

**IMIA - WGP47 (06)**

## **Break & Review**

**International Association of Engineering Insurers  
39<sup>th</sup> Annual Conference – Boston, September 2006**

### **Working Group**

Hans Pöttker, Allianz, Munich (Chairman)  
Nigel Chapman, Clyde, London  
Jean Scheidecker, AXA, Paris

## Table of Contents

<b>Section</b>	<b>Title</b>	<b>Page</b>
1.	Introduction	3
2.	Basic Insurance Contract	3
3.	Break & Review Clauses	4
4.	Relevance of Break & Review Clauses for Underwriters	7
5.	Relevance of Break & Review Clauses for the Insured	8
6.	Alternative Solution	9
7.	Conclusion	11
8.	Appendix 1 & 2	12/13

## 1. Introduction

This paper considers the application of “Break & Review Clauses” in wordings and highlights the pros & cons for underwriters and Engineering Insurers. It also outlines the same from the insured’s perspective and the market.

In principle the issue may seem straightforward, but there are points that can complicate matters. The Group considered these matters in depth and developed initiatives to ensure best practice in underwriting and wordings.

Engineering insurance often has to deal with project policies lasting 3 or more years, in some cases more than 10 years. How can an underwriter properly judge risks lasting such a long period and be sure that the reinsurance treaty remains in force with the same conditions throughout?

This concern begs a number of questions as to how best to manage such policies.

- Is the information provided during the underwriting process still valid throughout the construction period?
- Will the same construction standards be adopted from the beginning to the end of the policy period?
- How will economic inflation affect the policy stakeholders and what’s the ultimate impact on the policy?
- What is the likelihood of environmental or Nat Cat issues arising during the policy period?
- Will a change in construction technology affect the original underwriting?
- What effect will social changes have on the policy?
- How will changes in law affect the policy?

The insurance policy has to deal with these problems through the wording. Loss Control Engineering and the Insured’s own risk management are also essential factors to the successful outcome for both the Insured and Insurer. The wording has to cope with future changes in reinsurance, project finance, law, technologies and other issues, which might affect the project and its stakeholders.

It may seem attractive to avoid the issues inherent in such long periods by dividing the policy period into manageable annual or “multi – year” portions like classical annual policies. This allows opportunity to review the circumstances of both the project, reinsurance, and ultimately wording, premium and deductibles.

This paper addresses the terms of Break & Review Clause and alternative solutions.

## 2. Basic Insurance Contract

Insurance policies are subject to the same basic laws as any other contract.

The Encyclopaedia Britannica defines contract as:

*“in the simplest definition, a promise enforceable by law. The promise may be to do something or to refrain from doing something. The making of a contract requires the mutual assent of two or more persons, one of them ordinarily*

*making an offer and another accepting. If one of the parties fails to keep the promise, the other is entitled to legal recourse. The law of contracts...*

It should though be remembered that insurance policies are characterised by additional features, one or two of which are unique to the industry:

Personal Contract  
Unilateral Contract  
Conditional Contract  
Aleatory Contract  
Contract of Adhesion  
*Contract of the Utmost Good Faith*  
Contract of Indemnity

Insurance contracts are often seen as contracts of “uberrimae fidei” or the *utmost good faith*. Both parties to the contract are bound to disclose all facts relevant to the transaction. Neither party is to take advantage of the other’s lack of information. The legal questions involving this characteristic usually centre on the disclosure of information by the insured. Consequently, an insurer is entitled to rely upon information provided by the insured and to seek some relief if this information is incorrect. The doctrines that are introduced by the insurer in any court case involving this issue will be the doctrines of *concealment*, *misrepresentation*, or *breach of warranty*.

*Concealment* is the failure to reveal certain facts known to the insured that are not such common information that the insurer should also know them. The common law doctrine of concealment is much harsher with respect to ocean marine insurance than with respect to other kinds of insurance.

A *representation* is a statement made by the insured in applying for insurance, usually in response to a question by the insurer. The statement may express a fact or an opinion. Under common law an insurer can successfully plead misrepresentation of a fact if it can demonstrate that the factual information is incorrect and *material*.

A *warranty* is a condition in the insurance contract. A representation achieves the status of a warranty if it becomes a condition of the insurer’s promise. Courts are not likely to give it this status unless the contract clearly indicates that the insured’s answer is a contract condition.

### **3. Break & Review Clauses**

There are numerous forms of Break & Review Clauses in the direct and reinsurance market. The Group just concentrated on the two attached clauses.

Both Break & Review Clause 1 (Appendix 1) and Break & Review Clause 2 (Appendix 2) stipulate that information is of paramount importance during the policy period. Underwriters will have the right to:

*“...such information as that Underwriter may require. The information shall include, but at Leading Underwriter’s option shall not be limited to, a signed and dated declaration of any material change in risk ...”*

or

*“...an updated proposal form or other information requested, to allow the Insurer to review risk progress..”*

Both these Clauses define some of the fundamental underwriting principles. It is essential for underwriters to receive relevant and reliable information to secure the appropriate technical underwriting. All Insurer decisions for engineering project policies depend on written documentation defining the risk. Most commonly including technical drawings, time schedule costs, description of work etc.

Unlike machinery breakdown or property risks, engineering project policies have to rely on accurate information that is valid throughout the policy period. Added to this, the physical nature and situation of machinery and property risks are unlikely to change, other than the impact of elemental perils and occupancy. In any event the circumstances can always be checked by inspections and risk surveys before policy inception or renewal.

It's therefore imperative that the underwriting basis for project policies defines the full technical risk, and the extent of "change in risk" that will occur during the course of the project. Unclear or ambiguous information will deter the underwriter from making the correct underwriting conclusion, and in effect produce the wrong wording, deductible and price.

The project information is the quintessence of the "Basic Insurance Contract" being fundamental to a *Contract of the Utmost Good Faith* as outlined above. So why have a "Break and Review Clause" if this fundamental point is already arranged in the Insurance Contract? It is quite difficult to define *material change* in a law court. There are many differences in interpreting the term "material change" between underwriters and lawyers. Information which is seen during the underwriting process is not very often listed in slips or wordings. The information very often does not become part of the contract. This practice will critically weaken an Insurer's position in case of dispute.

In Break & Review Clause 1 the intention is clearly articulated as "material change". In case of *material change* during the policy period, the underwriter has the right to either adjust the terms and conditions or cancel the policy.

Break & Review Clause 2 defines *material change* in Para 3. This includes:

- "... Increase in turnover or staff ..."
- "... Change in business activity ..."
- "... proven fraud, misconduct or material misrepresentation ..."
- "... mergers or consolidation ..."
- "... winding up or receivership..."

"... Increase in turnover or staff ..."

This paragraph applies to turnover policies or open covers. Open covers or turnover policies are normally annual policies. But in case of LTA – Long Term Agreements – the underwriter is covering the whole business of a contractor for a period of more than 24 months. During this time, the contractor can win some new major contracts, which will increase his turnover dramatically and as a consequence will increase the exposure for the underwriter.

"... Change in business activity ..."

This paragraph deals with the same circumstances as above. In the turnover policy which describes the business of the contractor, all terms and conditions are bound to his business activity. In case of a shift of major business activities, e.g. civil contractor extends his activities to erection of refineries, the underwriter has to adjust his terms and conditions for these changes.

“...proven fraud, misconduct or material misrepresentation ...”

This paragraph again defines the trigger where one party can cancel the policy.

“...mergers or consolidation ...”

Merger and consolidation will give the underwriter the opportunity to cancel the policy or to change the terms to accommodate the potential new “risk profile” of the insured. The “insured party” in this case will be redefined, and may require an objective appraisal of a new “Risk Management” approach for example or his available resources and know-how.

“...winding up or receivership...”

In case of receivership, the underwriter will have the right to cancel, because one of the contract parties will no longer be able to fulfil the contract conditions. One might argue that under some laws in some countries the insurance contract has to be continued until the procedure of the winding up and receivership of the insured is finished. Under such circumstances it's very likely that the insured work will suffer from the inevitable lack of finances. This will aggravate the underwriter's exposure dramatically.

Break & Review clauses effectively divide the insured period such that the policy becomes more akin to a renewable Annual Policy, Long Term Agreement, or Master. The advantages are clear. The underwriter “wins” additional rights to reconsider his original position at regular intervals, and ultimately to cancel the policy under “unfavourable” circumstances. This even encourages the Insurer to cover periods far beyond normal insurance trading.

On the other hand the obligations for the insured under the contract are quite harsh. He has to be aware, that his contract can be cancelled and may end up without insurance cover. This will inevitably lead to difficulties for the project finance, since stakeholders insist upon insurance. As a consequence the whole project can be jeopardised.

The other cancellation provisions in Break & Review Clause 2 are, besides for *material change*, include:

- “... *non payment of premium* ... ”
- “... *cancellation of RI treaties* ... ”

The “*non payment of premium*” is in some countries a standard condition in normal contracts. In some other countries it may well be prohibited by law to cancel the policy due to non payment of premium.

The provision “*cancellation of reinsurance treaties*” is in some parts of the world also prohibited. A contract cannot be cancelled in the absence of a mutual relationship between all parties. In other words a contract condition cannot depend on the validity of another contract without a mutual relationship between all the parties involved.

Reliable and consistent reinsurance is key to an Insurer's trading position. If an insurer cannot maintain his reinsurance then it will be confronted with one of the most difficult scenarios for the future of the company. The worst case scenario of reinsurance cancellation will mean that the underwriter has to run the whole exposure in his self retention. This might put the Insurer under some financial difficulties. The Insurer has to increase either its net equity for the affected project, or alternatively find a replacement facultative solution. This facultative reinsurance has to “step in” to a running policy. The Insurer will have to pay for its reinsurance protection twice.

Another scenario may mean “just” a change in reinsurance conditions. As seen after 9/11 Reinsurers cancelled terrorism cover under their engineering treaties. If the original project policy didn’t exclude terrorism, affected Insurers had to run this peril in their self retention. It was immediately after 9/11 nearly impossible to get terrorism cover in the facultative market. Reinsurance is essential for an Insurer’s trading position, being equally important to stakeholders and clients alike.

#### **4. Relevance of Break & Review Clauses for Underwriters**

Break & Review clauses secure additional protection for the underwriter. What are the main arguments for implementing these clauses?

- a Underwriting long term projects – 5 to 15 years – demands speculation in respect of technological changes. Specialist techniques which are state of the art at the beginning of the project may well be proven to be flawed or not fit for purpose. Research or the evidence of experience may deem these inappropriate for the project after it’s too late to find ready alternatives. This will put a spanner in the works. The alternative methods or materials that become necessary may well have required a likewise completely different underwriting standard with different terms and conditions. The underwriter is still bound to his original terms in spite of the blatant concern that they are no longer appropriate for the project. Without a Break & Review clause he has to lump his lot. Matters are made worse with the first claims, yet still he can’t review his position.
- b Underwriting long term projects – 5 to 15 years – demands speculation in respect of risk management abilities of the contractor. No doubt a number of Underwriters will have observed some contractors risk management on site does not correspond very well with the documented Risk Management provided during initial underwriting. It’ll be difficult for an underwriter to prove that the Risk management information received during the underwriting does not agree with that actually executed, or otherwise not executed at all. The risk management of the contractor and the employer is crucial for the successful outcome of the project and the fortunes of the Insurer. Engineering underwriting of large schemes is impossible without a proper risk management from the onset. More and more effort is made to define and clarify the role and responsibilities of proper Risk Management. There are several codes in the market like the “Tunnelling Code of Practice” or the “Fire code of Practice” which deal with risk management issues. These are highly recommended documents.
- c Underwriting long term projects – 5 to 15 years – demands speculation in respect of future changes in the reinsurance market. It seems to be impossible to predict these. Both the reinsurance and direct markets have become more flexible. Financial pressures, and in many cases the change from proportional to non proportional treaties, are one of the reasons for this change. In particular recurring Nat Cat scenarios, especially those involving high cumulative exposures, the ever increasing terrorism risk, and the ups and downs of insurance cycles have led to more sensitive markets. Reinsurers have to recuperate from losses much quicker than in the past.

Bullish stock markets had in the past a significant stabilising effect. The financial balance no longer exists. Also non-proportional treaties do not balance the Reinsurer’s portfolio like the proportional treaties did. These changes have led Reinsurers to manage their portfolios more and more on a short-term basis.

These arguments are sufficient for Insurers to demand Break & Review Clauses for long term policies. Dividing up the policy period into more insurable schedules providing the right

to either change terms & conditions or even cancel the policy will always be in some cases the only solution.

The Break & Review clauses are though not a panacea for all problems, and cannot be applied without consideration to the underwriting hazards that may occur for Insurers.

Break & Review clauses can jeopardize the quality of an Insurer's underwriting process. To just adopt them may in effect impair the role and responsibility of the underwriter which is obviously not the goal. Underwriters may become complacent relying on the possibility to review the contract at regular intervals. The underwriting information will become less relevant with review triggers for change or claims, with even the possibility for cancellation. Another effect will be to allow Insurers to "participate" in engineering policies, employing inexperienced underwriters who just try to get some business out of the market. Professionals who can properly judge the technical risks at stake will be unnecessary. Engineering insurance will not be a partner of the industry any more, but instead just another commodity with all its instability. The "annual" nature of the Break & Review clause may even mean Engineering risks becoming integrated into standard property products. It lends itself well to covering engineering risks by simple endorsement into larger property programmes.

Break & Review Clauses do have the danger to bring in more innocent capacity into the market. It would make life much easier for companies to step in to the market, because Break & Review Clauses make it equally easy for them to step out. The unstable market can be of some advantage for the insurance industry in case insured accept this in and out and do not look for alternatives.

Break & Review Clauses might lead to incompetent and unprofessional claims handling. The quantum of individual claims, at least for the early Break & Review schedule periods, becomes less significant. In any event the Insurer will at the next Break & Review trigger be able to recuperate losses by re-adjusting the rate. An Insurer may take advantage of the client's obvious difficulty to replace an underwriter or to find an alternative solution.

The Group were convinced that these arguments should be strong enough to encourage finding alternative solutions for long term policies.

## 5. Relevance of Break & Review Clauses for the Insured

From the foregoing it is obviously clear that Break & Review Clauses effect additional protection for underwriters. But how much do they weaken the position of an insured? What are the main arguments for the insured to except or to refuse these clauses?

- a Underwriting long term projects – 5 to 15 years – demands speculation in respect of technical changes. An experienced Insured is well familiar with technical changes. He'll be flexible enough to adjust his working methods to discrepancies with state of the art technology. He's used to demanding clients who've always expected the appropriate technology, and proper "*management of change*". An Insured's reputation may be at stake if he can't meet everyday challenges. It's fair for an Insured to expect similar professionalism of an underwriter. The fortunes of both Insured and Insurers are "tied up" in a similar manner, so each should take a similar outlook on the risks at stake. Should an insurance contract prohibit technical progress?
- b Underwriting long term projects – 5 to 15 years – demands speculation in respect of risk management abilities of the Insured. The contractor is obliged under most of his contracts, to perform a proper risk management for securing the project. More and more Employers / Owners are taking an interest in controlling Risk Management by contract to help ensure their project is finished in time to the best standard possible. The project

financiers are equally keen on proper risk management for the same reasons, and may also wish to monitor the Risk Management processes. The Insured and all other involved parties would expect the Insurer to be involved in the Risk Management. The Insurer's experience with similar projects could bring additional risk management know how. It would be difficult to ignore an Insurer's experiences irrespective of the Policy. The ultimate product of this mutual interest has been the development of the Risk Management Codes. In particular the Fire Code of Practice and the Tunnelling Code of Practice, both of which were drawn up in a joint effort between Insurers and Industry.

- c Underwriting long term projects – 5 to 15 years – demands speculation in respect of future changes in the reinsurance market. This can not be the problem of the insured. He expects insurance companies to provide a secure financial product that remains valid for the whole of the project period. It's a fundamental assumption of any Insured that an insurance company will always be able to fulfil its obligations. It cannot be in the Insurers interest if an Insured has to worry about his reinsurance, where he gets it from and what the problems are. Reinsurance is not his business! If this were the case then he'd be well advised to call Reinsurers directly.
- d Underwriting long term projects – 5 to 15 years – demands speculation in respect of loss ratios for particular projects. The insured is not interested in the loss ratio of his insurance contract. He buys insurance for protection against covered losses. Why should he rush out to buy insurance which does not, in effect, provide full cover? There is little security on the price of a product where fortuitous losses can trigger additional premiums. Worse, he may have to suffer cancellation of the policy for a simple change in design, a change in project circumstances, or even minor claims. Where will he get replacement insurance, and at what price? This might jeopardize the whole scheme and lead to financial difficulties and a possible loss of reputation.

## 6. Alternative Solution

The Group concluded that the Break & Review Clauses are not sufficient for solving all the difficulties of underwriting long term engineering projects.

Engineering underwriters have to offer different answers to these problems.

Good practice expects Underwriters to insist on all documents which are necessary for both risk assessment and evaluation, that avoid any speculation. Information has, and should always be essential to good underwriting. Ideally all the underwriting decisions are based on documented facts. Wordings, deductibles, price etc., are equally valid to the information of which they have been based.

Therefore the information basis should be part of the ultimate policy wording. We need to document "good practice" in the policy.

Documents listed in the policy should be for example.

- a Procedure for allocation of risk.
- b Quality issues (QA/QC).
- c Programme of works.
- d Detailed breakdown of material damage Sum Insured
- e Detailed breakdown of Delay in start up Sum Insured
- f Detailed time schedule
- g Detailed process description
- h Specification of major items
- i Specification of lead times for critical items.

- j Source of material / suppliers
- k Procurement of strategy.
- l Pertinent extracts from contracts e.g.
  - Construction agreement
  - Purchase agreement (customer)
  - Loan agreement
  - Economical model
  - Feasibility study
  - Due diligent report

All underwriting documents should be formally described in a document attached to the policy. This document should highlight the relevant points on which underwriting decisions were based. This would allow an underwriter to monitor changes affecting the policy.

Post underwriting becomes a great burden for the leading underwriter. The Group felt, that post underwriting for big projects in particular, will become more and more important. The insurance industry has to invest more in following up their risks. Monitoring of change over the original underwriting basis is the only way an underwriter can manage his existing portfolio. Insurers tend to focus more on new business forgetting that they have already – possibly sleeping - exposures in their book. If a few go wrong there's often a substantial impact on profits. It's the existing book that counts more so than the future book. It's an asset that must be managed like any other. A cash flow strategy is not underwriting. The underwriter's risks are "tied up" with those of his clients. Their fortunes are mutual, and partnering for all aspects of the risk is essential to the profits of both. Each must fulfil their obligations and manage their risks and obligations. This for the underwriter not only means paying a claim but more importantly also to provide his risk management know-how and to monitor that his client reciprocates.

Risk Management procedures and protocols are an essential component of the post underwriting tools. These have to feature the relevant points on which underwriting decisions were based, given that the basis is attached to the policy. The extent and content of Reporting should be agreed, in particular regarding the impact on the original basis used for wording, deductibles, and price etc. This process ultimately forms the basis of the insurance contract.

Engineering insurance will become more formal. The policy has to take regard of the underwriting basis and the consequences should the basis become invalidated for the underwriter. Like the "Tunnelling Code of Practice" the risks at stake have to be properly defined, not only those that may in future become evident on site, but moreover those evident to the planners and designers already at project beginning. It has to furthermore describe the responsibilities and the consequences for all the parties involved. This demands a disciplined underwriting process with a lot of burden for the leading underwriter, without any surety of actually writing the risk. Underwriting and post underwriting have to be structured to make underwriting more transparent to lawyers, insureds and third parties.

A quantified and qualified structured process will govern the actions and consequences of change. The underwriter will become an essential component of the project instead of just another rubber stamp on a document in the Commercial Manager's office. His partnership with the insured can lead to a more open discussion just from the beginning of the design process through to the handing over of the project.

This process still does not solve all doubts as to what's actually the "material change" that can affect the policy. An Insurer has to clearly define the term "material change". This is not always so easy. The Group concluded that this should be done either by independent lawyers or in-house legal departments. The definition of "material change" should define:

- a What
- b Where
- c How
- d By Whom

Insurers and insured's would profit from this process. The grey areas would be reduced and a more clear understanding between the parties could lead to a higher profile of engineering insurance in future.

## 7. Conclusion

A Break & Review Clause is not the ultimate solution for the typical underwriting and post underwriting problems with long term Engineering policies. Long construction periods will inevitably attract some kind of "Review" situation, if not a full Break & Review clause. The demands on Insurers to justify cost of capital and report healthy Economic Added Values don't support writing long term policies without any kind of additional security.

Nevertheless there is a danger that these clauses will jeopardize Insurers and their underwriting quality and process. This may become aggravated by such clauses encouraging innocent capacity into the market. Insurers will become further removed from their risks and ultimately the basis of their business. "Turn over underwriting" may initially seem more attractive than quality underwriting, quality service and the quality of a good book. Ultimately some Insurers will step into the engineering market as fast as they will be forced to step out.

This situation will lead to a loss of confidence in the market, and the ability of underwriters to solve problems with tailor made solutions on which they can rely.

The way forward for the insurers and the Insureds is:

- To establish an equally transparent information basis
- That the basis becomes part of the insurance agreement
- Quantify and qualify the actions and consequences of change
- Define the general term "material change" in the policy
- "tie up" the fortunes of both the Insured and Insurers
- Establish a common approach for post underwriting

If insurers can successfully establish and follow this approach it should be still possible to underwrite long term projects.

## **Appendix 1**

### **Break & Review Clause 1**

The Policy is issued for the period of Insurance stated in the Schedule subject to provisions of the following Review and Break Clauses.

1. The Assured shall submit to the Leading Underwriter (only) 60 days prior to the Review Date (stated below) such information as that Underwriter may require. The information shall include, but at Leading Underwriter's option shall not be limited to, a signed and dated declaration of any material change in risk including time and/or cost of schedules.

The Leading Underwriter may amend the premium and/or apply additional or amended terms and conditions as they alone deem to be necessary in the event of any material change in the risk and notify the Insured of such changes 30 days prior to the Review Date.

In the event that the Insured are not prepared to accept such revised terms then this policy shall be deemed to have been cancelled as from the relevant Review Date but without prejudice to any claims or circumstances which might give rise to a claim which have been reported prior to such Review Date. Otherwise the Insured shall have no cancellation rights by virtue of those conditions.

If the Policy is cancelled as aforesaid then the Insurers will allow a pro rata refund of premium to the Insured provided that no claims or circumstances, which might give rise to a claim, have been reported. However, in the event that there are any claims paid or outstanding at the above cancellation date, any return premium shall be calculated in accordance with the above which may be reduced by the Leading Underwriter's assessment (only) of their likely maximum liability in respect of such claims. In these circumstances the Leading Underwriter may withhold payment of part or all of such return premium until such liability can be accurately assessed to his satisfaction.

2. In the event that Underwriters own reinsurance protections alter to the extent that it would be impossible for them to continue with the same participation, then Underwriters reserve the right to review their participation on each individual declaration 36 months after inception of such declarations. It is a condition however that Underwriters have a duty to prove not later than 90 days prior to the Review Date that they are unable to continue with their original participation, but on the Understanding that any immaterial change in their reinsurance terms conditions and/or premiums does not constitute reason for review of their participation.

At the Review Date should the Insured require an extension of the period of insurance by a further three years after the existing period then, subject to Underwriters agreement to the extension period, Underwriters reserve the right to charge an additional premium and/or apply additional or amended policy terms and conditions. Such amendments (if any) shall be operative only with effect from the end of the extended period of insurance required by the Insured. Underwriters review of the terms will take account of, but not be limited to, (any) losses incurred within the original Period of Insurance. The Insurance Brokers acting on behalf of the Insured shall approach Underwriters not later than 60 days prior to the Review Date to inform them of the Insured's requirement for an extension of the Period of Insurance

The terms and conditions including any requirement for additional premium, shall be agreed between Underwriters and the Insured not later than 45 days prior to

commencement of the extended period of insurance. Any information required by Underwriters shall be supplied to them by the Insured's Insurance Brokers not later than 90 days prior to the commencement of the extended period of insurance.

## **Appendix 2**

### **Break & Review Clause 2**

Period:

The Policy is a multiyear contract issued for the total period stated in the Schedule. Ninety (90) days prior to each annual review date the insured will furnish an updated proposal form or other information requested, to allow the Insurer to review risk progress. The Insurer will agree to continue coverage until the next annual review date but reserves the right to amend terms or cancel the policy if:

Non-payment of premium in accordance with premium payment conditions has occurred

The loss ratio on a gross premium basis has exceeded XX% during the past 12 months or is likely to do so based upon current claim estimates

There are changes material to the insured risk. Such changes shall include but not be limited to:

- An increase of more than XX% in turnover or \_\_\_\_% in staff, from any cause
- Any significant change to the Insured's principal business activity
- The Insurer and/or Reinsurers being able to prove fraud, misconduct or material misrepresentation on the part of the Insured
- A merger or consolidation of the Insured with another organisation in which the Insured is not the surviving or controlling entity
- Any arrangements or initiatives for winding up or statutory administration of the Insured or appointment of any receiver or manager over the Insured's assets or undertakings.
- Reinsurance treaties precluding the Insurer from continuing.

In each of the circumstances above amended terms or cancellation by the Insurer shall be notified by sending written notice, stating the circumstances under which the notice is being given. Except in respect to non-payment of premium, any cancellation will allow at least 90 days notice from the date of such notice. In the event of cancellation by the insurer pro rata return premium shall be payable based on short term tables.

Premium:

Premium has been rated and based upon exposure over the total period and is payable via annual instalments. Should the insured fail to pay the instalment premium for any reason the insurer will be entitled to recover the unpaid premium and the unpaid future instalments.