



Viewpoint

AUTUMN 2014

the newsletter from the Lloyd's Market Association



UNDERWRITING:

MARKET CONSULTATION ON CYBER RISKS AND EXPOSURES

The LMA is working with its underwriting committees and panels to provide a collective response to Lloyd's Performance Management Directorate (PMD) on its recent consultation on cyber exposures. Tom Bolt, director of PMD, issued a message to managing agents in the summer outlining the Corporation's broad concerns that cyber coverage is being added to existing contracts without sufficient analysis and pricing.

Following this note, the LMA worked with PMD to clarify its concerns around cyber exposures, and an updated bulletin, containing a clearer definition of the CY risk code and highlighting concerns in relation to a malicious electronic act leading to a systemic loss to the market, was issued by PMD on 1 October.

The LMA's business panels were specifically mentioned as a catalyst through which cross-class views on the treatment of cyber risks would be gathered. Despite a challenging deadline of 17 October for a response, the LMA provided feedback from across the majority of classes.

The LMA will now work closely with PMD to clarify Lloyd's ongoing requirements in light of the responses received. Lloyd's is aiming to implement any subsequent changes with effect from 1 January 2015.

► For more information, contact Neil Smith on 020 7327 8333 or email him at neil.smith@lmalloyds.com

FINANCE & RISK MANAGEMENT:

CATASTROPHE MODELLING PROJECT GIVEN GO-AHEAD

The consultation exercise conducted by the LMA amongst managing agents in July on the Oasis Solutions Project (OSP) led to a total of 27 committing to be active members of Oasis and prepared to provide all necessary support for the project. The Corporation has therefore pledged to fund the project.

As reported in the last newsletter, the OSP aims to deliver the ARA US hurricane model, which will run on the platform of the Oasis Loss Modelling Framework. It will provide managing agents with the ability to compare and contrast the results of the new model within the Oasis Framework with the results of their existing models.

A project steering group has now been formed and relevant working groups will be set up over the course of the next few months to take forward specific areas of the project.

The OSP is a joint LMA-Lloyd's project and is expected to take one year to complete. The Oasis Loss Modelling Framework is an independent, global, open framework for use by any party with an interest in creating a catastrophe model.

► For more information, contact Patricia Hakong on 020 7327 4872 or email her at patricia.hakong@lmalloyds.com

COMPLIANCE:

LLOYD'S CONDUCT STANDARDS

The LMA has welcomed Lloyd's conduct risk minimum standards on the basis that these will streamline conduct supervision between Lloyd's and the FCA and prove beneficial to managing agents.

The LMA has provided significant input and member feedback to Lloyd's in producing the standards and the final draft was reviewed by the LMA Regulatory Committee, followed by the LMA Board.

Steve Morrell, senior executive, legal and compliance, said: "We continue to work with Lloyd's and members in a number of areas including, crucially, the collation of management information both for members' own use and for Lloyd's market supervision purposes. One issue is around which elements should be mandated as opposed to contained in guidance. Another area is the design of the self-assessment templates that Lloyd's aims to publish in November."

Lloyd's has arranged a programme of seminars and workshops on the standards.

As mentioned in the consumer wordings update on page two, the LMA is also reviewing its model consumer policy wordings. The result of this project should assist managing agents in meeting the requirements of Lloyd's conduct risk minimum standards and FCA expectations.

► For more information, contact Steve Morrell on 020 7327 8372 or email him at steve.morrell@lmalloyds.com

CLAIMS:

ECF WRITE BACK TO ENHANCE CLAIMS HANDLING IN THE LONDON MARKET

Write Back, the functionality to allow the IT systems of Lloyd's and IUA carriers to interact with the two market claims systems – Electronic Claim File (ECF) and Insurers Market Repository – could be live by mid-2015.

Following a series of market workshops involving carriers and software providers to gather market requirements and ensure benefits to the claims handling process, a solution has been shaped allowing Xchanging to draw up detailed proposals for the new functionality.

Once functional designs have been completed and signed off by the market and ECF User Group (ECFUG), a recommendation for approval will be submitted to the Associations' Administration Committee. Approval to develop and implement has been given, and an implementation plan will be drawn up, which should see Write Back functionality available by Q3 2015.

Currently, ECF functionality allows claims data and documentation submitted by a broker to be accessed, viewed and responded to by a carrier. Write Back will

enhance the level of claims data received from the broker to near real time and allow the receipt and re-sending of claim documents, enabling carriers to build their own 'view' of a claim and respond internally, sending data and documents back to the market systems.

The benefits brought to carriers from Write Back functionality include removal of duplication of effort; access to richer data; reduction of the claims cycle time; time savings due to multiple touch points; and 24/7 claims review and response.

Lee Elliston, the LMA's technical executive and ECFUG chairman, said: "ECF and ECF2 were steps forward in the way the market reacts and responds to claims. Write Back will fundamentally change the way the London market deals with claims electronically."

► For more information, contact Lee Elliston on 020 7327 8340 or email him at lee.elliston@lmalloyds.com



WORDINGS:

REVIEW OF UK CONSUMER WORDINGS

The LMA has been working with a range of market business panels to identify model wordings used in the market that would benefit from the creation of alternative versions which would better meet the needs of consumers and small businesses.

The review follows discussion with the Financial Conduct Authority (FCA) and an acknowledgement that LMA model wordings designed for commercial customers are likely to be too complex for consumer buyers.

Where appropriate, the LMA is now in the process of agreeing new model policy wordings with applicable business panels.

Other moves include a proposal to restructure the Lloyd's Wordings Repository and for the LMA to issue new guidance on the use of its model consumer wordings.

Alison Colver, LMA senior executive, underwriting, said: "Our work with the business panels primarily focuses on those areas where there is an existing model wording which needs amending to meet the new requirements."

► For more information, contact Alison Colver on 020 7327 8370 or email her at alison.colver@lmalloyds.com

LEGAL:

EUROPEAN COMMISSION CONSULTS ON FUTURE OF IBER



The Insurance Block Exemption Regulation (IBER) expires on 31 March 2017. The European Commission (EC) is obliged to report on the functioning and future of IBER to the EU Parliament and Council by spring 2016, and so the EC is now consulting with stakeholders.

The current IBER relates to insurance and reinsurance and covers agreements with respect to joint compilations, joint tables and studies, and common coverage of certain types of risks by co-(re)insurance pools. Where agreements fall within its ambit, the IBER exempts these from the general prohibition of anticompetitive practices – it is a 'safe harbour' for relevant arrangements. The IBER is one of three remaining block exemptions – the others relate to maritime liner consortia arrangements and motor vehicle distribution.

The consultation questions raised by the EC are broad-ranging and cover market developments over the last decade including whether the IBER assists or hinders development; improves capability for accurate pricing; assists new entry into classes of business; enhances cross-border trade; and increases choice, diversity and supply of products, as well as other matters. The questionnaire also asks for feedback on the practical application of the IBER.

The LMA is liaising with Lloyd's on this consultation, which closes on 4 November.

► If you have comments or feedback or would like more information, contact Kees van der Klugt, LMA director of legal and compliance, on 020 7327 8407 or email him at kees.vanderklugt@lmalloyds.com

MARKET PROCESSES:

DATA CAPTURE SERVICE NOW LIVE

The pilot 'evaluation' phase of the Data Capture Service (DCS) was completed at the end of August and the service is now fully live and available to all carriers. Crucially, Xchanging demonstrated its ability to deliver data to challenging quality and timeliness service levels.

Amongst the key findings was that DCS offers immediate benefit to some insurers, but that a number of enhancements and dependencies need to be addressed for benefits to be maximised for the majority of insurers.

The pilot highlighted the need for DCS output to be more closely aligned with the full extent of insurers' data requirements, as well as the need for standards for multi-section and multi-layer contracts, schedule data and deeper Market Reform Contract data. The LMA is working closely with the Central Services Refresh project team and other projects to ensure alignment of data definitions.

Rob Gillies, the LMA's director, market processes, said: *"In order to benefit fully from DCS, insurers must develop their ability to auto-submit to DCS and automatically integrate DCS data into underwriting systems. Due to this dependency on system changes, its adoption by insurers is likely to be a more prolonged affair than had been originally anticipated but we are already making progress in this area."*

Leading firms Atrium and Antares have both set up their workflow systems to automate MRC submission to the DCS and are advancing towards interfacing the output ACORD message into their respective underwriting systems, whilst also gaining benefits from data quality improvements.

DCS materials, including an 'on-boarding' pack, are available from the LMA website: www.lmalloyds.com/genesis.

- *Further opportunities for new insurers to get involved with DCS are now available. For more information, contact Chris Eden at Xchanging on 020 3604 7736 or email him at chris.eden@xchanging.com*

CENTRAL SERVICES:

NEW DATA MESSAGING CHANNEL FOR BROKERS AND CARRIERS

This summer saw a number of changes to the Central Services Refresh Project (CSRP) as the focus on the delivery phase of the project sharpens.

A Target Operating Model (TOM) has been developed and the first phase – known as the Post Bind Submission (PBS) – has now been defined. PBS includes a new messaging channel through which brokers may submit structured premium and claims data to central processing based on transactions at a 'non-fundamental' level. This change will remove 15 of the 30 negative 'Londonisms' identified by brokers. The post-PBS process provides a broker/insurer interaction model, which will take Xchanging out of unnecessary dialogues.

PBS will include two new services, which the project team is currently expecting to build on the foundations of LMA's Data Capture Service and the market's electronic accounts implementation, as well as a new Data Management Capability to support messaging and structured data handling.

Malcolm Beane, LMA advisor, CSRP, said: *"The project team are currently working through a series of workshops to obtain feedback on the TOM from carriers and brokers across the London market. An implementation roadmap is under development with a particular focus on the work required to mobilise resources and begin the next analytical and design phases of the project."*

The project is formally under the auspices of the London Market Group and CEOs from the key market bodies are members.

- *For more information, contact Malcolm Beane on 020 7327 3333 or email him at malcolm.beane@lmalloyds.com*

MARKET LIAISON:

NEW STUDY TO EXAMINE COMPETITIVENESS OF LONDON INSURANCE MARKET

A major study on the future competitiveness of the London insurance market is due to be published in mid-November.

Prepared by Boston Consulting Group (BCG) on behalf of the London Market Group, the report will provide a comprehensive overview of the evolution and current position of the London market, as well as asking some tough questions about its future.

The LMA has contributed throughout the process as a member of the steering group that is driving the study.

Mel Goddard, the LMA's market liaison director, said: *"This report will give us both factual and numeric information about where the London market is in the world right now for both insurance and reinsurance non-life markets.*

"It will also examine our strengths and weaknesses and the challenges we face, giving the market some clear guidance on what it needs to address in

the coming years in areas such as distribution, technology and globalisation.

"In a changing world with shifting GDPs, emerging economies, new legislation and new technology, this report asks the question: how do we retain or improve our position? What opportunities and threats do we face?"

Rather than focusing on capital solutions, the report will focus on the strengths the market should play to and the threats it needs to address. Once published, the LMA will act as a sounding board for the Lloyd's market's response.

The report, Mel Goddard added, can also be used as a tool to support conversations with government and regulators. *"It will offer facts and figures to the wider world of the impact that our market has on global commerce."*

- *For more information, contact Mel Goddard on 020 7327 8334 or email her at mel.goddard@lmalloyds.com*

LEGAL:

INSURANCE BILL REACHES HOUSE OF LORDS

The Bill to reform insurance contract law in the UK was introduced to Parliament this July by HM Treasury. This followed several years of consultation by the Law Commission, in which the LMA has been involved at every stage. The next stage, where substantial debate will take place on the final shape of the Bill, will be in the Special Public Bills Committee (SPBC) of the House of Lords. This committee is in the process of being set up (at the time of writing) and time will then run for stakeholders to make written and maybe oral submissions.

Kees van der Klugt, director of legal and compliance, said: *"The LMA will make submissions to the Parliamentary committee if we believe this to be necessary to reinforce the position of managing agents, to preserve any of the amendments to the Bill which were obtained at consultation stages or otherwise to clarify any issue which the SPBC raises."* He added that the LMA's stance would somewhat depend on representations made by the Law Commission itself and on any particular matters that the SPBC puts under the spotlight.

There is a specific issue on which the LMA continues to try to reach a consensus amendment with the Law Commission, which could then be jointly put to HM Treasury as sponsoring department. This relates to the pre-contractual disclosure obligation of beneficiaries of policies that are not themselves party to the insurance contract in question. The Bill contains a new statutory scheme for a fair presentation of a risk and it

is essential that this is properly understood and that perceived problems are ironed out.

The LMA is planning a training programme to take place in the transitional stage, between the Bill being enacted and its effective date, and also to publish market guidance. This would cover the new duty of fair presentation and remedies for breach; the effect of the Statute on contract wordings (for example, the banning of 'basis clauses' and the changed nature of a warranty); the contracting-out provisions and other aspects. It is premature to finalise this until we know the final content of the Bill. We are discussing its programme with LIIBA and the IUA with the aim that this extends across the market.

The government's aim is to have this legislation on the statute books before April 2015. At present, it is provided that the effective date will be 18 months after the Bill is enacted, so this would fall sometime in 2016 (subject to amendment in Parliament) if the target is met.

For links to HM Treasury and Law Commission publications, including the Insurance Bill, visit the LMA website: www.lmalloyds.com/LMA14030.

► *For more information, contact Kees van der Klugt on 020 7327 8407 or email him at kees.vanderklugt@lmalloyds.com*

CLAIMS:

THIRD PARTY ADMINISTRATORS DATABASE

An LMA-led initiative to develop the market's first official central register of third party administrators (TPAs) has received backing from the vast majority of Lloyd's businesses.

Forty-nine managing agents have now authorised Charles Taylor Insurance Services, working on behalf of the LMA's Binding Authority Claims Group, to approach their TPA partners with the objective of populating a database with details about their services and operational/compliance information.

The aim is to create a comprehensive database that reduces the time and effort for TPAs in the UK and internationally in submitting due diligence information with the potential to promote shared audits within the Lloyd's market. Additionally, the database will assist in submitting regulatory information to the Corporation of Lloyd's on a quarterly basis, as well as give it access to conduct its own regulatory and audit checks.

Although there is a small registration fee for TPAs, access to the database is free to managing agents.

Robert Gregg, the LMA's manager, claims, said: *"This is the first time a database of this nature has been created for TPAs and we are encouraged by the take-up from the managing agents."*

"When engaging a TPA, a managing agent has to carry out a due diligence exercise and, with around 600 TPAs globally, this exercise has been costly and time-consuming. The Financial Conduct Authority, along with Lloyd's, is looking at how delegated business is operating and we are confident this will alleviate some of the challenges in obtaining data and information, as well as reducing the time, effort and costs for all involved."

► *For more information, contact Robert Gregg on 020 7327 8404 or email him at robert.gregg@lmalloyds.com*



Lloyd's Market Association



@LMAUpdates