News & developments

BT project nominated for award

The move of BT's business in recent years from a UK-based communications company to a global provider of complex IT solutions has focused risk management attention on the business interruption (BI) exposure across the network.

BT Group Risk Management (BTGRM) has the objective of "providing catastrophic loss risk financing that protects the Group's profit and loss account in the year of the loss". BT's increasingly complex business model raised questions as to how this could be achieved for the BI element of a major loss. It needed confidence that a claim could be evaluated and evidenced quickly and accurately so it could be paid in a timely manner. BT asked Jardine Lloyd Thompson and Echelon Claims Consultants to work with it to create a framework for the BI claim settlement process.

This work has now been shortlisted for the annual *StrategicRISK* awards as a risk financing initiative of the year. The winner will be announced on 17 April in Paris.

Over six months, Jardine Lloyd Thompson and Echelon worked with BTGRM and the BT operation to create a process that 'front-loaded' as much of the claims activity as possible. Working with the insurance market and its experts, they designed and executed an agreed loss management protocol that sets out: agreed claims quantification methodologies (CQMs); the appointment of a single loss adjuster and forensic accountant by the entire insurance market in case of major loss; the delegated authority from the market for this loss adjuster and forensic accountant to work with BT and sign off all CQMs as binding on the panel.

Project Mercury has delivered a process that supports the interests of all parties and has met BT's business objectives.

Martin Benatar, Jardine Lloyd Thompson

Trust and transparency critical to DSU insurance

Delay in start-up insurance (DSU) is expensive, what it covers is unclear, claims settlement can be frustrating – and it is often bought under duress. Jardine Lloyd Thompson decided the time had come to make life easier for its clients and held a seminar with a panel of experts on the subject.

Lenders commonly require DSU cover to protect a construction project's revenue stream. It is designed to cover the loss of expected gross profit that a construction project owner or operator suffers as a result of an event covered by the builder's risk insurance. As with business interruption cover, there is a time-deductible and a maximum indemnity period.

One of the speakers, Richard Williams, Head of Industry Practice Engineering & Construction of the Global and Large Risks division of Swiss Re, explained that the cost of the cover was a result of all the uncertainties involved. He said difficulties typically arose in determining the delay period and the actual loss. Buyers need to be able to show underwriters that they could differentiate between a delay resulting from physical damage and one caused by something else, such as lack of progress.

Ewan Cresswell, Managing Director of Integra Technical Services gave a number of pointers to getting claims paid. The most critical of which was: "There must be a free flow of information from the outset and there should be an exchange of findings on the progress being made."

From the seminar, it was clear that DSU can provide valuable protection for project owners and operators and their backers. The message was that everyone in the project should be involved, that trust and transparency were essential and that there should be a realistic understanding of what the policy would provide.

A special post-event newsletter and recording of the event has been prepared. Visit www.jltgroup.com or email jltlimited@jltgroup.com for further details.

Business recovery stress test highlights weakness

Stress testing a business recovery plan recently revealed unexpected gaps for a major UK company. Staff who took part in the exercise, organised by Jardine Lloyd Thompson's Risk Consulting practice, part of the firm's Global Risk Solutions division, afterwards came up with a list of 28 items they thought needed attention.

Tim Cracknell, a Partner at Jardine Lloyd Thompson, explains that the company in question requested their help with business continuity planning and at the end of it wanted to stress test what they had devised. The exercise brought together about 25 people with direct responsibility for executing the plan as well as their deputies and alternatives.

They were set two scenarios – a bomb threat and a major fire in their main offices – and they worked their way through the most likely chain of events.

"It really made them think about their preparedness and the wider implications," says Cracknell. "Many of the lessons they learned concerned communications. In the aftermath of an incident, who would be speaking to whom and when? The mobile phone network is likely to be taken down if there's the threat of a terrorist attack. How would they communicate without mobile phones and Blackberries?"

For Cracknell, the exercise demonstrated how valuable stress testing business continuity plans can be. As he explains, it is impossible to anticipate everything that will happen in a crisis, but testing in advance allows the organisation to strengthen its framework for response.

Financial efficiency and transparency drives change

Clients are now looking for their insurance providers and brokers to deliver insurance programmes that respond to a more demanding global climate, according to Fiona MacLeod, Head of Jardine Lloyd Thompson's Global Support and Managed Accounts teams. She explains that over the last three to five years, multinational companies have been looking much more closely at how they organise their global insurance buying.

"Businesses are seeking improved efficiency in their global insurance purchasing and administration, and enhanced transparency regarding compliance with local tax and regulatory requirements. Many are reviewing their global insurance programmes and asking whether the way they have always been managed is still the best way," MacLeod says.

The impetus for this re-examination has generally been driven by the increased globalisation of insurance expenditure and the greater focus on fiscal and regulatory compliance of global programmes. Other factors include requirements to capture insurance cost and resource efficiencies and the general drive towards selective, value-adding outsourcing.

With clients demanding alternative and more efficient ways of managing global insurance business, brokers have responded to their needs in a number of ways. Jardine Lloyd Thompson have invested significantly in the Global Support Team and Interactive Risk Information System (iRIS).

The IT system, iRIS, helps to ensure transparency and support the emerging service models. An interactive web-enabled programme that is flexible and adapted to suit each client's needs, it is used by both clients and Jardine Lloyd Thompson to give real-time visibility of all insurance arrangements on a global basis.

As MacLeod explains, "We have grown the team resource to ensure that we can respond to the increasingly complex needs of global companies, who require a tailored global solution and enhanced global transparency.

"The Global Support Team's specialist focus is the lynchpin of our uniquely flexible proposition. We are able to centrally manage global business from London without local brokers, appoint selected hubs, or use and manage a local broker network. Consequently, regardless of our clients' global programme model of choice, we can ensure that it works, is managed efficiently, and adds value."

US court cases impact D&O settlements


Michael Lea

Directors and officers (D&O) may find themselves unexpectedly having to pay millions of dollars in damages following two US court cases in 2007, which strengthened the independence of the excess insurer. These decisions make coverage structure, policy wording and choice of underwriter even more important than before, warns Michael Lea, Head of D&O for Jardine Lloyd Thompson.

In one case, known as Allmerica, the court ruled that the excess insurer was not obliged to settle a claim just because the primary insurer had done so, even where the policy was written on a follow the form basis. In the second case, known as Comerica, the excess underwriter won the argument that it was not obliged to contribute to a compromise settlement below the attachment point.

Both cases mean that companies could find themselves with nasty gaps in coverage with potential personal exposure for directors and officers, says Lea. To reduce the risks, he recommends the following:

- Fewer layers, fewer players – you are more likely to get a cohesive defence strategy and agreement on claims if there are fewer insurers involved in the programme. "You want all your insurers on your side if someone like the SEC is breathing down your neck," says Lea.
- Quota share basis – there is less room for dispute when policies are written this way with one leader on each layer.
- The same wording for all parts of the contract and pre-agreed claims protocols – otherwise, each insurer will want to use its own approved wording.

A shaving of limits endorsement should be included, so excess insurers participate in compromise settlements below their attachment points. Lea points out that Lloyd's and the London market have an excess wording that can be used anywhere Lloyd's is licensed.

Lea recently took part in a D&O market update held in London. To listen to his update or read a full transcript of the event please visit www.jltgroup.com.