

CILA TECHNICAL CONFERENCE BI SIG POLICY WORDING REVIEW

15 SEPTEMBER 2009

POLICY WORDING CHANGES - PROPOSALS FOR THE FIRST STEP

ISSUE	PROBLEM	PROPOSED ACTION
Definition of Gross Profit	Policyholders and their advisors use Gross Profit as defined in the Financial or Management Accounts which may not be the same as the Gross Profit as defined in the policy	Change "Gross Profit" to "Insured Profit"
Definition of Uninsured or Specified Working Expenses and Purchases in particular	The meaning of "Purchases" is open to interpretation and is not readily identifiable from the accounts	Change "Purchases" to "Purchases of stock, raw materials and components" and possibly consumables
Definition of Increase in Cost of Working	Not clear whether it is the total new cost that is additional or the difference between that and the pre loss cost which is saved	Insert "Net" in front of "Increase"
Standing Charges Clause	Standing charges not a term that is used elsewhere in the policy or accounts and is not readily understood	Update language using that elsewhere in the policy "the proportion that the insured working expenses bears to all the working expenses that have not reduced in direct proportion to the Turnover"
Savings - clarify whether that includes depreciation or not	Despite considerable debate market has not reached a consensus and each claim is dealt with individually Policyholders do not know where they stand	Specify whether to be included or excluded in the policy.
Declaration Linked policy estimates	Concern that many policies have an estimate that is too low. a) The policy does not identify the repercussions but potentially avoidance of the policy b) Confusion when setting the estimate for periods other than 12 months	a) Reintroduce a form of underinsurance clause similar to MD Day One 85% rule b) Require all declarations to be 12 months and then specify the Maximum Indemnity Period leaving insurers to calculate the limit and premium from the annual amount
Alteration Condition	Language out of date	Update receivership administration liquidation terminology to include voluntary arrangements