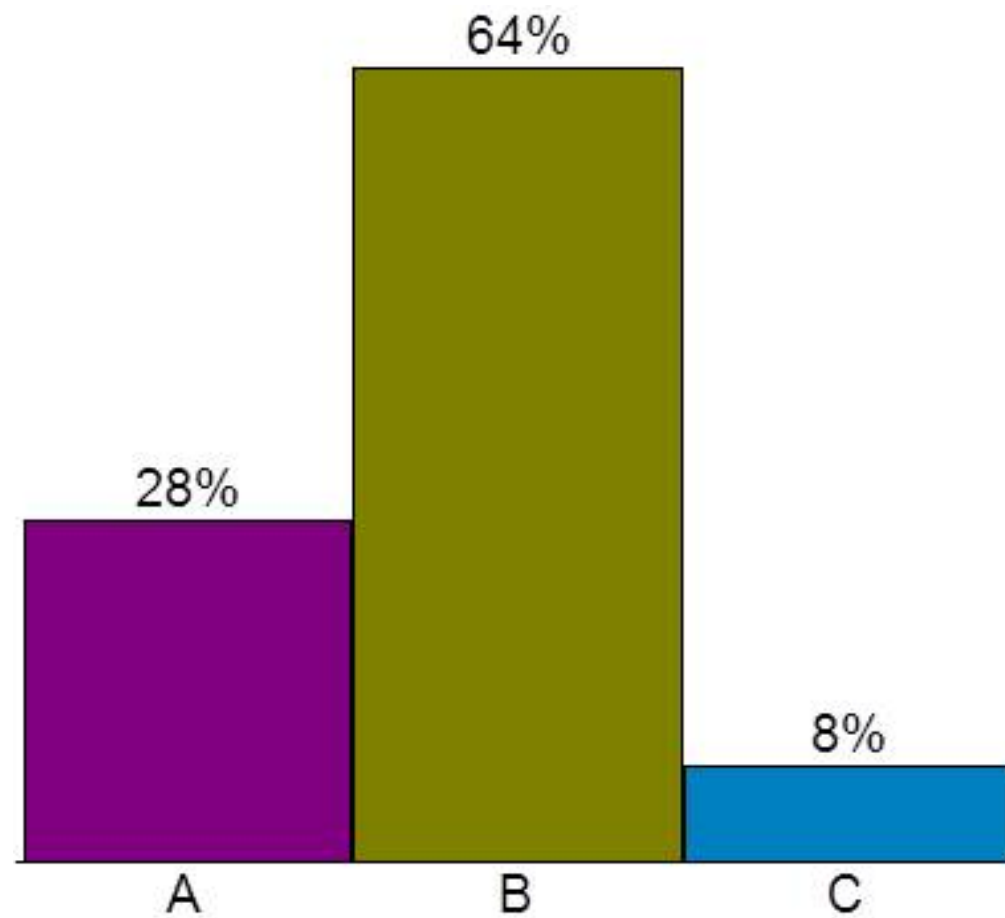
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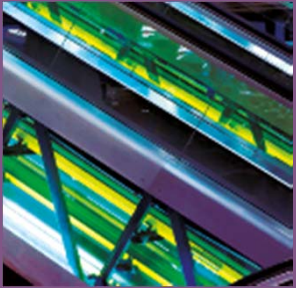




- A Covered
- B Not covered
- C Not sure







# The Perfect Storm

The crew of the Andrea Gail head out for a late season fishing expedition to the Grand Banks beyond their normal fishing grounds. On the way back (and in their usual area of operation) they decide to risk sailing back through a major storm despite warnings from other ships. Trying to escape the storm the vessel encounters a huge wave and capsizes.

The hull policy includes:

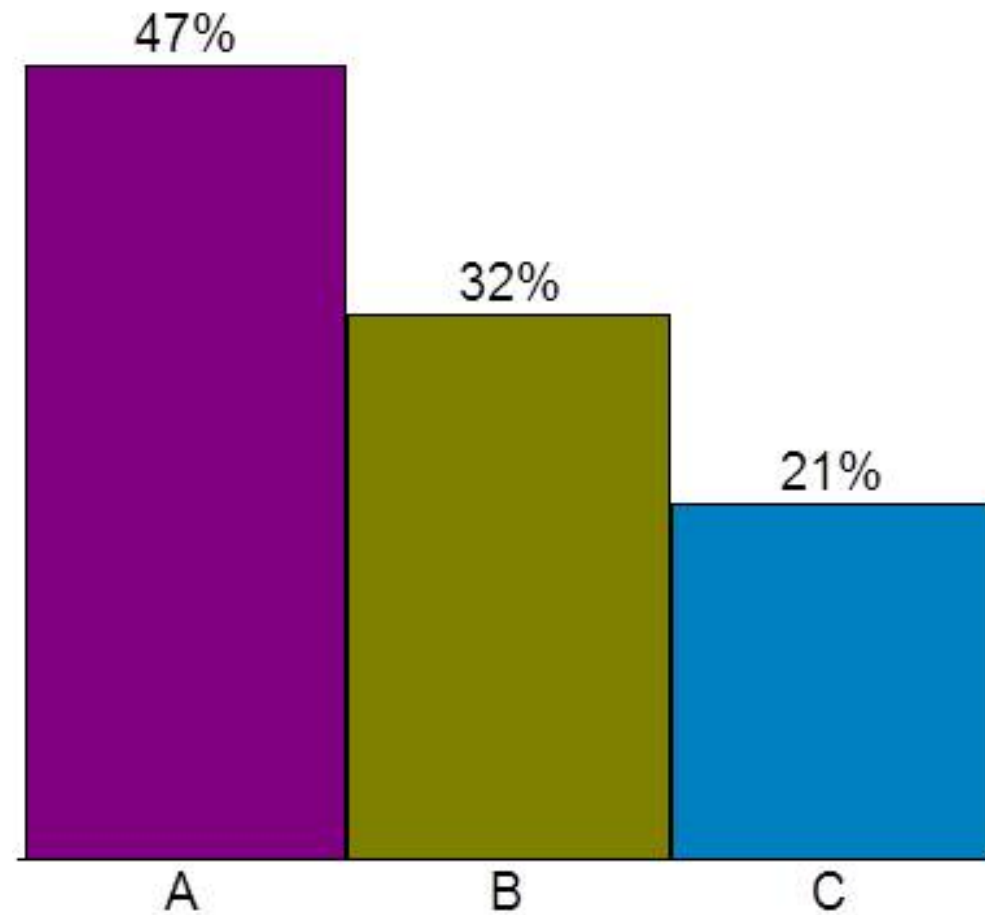
*"Warranted no waters south of the Grand Banks."*

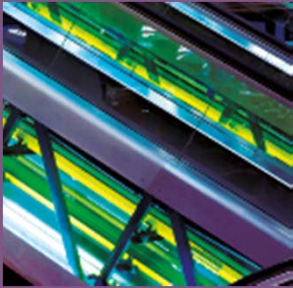
Choose A for covered, B for not covered, C not sure





- A Covered
- B Not covered
- C Not sure





## The Italian Job

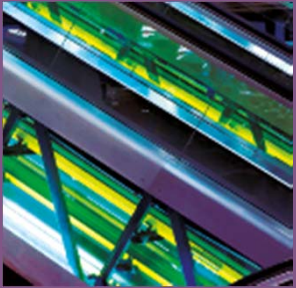
As part of a gold bullion robbery plot, criminals sabotage the computer controlling Turin's traffic control system. This creates a paralysing traffic jam which facilitates the criminal's escape and hinders the police from pursuing the gang.

The cargo policy includes:

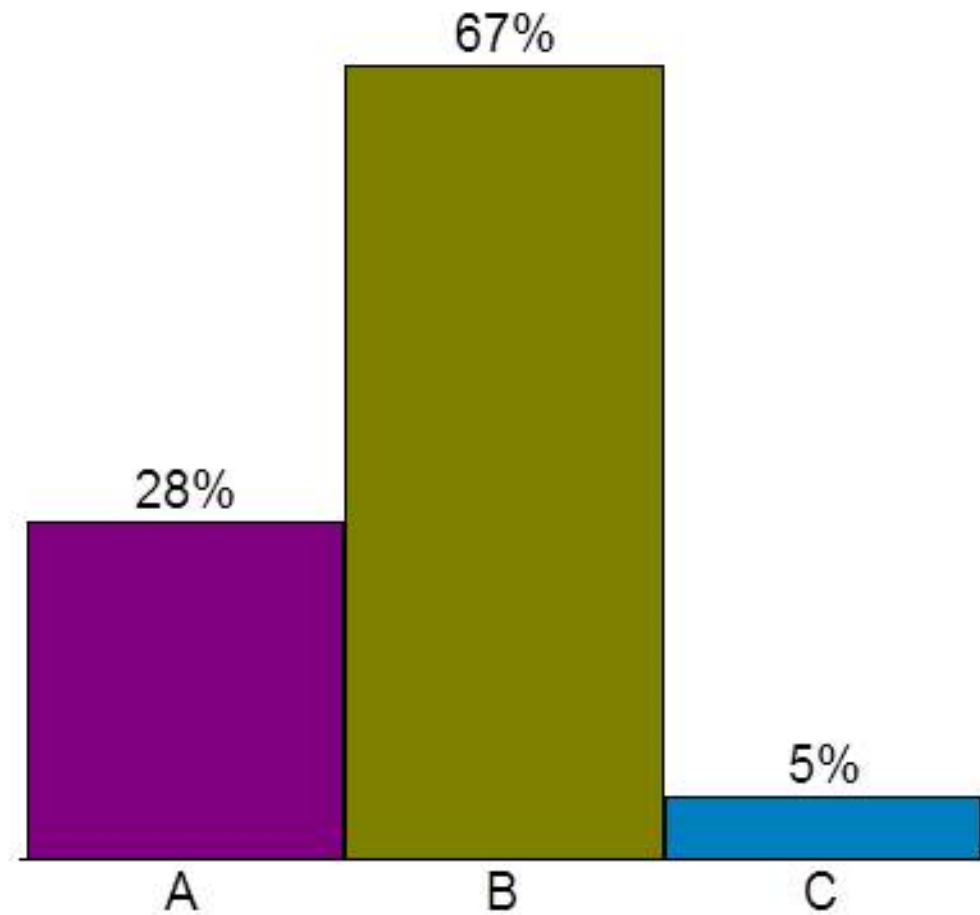
*"in no case shall this insurance cover loss damage liability or expense directly or indirectly caused by or contributed to by or arising from the use or operation, as a means for inflicting harm, of any computer, computer system, computer software programme, malicious code, computer virus or process or any other electronic system."*

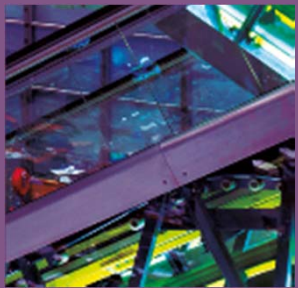
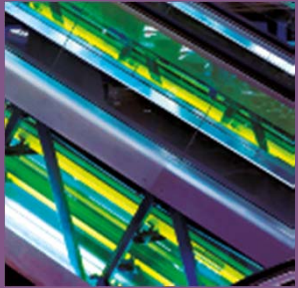
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- A Covered
- B Not covered
- C Not sure





# Disaster movies – covered or not?

## Summary

Some clauses may be open to interpretation in circumstances which they were not originally intended to address.

A good way to prevent potential disputes is to ‘stress test’ clauses before they are agreed and modify if appropriate.

Considering proximate cause is always better before a loss than after.

And . . . the role of wordings expert with a vivid imagination is a valuable asset in the London Market!



**MARK  
WILLIAMS**

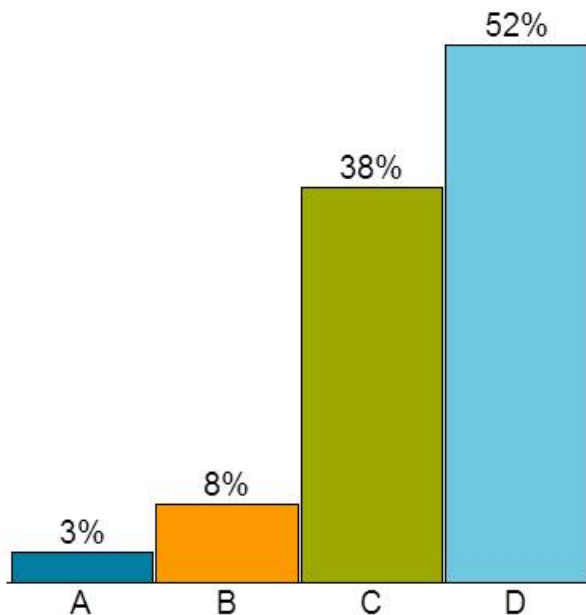
**SENIOR EXECUTIVE  
PMD STANDARDS REVIEW**

**LLOYD'S**



## WHAT WAS THE ESTIMATED COST OF CLAIMS DISPUTES FOR THE LLOYD'S MARKET IN 2014?

- A.** Up to £100m
- B.** £100m - £250m
- C.** £250m - £500m
- D.** More than £500m



# **SURVEY**

## **WORDINGS**

### **REVIEW IN 2025**

#### **– HUMAN OR**

#### **MACHINE?**



# PEOPLE & PROCESS

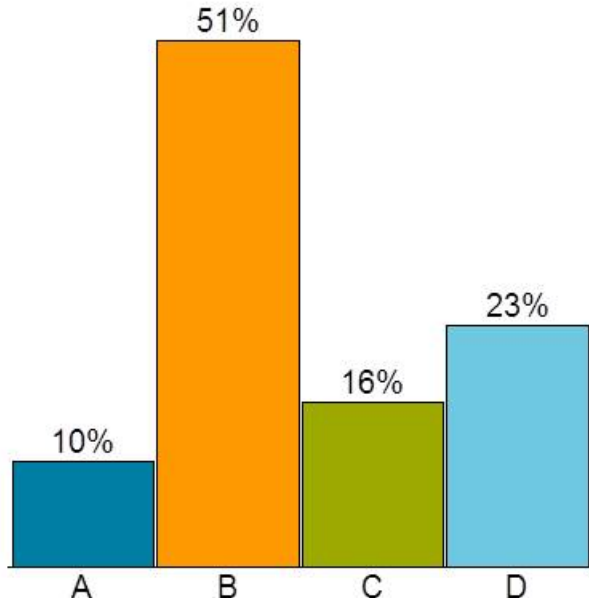


LLOYD'S



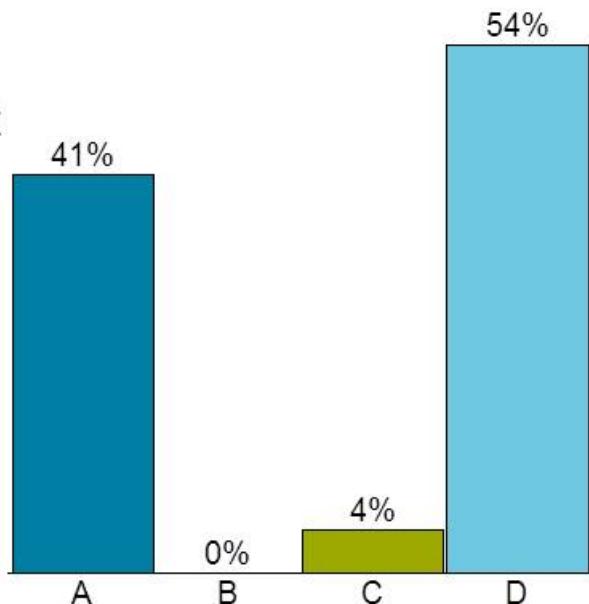
## HOW MANY STAFF ARE EMPLOYED IN YOUR ORGANISATION WHOSE SOLE/PRIMARY ROLE IS PREPARATION/REVIEW/ AGREEMENT OF WORDINGS?

- A.** None
- B.** Less than 5
- C.** 5 - 10
- D.** More than 10



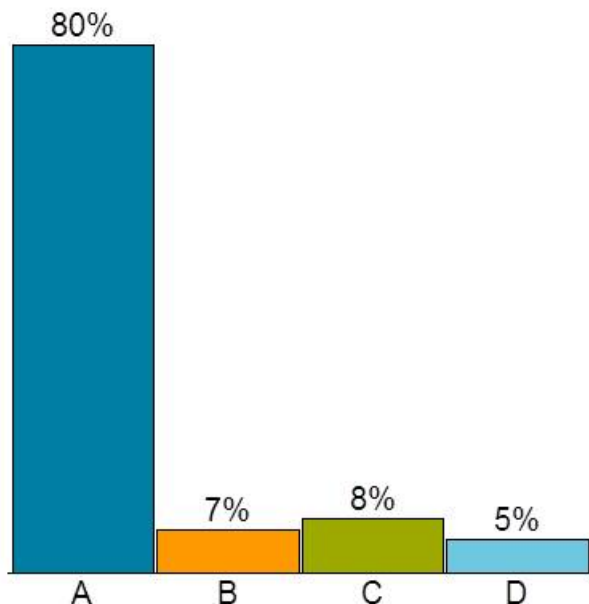
## WHO IN YOUR ORGANISATION IS PREDOMINANTLY INVOLVED IN THE WORDINGS REVIEW AND AGREEMENT PROCESS?

- A.** Underwriter/Broker
- B.** Underwriting Assistant
- C.** Legal/Compliance
- D.** Wordings Specialist



## WHEN ARE WORDINGS AGREED IN THE UNDERWRITING/ PLACING PROCESS?

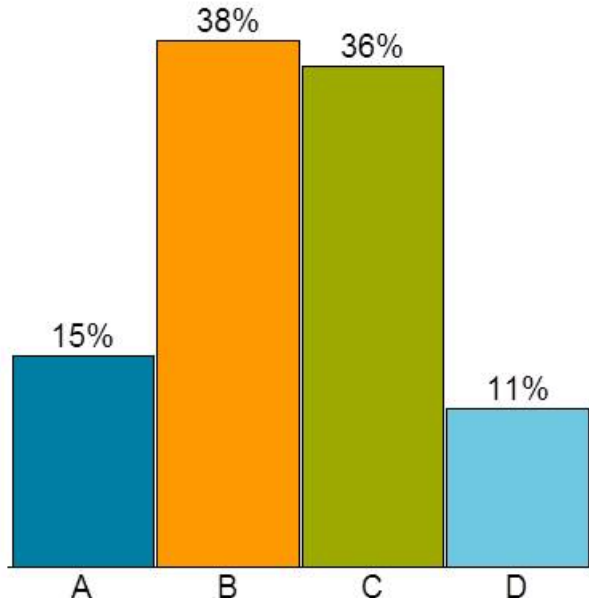
- A.** Pre-bind/inception
- B.** Post bind, within 1 week of inception
- C.** Post bind, within 4 weeks
- D.** Post bind after 4 weeks





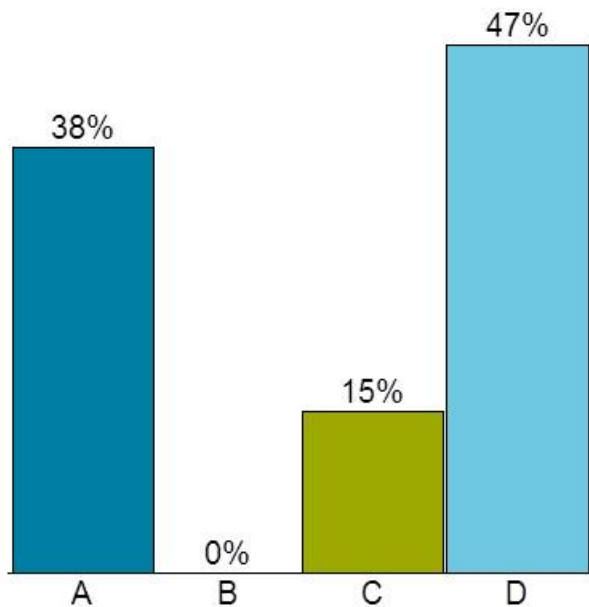
## IN WHICH CLASSES IS WORDINGS EXPERTISE MOST REQUIRED IN YOUR ORGANISATION?

- A.** Reinsurance Treaty
- B.** Property D&F
- C.** Non-Marine Liability
- D.** Marine & Energy



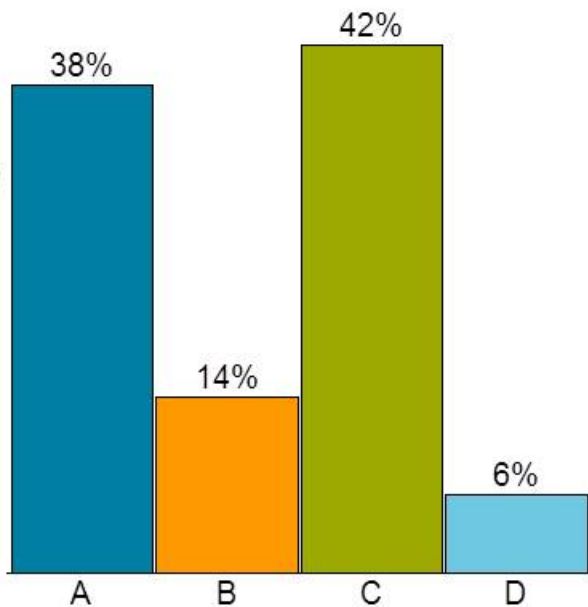
## WHERE DO YOU/YOUR ORGANISATION MOSTLY LOOK FOR SUITABLE EXAMPLES/TEMPLATES FOR WORDINGS & CLAUSES?

- A.** Lloyd's Wordings Repository
- B.** Model Wordings Library
- C.** Your organisation's own database
- D.** All of the above



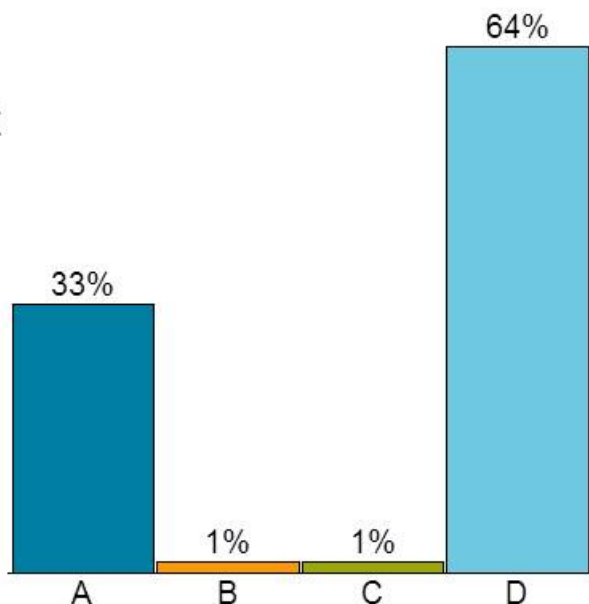
## WHICH OF THE FOLLOWING COULD HAVE THE GREATEST IMPACT ON ENSURING WE HAVE AN ADEQUATE NUMBER OF WORDINGS EXPERTS IN 10 YEARS TIME?

- A.** Position as part of Underwriter / Broker's skill set
- B.** Include as compulsory part of graduate/apprenticeship scheme
- C.** Develop Wordings Practitioner Programme
- D.** Introduce more specific CII subjects



## WHO IN YOUR ORGANISATION DO YOU BELIEVE SHOULD PREDOMINANTLY BE RESPONSIBLE FOR WORDINGS REVIEW AND AGREEMENT IN 2025?

- A.** Underwriter/Broker
- B.** Underwriting Assistant
- C.** Legal/Compliance
- D.** Wordings Specialist



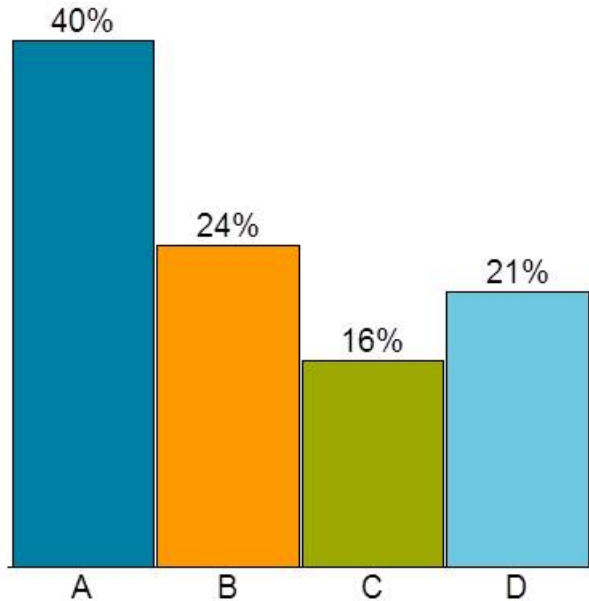


# TECHNOLOGY



## HAVE YOU CONSIDERED USING TECHNOLOGY TO ASSIST WITH REVIEW AND AGREEMENT OF CONTRACT WORDINGS?

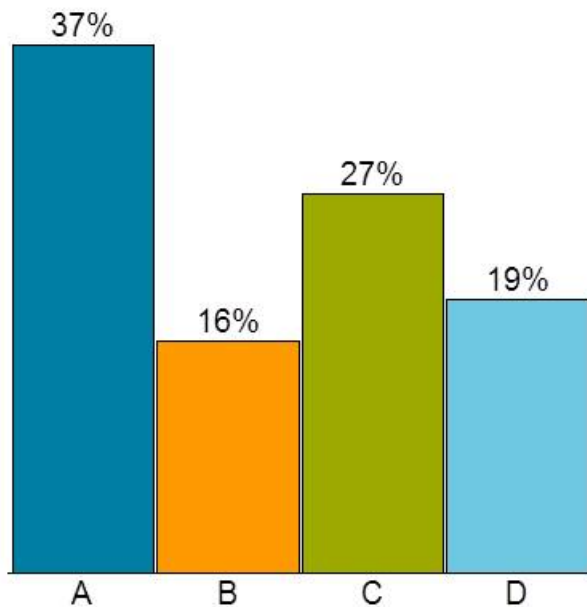
- A.** Yes and currently in use
- B.** Yes and planning to use
- C.** Yes but don't see how technology can assist
- D.** No, not considered





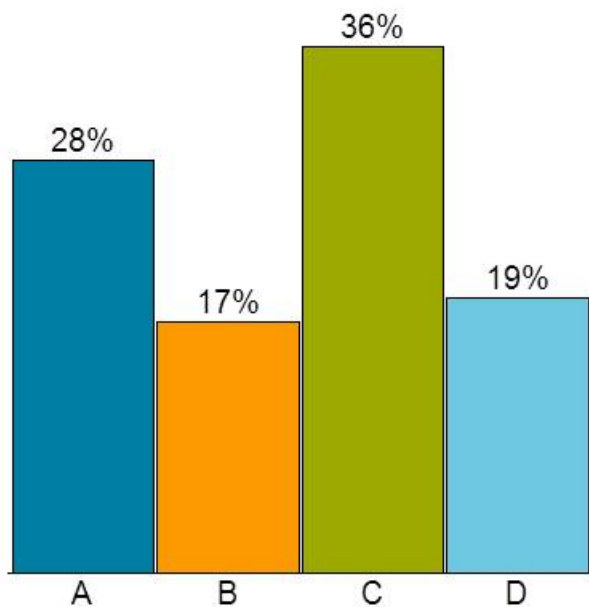
## WHICH OF THESE WOULD BE MOST USEFUL IN A CONTRACT REVIEW TOOL?

- A.** Ability to highlight difference between Wordings
- B.** Regulatory, tax and Contract Certainty checks
- C.** Check against model Wordings in Lloyd's Wordings Repository and/or own database
- D.** Check against own risk appetite



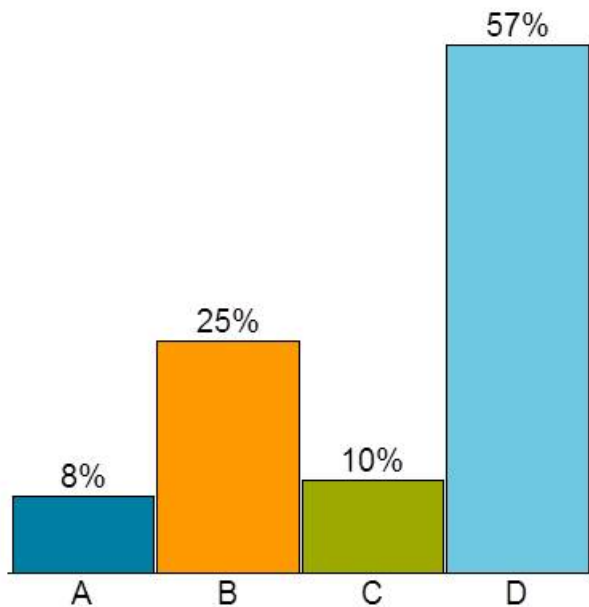
## WHICH OF THESE WOULD BE THE NEXT MOST USEFUL IN A CONTRACT REVIEW TOOL?

- A.** Ability to highlight difference between Wordings
- B.** Regulatory, tax and Contract Certainty checks
- C.** Check against model Wordings in Lloyd's Wordings Repository and/or own database
- D.** Check against own risk appetite



## WHICH OF THESE WOULD BE THE LEAST USEFUL IN A CONTRACT REVIEW TOOL?

- A.** Ability to highlight differences between Wordings
- B.** Regulatory, tax and Contract Certainty checks
- C.** Check against model Wordings in Lloyd's Wordings Repository and/or own database
- D.** Check against own risk appetite



## HOW MUCH WOULD YOUR ORGANISATION CONSIDER PAYING ANNUALLY FOR A WORDINGS TOOL (INCLUDING DEVELOPMENT, LICENSES AND MAINTENANCE)?

- A.** Up to £50k
- B.** £50k - £100k
- C.** £100k - £250k
- D.** £250k +

