

MARKET BULLETIN

From	Andrew Brookes, Head of Market Reform Programme Office
Date	14 December 2005
Reference	Y3698
Subject	Contract Certainty Returns – First Phase
Subject areas	Franchisee data returns
Attachments	Appendix A: Guidance for Reporting Appendix B: Reporting Template
Action points	All Managing Agents to complete and return the required return by the stated deadlines
Deadlines	Monthly return due 15 days after the end of each month, with first return due on 16th January

1 Introduction

- 1.1 It is widely accepted that the Contract Certainty Programme will reduce needless risk and improve efficiency across the Franchise, through Franchisees working in co-operation with brokers subject to the same regulatory pressures. Significant progress has been made already, as witnessed by the improvement in slip contract certainty scores, but a considerable amount remains to be done in terms of implementing the Code of Practice, Checklist and guidance recently issued by the Market Reform Group.
- 1.2 The FSA has indicated that it would be prepared to take action to reinforce market progress, where firms which fall short of an acceptable standard in relation to the proportion of their contracts which meet the market-wide Contract Certainty targets agreed earlier in the year, namely:
- 30% in December 2005
 - 60% in June 2006
 - 85% in December 2006.
- Such action could involve additional capital requirements being levied.

- 1.3 Moreover, since much of Lloyd’s business is subscription, any such shortfalls could damage the efficient and safe functioning of the Franchise as a whole, and have a negative impact on the reputation of the Franchise.
- 1.4 Accordingly, Franchise Board has recently decided that all Franchisees will be required to notify the Franchisor that they have adopted the Contract Certainty Code of Practice, no later than 16 January 2006; a bulletin to this effect was issued on 8 December.
- 1.5 To support and reinforce this, Franchise Board has also decided that Franchisees should submit monthly returns to the Franchisor on their performance in relation to the targets. These data will give Franchise Board early indications as to whether the Franchise as a whole is performing satisfactorily both in relation to the targets, and in relation to the overall London market standard as evidenced by broker data supplied to the Market Reform Programme Office.
- 1.6 The Franchisor will also be able to detect signs of lagging performance in particular areas, and to work with relevant Franchisees to address any such difficulties.
- 1.7 Principle 7 of the Contract Certainty Code of Practice requires insurers and brokers to “collect and maintain data on their own contract certainty performance at individual contract level”. Accordingly, the Franchisor does not believe that the requirement to submit data to the Franchisor constitutes a significant additional burden for Franchisees.

2 Action Required

- 2.1 Franchisees should submit the first such return **by 16 January**, in respect of business signed during December. In view of the tight timescales, and recognising the pressures of the renewal season, the initial scope of the return will be limited:
- to simple, aggregate, data (see the guidance attached at Appendix A);
 - to include only contracts where the Franchisee is the overall slip leader or the Lloyd’s leader on a company market-led slip.

Please see Section 3 below for commentary on future development of the return.

- 2.2 The return may be based on a representative sample of such contracts. Wherever a sample-based approach is used, this must be accompanied by a short explanation of the construction and relative size of the sample, which must not be less than 25% of all contracts led in the applicable period. For convenience, syndicates may wish to use the (25%) sample collated for LMP Slip Audit purposes.

- 2.3 Please note that Franchisees will not be asked to evaluate contracts in relation to:
- the calculation or notification of signed lines; or
 - timely provision of evidence of cover.

Such matters fall to brokers to record.

- 2.4 Please also note that where the firm quote or bound line is dated after the inception date the contract does **not**, at present, satisfy the current definition of contract certainty, and should be marked as a failure. This implications of the Contract Certainty definition in this respect are under active review, since such business is often capable of achieving many, if not all, aspects of Contract Certainty.

3 Future Development

3.1 Franchisees will be asked to widen the scope of future returns (i.e. for lines written after 1 January 2006), to include:

- information at a more granular level, particularly in relation to problem areas such as failures to achieve Contract Certainty, notification of signed lines, and late submissions; and
- information on achievement of Contract Certainty, including timely evidence of cover, in relation to coverholder business.

These data will help the Franchise to identify and work with the LMA and Franchisees to resolve particular problem areas.

3.2 It will not be acceptable to provide sample-based data on the future returns: details of all applicable contracts (consistent with Principle 7 of the Contract Certainty Code of Practice) will be required. This is necessary in order to enable effective validation of this data against data obtained from other sources.

3.3 We will issue further information early in the New Year on the details of these future returns. It is expected that these more detailed returns will be required from March onwards i.e. that the first such return will cover business signed during the February 2006 calendar month.

If you have any questions in relation to this bulletin, please refer to the contacts detailed in Appendix A.

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Appendix A: Monthly Return from Managing Agents: initial guidance

Introduction

The Market has agreed a set of targets to achieve the Contract Certainty definition through to the end of 2006:

- 30% of monthly volume by end-2005,
- 60% by mid-2006 and
- 85% by end-2006.

Brokers are already submitting aggregate returns to the Market Reform Programme Office (MRPO), to provide a market level view of progress toward these targets.

Managing Agents are requested to follow the guidelines set out below, in producing high level performance returns for the Franchise. This will allow the Franchisor to monitor progress and consider corrective action if relevant.

Information from individual Managing Agents will be treated as confidential.

Principles for Data Collection

1. The purpose of the data collection is to record the achievement of contract certainty, according to the MRG definition¹ on each and every contract where a syndicate has acted as slip leader. The return must include all contracts signed by the leader in a given calendar month. If a Managing Agent considers it is impractical to collect data according to signing date, it is asked to contact the Franchisor immediately to discuss whether alternative approaches are possible (see contact details at the end of these guidelines).
2. Each Managing Agent must submit a return for each month.
3. The return must be made on the standard Excel template: a PDF version of this is attached for information at Appendix B. An active version of this template can be downloaded from the Market Returns website (at <http://info.lloyds/msuapps>). If agents are experiencing difficulties in downloading this spreadsheet, please contact the Market Returns helpdesks on 020 7327 5021.
4. Only one return should be made by each Managing Agent for each month. This return should, however, incorporate a spreadsheet for each active syndicate run by the managing agent.
5. The data in the return counts numbers of contracts, not value of contracts.
6. The scope of the required data is all London Market insurance and reinsurance, bureau and non-bureau, including declarations under any delegated underwriting agreement. For the sake of clarity this includes all such contracts, whether insurance or reinsurance,

¹ See <http://www.lmp2001.co.uk> for Code of Practice issued to market, defining Contract Certainty and principles to be followed.

single or mixed market (including overseas placements via a London broker), open market or binder/lineslip business², and whether traded via paper or electronically.

7. Accordingly, include:
 - a. all open market contracts
 - b. line slips
 - c. declarations off of line slips
 - d. binding authority agreements
8. The Managing Agent's contract certainty assessment should be on the basis of the agreed definition of Contract Certainty and upon the Contract Certainty Checklist³, in particular Points 1 – 4 (inclusive) of the 'Pre-inception Requirements' detailed in that Checklist. (Other Checklist points need not be reported upon as the Managing Agent does not need to confirm awareness of the signed lines in order to a contract to be reported as considered certain, nor to report on issuance of Evidence of Cover.)

Principles for Post Inception Placements

1. Any post inception placement will, at present, fail to meet the contract certainty definition, and must be recorded as such in the return. This, and any other reason(s) leading to a contract certainty failure should be recorded in the syndicate's own records.

Completing and Submitting the Return

1. The standard template must be completed in full, with nil entries where appropriate.
2. The completed return must be submitted in electronic form to Lloyd's Business Process Reform department via the following e-mail address: measurement@lloyds.com.
3. At present, it is expected that two returns will be made on the template at Appendix B: one for business signed during December 2005 (due on Monday 16th January 2006), and one for business signed during January 2006 (due on Wednesday 15th February 2006). Please see Section 3 of the covering Market Bulletin for commentary on future development of the return.
4. Please contact Paula Singleton (paula.j.singleton@lloyds.com) with queries on completing the spreadsheet. Please contact Karen Cloutour (karen.cloutour@lloyds.com) with difficulties in submitting the spreadsheets to the above e-mail address.

² All declarations off lineslips should be included. Data concerning binder business, however, should at present only relate to binding authority agreements, not to individual contracts issued thereunder. Please see Section 3 of the main Bulletin for commentary on likely future data requirements in respect of binder business.

³ See the Contract Certainty Checklist on www.lmp2001.co.uk. In addition, the Market Practitioner Measurement and Targets Guide, also posted on this website, provides additional background on measurement and targets.

APPENDIX B: MANAGING AGENT MONTHLY RETURN

Managing Agent :

Contact details:

Syndicate No*:

Reporting Period:

Month:

Year:

Type of Business**	Contract Certainty Acheived by Inception	
	Yes	No
Open market contracts***		
Binding Authority Agreements		

* Please provide a return for each syndicate run by the managing agent.

**Including: reinsurance as well as insurance

*** Including line slips and declarations off line slips

Notes:

1. Information from individual managing agents will be treated as confidential.
2. Complete the Return with the number of contracts applicable to each field.
3. Send the completed Monthly Return by email to measurement@lloyds.com within 15 days of the end of the month being recorded.