

# MARKET BULLETIN

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<b>Title</b>	Lloyd's Claims Management Principles and Minimum Standards
<b>Purpose</b>	Revision of Lloyd's Claims Management Principles and Minimum Standards
<b>Type</b>	Event
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<b>Deadline</b>	Effective from 1 January 2012
<b>Related links</b>	<a href="#">Market Bulletin Y3579</a> dated 1 July 2005

## Introduction

The aim of the Claims Transformation Project (CTP) is to advance Lloyd's Claims Vision to facilitate and increase the competitive advantage from the efficient handling of claims on their merits. This vision is being delivered through a number of workstreams, one of which is Enhanced Governance as discussed by Tom Bolt in his speech of 14 October 2010 and in Richard Ward's subsequent letter to CEOs of 15 October 2010.

As part of Lloyd's work on Enhanced Governance, this bulletin sets out revised Lloyd's Claims Management Principles and Minimum Standards ("Minimum Standards"). The Minimum Standards replace the existing standards which were first issued to the market in 2005 (Market Bulletin Y3579). They articulate a more detailed set of standards by which Lloyd's will evaluate managing agents.

The Minimum Standards are also being brought up to date so as to be compatible with Solvency II requirements.

Lloyd's will be organising an introductory presentation by Tom Bolt to discuss the Minimum Standards and the future release of evaluation guidelines and a balanced scorecard to assist further in Enhanced Governance. The presentation will take place in the Old Library at Lloyd's at 1pm on Friday 15 April 2011. All CEOs and Heads of Claims are requested to attend.

## **Lloyd's Approach to Implementing the Minimum Standards**

The Minimum Standards have been developed following extensive consultation with the market and have been legally reviewed, including by US counsel.

Managing agents will need to demonstrate to Lloyd's how the Minimum Standards have been met, when requested to do so. In implementing the Minimum Standards Lloyd's recognises that all syndicates and managing agents are different. These Minimum Standards do not seek to impose a "one size fits all" approach on all managing agents. Exactly how the Minimum Standards are achieved will be a matter for each managing agent.

## **Scope and Implementation**

The Minimum Standards are applicable to all managing agents in respect of their management of inwards claims to syndicates authorised to conduct business at Lloyd's.

Recognising that managing agents may require time, before implementation, to assess performance and address any gaps, a nine month transition period will commence on 1 April 2011. Lloyd's commits to meeting with all managing agents during this transition period to review managing agents' progress towards meeting the Minimum Standards, where there are gaps.

Managing agents performing at a level above the Minimum Standards are encouraged to continue to do so, and will be fully supported in those efforts.

## **Additional Information**

A set of guidance notes to accompany the Minimum Standards will be issued shortly to address frequently asked questions, provide further information as to how Lloyd's will assess managing agents and to assist in developing practices which meet Lloyd's expectations.

Evaluation guidelines and a balanced scorecard to further assist Lloyd's in assessing managing agents will be introduced later in 2011.

## **Enquiries**

Any enquiries relating to this bulletin should be addressed to David Lang (telephone 020 7327 5012, email [david.lang@lloyds.com](mailto:david.lang@lloyds.com)); Will Curtis (telephone 020 7327 5612, email [will.curtis@lloyds.com](mailto:will.curtis@lloyds.com)) or each managing agents' Claims Performance Manager.

Tom Bolt, Director  
Performance Management Directorate

## Lloyd's Claims Management Principles and Minimum Standards

Effective From 1 January 2012

### Important information regarding the application of these standards

Lloyd's recognises that these principles address many different types of insurance and the different types of claim that arise. The statements are intended to be flexible and will apply in varying ways based on the available facts and particular wordings, timing, and other circumstances specific to each claim. The principles do not prescribe how any one claim should be handled or set standards by which any managing agent's conduct on a claim should be judged. It is for managing agents to consider the particular circumstances of their syndicates and to implement these standards in a way that is appropriate to their businesses while ensuring that the standards are met.

Where there is a conflict between these standards and local regulatory obligations, managing agents should ensure that the local requirements are met first, before seeking to implement these standards.

Use of the term '**followers**' in this document refers to following Lloyd's syndicates only.

Terms marked \* are defined in the glossary of terms attached.

## **1: Claims philosophy**

### **Principle**

The claims philosophy should be clearly documented and communicated within the managing agent, and reflected in the management and organisation of the business.

### **Minimum standards**

- a) The managing agent's philosophy includes documented executive and board commitment to, and oversight of, an effective claims management process. This will include commitment, where needed, to fulfilling responsibilities to followers.
- b) The philosophy will include board commitment to adjust and manage claims on the merits to meet or exceed Lloyd's Claims Management Principles and Minimum Standards.
- c) Each syndicate business plan\* proposed by a managing agent addresses the management of claims.
- d) A director of the managing agent has board responsibility for effective claims management.
- e) The managing agent's board regularly considers the efficiency and effectiveness of the claims management process using appropriate management information.
- f) There is executive and board commitment to ensuring that claims information and knowledge is available for, and used in, business planning and decisions. The managing agent's organisational structure facilitates this process.
- g) The managing agent's philosophy relating to the management of claims is documented and communicated to staff whose jobs involve or relate from time to time to claims handling, reserving or underwriting.

## **2: Resources, skills and management controls**

### **Principle**

Managing agents should have appropriate claims resources, skills and management controls in each class of business written or proposed to be written.

### **Minimum standards**

- a) There is appropriate claims resourcing, structure and succession planning for the classes of business written and adequate planning and resourcing to address business development. Skills gaps and resourcing needs are identified and addressed in a timely manner as appropriate to the circumstances.
- b) Required skills have been identified and are being developed and supported via appropriate training and development processes, which include consideration of changes in the legal and regulatory environment. There are job descriptions for each role.
- c) Claims staff have documented authorisation levels for settlement and reserving appropriate to the type of claim, their experience, and skills. Individual authority levels are reviewed at least annually and adjusted as circumstances require for efficient and effective claims management.
- d) There is appropriate separation, at the operational level, of underwriting and claims authority/duties to manage potential conflicts of interest.
- e) Identified performance criteria for individuals are in use and are explained to staff. These criteria are linked to the objectives of the annual claims business plan\*.
- f) There is a structured process of annual performance review, used for the planning and review of learning and development and the management of performance.
- g) The board ensures that sufficient management controls and audits (internal and external) are used to evaluate claims performance\* and where matters are identified as requiring attention, they are addressed.
- h) There is an appropriately detailed, regular file review process, the basis of which is documented, and the results of which reviewed with the relevant claims handler.

### 3: Claims adjustment and management

#### Principle

Claims should be adjusted and processed in an accurate and professional manner and properly managed to conclusion, having regard to the circumstances of the claim.

#### Minimum standards

Managing agents:

- a) Following notice and during the life of claims, assess what actions can be taken to resolve claims on the merits and in reasonable time frames having regard to the circumstances.
- b) Maintain processes and procedures for the management of claims that are clear, documented and shared with relevant personnel as needed to ensure effective management of claims.<sup>†</sup>
- c) Provide an appropriate level of service to brokers or policyholders in the circumstances of the claim, including communication of actions and progress where appropriate.
- d) Have in place an appropriate documented anti-fraud strategy.
- e) Provide adequate training and procedures to comply with applicable sanctions and anti-money laundering rules.<sup>†</sup>
- f) Identify, monitor and pursue, where appropriate, rights of subrogation and salvage.

**Note:** where a managing agent is acting purely in the capacity of a follower, it will be necessary to comply only with those minimum standards marked <sup>†</sup>.

## 4: Documentation

### Principle

The handling of a claim should be appropriately documented and information relevant to the management of the claim retained for an appropriate period.

### Minimum standards

- a) Where it is the managing agent's responsibility, claims files are maintained in such a way as to ensure that relevant claims information is available to followers in a timely manner.
- b) An appropriate document retention policy is documented and in use, including for electronic information, taking into account legal and regulatory requirements.<sup>†</sup>
- c) An appropriate and documented procedure for handling discovery, including e-discovery, is in use.<sup>†</sup>

**Note:** where a managing agent is acting purely in the capacity of a follower, it will be necessary to comply only with those minimum standards marked <sup>†</sup>.

## 5: Claim reserving

### Principle

Claim reserving should be undertaken with the goal of a consistent, timely and accurate result and should take into account both possible costs and indemnity potential.

### Minimum standards

- a) Managing agents have a documented reserving philosophy agreed by the board that provides overview guidance for assessing and determining claim reserves\* and that is made available to followers on request.
- b) Claim reserves\* exist without prejudice to coverage and make financial provision taking into account currently available information. Managing agents in a claims agreement role should ensure that the rationale for the current reserve position is available to followers.
- c) Initial reserves are set as soon as practicable following first advice.
- d) Matters where further information is required before an estimate of reserve may be made are reviewed regularly.
- e) Managing agents take reasonable steps to obtain information to enable a reserve to be established and for it to be maintained up to date. Reserves on open claims are reassessed promptly upon receipt of relevant additional information.
- f) Reserves on open claims are reviewed at least every 12 months, and the reserve normally either actively confirmed or amended, as appropriate, based on up to date information.
- g) Claims agreement parties take reasonable steps to ensure that:
  - I. followers receive, as soon as practicable, the same reserve related information received by those claims agreement parties; and
  - II. followers are alerted to situations where it is appropriate for them to consider independently the reserve.
- h) Large reserve entries are validated via an internal peer review process.



## **6: Management of external service providers**

### **Principle**

Disciplined procurement and pro-active management procedures should be employed in the selection and use of third parties.

### **Minimum standards**

#### **Delegation of claims authority including where claims management is outsourced:**

- a) Managing agents comply with Lloyd's and other regulatory requirements in relation to outsourcing.
- b) Claims are handled in accordance with Lloyd's Claims Management Principles and Minimum Standards.
- c) Managing agents use a documented process to assess third parties for suitability prior to delegation to them of claims handling authority.
- d) Managing agents determine the appropriate level of handling, reserving and settlement authority given to the third party in respect of each type of claim for which authority is delegated.
- e) The terms of delegation agreed between the managing agent and the third party are documented.
- f) The managing agent monitors regularly the service provided by the third party and, if required standards are not met, restricts or terminates the delegation.
- g) The managing agent ensures that the third party is audited in respect of the arrangement normally every 12 months, or at other appropriate intervals, and that any matters arising are considered, and where appropriate, addressed.

#### **Management of external experts\* appointed on claims:**

- h) Managing agents should have a documented process for the selection, appointment and monitoring of external experts.
- i) External experts are normally selected from an approved panel established by the managing agent. The composition of the approved panel is reviewed against business requirements and performance delivered.
- j) When requested, managing agents articulate to followers the basis for selecting an external expert for an individual claim.
- k) The managing agent communicates and agrees the goals and budget with any appointed external expert\*, and, where appropriate, the approach to be taken. There should be appropriate information available to followers indicating what the expert is required to deliver.
- l) Where applicable, managing agents should advise the external expert they select that the instruction is also on behalf of any Lloyd's followers of that managing agent on London market subscription placements.
- m) Invoices are checked against written agreements and non-agreed variances queried and, as appropriate, rejected. Performance against budget is monitored and variances justified.

## **7: Performance**

### **Principle**

Planning, measurement and review of claims management performance and capabilities should be appropriate and regular.

### **Minimum standards**

- a) The managing agent prepares annually a written claims business plan\*, approved before the end of the first quarter by the board or a delegate of the board for that purpose. The plan includes relevant KPIs relating to the delivery of claims-related objectives and internal claims performance targets.
- b) Progress against the claims business plan\* is reported to the board, in writing, at least quarterly and with variances identified and subsequently addressed.
- c) The managing agent's written criteria for the assessment of claims performance\* are sufficiently broad, subject to assessment, and in regular use.

## **8: Claims agreement for subscription business**

### **Principle**

For subscription business there should be an effective claims agreement process to protect the interests of followers, supported by co-operation of claims agreement parties.

### **Minimum standards**

- a) Claims agreement parties assist any other claims agreement parties to fulfil their role, within the terms of the applicable Lloyd's Claims Scheme.
- b) Claims agreement parties ensure that appropriate procedures are in place with other claims agreement parties where decisions are likely to be required at short notice.
- c) Followers assist the claims agreement parties to fulfil their role, within the terms of the applicable Lloyd's Claims Scheme.

## Appendix: Glossary of Terms

- **Syndicate Business Plan:** means a business plan prepared by a managing agent in accordance with paragraph 14A of the Underwriting Byelaw.
- **Claims Business Plan:** the managing agent's documented annual plan(s) for delivery of claims-related objectives.
- **Claim Reserves:** are contingent financial provisions based on available information which do not indicate a coverage position or expected outcome unless and until the insurer(s) accepts coverage without reservation.
- **Claims Performance:** the extent to which the claims function delivers against the annual claims business plan, the managing agent's syndicate business plan(s) and Lloyd's Claims Management Principles and Minimum Standards.
- **External Expert:** any external organisation or person retained by the insurer (or on the insurer's behalf) to provide services in relation to the assessment, settlement, or other resolution of claim(s).