



Insurance Wordings Predictions 2022

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1. Regulator activism on wordings set to continue

The FCA test case on policy response to business interruption losses was an unprecedented intervention by a regulator. The speed of the litigation, through to a final appeal, was exceptional. But so too was the granularity of the issues in which the regulator took an interest. This is unlikely to be the last time a regulator scrutinises the market response to widespread events and practices. On 28 September 2021, the FCA wrote a Dear CEO letter covering a range of topics which the FCA described as 'risks of harm' insurers posed to their consumers and the markets in which they operate. At least three of these topics concern product development and wordings issues. The first is ensuring that products 'provide fair value' and meet customer needs. The second is an emphasis on delivering claims outcomes that are 'fair and timely'. The third concerns 'uncertainty over insurance cover including due to ambiguous contract terms'. The FCA made clear that these areas will remain under scrutiny. Insurers will need to maintain, and in some cases increase, investment in policy wordings to ensure that they are compliant.

2. Systemic risks continue to move to centre stage

Insurers have been paying attention to systemic risks. We have worked with insurers to help identify systemic risks and in some cases wholesale wordings reviews have been commissioned to exclude or limit exposures. This was put into sharp focus by Lloyd's bulletins on silent cyber starting in 2019, followed by the COVID pandemic, followed again in 2021 by greater focus on climate change. Inflationary pressures, supply chain disruptions, market shocks and labour shortages are further risks which have been in the news and have the potential to impact insurers. Systemic risks should remain on the board agenda and it should not be left to regulators to raise awareness or compel adoption of effective strategies.

3. Policy wordings for autonomous vehicles play catch-up

Year on year we move towards increased automation, as the pace of development accelerates. Historically, the focus has been on the regulatory landscape and the functionality of autonomous vehicles. This is now evolving, as the complexity of data protection and cyber issues can no longer be ignored. It is no surprise then, that the focus for the motor insurance industry is on policy wordings and in particular, consideration of data protection, cyber and product liability exposure. We are seeing clients in the motor insurance industry actively looking at their policy wordings to consider whether they have the scope of cover and clarity required. DACB has established an autonomous vehicles policy wordings focus group combining our data protection, cyber and policy wording expertise and are here to support clients in this fast changing landscape.



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