

## ELECTRONIC TRADING AND SUBJECTIVITIES

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### Common Issues Handling Subjectivities

Our Risk Management Round-Up Bulletin published in January 2020 reported that issues with the handling of subjectivities had been one of the significant observations arising from the reviews in the previous two years. The most frequent problem was a failure to evidence on file that a subjectivity had been followed up. As a result many appeared to be outstanding, even where we were told by the brokers concerned that they had probably been satisfied. A broker will find itself woefully exposed in the event an underwriter considers itself off risk because a subjectivity has not been satisfied, and the broker cannot evidence otherwise. We also reported on the lack of challenge where subjectivities were not clearly drafted, or where what underwriters appeared to consider subjectivities were simply conditions of cover. Again, the broker is exposed in the event there is a dispute as to whether or not the underwriter's requirements have been met.

### Subjectivities, Line Conditions and Electronic Trading

During more recent reviews this issue has also been highlighted when risks are bound electronically. We understand that certain underwriters are setting up what we at Griffin consider to be subjectivities, as line conditions. Although some systems, such as PPL, ensure the Broker has to accept all such subjectivities and/or line conditions, brokers still need to be alert to this. We recommend that all underwriter lines are reviewed, even where the broker accepts the subjectivity and/or line condition, to ensure that any subjectivity, or other last minute line condition added by the underwriter, is picked up. In the usual way, should there be any ambiguity in the subjectivity that has been added, this should be discussed with the underwriter to ensure there is a consensus as to what is required to enable it to be satisfied.

### Risk Management Message

We recommend taking the following steps to minimise the potential exposure created by last minute additions to the signing page of the MRC:

- Regardless of any agreement reached in discussions, always check the signing page to ensure that any such last minute additions by the underwriter are identified and handled appropriately.
- Advise the client of any last minute changes and ensure that they remain happy to proceed.
- Where the underwriter has added what should be a subjectivity as a line condition, ask the underwriter to remove the line condition and replace it with a subjectivity with an agreed action and deadline that can be monitored by the placing platform using functionality available.

More generally, where an underwriter's line is subject to the satisfaction of a subjectivity, it is essential that the subjectivity is handled with care. We recommend the following:

- Check that the subjectivity is clear as to the action required, when it must be completed by, the coverage position pending satisfaction and any consequence of the subjectivity not being satisfied within the given timescale.
- Always challenge the underwriter where there is any ambiguity so that there can be certainty as to what the requirement is for cover to be in place.

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