

WHY DID THE INSURANCE SECTION OF THE LICENCE AGREEMENT CHANGE?

Background

In 2004, the licence agreement was updated in readiness for the 2005 Insurance Regulations changes. This was designed for use by operators wanting to use the “SSA Insurance Option” to provide insurance to customers without having to be regulated by the FSA as it was known then. In 2012, the Association decided to review the agreement wording as a whole, unrelated to insurance, but this gave the opportunity to review and change the insurance section, enabling changes to be made to reflect the deregulation of insurance sales in the industry that had taken place in 2009.

Insurance Changes introduced

As part of the review in 2012, two versions of the wording were introduced to enable all members a choice.

1. Deregulated
2. SSA Insurance Option

The differences have been explained to members in the past and we will not revisit them in this article. In assessing what changes were required in the 2012 review, the SSA and their insurance and legal advisers considered the following:

- Consistency within the industry – trying to achieve a common standard amongst as many members as possible
- Raising standards of insurance within the membership thus the differentiation between members and non-members
- The quality of insurance offered to customers in line with the objectives of UK Insurance Regulations
- Providing a quality insurance product available through the members which favourably compares with insurance offered elsewhere
- Giving members the tools to help improve income generated from the provision of insurance to customers

The redraft consequently introduced proposed improvements to insurance cover for offering to customers.

1. “New for Old”

The concept of ‘New for Old’ cover is sometimes misunderstood and there is often the view that it leads to higher claims settlements. However, it may not be to the extent you might think. The insurer only pays for a new replacement item if the original is a total loss. If an item is damaged and can be economically repaired insurers will choose that option which is no different from how Indemnity insurance works. Even in the event of a total loss, if specialist items are involved such as works of art or antique items (in other words items which cannot be replaced like for like) then whether the cover is arranged on an Indemnity or New for Old basis is irrelevant. Consider, for example, an original oil painting.



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The difference is, however, that customers are accustomed to seeing 'New for Old' cover on their Household insurance policies and they have come to expect it and want it.

On a New for Old basis the customer has to provide a new replacement value instead of a second hand or indemnity value when effecting the insurance. This means the sum insured is naturally higher which generates additional premium and, consequently, more income for you. Importantly, the cover is what the consumer wants.

New for Old insurance cover benefits

- The customer – they get better quality insurance protection
- The business –
 - you are less likely to have complaints and disputes due to reductions in the expected claims settlements to reflect age and wear and tear. The customer won't take into account the basis of cover. They will just be unhappy and complain.
 - You improve your insurance related income

2. Broader selection of insured perils (definition of "Normal Perils")

It doesn't seem unreasonable that if an insurable risk might occur that it is included in the insurance cover offered rather than leaving customers to argue that the company is legally liable for the damage caused.

The proposed extra cover includes:-

- Moth insect and vermin
- Ingress of other liquid substance (previously only water damage was included)

Benefits of this cover

- The customer –
 - if the store is infested by moth insect or vermin through no fault of the customer, then the law will very possibly require you to compensate them. But liability claims to be drawn out while the parties argue about whether liability attaches or not. So the concept of including the cover in the insurance offered essentially provides a much better service offering to your customers.
 - If, for example, oil leaks from one storage room into another, in theory you could ask the customer whose property caused the damage to pay. But what if they won't or can't? You then have a very unhappy customer whose goods were damaged in your store. Not a good experience. They may even have legal recourse against you anyway.
 - The cover you will be offering is superior to most insurances available elsewhere and, particularly, it is highly likely to offer them better than their Household insurer or any competing online insurer will provide.
- The business –

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Insuring your reputation

- including this cover in the insurance instead of relying on a liability argument helps prevent disputes, improves your company image (and, consequently that of the SSA generally) and customer relations.
- This cover is not easily available elsewhere so your insurance is superior and can result in a higher level of insurance sales

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