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To CEOs of all London Market Firms

via
David Hough, Executive Director, LMBC
Simon Sperryn, Chief Executive, LMA
Dave Matcham, Chief Executive, IUA

7 October 2005

Dear xxxx

Contract Certainty

On behalf of the Market Reform Group (MRG) I wrote to you in July informing you of progress and setting out the activities required to ensure the market achieves its demanding contract certainty targets. We all recognise that achievement of these targets is essential both as a commercial objective and to meet the regulatory challenge set by the FSA. The purpose of this letter is to update you with practical guidance to assist you in your efforts to improve the certainty of your contracts.

To remind you, the definition of contract certainty to which we are working is:

“Contract Certainty is achieved by the complete and final agreement of all terms (including signed lines) between the insured and insurers before inception.”

The prompt delivery of evidence of cover to the insurer is not part of the definition. However, it is clearly an important issue and the MRG has sought to address it in the work done to date.

The responsibility for contract certainty (including achievement of market standards and targets) lies with each individual firm, which is where the bulk of implementation activity must take place. In a recent meeting the FSA made it very clear that, while they will look to market measures (see below) to assess contract certainty, they will also be assessing progress during visits to and discussions with individual firms.

The mechanics of the subscription market make it essential for there to be a core commonality of approach and goals. Hence the work of the firms is supported and, where beneficial, co-ordinated via a central programme under the governance of the Contract Certainty Project Board (CCPB). This Board reports to the MRG.

The CCPB, with full endorsement of MRG, is producing a set of documents to assist each firm. The first two of these are attached to this letter:

- **Contract Certainty Code of Practice.** This defines Contract Certainty and provides a series of principles to guide the market in achieving its Contract Certainty goals. It contains information to help brokers and insurers to understand the implications of these significant changes for the market.
- **Contract Certainty Check List.** This provides a practical tool for market practitioners involved in agreeing and producing contracts. It focuses attention on the key attributes of Contract Certainty.

In addition, in early November more detailed material will be published. This additional material will have two aims: to support the teams of people across the market who will implement the changes associated with Contract Certainty; and to provide further details to practitioners in dealing with specific aspects of producing certain contracts.

With over 250 firms operating across a wide range of lines of business in the London Market, it is not realistic to attempt to deliver Contract Certainty (and resolve the many issues associated with it) in one step. Consequently, for 2005 and 2006 the Contract Certainty programme will measure progress against the following interim targets for the proportion of contracts which are certain as assessed against the check list:

- 30% of monthly volume by end 2005
- 60% of monthly volume by end June 2006;
- 85% of monthly volume by end 2006.

These are achievable goals. They do not however, represent the end of the story. Most people already recognise that while achievement of these targets will be good progress versus where we are now, the market can make further progress beyond 2006 especially, for instance, on evidence of cover. Therefore, during 2006 we must identify what work needs to be done to progress beyond the end of 2006.

The next action that you should take is to communicate the definition and principles of Contract Certainty to the Board of your company and obtain its commitment to them. On behalf of the MRG, the Market Reform Programme Office (MRPO) will contact each firm to seek confirmation that this has been completed by the end of this year, so that the market can give further assurance to the FSA that all firms are committed to achieving the contract certainty target. The FSA has indicated that it will be formally reviewing progress at the end of 2005 to determine whether, in its view, the market is on track to achieve satisfactory performance by the end of 2006.

I also ask you to ensure that all relevant staff are provided with copies of the documents and given appropriate training. The Programme Office can help with training, and provide laminated copies of the checklist.

I hope the information in this letter is helpful. The information MRG provides will be continuously enhanced through Market meetings and further letters - please see www.Imp-reforms.com or contact the Programme Office on 7327 6619 for more details.

Yours sincerely



Nick Prettejohn
Chairman, Market Reform Group