

# Insurance Broking Faculty – New Generation Group Class of 2011/12

100  
1912–2012  
A CENTURY OF  
PROFESSIONALISM



## Insurance Brokers: Adding Value in a Crisis



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## New Generation Group – Class of 2011/12

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# Methodology

Our project is about boosting the reputation, highlighting the positive nature of our profession and identifying where and how a broker adds value in a crisis.

In order to achieve our aim of obtaining recognition within society of the good work that is conducted day after day within the broking profession, we have implemented the following structure:

## The road to achieving our goal

Phase 1 → The first phase was to prepare a report providing examples of where the broking profession had 'added value in a crisis', which would then lead on to the production of a promotional flyer.

Phase 2 → The second phase was to move our attention to the media, in order to get our message out to the wider public and industry. This was initially facilitated with the help of social media, such as 'LinkedIn', where we created a brokers' group to enable us to liaise with each other and members of the public regarding topical insurance issues. The plan is to generate a separate web page on the BIBA website detailing the benefits of using a broker and once again highlighting where brokers have truly added value in a crisis.

Phase 3 → The third phase was to move the project's attention to the mainstream media in order to get our message out to the wider public and industry, including a newspaper article and a publicity video that could be used not only as a tool for promoting the good work of the broking profession but also as a marketing tool to promote the broking profession among schools, colleges and universities. The recruitment of new talent to the industry is essential.

By following the structured process above we aimed to achieve our objective of raising the reputation of the insurance broking profession. In some ways our project is still very much a working document, as essentially highlighting the good work that is conducted by the broking profession should be continually reviewed, expanded upon and promoted throughout society. Therefore this project can be viewed as an organic process that could be recycled year on year in order to ensure our profession generates the positive attention it deserves.

# Introduction

We are the New Generation Group of Brokers and want to make our mark on the future of the broking industry. We started off with a perception, that the reputation of the industry is not quite what it should be. In order to confirm/reject our ideas, we began our project by carrying out a survey with insurance professionals, the general public and other professionals including solicitors, accountants and financial advisors. The result, far from showing that the reputation of the insurance broking industry was not up to scratch, provided us with the information that our reputation is actually good, it is just we do not shout about it enough! They also highlighted the need to take pride and ensure our own mindsets are correctly positioned.

We therefore decided to base our project on boosting our reputation and the positives of the industry and where a broker adds value, hence the name of our project, **(Insurance Brokers: Adding Value in a Crisis)**. This involves a collection of case studies from September 11<sup>th</sup>, the Floods of 2007, the economy and a mixture of private and commercial claims.

The project involved our group meeting at regular intervals for a period of approximately 8 months. When meeting we discussed the research carried out and what we needed to do to take our project further. The research involved splitting into sub-teams to gather information on the above mentioned events. The information includes statistics, case studies, how insurance boosts the economy and how securing the services of a broker gives you the upper hand when placing your insurance.

We then selected key findings and collated the information into a written document to present to the Chartered Insurance Institute (CII). However, we feel a project should be more than just a piece of paper, therefore we have taken our findings to the media, both industry specific and generalist.

We intend to put forward a positive message from our profession and illustrate why Insurance Brokers do add value in a crisis. When there is a crisis, the media always tend to pick the negative view, including what went wrong and who was to blame. All too often you do not get to hear about the successes and how events were handled well by an industry and people's livelihoods and businesses restored. There is also very little distinction between insurance brokers and insurers, they tend to be swept together and referred to as the 'insurance profession'.

As the New Generation we want to make a difference to our industry and put our side across to the media to prove it is far from doom and gloom.

Our end game was to make a short video. This took place on 22 August 2012. The video promotes what is great about our industry and how projects like ours may help to shape and enhance the reputation of our industry in the future.

# Adding Value Before the Crisis

Although we concentrate on the value that brokers add during a crisis, we would like to make a brief mention of instances where brokers add value:

## Impartial and Independent Advice

- Insurance is not 'one size fits all' purchase – brokers create bespoke solutions and challenge the agenda
- Broad experience and practical advice can help businesses understand the risk consequences of business decisions such as growth plans, new markets, acquisitions and mergers
- Regular market, product and technical bulletins

## Market Accessibility and Knowledge

- A broker will be able to access insurers which clients may not always buy from directly
- A broker will know which insurers provide the best policy cover and also which insurers will quote competitive premiums
- A broker will be able to assess the needs and recommend a product which is fit for purpose
- A broker will understand the mechanics of a policy wording and be sure to hold an insurer to account and seek ways for the policy to respond in the event of a claim

### Case study

A broker received a referral for a new prospect that was an overseas international and would not reside in the UK. He wanted cover for a classic car collection that he was about to purchase and had been unable to obtain cover directly.

The broker secured competitive terms thanks to their strong relationship with a team of underwriters and presentation of the risk, which the prospect would not have been able to obtain directly.

## Identifying Gaps in Cover

Brokers also add significant value through cover reviews and the following case study supports this:

### Case study

A high net worth client requested a review of their home and contents, held by a direct insurer. Through a risk review and needs analysis the broker uncovered that their insurer had failed to recognise the fact that over £200,000 worth of jewellery had been removed from a bank vault after works at their property had been completed.

The fact this had been going on for over two years meant that, should the client have suffered a loss, they could have been substantially underinsured and left in a very difficult position having to negotiate directly with the insurers.

## Adding Value in a Crisis

Crises can be of different type and scale.

Responding to claims effectively is at the core of the insurance industry and most clients would regard circumstances leading to a claim as a crisis. We shall therefore explore, through case studies, ways in which brokers have assisted their clients, both individuals and businesses, to achieve a satisfactory resolution in face of a claim.

We shall further look at the role of insurance brokers in the face of widespread and major incidents.





## Claims

- Strong broker/insurer relationships can be counted on for difficult claim situations
- Brokers are looking for ways for the policy to respond
- Full policy coverage knowledge can maximise efficiency and claim payouts

## Case Studies

### Case Study A – Storm Damage to Boundary Wall

A personal lines client resided in a listed property with large surrounding grounds. During a storm his boundary wall collapsed. The cost for repair was circa £25,000; a loss adjuster was appointed to visit and assess the damage.

The adjuster found the wall to be in a poor state of repair. The rubble on the ground suggested that the wall was not in a great condition prior to the loss and the remaining areas of the wall looked tired and had cracking in the brickwork.

To compound matters, the wall was very close to some large trees and the adjuster suggested that the large roots emanating from the trees had damaged the foundations of the wall. As the wall was old and showing signs of wear and tear, and given the influence of the trees, he recommended to insurers that the claim be repudiated.

The client was unhappy with this as, prior to inception of the policy in the last year, they had instructed a surveyor to undertake a risk assessment of the property.

The surveyor had found that, in general, the property was in a good state of repair but made some recommendations with regards to the maintenance of trees within the grounds of the property. The trees suspected of influencing the collapse of the wall were not included within this report but a tree very close by was removed as a result of the survey.

A representative of the broker visited the client soon after the repudiation to inspect the damage and discuss the claim with the client. Pictures of the surrounding walls were taken and the whole area inspected. It was found that, directly facing the area of wall which had collapsed, there were two outbuildings in close proximity (about 5 yards away from each other), which had caused a funnelling effect for the wind to gather more speed. The client argued that it was this that led to the collapse of the wall and not its general condition.

The broker negotiated with insurers on the client's behalf and insurers agreed to settle the claim in full based on the broker's findings and assertive negotiations.



## Case Study B – Fire

A client resided in a terraced town house in a seaside town. Given the nature and age of the property, the whole row (consisting of 5 properties) was listed.

A neighbour at the opposite end of the terrace to the client's was having some repair work undertaken on his roof. The contractor was undertaking hot works and unfortunately set fire to the roof. A strong wind led to the fire spreading through the loft space in the terrace, subsequently destroying all 5 properties.

The broker responded by appointing a loss adjuster and requesting that they urgently attend the property. Within hours, a representative from the broker attended the risk address with a large and complex loss adjusting team consisting of a director responsible for complex losses, the lead adjuster and an engineer. The four representatives sat with the client for a few hours, explaining what could be expected from the process and advising on certain points for the immediate and mid-term future of the claim. The representative even bought the client lunch!



It was found a week later that the broker's were the first people to respond to the loss and 7 days later no other adjuster had visited the site.

Within 2 weeks, the emergency alternative accommodation had been sourced and paid for and an interim payment of £30,000 issued for the client to begin replacing their contents. Within 3 months, the long term alternative accommodation had been organized and paid for.

4 months into this claim and the broker will be recommending a full cash settlement for the contents section of the policy (£80,000) and the first steps for rebuilding the property will be underway. The total reserve for the claim is £650,000.

The client has been very happy with the broker's service and assistance. During their most recent discussion he confirmed that a neighbour who deals direct with an insurer has had one visit from their representative and 4 months in has not received a single penny .

The role of the broker in this claim has been to liaise closely with the adjuster and ensure that reports and requests for interim payments are dealt with quickly by the insurer and an example of the broker truly adding value.

## Case Study C – Escape of Water

The member of a wealthy family who are all insured via the same broker had a large apartment in London completely refitted and redecorated to a very high standard.

Following completion of the work, it soon became apparent that there was a slow leak under the floor in the dining room area and this section of the floor needed taking up so that the pipe could be repaired.

The issue on this claim was that the property had one floor fitted throughout the entire property. The adjuster appointed by insurers was sure that the floor could be taken up in just the one area where damage had occurred but the client was adamant that there could be no break in the flooring. To do this would mean taking out a lot of the fittings that had been placed during the initial decoration project, which would escalate the costs of the claim a great deal.

To help their cause, the client appointed a loss assessor. The adjuster and assessor did not agree on the issue; a lengthy difference of opinion ensued which caused delays to the claim and escalated costs.

The broker's role in this claim was to mediate between all parties and negotiate with the insurer on behalf of the client. The insurer finally agreed to issue a cash settlement in the sum of £250,000.

## Case Study D – Escape of Water (Freeze)

During the freeze surge experienced during the winter months of 2010/11, a broker had to deal with new notifications of claims almost every few minutes. Many of these were serious large losses whereby a burst pipe had caused water to leak throughout an entire property bringing down ceilings and walls and seriously affecting the stability of the property.

For claims of this nature it is very important to act quickly and get emergency restoration teams in place within 24 hours. It is their job to install dehumidifiers and other equipment which can assist with drying the property quickly.

The problem faced during a surge period is that all of the emergency restoration teams are at full capacity and it can sometimes take 3 or 4 days for an engineer to visit the client, who in the meantime has no water supply, heating or a business.

A good example of how this broker responded during this time is that of a client who was away on holiday at the time and received a call from his neighbour advising him that the alarm in his property had sounded. On inspection, they found that pipes in the loft space had burst and the leaking water had seriously damaged the property. Unfortunately for the client, only the contents insurance was placed via the broker, as the buildings insurance was placed via the bank following their request to insure after agreeing a mortgage for the property.

In any event, the broker appointed a loss adjuster and spent some time calling all of their contacts to find an emergency restoration company who could visit that day. They found someone who was available and by the time the client returned home from his trip, he found all of the necessary equipment in place to assist with drying the property.

The buildings insurance did not respond as quickly and in fact the broker's adjuster provided advice on how the client should proceed during his visits to him.

Working closely with the adjuster and the client, the broker were able to negotiate a settlement on the contents claim for a sum of £70,000 within a few months of notification. The buildings claim was still not fully settled at the time of writing and the client had to complain to senior management figures at the bank to assist with progressing matters. Needless to say, the client will be combining his buildings insurance on the contents policy placed through the broker once the claim has been resolved and clearly recognises the value placed on using a broker.



## The 2007 Floods

Having a broker has numerous benefits, with a major one being the assistance clients receive during a claim. Being a broker means going the extra mile, which is exactly what a broker did during the floods of 2007.

### Case Study A

The broker's role took several forms, from receiving a phone call at 6:00 in the morning, being on-site by 06:30, donning some wellington boots and filling sand bags to assist in preventing the flood making the damage worse and having the contacts to get a loss adjuster on site on the same day, to the aftermath in assisting with the valuations and negotiation of the claim.

The client was up and running to a manageable level on the same day the water damage occurred and within 2 months was fully operational and back to the level of productivity they were at prior to the claim.

This can be credited to having an extra voice to fight their corner and having connections with the relevant parties to ensure that decisions are made quickly, rather than waiting and being put to the back of a queue. All in all, the client accumulated claims costs in excess of £300,000, the impact on their business was kept to a minimum and there were not any long term effects of the claim to his business.

Following on from the material damage side of a claim being settled and replacement/repair of all machinery and other contents, there is the question of business interruption and the profits lost during the decrease in productivity and needless to say an active role was played in reaching settlement.

### Case Study B

After a claim, one client had hundreds of receipts with no idea of how to calculate the total losses. The broker took the invoices from the client and documented them into a format that could just be handed over to the loss adjuster. This simplified the process for their client and the loss adjuster, meaning the claim was settled in a few days rather than a few months.

This is a side of things a lot of SMEs do not consider prior to a loss and is something that will only be fully explained/realised when the services of a broker are used.





## Case Study C and Testimonial: Flooding of Factory

A client was devastated by flooding in 2007. The broker was notified immediately and provided an adjuster to give assistance to the company. The ensuing claim was satisfactorily resolved and afterwards the Finance Director was so pleased that he volunteered the following testimonial.

‘On 26 June 2007 the factory, in Sheffield, was completely flooded to a depth of over four feet. The following day we were faced with managing the crisis of clearing up the factory and keeping our key customers happy, but just as importantly dealing with, what we soon discovered, was going to be an insurance claim with complexities that I never imagined would take up so much time. We quickly recognised the losses on stock and plant ran into many hundreds of thousands of pounds and we did not know where to start with our loss of business claim – which eventually exceeded £1,000,000.

Fortunately our insurance brokers had planned for this type of disaster and they provided us with assistance from a loss adjuster who were on site within 48hrs to meet with our management, the insurer’s loss adjuster and our broker. It was clear that we needed their experience and expertise in dealing with the problems we faced. They played an important role in handling our claim and negotiating on our behalf directly with the insurer’s loss adjuster for the vital interim payments that allowed us to continue trading. This enabled us to focus on the critical issue of getting the plant up and running again. Without this technical support the company would have found it very difficult to deal with the insurance claim particularly at such a stressful time.

Our company is one of Europe’s largest specialist manufacturers. We partner market leading multi-national companies to develop solutions that minimise costs, enhance products and allow them to excel in global markets. Handling normal routine insurance claims for break-ins, minor personal injury, etc is relatively straightforward for most small/medium sized manufacturing companies. However the issues arising from the floods in June presented managers/owners with problems that were overwhelming without expert help and advice. Some of our neighbours did not have the help that we received and suffered as a consequence. We have been delighted with the help that we received and I would have no hesitation in recommending the service provided to us by our insurance brokers.’

## The Summer Riots of 2011

Most of the press during and following the riots reflected the insurance industry as a whole in a fairly positive light. The Insurance Age, 2 September 2011 quotes 'the insurance industry acted well by identifying key target areas and ensured claims reported quickly'.

BIBA's brokers handle around half of the value of all home contents, motor, travel, commercial and industrial insurance policies in the UK.

BIBA also reacted very quickly to the riots and issued a press release on 9 August 2011 urging riot victims to speak to their broker which was communicated via the press.

Grahame Trudgill, the head of corporate affairs for the British Insurance Brokers' Association (BIBA) said members would 'respond' to claims from householders and small businesses, and would then attempt to reclaim the money from the police.

Following the riots, BIBA issued a press release calling upon the government to change the Riot Damages Act notification period permanently from 14 to 42 days to help victims.

They also pushed for greater government clarity and advice for consumers and business, specifically via Business Link and Money Advice Service (M.A.S) on value/benefits of insurance and what is NOT covered by the Riot Damages Act, e.g. Business Interruption claims.

They also clarified the claims process for riot affected businesses.

After this combined effort by the government and the insurance industry, the government is in a far better position to respond to any future riot claims under the Act.



## Times of Economic Challenge

The UK economy, much like the wider global economy has been in a difficult position since the so called 'banking crisis' of 2008 and particularly the near failure of AIG in the United States and the rescue of Northern Rock and subsequent banks in the UK by the government.

As part of this crisis, the UK media tarred the Financial Services sector of the economy with the same brush portraying it to the public as reckless, overpaid risk takers who give no thought to the consequences of their actions and the wider impact of such decisions.

The insurance industry in the UK was largely uninvolved in the causes of the crisis but has not escaped unscathed from the fall out and public backlash. The UK recession, lasting from the 1<sup>st</sup> quarter of 2008 to the 3<sup>rd</sup> quarter of 2009, the longest since 1955, had a significant impact on the investment returns of insurance companies and their ability to operate profitably. The medium term outlook remains challenging, with the prediction that the UK economy may remain trapped in a low growth straightjacket for several years because of deep-seated fractures on the global economy. Greater capital requirements have also led to a more cautious underwriting approach and insurers switching their focus and attention to combined operating ratio.



The insurance industry remains essential for the UK economy. According to the Office for National Statistics, financial and insurance activities account for 8.9% of the GVA of the economy in 2010. Gross value added (GVA) measures the contribution of a sector to the economy, net of intermediate consumption, i.e. goods or services that are used in production, rather than final consumption. GVA therefore focuses on the value of a sector's goods or services to the economy.

Sector	GVA
Wholesale and Retail Trade	10.8%
Manufacturing	10.0%
Real Estate Activities	9.2%
<b>Financial and Insurance Activities</b>	<b>8.9%</b>
Human Health and Social Work Activities	8.1%
Construction	7.0%
Education	6.8%
Professional, Scientific and Technical Activities	6.7%
Information and Communication	6.6%

Source: ONS Blue Book 2011, Table 2.3

More than half of all insurance transacted in the UK is done through brokers (56% - ABI UK Insurance Key Facts, September 2011) and for commercial insurance this increases to 80%. As such, the role of brokers cannot be overlooked in respect of the contribution to the economy.

Revenue from brokers contributes almost 1% of the UK GDP in direct and indirect contributions and this makes insurance broking as significant to the economy as the agricultural sector. The insurance premium spend in the UK which is largely negotiated by brokers contributed £1.6 billion in Insurance Premium Tax to the UK government (Source: ABI Research Paper No. 29, 2011 - Total Tax Contribution conducted by PwC for the ABI).

## Contribution

Insurance is a mechanism by which individuals and companies can transfer their risks to an insurance company in exchange for a premium, with the insurer agreeing to meet the costs caused by the occurrence of the insured risk.

This facility provides persons and organisations with the security to take risks, knowing they have the financial security of their insurance to support them in the event of an unforeseen event that damages their assets or interests.

Insurance is a product but unlike many other it is intangible and can be extremely complicated. Most people running a business do not have any specialist insurance knowledge and although may be best placed to assess the risks facing their business, may not be best placed to act upon this information.

The Government believes that business is the driver of economic growth and innovation, and that we need to take urgent action to boost enterprise, support green growth and build a new and more responsible economic model (Source The Coalition: our programme for government 20/05/2010).

An insurance broker is a specialist in insurance and risk transfer. The primary role of an insurance broker is to manage their clients' needs, specifically in respect of risk, its transfer to insurance companies and minimisation. It is impossible to operate a business without risk, and a skilled insurance broker will assist an organisation with risk identification, management and transfer as best suits the business and its particular circumstances.

As such, insurance brokers are essential to the UK business and in turn the UK economy. It is through their contribution to the clients that insurance brokers have the greatest impact, ensuring that they flourish and succeed and in turn return the UK economy to sustainable growth for years to come.

Another area where Insurance brokers offer invaluable support is that of Business Continuity Management (BCM). There has been significant activity by the coalition on the importance of BCM and how this in turn helps secure businesses, jobs and economic success in the future. Many insurance brokers have specialist expertise on the construction and implementation of Business Continuity Plans and offer this as a service to their clients as a matter of course.

It is perhaps therefore worrying that only 58% of businesses have organised BCM in place (Source Chartered Management Institute - Managing Threats in a Dangerous World, The 2011 Business Continuity Management Survey, March 2011, Patrick Woodman and Paul Hutchings). BCM often centres on business recovery from insured catastrophes, but much importance should be placed upon uninsurable risks that could cause more impact on business than originally foreseen (for example fuel shortages, school closures, industrial action).



## Insurance Industry – Facts and Figures

- Insurance regulated firms under the Financial Services Authority (FSA) 'watch', 20,000
- 7% of worldwide insurance premium is placed through London
- Insurance industry employs over 290,000
- Excluding Lloyd's, £38m paid per day in insurance claims; if you include Lloyd's then the total jumps to £65m
- Industry investments total £1.7 trillion and control of 13.6% of shares in FTSE 100 companies
- 2010 premium £48bn (excluding Lloyd's, which adds an additional £22bn)
- By size in terms of premium throughput UK is 3rd behind USA and Japan
- Interestingly, premium income did not drop during recent years
- FSA employ 3,600
- A new regulatory regime to be introduced

In 2009, general insurance brokers generated directly 0.7% of UK Gross Domestic Product (GDP), which equates to 1% in indirect contribution ('The contribution of insurance brokers to the UK economy', London Economics, 15 March 2011)

Insurance intermediaries posted an income of £14.9 billion in 2009/10 ('Regulatory fees and levies - Rates proposals 2010/11 and feedback statement on Part 1 of CP09/26, Consultation Paper 05/10', Financial Services Authority, February 2010). All insurance premiums for UK business attract Insurance Premium Tax, which was increased to 6% in January 2011.

If UK PLC is to drag itself from the current world economic crisis, it can only do so with the help of the insurance industry. Beyond a 1% contribution to GDP, insurance is the tool that facilitates business. Without insurance brokers, companies could not insure the compulsory covers such as Employers' Liability, Motor Fleet and Statutory Inspection. That is before we look at the 'must have' covers for many companies, such as Directors' and Officers' Liability, Property/ Business Interruption and Employers'/ Public/ Products Liability.

Insurance protects against black swan events such as tsunamis, which could otherwise prevent a company from trading in certain territories and could compromise a business profit and loss account to the extent that the business cannot be sustained.

Increase in manufacture outside of the UK has been widely facilitated by insurance. There are many challenges with moving manufacture abroad which insurance protects against, i.e. reliance on suppliers, stock build up, cost of oil, just in time approach, quality control. Without the availability of insurance, many businesses would not be able to contemplate moving manufacture abroad and as such would have faced an even bigger challenge to compete in the business world.



## September 11<sup>th</sup> 2001

### What is Aviation War Insurance

Any aircraft operator, not just major airlines, can be exposed to financial loss emanating from perils associated with war and terrorism and have traditionally sought to insure themselves against this risk. Aviation War Insurance has therefore been widely provided by the insurance market in two main categories:

**Hull War** – covering loss of or physical damage to aircraft

**War Liability** – covering legal liability for bodily injury or property damage to passengers or third parties.

Both coverages could be effected in the event of losses arising from:

- a) War, civil war, revolution
- b) Strikes, riots, civil commotion
- d) Terrorism
- d) Malicious acts, sabotage
- e) Confiscation
- f) Hijacking

Standard exclusions to both coverages are:

- Detonation of any atomic or nuclear weapon
- War between the five major powers
- Confiscation or nationalisation by Government of Registry
- Consequential Loss

### How Was Cover Provided Prior to September 11<sup>th</sup> 2001?

A large proportion of the world's aircraft are leasehold (as opposed to owned). As part of standard lease agreements the aircraft operators are required to maintain and evidence stringent levels of insurance to the lessor. Having the appropriate insurance coverage in place is a pre-requisite to operating the aircraft and as such a necessity rather than a preference.

The onus to provide and evidence this insurance coverage is typically on the operator rather than the lessor and one of the areas in which lessors require coverage to be evidenced is protection against war and terrorism

Aviation risks carry huge exposures and consequently require massive sums insured. The policies operate on a subscription market basis meaning that often up to 30 separate insurance companies, each with their own separate interests, can participate on a placement.

Prior to 9/11 Hull War coverage was generally provided by Aviation insurers on separate Hull War policies whereas War Liability was included in the main Hull and Liability placement.

Insurers had been broadly favourable toward the sector and as at 2000 airline Hull War premiums were at around USD 35m annually versus claims of circa USD 6m.

## The Events of September 11 2001

The horrendous events of 9/11 have undoubtedly affected many aspects of life both in the long and short term. Although there had been several examples of Hull War losses, prior to 9/11 (such as the 1988 Lockerbie bombing) up to this point insurers had given limited consideration to the impact of associated war liability.

What distinguished 9/11 from previous aviation war and terrorism incidents were both the scale and an accumulation of exposure that could not have been imagined in even the worst nightmare of any insurer.

As it transpired, the Hull War reserves associated with 9/11 could be estimated at USD 135m versus third party liability reserves of around **USD 4 billion**.

In the aftermath of the tragedy it became immediately clear that 9/11 had demonstrated in sharp focus the vast accumulation of liability taken on by the aviation insurance industry. In fact the accumulation of exposures was to an extent that seriously threatened the financial security of aviation insurers and ultimately the aviation industry itself.

The aviation insurance market is extremely sensitive to catastrophic events and in the reaction to the horrific consequences of 9/11 the market's response was swift and decisive. Insurers felt they had to take dramatic action to limit the impact on their balance sheet and enable them to continue to trade solvently.

On the 17<sup>th</sup> September 2001 all airlines and other operators worldwide received 7 days notice of cancellation in respect of their Hull War coverage and Third Party Liability cover for injury to non-passengers arising from war and terrorism.

## The Reaction of the Market

Due to the large limits involved Aviation insurers reinsure much of the risk they carry. Once the scale of the catastrophe became apparent reinsurers began to advise aviation insurers that they would not be in a position to reinstate the reinsurance coverage that had been provided to that point. There remained an imminent threat of a similar attack and as such, the capacity required was no longer available in reinsurance market place.

The complex leasing requirements referred to previously caused immediate and huge concern to both the world's airline market and their insurance brokers.

If a solution could not be found the industry faced a bleak and very real threat of the entire world's airlines being grounded for a period of time.

Since the coverage for war and terrorism was due to be cancelled on the 24<sup>th</sup> of September, airline operators would be in breach of their lease agreements and would therefore not be allowed to operate their aircraft.

This would have serious consequences for not only the airlines themselves but also to the world's economy, which relies on the world's airlines to transport cargo/ mail, not to mention the lost revenue from tourism and business travel.

An agreement with aviation underwriters became imperative and some alternative method of coverage would need to be found.

## The Contribution of Insurance Brokers to Finding a Solution

With the prospect of war and terrorism coverage for both Hull and Liabilities expiring on 24<sup>th</sup> September 2001, a great onus was placed on the broking community to support their airline clients in finding a solution.

This happened in two ways:

### Setting up An Insurance Market Solution:

Initially, the LMBC (now the London International Insurance Brokers Association) arranged meetings with the airline underwriters. Essentially there was a 7 day window in which to establish how cover could be either reinstated on the same basis at the moment coverage expired or amended in a way that enabled the airlines to operate.

During this period the broking community came together for a common cause and the market accepted that until a long term solution was found the notice of cancellation ought to be extended on a rolling week by week basis until such time as that solution could be found.

Whilst this was an initial short term solution, it also created a massive administration issue for the airlines insurance brokers as each airline's notice of cancellation had to be extended on a weekly basis.

In the coming weeks the LMBC held numerous meetings with the aviation airline underwriters in order to reach a solution and after various discussions the market agreed to provide limited war and terrorism coverage but with certain changes to the expiring cover.

The most significant change to coverage was that third party liability (other than to passengers) was limited to USD 50m (the intention being that were a terrorist incident to occur similar to 9/11, the aircraft and passengers would be covered at the pre-9/11 limits **but** damage to buildings and anything else on the ground would be limited to USD 50 million).

Although this represented a major breakthrough in allowing the aviation industry to continue operating, a third party liability limit of USD 50 million was deemed inadequate by many lessors who insisted that each aircraft carried a third part liability limits in respect of war and terrorism at the same level as they carry for passengers.

Working closely with aviation underwriters the broking community developed the concept of an excess war and terrorism market lineslip, which would be accessible to all brokers and aircraft operators who required war and terrorism limits above the USD 50m limitation under their main hull and liability insurance policies.

This enabled the lessor's requirements to be met and, more importantly, enabled the airlines to operate as normal.

## Supporting the Government To Allow British Airlines to Continue Operating:

In the UK the government was anxious that in the absence of insurance coverage, particularly for war liability to third parties, British airlines would no longer be able to operate. Initially the intention was to provide a full government indemnity for this exposure; however it soon became clear that, without technical knowledge as to how this indemnity should operate, the government would require insurance industry expertise.

With insurers focussing their attention on providing a more traditional, insurance market based, solution the onus fell on the broking community to support the government in setting the parameters around which the indemnity would operate.

On advice of the broking community and several prominent aviation lawyers, it was decided that in effect a captive state insurance company should be set up specifically to cover the at that point uninsurable risk of aviation third party war liability.

The Troika scheme was conceived and developed in under a week to provide a technically viable vehicle for the state indemnity allowing British carriers to continue to operate.

## Conclusion

Whilst no one can detract from the terrible aftermath of WTC, the way brokers and aviation underwriters conducted themselves in what was an unprecedented catastrophe was a testament to how brokers can add value in a crisis.

Although there was a contribution from both insurance companies and the state, clearly the broking community was at the forefront of both key strategies to prevent the widespread grounding of the airline industry.

## Way Forward

Brokers have a vital role to play in the event of a crisis, from seeing to immediate matters that will enable their clients to return to normal with the smallest possible disruption, all the way to driving policy changes at industry and government levels that could prevent whole sectors from stalling.

Our project has focused on finding out about the great work that insurance brokers do and to help promote this message we decided as a group to film a series of short videos promoting the profession and highlighting our message.

We now have 10 short videos available to be viewed at the following YouTube site:

<http://www.youtube.com/user/YoungInsuranceBrokers>

In filming these videos, it was our aim to provide the CII with a package that could be used in various forums and for various purposes.

The videos promote the insurance broking profession as an exciting and rewarding place to work, one where you can build a career and one that provides an outstanding service to the public and private sectors throughout the UK and the world.

We believe the CII can use these videos to assist with attracting young talent to the profession and also to help promote the great service that the brokers in the UK provide.

The project has been very satisfying and rewarding for the group and a huge amount of appreciation is directed towards the CII for providing the platform and support structure.

There is no doubt those involved in insurance broking all have a part to play in pushing forward and promoting the profession. The New Generation Group has taken a small step and there is much more we can achieve collectively as a profession.





# Appendices

## Appendix I – Research Questions

- 1) Why do you/ don't you, use the services of a broker?
- 2) Choose the option that most closely matches your opinion on the following statement:  
  
'Insurance Brokers have a poor reputation'  
  
Strongly Agree  
Agree  
Neutral  
Disagree  
Strongly Disagree
- 3) Put the following in order of importance in relation to the factors effecting the reputation of a Broker –  
  
Claims Handling  
Service  
Price  
Cover
- 4) Do you think qualifications should be compulsory for people advising on general insurance?
- 5) How does your perception of the wider insurance industry differ from your perception of the broking industry?
- 6) What could your broker do in order to change the way in which the profession is perceived?
- 7) Please number the following industries in the order that you think are most respected (1 - the most, 5 the least)  
  
Banking  
Insurance – General  
Insurance - Life & Pensions  
Legal (Solicitors)  
Financial Advisors
- 8) On a scale of 1-5 (1 Excellent, 2 Good, 3 Satisfactory, 4 poor and 5 very poor) how would you rate your experience with an Insurance Broker?
- 9) On a scale of 1-5 (1- very important, 3- indifferent, 5- unimportant) what importance would you rate having a Broker involved in the placement of an insurance policy?

## Appendix II – Client Testimonials

### What Clients Have to Say About Their Broker

‘Our brokers have provided us with a first class service for many years. Their knowledge of commercial insurance is second to none and they have provided excellent advice on all aspects of our insurance needs. They have consistently negotiated highly competitive renewal terms. On the occasion we did need to make a claim, the team provided a service over and above my expectations. We were unfortunately flooded in the extreme weather in June 2007; with their help, we quickly got our business back up and running and our insurance claim was dealt with very quickly with full payment made to us in a matter of weeks. They even helped us fill and move the sandbags, you don’t get that from your average insurance broker!’

‘One of the main reasons for staying with our local broker is their commitment to providing a very professional, local, and personal service. This is extremely helpful and reassuring, particularly with their efficiency and speed in handling claims.’

‘We pride ourselves on high levels of customer service and it was pleasing to find an insurance broker who also offers top-level customer service and excellent value for money. The cover was tailored to suit our business at very competitive rates. As the manager of a small business I have a lot of hats to wear and because of the trust I have in my broker, insurance isn't one of them. ‘

‘We arrange our insurance with a broker because they provide us with a professional service and are always available to visit us should we have a problem.’

‘When arranging my insurance, I need to be confident that my broker is independent and can provide competitive prices for the cover I need. Yet just as important is dealing with local people who know my business and understand my unique requirements. This successful combination is exactly what I have received over the last five years from my broker.’

‘My broker carried out a comprehensive site survey and managed to increase our cover whilst decreasing the premium! They have a professional manner, a sensible outlook and sound knowledge of our industry. We would highly recommend them.’

‘Our broker has been outstanding: assessing and understanding our business quickly and thoroughly, providing pragmatic and cost-efficient solutions to our international insurance needs. I would have no difficulties recommending their services to other businesses.’

## Appendix III – The Team



Clockwise from top left:

Jemma Nicholson, ACII

Alexandra Dredge ACII

Robin Milan ACII

Harrison Law Cert CII

Matt Harlin ACII

Thomas French Cert CII

Chris Hurdle

Tori Goodwin ACII LLB MA

Paul Sapiro ACII

Marie Clay

Swinton Commercial

Thomas, Carroll (Brokers) Limited

Willis Aerospace

Ingram, Hawkins & Nock Ltd

Bluefin Insurance Services Ltd

Lark (Group) Ltd

Lockton Companies LLP

Aon

Griffiths & Armour Insurance Brokers

Brett & Randall Limited





