

New Technology, New Behaviours  
The essentials for change in the London insurance market

Speech by Lord Levene

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It's now been a little over four months since I first moved into the famous office on the 11<sup>th</sup> floor of the Lloyd's building. It's an office with a wonderful view across the southern skyline of London. But if I swivel my chair and look out, swinging past Minster Court and the International Underwriting Association, I am presented with a very different perspective. It's a view into the great glass-walled atrium of the Lloyd's building. And as I stand there at my window, I am able to see into a large number of offices. They are bright, modern offices – clean lines, plasma screens, ergonomically-friendly desks – but there's one thing which spoils them. Many of these offices seem to be little more than storage spaces for large stacks of paper files.

Everyday I go to my office window and there they are. Stacks of claims files 10...20 high. Some days they go up...and some days they come down. But *every day*, they are there.

In the different tasks that I have undertaken, I have never come across an industry as paper-bound as the London insurance market, and I have to say that it even surpasses the Civil Service, where I spent some years, in the volume of its paper.

It's odd to think that the fundamentals of the insurance industry have changed so little. Back in the days of Edward Lloyd's coffee shop down on Tower Street, clients sought insurance from an underwriter, often via an agent of some sort. Those underwriters would pledge the support of their own balance sheet in return for a premium. Lloyd, I believe, would have little problem in recognising those principles in today's industry.

Many slips have gone under the bridge since the underwriters sat at their boxes in the coffee house with their quill pens, sealing wax and hand-printed editions of Lloyd's List.

As an industry we have clearly taken many substantial steps forward.

But I do not believe we have come far enough – not if we are to maintain our position as the global market’s premier trading centre in the 21<sup>st</sup> century.

We have all spoken at length about the Victorian pipework of the London insurance market. The metaphor is depressing but accurate. Indeed, in some cases I think we’re talking about Georgian pipework.

Often more than a hundred days to turn a pencil marked slip into something recognisable to the customer as a policy document. And when it comes to paying a claim and getting the money to the customer, we’re sometimes talking in terms of months rather than days. As a newcomer to the industry, I have to say that the delay in finalising the details of a policy to me is entirely unacceptable. I was staggered to learn that many major policies of insurance go into force with significant issues unresolved sometimes for months on end. I cannot think of any other major financial transaction where this would be countenanced. Can you really imagine anything closer to effectively placing bets on a race after you have watched the finish.

In my view steps need to be taken throughout the industry to bring this situation to a close, and to arrive at a situation where the terms of a policy must be agreed prior to its coming into force, failing which it will not be valid. I realise that this would be a huge chasm to bridge, but I think that if the holders of major policies where this situation presently subsists were actually aware of that fact, they would never accept it.

But, for the first time in many decades, I think as a market we are able to say that there is light at the end of that Victorian – or Georgian – tunnel. Somewhere up ahead, we begin to see the first glimmerings of some 21<sup>st</sup> century technology.

Let me give you three names – three names which hold the key for the future of this market:

LMP.

Xchanging.

Project Blue Mountain.

LMP – London Market Principals – is a modernisation programme conceived in 1999 by Lloyd’s and the IUA and joined by the brokers within a few short months.

LMP’s aim is simple. To review that Victorian pipework, to see what are technology issues and what are behavioural issues. And then...to change them. Because the London market recognised that if London is to maintain its status in the world, old rivalries had to be put aside, old divisions broken down.

One of the key initiatives of the LMP programme was the introduction of new-style slips – slips that bring a far greater degree of contractual certainty at the point of signing. According to a survey by the Lloyd’s Market Association, over 50% of all slips at Lloyd’s are now in the new format.<sup>i</sup> And the London Market Brokers’ Committee is able to say that brokers representing 80% of market capacity are now using the new slips.<sup>ii</sup>

Xchanging, I mentioned earlier – or to be more precise Xchanging Ins-sure Services. I think it’s fair to say that Xchanging is quietly revolutionising the London market’s business processing. Created by a merger between the former Lloyd’s Policy Signing Office and the London Processing Centre, and a major capital injection from Xchanging. Since then, Xchanging Ins-sure Services has effectively re-engineered policy production and claims accounting.

Finally, Project Blue Mountain. I think it’s fair to say that few new technology projects in the London market have attracted so much attention with so few actual facts in circulation.

What is Project Blue Mountain? It is an electronic operating platform that creates increased connectivity within our industry. What does that mean in plain English? It means that Project Blue Mountain is a clever piece of new technology that allows the IT systems of brokers and underwriters to talk to each other to a degree that has never previously been possible.

As a new arrival to this industry, I am still staggered by the fact that information is often passed between different parts of our market by people faxing print-outs which have to be re-keyed at the other end. How many other industries rely upon such un-joined up technology? I’ll tell you: none that are going to be successful in the 21<sup>st</sup> century.

Project Blue Mountain offers a solution to one of the biggest business processing problems our industry faces – that’s why Lloyd’s is backing it. The solution is a common sense one. The key to its success is the recognition that we need to participate in the change rather than be mere spectators watching its effects.

In the weeks ahead, you will all hear a great deal more about Project Blue Mountain and the benefits it can bring to our industry. It will be an interesting time for all of us at Lloyd’s and the London market.

So there you have three solutions to some of the problems we face with our business processing: LMP, Xchanging and Project Blue Mountain. Three wide-ranging initiatives that apply 21<sup>st</sup> century thinking and technology to problems that have dogged us for decades.

But the question I find myself asking is: if all these initiatives prove to be the successes I believe they will be, how many days will that shave off our processing times? How much faster will our claims payment be?

The answer, I believe, is that these three initiatives have the potential to make significant inroads into our timings. But in order for that full potential to be reached, we – all of us in this room – need to play our parts. We can put forward technical solutions, but unless we are prepared to adopt them, to develop them, and to change our well-worn rituals in accordance with them, we will never deliver the degree of change that I believe is now within our grasp. We, the leaders of this industry here today, must act now.

We all know and accept that change is necessary – indeed, desirable. But perhaps too many of us are waiting to watch others make the change, before we ourselves are prepared to take the risk. That is not an attitude that will help our market.

In this market, we have been only too keen to embrace change during poor underwriting conditions, but during the hard market we have pushed that change to one side. But this time we cannot afford to do that. Lloyd’s has learned its lessons – the hard way. Lloyd’s has learned that unless we change now, we will not be prepared for the next down cycle. And then it will be too late. That is why we have implemented the creation of the Lloyd’s franchise and our Franchise Board – to raise standards of underwriting and risk management,

and to manage the transition between hard and soft market conditions. But all this work will go to waste if the improvements in underwriting standards are not matched by substantial improvements in processing standards.

It's true that conditions now are the best for many years. But like an arctic summer, the London market has a relatively brief window of opportunity in which to take advantage of them and make the necessary improvements.

Too many industries have failed to act during such windows of opportunity. But then the window of opportunity for failure is the largest of them all.

I urge you not to miss the chance that we have been given.

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<sup>i</sup> Lloyd's Market Association survey January 2003

<sup>ii</sup> Lloyd's Market Brokers Association survey January 2003