

Are Insurance Contracts for Purpose?

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An interesting Q&A session provoked an open discussion of key issues.

The insurance market is not the most innovative in terms of introducing policy wording changes, applying common standards or applying new technology.

Reasons for this are:

- cultural differences with varying levels of supervision
- customers are suspicious of changes
- insurers are reluctant to introduce changes because this would mean a deviation from established interpretation of contract terms and respective legal precedents
- contracts cater for uncertainty, and it is difficult to anticipate the future. Therefore, insurers are more reactive than proactive.
- **Is the industry (too) resistant to change?**

Innovation however is everywhere: not only in clauses, but also in claims handling, etc.

Other notes:

- FinTech: technology is not making much change in complex lines of insurance. One of the purposes behind complex products is that insurers do not want to make them very simple, in order to keep ahead of the competition. Complexity is a differentiator for commercial insurers. Technology cannot help there.
- Clarity of clauses is to everyone's interest. Unclear clauses lead to lengthy discussions on claims, which erode the trust in the insurance industry.
- Most brokers limit their support to placing risk. Very few clients pay for claims advocacy services of a broker.
- One cannot draft a litigation-proof policy, this is why lawyers will not go out of business. Sometimes, when one wants to test a new policy, one needs to litigate it.
 - In many cases there are arbitral awards, which are not public.
 - In new products more negotiations take place. BUT once the person in charge changes, the new person may not want to make any further amendments (to avoid responsibility).

Conclusion: *Insurance contracts are fit for purpose, to the extent they have been court-tested. There is little room for simplification in complex commercial insurance. Innovation is restricted to novel forms of risks and risk transfer. For more traditional products, innovation leads to change, which leads to uncertainty. Therefore, there is little appetite for innovation.*