The dramas of insuring the film industry
LLOYD'S WINS AT industry awards

ILONDON MARKET AWARDS

Rolf Tolle, Director of Franchise Performance, was named Industry Achiever of the Year, while Lloyd's also won an award for its charitable efforts at the annual Insurance Day London Market Awards in December.

More than 400 insurance professionals saw Tolle receive the honour at London's Grosvenor House Hotel. His award is recognition (by the judges) of his "immeasurable contribution to the growing strength and reputation of the Lloyd's brand around the world".

During his five years at Lloyd's, Tolle has been the driving force behind establishing the Franchise Performance Directorate, the work of which has been credited as being integral to Lloyd's underwriting success in recent years.

Tolle said: "A lot has changed since I joined Lloyd's in 2003 and I am proud of everything that we have achieved. I feel this award is for all those that I work with, and those that have contributed to this success over the past several years."

Lloyd's Charity Challenge was also recognised for raising £250,000 for Lloyd's Charities Trust's three partner charities, Coram, FARM-Africa and Samaritans. Eleven teams from across the market raised the money in just over a month through various fundraising activities. These included a 10km run and selling rides in classic cars.

Graham White, Chairman of Lloyd's Charities Trust, said: "Lloyd's Charity Challenge was a wonderful example of what the combined energy and ingenuity of the Lloyd's market can achieve. The other Charity Challenge judges and I were extremely impressed by the commitment of the 11 teams from the Lloyd's market and it's great that this has now been recognised with the Insurance Day Charitable Initiative of the Year Award."

Lloyd's reiterates KEY PRIORITIES

Lloyd's has published the latest version of its Strategic Plan and set out its direction and key priorities for the next three years.

The plan includes Lloyd's rolling Three-Year Plan – which is reviewed and tested on an annual basis – and its annual Franchise Business Plan detailing the activities for 2009 that will deliver the strategy.

Lloyd's Chief Executive Richard Ward said: "Lloyd's vision remains to be the platform of choice for insurance and reinsurance buyers and sellers to access and trade specialists property and casualty risks.

"We aim to deliver this vision by building on the five principal benefits of operating at Lloyd's – the market’s performance management framework, the capital advantages of mutuality, our superior financial security and ratings, our global market access and our cost-effective operating environment."

Commenting on the current economic climate, Ward added: "Strength and flexibility must remain the hallmarks of our marketplace as we face the uncertain times ahead. We have shown that we can meet difficult challenges and I have no doubt that, in partnership with the market, we can continue to do so in the future."

MORE www.lloyds.com/strategy

PADDDING UP

Lloyd's Cricket Club embarks on its tour of Singapore see page 19

WITH THE OSCARS STILL FRESH IN OUR MINDS, WE TAKE A LOOK AT HOW REAL LIFE CAN SOMETIMES BE STRANGER THAN FICTION WHEN IT COMES TO INSURING THE MOVIES.

Lights, camera, cover: insuring the movies

As the world’s financial systems continue to be buffeted by the global economic storm, the insurance industry is keeping a keen eye on any potential regulatory changes that may alter the way they do business. See our discussion piece on page 16.

With new products items, feedback and scores, shipping companies have taken in order to protect their vessels from today’s pirates. And, continuing the nautical theme, we feature a sailor with an altogether more modern twist – a technological one. See our discussion piece on page 16.

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LLOYD’S INSURES
youngest circumnavigator

UNUSUAL RISKS
True to its tradition of supporting seafaring ventures, Lloyd’s is insuring the youngest person to sail single-handed and non-stop around the world.

Underwriting Risk Services Ltd (URSL), a subsidiary of Talbot, is providing 16-year-old Michael Perham with cover for all physical and liability risks to his Open 50 racing yacht TotallyMoney.com. He is also covered for personal accident, medical and death cover.

Paul Miller, Underwriting Director at URSL, said: “We are delighted to be involved in Michael’s latest sailing challenge, which will no doubt prove to be another British achievement to inspire the world. This is an exciting opportunity for us to support the youngest sailing talent of our time in the true spirit of the great British maritime tradition.”

The perils associated with the voyage are numerous and wide-ranging, from the average bout of seasickness to encounters with whales and stray containers.

Michael Perham

NEW POLICY
covers all technology risks

NEW PRODUCT
CFC’s Business Development Director Graeme Newman said: “Technology companies are a different breed from traditional professions. The legal landscape is constantly evolving and these companies are delivering products and services not even envisaged when most insurance policies were written.”

Innovative features of the policy include clear cover for breaches of client contract, while PI insurance has been tailored to avoid gaps by considering software both a product and a service. Furthermore, unlike standard policies, stringent requirements about the amount of collateral they must provide when they write business there.

Current rules require that non-US reinsurers must provide collateral equivalent to 100% of their potential US liabilities. In December, the National Association of Insurance Commissioners—which represents American insurance regulators—adopted a framework that would set the amount of collateral needed on a sliding scale, according to the reinsurer’s financial strength.

The International Underwriting Association had estimated that the old rule resulted in at least US$50bn being tied up to provide the necessary collateral. This created a significant extra cost to doing business in the US.

European insurers had argued that the old system discriminated on the grounds of geography rather than financial strength.

The new Reinsurance Regulatory Modernisation Framework Proposal could take years to implement but would allow foreign reinsurers with the highest financial strength rating, such as Lloyd’s, to post collateral equivalent to 10% of gross liabilities.

The next steps are expected to require federal legislation in order to help achieve consistent implementation across all states.

Sean McGovern, Director and General Counsel, said: “Although we are pleased with this change, we are still pushing for the complete abolition of collateral requirements to have parity with US reinsurers.”

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LLOYD’S NEWS
Lloyd’s has welcomed a decision by US insurance commissioners to modernise reinsurance regulation, calling it a “major step forward”. Lloyd’s has been at the forefront of lobbying for change on the issue for about a decade. The change means that reinsurers based outside of the US, including those at Lloyd’s, could benefit from less

MARTIN PARKER JOINS R.L. DAVISON
Specialist Lloyd’s wholesale broker R.L. Davison has appointed Martin Parker as Commercial Underwriting Manager. Parker, formerly an underwriter for Kay International and Towergate, will be responsible for setting up a new Schemes Division in the Company’s Commercial Department.

Climate Change and Security

NEW 360 REPORT
Climate change has risen rapidly on the world agenda as a critical global issue that has the potential to have a substantial impact on how our planet functions. However, understanding exactly how climate change will hit resources and what the security implications for business might be has not been understood in any great depth.

That is why Lloyd’s is working with the International Institute for Strategic Studies (IISS) to produce a concise 360 report to provide business leaders with a rapid and comprehensive overview of the problem.

A key aim of the report is to help industry leaders focus on what they should be considering when factoring climate change and security into their future planning. Due to be published in April 2009, the report will be structured around four issues which will be affected by climate change: water, food, energy and natural resources, and demographics. The report will contain case studies, highlighting the potential security implications in specific regions from each of these issues.
HOW PROPERTY TREATY LOSSES AFFECT LLOYD’S

LLOYD’S STATISTICS
What has Lloyd’s experienced over the past 15 years with property catastrophe (cat) losses? During this period Lloyd’s has hit with a number of substantial disasters, which have demonstrated a varied level of impact to Lloyd’s gross result.

The chart below shows the impact of gross property treaty XL losses on the Lloyd’s market between 1993 and 2007. The blue bars show the gross losses in millions of pounds and the purple line shows the Lloyd’s whole account loss ratio for each pure year of account.

It is clear from the graph that, in a soft market, a relatively ‘small’ cat loss can have a severe impact on the overall result and the balance sheet, while in a hard market when rates are strong, the capital is much more resilient to big property cat hits.

This is particularly evident during the period 1998–2000 where, with small cat losses, we have low loss ratios peaking at almost 150%. On the other hand, in years 2004–2005, cat losses were huge but loss ratios were more favourable.

In 2008, a soft market, the (re)insurance industry experienced an above-average frequency of catastrophe and large risk losses; it looks like one of the worst loss-making years ever. Only time will tell, but so far Lloyd’s position for 2008 remains respectable.

In uncertain markets and in the context of broader economic conditions, the importance of managing the cycle, including the impact of large losses on the portfolio becomes even more evident.

Lloyd’s Franchise Performance Directorate is constantly working on ways to provide value-added business tools that allow managing agents to benchmark, plan, measure and manage their business better.

Source: Franchise Performance Directorate

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Measuring our progress

In September 2008, Lloyd’s undertook its fourth annual survey to measure customer satisfaction. Consisting of 703 interviews with key contacts in the UK, US and Europe, the questionnaire gathered broker, coverholder and end client feedback about core processes, ranging from quotation to claim.

Recognising the need to continue focusing on improving the market’s efficiency, speed and accuracy of processing, Lloyd’s Market Operations team will use feedback from the annual survey to continue to work with the market to further progress in these key areas.

The initial findings are that overall satisfaction has increased steadily since 2005 and now stands at 7.9 out of 10 (chart 1), and positively more than half of the respondents believed that the processes covered in the survey have improved in the past 12 months (chart 2).

Another positive trend is that more of those surveyed are now rating Lloyd’s service as better, rather than worse, than that of its competitors (chart 3).

Satisfaction is highest with front-end quotation processes, including the speed and accuracy of quotes.

However, claims continues to be a key area for focus – not just for Lloyd’s, but for the industry as a whole – specifically speed of payment and keeping informed during claims, where satisfaction has not really changed but perceptions of Lloyd’s comparative performance have improved.

Satisfaction with speed of contract has continued to improve for the fourth consecutive year, from a starting point of 5.2 out of 10 in 2005, to 7.3 in 2008 (chart 4).

Overall, while further improvement is required, significant progress is noted. One survey participant said: “They are improving all the time. I think they should carry on the focus of their electronic reforms.”

New initiatives such as the Accounting and Settlement repository and Electronic Claims Files were seen as starting to have a positive impact, although it is recognised as early days.

Overall, 53% of respondents said that there were no other specific areas that Lloyd’s should address as priority reform areas. Carl Phillips, Head of Market Operations, commented: “It is pleasing that the initiatives have been translated into improving customer satisfaction, which reinforces the need to continue to modernise.”

Read the interview with the Market Operations team on page 14.
INSURING THE MOVIES

Temperamental stars, risky locations and delicate equipment – when it comes to film-making, it’s not just the plotlines that have dramatic potential

ON 22 FEBRUARY, celebrities, fans and the world’s media gathered at Hollywood’s Kodak Theatre to celebrate the most famous awards ceremony of them all: the Academy Awards, or, as they are more commonly known, the Oscars. Yet behind the designer dresses, diamonds, the tears, the acceptance speeches and the gushing razzmatazz that forms the modern-day Oscars, there lies one of the world’s most sophisticated industries, with astronomical revenues for those films that strike a chord with audiences. Last year’s highest grossing film, for example, was the latest installment in the Batman series, *The Dark Knight*, which pulled in some US$997m in gross revenues for Warner Bros.

Feature films may transport cinemagoers to fantastical realms of delight or suspense, but this industry is no less subject to the vagaries of real life than any other. If there is a disruption to the filming – due to the stars, the location or the equipment – it could cost the producers a huge amount. It is here that the Lloyd’s market can help.

Every industry has its own specialist risks, and the movie industry is no different. But claims relating to feature films often catch the public’s attention. Sadly, Australian actor Heath Ledger died halfway through filming Terry Gilliam’s *The Imaginarium of Doctor Parnassus*.

Lloyd’s is a big player, especially when it comes to US studios that need to purchase additional cover for filming on location. The first is cast insurance, which covers any added costs as a result of key people such as the director falling ill. Then there’s coverage for faulty stock, which is for risks attaching to the medium that the production company is filming on. I’ve had instances of claims where the production company has shot, has come to view the rushes and they’ve found that not enough light has come in.”

Wood says that loss or damage to props, sets and wardrobes also comes as part of the package, as are delays to the shoot as a result of physical loss or damage. Other features include miscellaneous equipment, such as the lighting rig and sound devices, and cover for money and temporary offices – a large feature film will generally set up a production entity in its own right and film insurance will temporarily cover the office space.

Finally, he adds, typical FPI cover will incorporate employer’s liability and public liability insurance as appropriate. Even though FPI itself is reasonably comprehensive, there are always additional covers that
Loyd’s launched its final 360 risk project report of the year, Litigation and Business: Transatlantic Trends at the New York event. Produced in conjunction with RIMKO Europe, the report found that the legal environment itself is changing fast, and business needs to become more familiar with the trends that could change their risk profile in the future. These include the funding of litigation by third-party organisations searching for new investment opportunities in a difficult economic climate; the expected arrival of class actions in Europe; and greater shopping around by plaintiffs for the legal forum that will bear the costs. Results once again, the overall message for business is that boards need to review and strengthen their risk management strategies in response to a range of emerging liability risks. 

yet even with rates coming down, from the market’s perspective, film insurance is actually a reasonably good area in which to operate. “The actual claims record in film insurance is very good,” says Woods. “Claims are less frequent, but those that come in can be more severe. These days the picture is pretty good as health and safety standards are so strict and the industry is so professional.” 

Besides, adds Walsh, it’s not only the film industry itself that knows what it’s doing. Loyd’s has been in this game for years, and the market as a whole has developed considerable expertise. “We’ve got many years behind us,” he says. “I’ve been doing this for ten years and my predecessor was doing it for some time before me. That’s meant we’ve developed great relationships with brokers and producers.”

FILM STAR

The Lloyd’s Building has also been a favourite with film-makers, often starring as fictional corporate headquarters. Here are some of its credits:

- Lloyd’s cameoed alongside Russell Crowe twice, first in Proof of Life in 2000 and then in A Good Year in 2006
- You can see Pierce Brosnan dashing down the iconic escalators to make his flight to Greece in Mamma Mia!

THRIVING MARKET

Walsh says that Hiscox’s main market for FPI is the UK and Europe, with the Scandinavia region in particular.

He notes that it is important to differentiate film cover from its televsional cousin. “Film insurance is very similar to television insurance, but they are two distinct markets,” he says. “In some ways, insuring a film can be easier, as TV requires a lot of paperwork because there is often a lot of content. Feature films don’t always have the same mass production set-up.”

In recent years, adds Walsh, the film insurance market has softened substantially as more insurers from the company market have sought to offer cover. “Post 9/11, rates for film insurance changed overnight, increasing dramatically, but since then they’ve eroded year on year as more players have become involved,” he says.

A particular production company may require. “We’ve had added covers for films that are shot in certain territories where there’s been terrorism, for example, while some production companies will buy personal accident cover for famous actors — though that’s more unusual,” says Woods. “Most famous actors will already have their own cover, which has been bought via their managing agency.”

As far as limits are concerned, Woods estimates that somewhere between US$20m–$30m is considered appropriate for a medium-sized feature film. The limits are much higher for a big film – US$100m might be more appropriate.

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Insurers are ahead of the fleet in the fight against piracy

When Somali pirates seized Saudi supertanker the *Sirius Star* south of the Gulf of Aden in November, it made piracy front-page news. Two weeks later, 1,000 passengers on the cruise liner MS *Ventura* narrowly escaped being hijacked. As the centre of global shipping insurance, Lloyd’s has long been at the head of efforts to protect vessels, their crews and cargo from pirates.

Even before the *Sirius Star* departed on its ill-fated voyage, Lloyd’s Chairman Lord Levene identified piracy in the Gulf of Aden as a particular problem at a Lloyd’s-hosted dinner attended by NATO Secretary General Jaap de Hoop Scheffer. Until the problem is solved, ships will continue to be at risk and their insurers face rising claims.

Neil Smith, Senior Manager at Lloyd’s Market Association, believes that insurance and government needs to work together to address this issue. He says: “Insurers alone cannot act to resolve the problem; it will take a collective political effort on behalf of global governments to address the political situation in the area.

“We hope that the combination of EU and NATO action can mirror the success of dealing with piracy in the Malacca Straits. Further investment and closer co-operation between industry and governments internationally will be vital to defeat this threat in the long term.”

NATO’s refocused operations in the Gulf of Aden have included the introduction of sophisticated intelligence network – known as the Maritime Situation Awareness programme – to work alongside the flotilla of NATO frigates deployed to chase off potential pirates.

Insurance products such as anti-piracy kidnap and ransom policies and effective risk management do go some way to mitigating the damaging effects of these attacks – but stationing armed guards on board can help stop an incident in the first place.

**PREVENTION**

Hart Security is one company that provides armed guards to ships at risk. Its Director of Maritime Operations, Bryan Toki, knows first-hand what it is like to be attacked by pirates. At the time, Toki was aboard a ship laying optic cables deep beneath the surface of the ocean. Packed with valuable equipment, the ship was a prime target for pirates.

Late one night, the radar showed a vessel closing in, then another; then another, until the ship was surrounded by fishing boats that chose to ignore the water hoses and loud hails aimed in their direction.

“There were six boats, with about 15 guys on each boat,” says Toki. “Most of them had machetes in their hands. We could hear them yelling and getting ready with their grappling hooks.” Fortunately, the hijack attempt failed. After the pirates got a glimpse of the nine security guards on board – and their semi-automatic weapons – they quickly retreated.

Hart Security’s services come as part of a package from Lloyd’s broker Swinglehurst for vessels transiting the Gulf of Aden, where nearly 100 ships were hijacked in 2008 alone.

Paul Agate, Swinglehurst’s Managing Director of Marine and Energy, says putting guards on board provides the crew with confidence as well as physical protection. He says ship owners who buy the product pay a rate of a third to a half of what they might pay if the same vessel was travelling unguarded. “It makes sense,” he says. “The saving is far greater than the cost of deploying the security personnel.

An alternative to the Gulf of Aden would be travelling around the Cape of Good Hope, a detour that would typically add on 12 days at sea to a journey terminating in northern Europe. Daily running costs could be anywhere from US$3,000 to US$10,000.

APJ Services Ltd takes another approach. The Lloyd’s cover holder is behind a stand-alone annual piracy policy that provides kidnap and ransom cover up to US$5m for a fleet or individual vessel. As well as a ransom for the crew, it also covers the cost of the ransom drop, as delivering ransom money to a situation such as Somalia can itself be a difficult, dangerous and expensive job.

The policy gives global cover for a year and ship owners must tell the underwriter before the vessel enters danger zones as listed by the Lloyd’s War Committee. Such a journey requires an additional premium, but if the ship makes it through such a zone untroubled, it can earn a no-claims discount.

Back in the Gulf of Aden, the increased focus by international governments is proving to be an effective measure against pirates.

The increasing presence of Indian, Russian, British and US navies in the region has already successfully thwarted numerous piracy attacks in 2009, although the number of those attacks remain high. Many believe a long-term solution for the situation off the coast of Somalia has to lie onshore.

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**RECENT ATTACKS**

- Pirates around the Horn of Africa reported to have received more than US$150m in ransom money in the year to November 2009.
- The seizing of the *Sirius Star* shocked the world because of its size. The oil tanker is 330m long with a capacity of two million barrels of crude oil. The ship is worth an estimated US$150m and its cargo another $100m.
- Another spectacular raid by Somali pirates involved the seizure of the Ukrainian MV *Aravind*, carrying a cargo of military hardware including 33 Russian battle tanks.

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**Keeping PIRATES AT BAY**

www.lloyds.com MARKET Issue One 2009
Meet the Lloyd’s team working behind the scenes to help modernise the market

For the market Operations team, change is never made for its own sake. Charged with helping to reform and modernise the tools that help the market do business, the team takes a purely practical approach to the job in hand.

“There’s got to be a real benefit for all market participants in what we do,” says Carl Phillips, Head of Market Operations. “We are effectively enabling change in the market by creating services that provide choice, and cost savings. This in turn is helping to make Lloyd’s the market of choice for insurance.”

Under the overall direction of Sue Langley, the Market Operations team is made up of members with considerable experience and background in the market. They drive a number of projects, such as Electronic Claims File (ECF), Accounting and Settlement processing, and the developing Lloyd’s Exchange and Lloyd’s Information & Reporting projects – all with the common goal of improving business efficiency.

The team also looks at the longer-term issue of what the provision of central services by Lloyd’s should be. Phillips says: “This, along with our other projects, is reviewed with our colleagues in the Lloyd’s Company and Broker markets through the Lloyd’s Market Association, the International Underwriting Association of London and the London International Insurance Brokers’ Association. This collaboration and single vision will produce a modern and efficient market.”

The team is also investigating the issue of so-called ‘negative Londonisms’ – features unique to the London market, such as accounting splits – which may detract from the appeal of doing business there.

Common Standards

As identified by the market, a key prerequisite for allowing greater improvement in operational efficiency will be the establishment of a common set of standards that cover the complete life cycle of a risk. Anne Rannie, who manages the Standards project, says: “Eventually, we aim to have a single set of ACORD standards with the ultimate goal of simplifying business and reducing costs. There are a number of standards-related activities underway within the London market and Lloyd’s role is to support these by co-ordinating plans for the development and implementation of standards as well as education and communication.”

Phillips uses the construction industry as an example of why this is so important. “Every component that goes into a building meets a British Standard – you know what size a brick is; you can’t have multiple manufacturers making bricks of different sizes,” he says. “It’s similar for the insurance industry. Working across multiple standards makes the process more onerous.”

Linked to the standards programme is the Lloyd’s Exchange, which is simply a messaging exchange that gives market participants the ability to connect with one another. Two of the chief benefits to the Exchange are that it only requires a simple connection and that it checks and polices the core standards to the market. Information to do with simple risks, endorsements, Signed Lines and Accounting & Settlement is sent in the ACORD standard message format, linking to established trading platforms such as RI3K, as well as insurers’ and brokers’ own systems.

Sharmi Biswas, Senior Project Manager of the Lloyd’s Exchange, emphasises that the tool is not designed to change the established way in which business is placed. Instead, it is intended to support the electronic exchange of information in a standardised form and supplement the ‘face to face’ process that is integral to Lloyd’s. Indeed it can help to seal contract certainty through allowing the signed line to be sent electronically to the carrier, weeks earlier than in the current process.

Biswas says: “Our intentions for the Exchange in 2009 are to get the service up and running, piloting it and, once it’s proved successful, we’ll aim to get more of the market connected so that they can use it to send standard structured messages.”

“We’re planning three-month phases for the pilot, using a small group of carriers and brokers to start with. We then want to get more organisations connected by further phases and ensure we go through a major renewal season to test the environment for when we expect a large number of messages to go through.”

Information Handling

Another project the team is pioneering is improving the efficiency of how Lloyd’s receives and handles information. The Lloyd’s Information Project will ultimately allow market players more flexibility in how they collect and report information, cutting out unnecessary reporting.

Senior Project Manager, Adam Stafford, explains: “The project is about unlocking the current process whereby reporting information is gathered in the market. Traditionally at Lloyd’s, accounting and information collection has been bound together, whereas in every other market the two are separate. By streamlining how information is provided to Lloyd’s, we will improve efficiency and reduce costs.”

The Market Operations team has already completed the mammoth task of auditing the information Lloyd’s currently collects from the market. The next step is to identify from that the pieces of minimum information the market needs to provide and then establish the best ways of collecting and managing it. In the more established field of ECF, the market continues to see positive progress. Steve O’Connor, Operations Manager, says: “ECF and Accounting and Settlement processing were first developed some years ago and have been very successful. While there have been issues we are now business as usual and, by working together, we can do more things forward.”

As a result of these initiatives, the market is seeing some tangible advantages. ECF is reducing the overall settlement time, with claims being paid, on average, about 40% faster via the electronic method; while the Accounting and Settlement processing is producing faster premium payments.

Phillips adds: “When you consider the size of market, premiums being settled a day earlier enables considerable investment income – it really underlines the positive changes that can happen. Lloyd’s, through its managing agents, is keen to continue to modernise the market and is in a great position to achieve that.”

“Now is not the time for reflection, we’ve made great strides and it is time to build on this. Working with the Market Reform Group and our Market Association colleagues, we can build on the momentum of the achievements to date and capably deliver realised benefits.”
As the world’s financial architecture begins to be re-built, questions remain over what the future shape of regulation will be. There is a strong opinion that regulation needs to be more effective but better regulation doesn’t simply equate to more regulation. Excessive regulation generates costs which ultimately have to be borne by customers. Governments also need to guard against knee-jerk reactions in times of crisis. No one wants the pendulum to swing too far and for protectionist barriers to form. If there is one clear lesson from this crisis, it is that there needs to be more international coordination, not less.

Despite the extraordinary circumstances that we find ourselves in, better regulation principles must continue to apply and every new measure must be analysed to ensure that they are actually needed and remedy the problem they are designed to address. It would be easy to think that given the economic conditions there should be a new Gherkin style regulatory regime for the financial services sector as a whole. Insurance is not banking and measures that may be appropriate for the banking sector should not automatically be applied to insurance. What will happen remains to be seen but what is certain is that regulation of the financial services sector will never be the same again. President Obama has already pledged to remake the financial regulatory system to adapt to the challenges of a new century and Gordon Brown is championing the establishment of an OII or single regulatory body.

**GLOBAL COOPERATION**

International coordination of prudential measures at sensible levels is welcome. It should help to avoid unfair regulatory arbitrage and should facilitate mutual recognition of different regulatory systems, leading to the removal of unnecessary, duplicative host State measures.

This is a critical time for the future development and direction of international regulation as the EU institutions seek to reach a common view on the contents of the proposed Solvency II framework regime. This regime will establish new and demanding capital requirements, risk management and disclosure standards for EU insurers and reinsurers.

While the EU debates Solvency II, the US debate on the future structure of its state-based insurance and reinsurance regulatory regime gathers pace. A variety of ideas are being discussed. Some in the US insurance industry have argued the case for an Optional Federal Charter for several years to follow the model of US banking regulation. There must be uncertainty whether in the current environment an approach which allows the predominance of national insurers and reinsurers will find favour with legislators. But another way, this proposal now faces some challenges, given the criticisms of the regulation of banks and the uncertainty about which agency (whether a federal or state level) was responsible for regulating certain financial institutions. General Counsel at Lloyd’s, Sean McGovern believes that “some form of federal oversight of insurance is necessary, particularly for a global business such as Lloyd’s. The US needs to speak with one consistent voice on insurance matters and engage with governments and regulators in other countries. It is difficult to see how you can do that without a federal presence. There is scope for tactical and targeted measures, such as the establishment of an OII or reforming reinssurance regulation.”

State regulators and legislators have traditionally opposed the switch to this but the National Association of Insurance Commissioners (NAIC) and many state regulators now accept that there is a case for some level of federal involvement. This followed a recent move from the NAIC to implement reinsurance regulatory reform proposals which would reduce collateral requirements for alien reinsurers. While this is progress in the right direction, Lloyd’s continues to lobby for the abolition of all collateral rules that discriminate against foreign insurers and reinsurers.

**SAFETY AID OR YOKE?**

Perspectives on the prospects of new regulation in the insurance and reinsurance industries.

There is a belief that, when a firm is seeking to recruit, it wants compliance staff with a detailed knowledge of the regulatory requirements in their particular field. I would argue that this is misguided. What is important is that an individual understands the overarching regulatory regime and how that translates to a commercial environment. From there, gaining an in-depth knowledge of sector-specific requirements is secondary.

There is no doubt that regulation needs to pay greater attention to insurers involved in complex financial products, particularly where banks and insurers are involved in the same products.

There is a degree of certainty that something that markets and customers would probably welcome. As things settle down, there will be a real pulling together of knowledge and catching up by regulators, and I get the sense that they will be much more cooperative with one another.

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While it is always prudent to review regulation requirements, the insurance industry does have a range of successful control mechanisms in place. Any change in regulation should be thoroughly analysed for its long-term gain. It should not be a short-term reaction.

Speaking to a number of key industry figures, Market found there is widespread expectation regulators will coordinate their work internationally and focus more attention on complex financial products.
BATTING FOR LLOYD'S

The Lloyd’s Cricket Club (LCC) team have embarked on their 2009 tour of Singapore and Malaysia. The team are scheduled to play five matches in two weeks in between opportunities to meet and network with the local insurance community.

Lloyd’s has a long history of involvement in the sport – the Singapore Cricket Club, which the Lloyd’s team will play, was established in 1852. Mark Brosnage of Nausch, Hogan & Murray, the club’s tour manager, said: “Singapore seemed an obvious choice for the tour, as it is the undisputed hub of the insurance market in the Far East.”

SINGAPORE AND MALAYSIA TOURING TEAM 2009

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Loss Book update

The market wishes the team the very best of luck.

Lloyd’s has long-standing links with the community – including unlocking the talent in our neighbouring communities – is something that the Lloyd’s market has a long-standing commitment to.

Harnessing the potential technology is important to every part of society and we hope that our Special Award will particularly help young people who might otherwise have found themselves excluded from the opportunities that technology can open up.

Graham White, Chairman of Lloyd’s Charities Trust, said: “I am delighted that we are able to contribute to helping the e-Learning Foundation expand its positive work in East London. “Investing in future talent – including unlocking the talent in our neighbouring communities – is something that the Lloyd’s market has a long-standing commitment to.

most disadvantaged schoolchildren in the UK are still living on the edge of our digital society, with home access to a computer and the internet an expensive and seemingly inaccessible dream.

The e-Learning Foundation aims to reduce the effect of this digital divide by working with schools, parents and other stakeholders to ensure that all children have access to the learning resources that technology can make available, when and where they need them, both at home and at school.

The Special Award donation from Lloyd’s Charities Trust will be directed towards supporting the e-learning projects in schools in East London, where Lloyd’s has long-standing links through its Community Programme.

The project will provide children in selected schools with laptop computers to use both at school and home, enabling more than 500 pupils to have the e-learning tools they require for their education.

SADDLE UP!
The Lloyd’s Saddle Club is pleased to announce its affiliation with The Riding Club of London. This provides members with use of top-quality horses for weekends in the UK and overseas as well as opportunities of riding lessons at the Kings Troop, Regent’s Park and the Light Cavalry and hacks in Windsor Great Park. The affiliation will also enable members to attend social events and lectures from legends of the field.

No offers or membership email info@ridinglondon.com www.ridinglondon.com COMMUNITY

www.lloyds.com
As economic conditions continue to worsen and governments grapple for solutions, the spectre of regulatory change looms large. The shape of these changes remains to be seen but one thing is certain – things will never be the same again.

Initiatives developed now will shape the future framework in which the financial services industry, including insurance, will operate. The risks this poses to our industry should not be underestimated and we need to engage now with governments and policymakers.

We cannot afford to see knee jerk reactions from regulators and government, or insurers to be considered to be part of a wider UK financial services problem that should rest at the feet of the banks. What we are currently facing is primarily a banking crisis, not an insurance crisis. It would be foolish to pretend that the economic downturn has not had any impact on the insurance sector but, unlike the banks, we are working normally and are ready to help society manage its risk.

Despite the shadow of recession, the outlook for the insurance sector is healthy and Lloyd’s remains in strong shape going in to our results announcement at the end of March.

As an insurer based in Europe we are currently dealing with our own specific regulatory changes – Solvency II. We welcome the proposal and support its objectives. Planning for Solvency II’s implementation is a key priority for Lloyd’s in 2009 and I strongly encourage the European institutions to agree the framework directive, which is a key step in bringing about greater capital and supervisory harmonisation not only in Europe but also globally.

VIEWPOINT
RICHARD WARD
Lloyd’s Chief Executive