

## London/Lloyd's Processing – Differences With The Rest of The World

It has long been accepted that trading in the Lloyd's and London market was "different" to trading elsewhere, this has always been the accepted status quo; however, over recent years the broker and carrier community has seen a significant change in where they produce and, more importantly, where they secure capacity.

Growth in available capacity globally together with simplified methods of communication has vastly increased choice for brokers and their clients as to where they wish to place their business. Brokers are now Global Broker rather than London Market Brokers.

This shift has highlighted the significant differences in the operational cost margins between London/Lloyd's and the rest of the World.

Recently the broker community drew up a list of high level requirements which would allow them to reduce the gap between London/Lloyd's and remove many of the so called "Londonisms".

### Broker high-level requirements

- At the highest level, brokers require an efficient, fast, cost-effective, easy-to-use and transparent marketplace with clients' interests at the heart of processes and services. The new process must demonstrably be better in terms of service, straight through single data capture, accuracy, timeliness and reduced costs.
- Any future model must also recognise the supporting role that technology should play; i.e. enhancing the face-to-face broking that is at the core of the competitive advantage of the London market.
- This opportunity to improve market processes must be maximised and encourage continuous improvement. Brokers wish to be able to deal with the London market insurers through a consistent, efficient interface that provides the advantage of a single process with both the Lloyds and Company markets. Such a model must remove unnecessary London-specific processes and the additional effort and administrative overheads required to place risks and process claims in the London bureaux market as compared to the rest of the world.
- A new model must also ensure that all interfaces with London insurers back office are via international ACORD standards.
- Clients should receive a single delivery of contract documentation for the full subscribing market, pay one premium for the full subscribing market and (typically) receive a world leading claims service.
- Contractually, central service providers are positioned behind the insurer; the broker relationship is with the insurer not their service provider. A mechanism to raise issues with bureaux insurers to change or improve their service provider processes and procedures should be formalised.
- Nothing should be introduced into a new model that would jeopardise the BIPAR principles.
- Change must ensure that investment in the current market modernisation initiatives is not wasted.
- To avoid unnecessary delays and added costs, change must not perpetuate dual processes; for example, any new accounting, settlement or claims solutions etc., must be able to cater for the entirety of London market business to avoid incurring the overheads associated with operating multiple processes (as is currently the case with ECF and co-lead binders for example).

- Similarly, change must address the issues associated with 'legacy business' i.e. how to transition existing or 'in-flight' business onto a new model without introducing extra cost to brokers.
  - The whole issue of "FWWS" and optionality of adoption needs to be addressed and resolved. There needs to be cost consequences for failure to implement proven market modernisation capabilities.
  - Measures should be implemented to identify progress and the model must ensure that data for the use of performance statistics is collated and distributed to the appropriate parties.
- A clear road map needs to be created with agreed prioritisation and timeframes wrapped by a robust cross market governance process.

### Accounting & Settlement

- The future accounting and settlement processes should retain the benefits of the London market, e.g. net settlement on an aggregated basis. The provision of net settlement facilities, to aggregate payments, reduce accounting activity and bank charges, should be operated centrally, ideally a combined service for the Lloyd's, Companies and non-bureau markets.
- Any new accounting & settlement processes must be based upon international ACORD standards.
- We require the removal of the "non-fundamental accounting splits" burden from brokers; mirroring the XIS eAccounts service and allowing brokers to utilise or build upon existing eAccounts solutions. Change should align eAccounts in the London bureaux market in an identical manner to other ACORD enabled international markets. Dealing with the bureaux market should be simplified to that of the non-bureaux market.
- A market-wide solution to premium tax calculation should be included to provide clarity and efficiency on behalf of clients. A schedule introduced to contracts should be used to drive this.
- The lead time on banking transactions should be reduced to their practical and cost effective minimum.
- A consistent settlement cycle should operate across the London Market.
- Measures should be implemented to identify progress,

### Claims

- Change must support an improved service to clients, with faster claims agreement and payment.
- Any new model must build on the investment made in "FWWS" claims initiatives ECF & ECF2 and seek to improve the process such that brokers can interact with market applications using internationally compliant ACORD messages and processes for both the agreement and settlement of claims.

## "Londonisms"

"Londonism" is a phrase that is often used for the specific practices required for trading in the London/Lloyd's market; these practices are many, varied and often not fully understood. Some of these practices are historical, some a legacy system dependent, others are regulatory; the key is that they are specific to London/Lloyd's and therefore create additional cost with regard to process, technology and in many cases speed of Client service.

Each sector of the business has its own specific set of "Londonisms"; below a selection of current specific "Londonism" are detailed.

### **Placing**

#### Market Reform Contract (MRC)

It should be remembered that much of the MRC has value to Brokers, Carriers and Clients; however, there remain many sections within the MRC are perceived to be superfluous for a non-London/Lloyd's market. Sections such as Subscription Agreement prominently contain information that is London/Lloyd's specific which needs to be explained to Clients and non-London/Lloyd's insurers and reinsurers.

#### Leader Agreement/General Underwriter Agreement (GUA)

A London/Lloyd's practice that continually causes confusion; more and more carriers are rejecting the delegated authority of the GUA as they either do not wish to take responsibility for all other carriers or they do not wish to delegate their responsibility to other carriers.

Often a following carrier will not have a full copy of the MRC as endorsements have been agreed by the Leader/Agreement Parties and not distributed, leading to prolonged discussion when a claim occurs.

#### Service Provider (Xchanging)

The MRC contains reference to Xchanging who are a service provider and as such not party to the contract. This often leads to confusions and explanation to non-London/Lloyd's Clients.

### **Binders/Coverholder Business**

#### Continuous contracts

There is now a huge annual overhead in renewing binding authorities in Lloyds. For Coverholders it creates significant uncertainty and is therefore a potential competitive disadvantage. Brokers believe that the administrative issues (compliance & data related) need not be forced into a specific annual renewal.

#### Consolidation of Coverholder Audits

Too many audits are still tick box annual exercises and, for those Coverholders with multiple Lloyd's contracts, too many are carried out by individual Lloyds managing agents without reference to each other. From a Coverholder perspective, the experience of Lloyd's audits is typically intrusive, frequent and adds little value. The LMA are actively working on this issue with a group of Mas and this is something we would like to encourage.

## Compliance

The majority of people accept that increased compliance related activity is inevitable as a result of regulatory pressure. The challenge for the Lloyds market is to respond to these pressures in a proportionate and consistent manner.

In addition there are often good underlying reasons for Lloyd's rules but there may well be opportunities for more flexibility to be applied. Two examples could be "Homeworkers" for Coverholders, Branch office Coverholder applications, and issues around sub-delegation of binding authority on internet based platforms.

## Lloyd's Model Wordings

These are nearly ready to be issued to the market. The process has been very lengthy not least because the LMA take the understandable view that they own these wordings and that Broker input is by invitation, and that the people doing this work are the compliance and legal experts who will inevitably take a cautious approach to Coverholder business. The Broker view would be that there is too little consideration of the need to "sell" this process to the customer.

## Below Authority Claims

Coverholders are for administrative reasons frequently given authority to agree claims below a certain threshold without having to refer them back to the London underwriter for approval. However when the claim bordereaux is sent by the Coverholder to London with very few exceptions it goes to the lead underwriter before being sent on to Xchanging for settlement. The broker view is that this delays the payment of moneys at a time when considerable effort is being spent in improving London's claims performance.

## Nett Settlement

Nett Settlement has been available in the treaty market for many years and it is suggested that this model could also be used in the binder market. This would speed up cash flows around the market and improve speed of payment

## **Accounting & Claims**

### Interaction With Service Provider (Xchanging)

In no other territory does the broker interact with the carrier's service provider and have to abide by the rules of a third party. Third party interpretation of the contract leads to disagreements and delays.

### Risk Codes

Risk codes are specific to Lloyd's, broker are required to "split" premiums to this level. Such splits are not required by any other community and offer no benefit to the broker community. Each split requires separate documentation for each currency and each transaction leading to a multiplication of effort.

### Signing Numbers & Dates

Legacy referencing, each "split" has a different number and date, in the event of a claim the correct number and date must be provided. In every other territory the UMR is sufficient.

### London Premium Advice Note

Separate specialised document only required in London. All other territories simply require a Closing Advice (Invoice). This can be restrictive meaning that supplementary documentation needs to be produced whereas this information would all be included within a single Closing.

### Accounting At "Bureau" Level

Accounting is handled at a group level, LIRMA, Lloyd's or ILU. This means that payments are held up for a whole community if there is a query on a single carrier's participation.

### Technical Transaction/Payment

Different types of transaction required a different method of processing. Outward reinsurance requires a LORS entry, a premium required A&S (or eAccounts), a claim requires CLASS. IN other territories debits and credits are transacted on a single statement or where .xml messaging is used via Technical Account and Financial Account.

### Currencies

Limited number of trading currencies, all other territories transact in original currency. In addition each bureau has a different list of "hard" currencies.

### Deferred Scheme

London specific causing inadvertent funding leading to exposed credit risk for the broker.

### BSM/USM

London specific.

### Rejection Process

Only exists in the London bureau process, in all other trading areas items are queried until resolution.

### Change, Record Amendment Process

In the event the broker identifies an error caused by the Service Provider, it is the broker's responsibility to submit a correction form.

### Divergent Process

LIRMA and Lloyd's processing is often different (eg reinstatement premiums) meaning that a broker is required to manage settlement in multiple different ways.

### Payment Blocks

In certain circumstances payments can be blocked by the Service Provider without prior discussion with either the Carrier or the Broker. Further, in some cases such blocks require manual intervention by a Service Provider technician post processing even if such block is not required contractually (eg Prompt Payment Discount).

### Legacy Systems

Bureau systems are difficult and expensive to interactive or integrate with as such many are "stand alone" meaning that broker need to re-key much of the data in their own systems and then again in the Bureaux systems (e.g. LORS and CLASS).

Multiple versions of some of the Legacy systems exist each with differing requirements (eg CLASS).

### Consortia

Consortia require a separate settlement advice and process. In the event of mixed market consortia this would also be split LIRMA/Lloyd's. Therefore; on a placement with 1 Lloyd's Syndicate, 1 LIRMA Company, 1 Mixed Market Consortia and a non-bureau participant the broker would be required to issue 4 LPANs per risk code, per currency and 1 Closing Advice.

### Premium Tax

LPAN completion dictates how a tax is recorded and submitted, this differs depending on the type of tax; an explanatory note together with a supporting schedule is often also required. For non-bureau business this would be detailed in the Closing Advice and any supporting schedule.

### Bordereaux Processing

Month on Month/Quarter on Quarter processing is not consistent often leading to a broker needing to amend the information shown in the bordereaux for each submission. This does not happen outside of the bureaux.

### Changing Process

Process with the rest of the World has not significantly changed in many years, London/Lloyd's process via Xchanging changes regularly leading to confusion and increased error rates in addition to the financial cost of changing technology systems.

### Mid Term Broker Change

In the event business moves from one broker to another before renewal a complicated and extensive bureaux process need to be followed. This process often leads to errors including release of data to the incorrect broker or incorrect monies being credited/debited. This process is not required outside of the London market.