

# Market Bulletin

Ref: Y5227

<b>Title</b>	Electronic Placement
<b>Purpose</b>	To provide details of the Electronic Placement Mandate for 2019 and to confirm the requirement that, from 1 June 2019, every Lloyd's broker is connected to an electronic system for the placement of contracts of (re)insurance.
<b>Type</b>	Event
<b>From</b>	Peter Montanaro Head of Syndicate Capability Oversight Performance Management Directorate 020 7327 5971 <a href="mailto:peter.montanaro@lloyds.com">peter.montanaro@lloyds.com</a>
<b>Date</b>	20 December 2018
<b>Deadline</b>	Updated Electronic Placement Mandate implemented from 1 January 2019  1 June 2019 for every Lloyd's broker to be connected to an electronic system for the placement of contracts of (re)insurance

## Related links

### **Electronic Placement Mandate**

The Franchise Board has approved the details for the continuation of the mandate for electronic placement through 2019.

The formal mandate is attached to the bulletin and which includes the following key amendments from the 2018 mandate:

- Increased targets for Q1 and Q2 2019 (an updated bulletin will be issued during Q2 2019 specifying requirements for Q3 and Q4 2019).

- Confirmation that lead and follow business is in scope from Q1 2019.
- Confirmation that the following business will remain out of scope until further notice:
  - A contract entered into by a coverholder
  - A contract entered into on a verticalised bases
  - A contract broked by a broker that is not a member of the London & International Insurance Brokers Association (“LIIBA”) (for Q1 2019 only).
  - Any Reinsurance Treaty contract
- Additional fees and rebates will be calculated based upon performance against targets. However, the maximum fees / rebates may be limited subject to the volume of in scope contracts that have been entered into using a Recognised Electronic System.

***Please note that in Q2 2019 requirements for quotes / submissions will be added to the mandate. Work is ongoing with the market to define those requirements.***

**Requirement that Lloyd’s brokers are connected to an electronic system for the placement of contracts of (re)insurance**

In July 2018, LIIBA requested that the Franchise Board require that every Lloyd’s broker must be connected to a Recognised Electronic System for the placement of contracts of (re)insurance (the “Requirement”).

The Board considered this request earlier in the year and agreed, in principle, that the Requirement was appropriate and necessary in support of the mandate that managing agents must use electronic placement. This is an essential element of making the Lloyd’s market more efficient and cost effective.

***Lloyd’s Brokers***

In order to be registered as a Lloyd’s broker, a broker must meet certain criteria set out in the requirements made under the Intermediaries Byelaw. These include at paragraph 18(c) that the broker “*has adequate, suitable and compatible systems, protocols and arrangements for the conduct of business in the London insurance market.*” In order to implement the Requirement the following words will be added to the end of paragraph 18(c), “*which must, from 1 June 2019, include connection to a Recognised Electronic System (as defined in Lloyd’s Bulletin Y5170)*”. This should provide adequate time for a Lloyd’s broker to arrange connection.

A Lloyd’s broker that wishes to connect to the PPL system will be required to apply to PPL by not later than 1 April 2019 to ensure that they can be successfully connected to that

system by 1 June 2019. A Lloyd's broker can alternatively arrange to be connected to another recognised electronic system and this is required to be completed by 1 June 2019.

Lloyd's will undertake a review of each Lloyd's broker's compliance with the Requirement in Q4 2019 and the output of the review will be brought back to the Franchise Board for further consideration. It is proposed that this is done through self-certification.

Lloyd's will work closely with LIIBA to ensure compliance with the Requirement.

### ***Non-Lloyd's Brokers***

A managing agent is also able to accept business from a non-Lloyd's broker providing that the managing agent satisfies itself that the broker meets the criteria applicable to Lloyd's brokers. The Requirement is also applied to this category of brokers.

This requirement would only affect business accepted by a managing agent directly from a non-Lloyd's broker. The Requirement does not apply to coverholders or service companies or to business placed with Lloyd's China.

## Requirements for the use of electronic placement in the Lloyd's market requirements for 2019

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### Requirement to use electronic placement

*These requirements are made under section 6 Lloyd's Act 1982, paragraph 12(b), 13 and 63 of the Underwriting Byelaw*

1.1 Each managing agent shall ensure that for each syndicate managed by it, for each period set out in the table below at paragraph 1.2, no less than the prescribed target percentage of Relevant Contracts of all Relevant Contracts with an Inception Date commencing during that period have been entered into using a Recognised Electronic System.

1.2

Period / Class	Q1 2019 Target	Q2 2019 Target	Q3 2019 Target	Q4 2019 Target
	40%	50%	TBA	
All classes (Relevant Contracts)				TBA

Targets for specific classes of business may be prescribed in due course

*This table will be supplemented from time to time.*

1.3 Within 30 days of the end of each period set out in the table above, a managing agent shall certify to the Society whether it has complied with the requirements set out in paragraph 1.1.

## Incentive rebates and additional fees in connection with the adoption of electronic placement

*These requirements are made under section 6 Lloyd's Act 1982, paragraph 2 of the Membership (Entrance Fees and Annual Subscriptions) Byelaw and paragraph 2 of the Powers of Charging Byelaw*

### *Potential partial rebate of annual subscriptions for 2019*

2.1 If, as at 1 January 2020, a managing agent has complied with all of the target requirements set out in paragraph 1.1 for the prior periods in 2019 for a syndicate managed by it, then in recognition of that, the members of that syndicate shall receive a rebate on the annual subscriptions payable by them to the Society for the calendar year 2019 equal to  $A \times B$  where –

- i.  $A$  shall mean a number equal to the average percentage by which the Q1-Q4 2019 target requirements under paragraph 1.1 were exceeded (provided  $A$  shall not exceed 5 if the Bind Volume is less than 600, 10 if the Bind Volume is between 600 and 1199 and 15 if the Bind Volume is 1200 or more); and
- ii.  $B$  shall mean a number in pounds equal to 1% of the annual subscription payable by members in respect of that syndicate for the calendar year 2019.

### *Potential additional fees for 2019*

2.2 If, as at 1 January 2020, a managing agent has not complied with all of the target requirements set out in paragraph 1.1 for the prior periods in 2019 for a syndicate managed by it, then in order to further contribute to the costs of modernising market systems and processes and to further the objects of the Society, the members of the syndicate shall pay additional fees to the Society equal to  $C \times D$  where –

- i.  $C$  shall mean a number equal to the average percentage by which the Q1-Q4 2019 target requirements under paragraph 1.1 were missed (provided  $C$  shall not exceed 5 if the Bind Volume is less than 600, 10 if the Bind Volume is between 600 and 1199 and 15 if the Bind Volume is 1200 or more); and
- ii.  $D$  shall mean a number in pounds equal to 1% of the annual subscription payable by members in respect of that syndicate for the calendar year 2019.

## Capital loadings for the risks associated with failure to adopt electronic trading

*These requirements are made under section 6 Lloyd's Act 1982, paragraph 63 of the Underwriting Byelaw and paragraph 40 of the Membership Byelaw.*

3.1 If, at the end of a period set out in the table in paragraph 1.2, a managing agent has not ensured that a syndicate managed by it has achieved at least 50% of a target requirement, then by no later than 30 days after the end of the period the managing agent must have prepared an appropriate remediation plan for the syndicate setting out how it will meet each of the forthcoming target requirements and have submitted that plan to the Society for agreement.

3.2 If, as at 1 January 2020, a managing agent has not ensured that a syndicate managed by it has achieved at least 50% of all of the target requirements set out in paragraph 1.1 for the prior periods in 2019 then –

- a. Lloyd's will inform the managing agent that it reserves the right to increase the properly derived economic capital assessment for that syndicate by 5% at the next coming into line date for that syndicate if the current remediation plan is not complied with; and
- b. the managing agent must inform the members of the syndicate of the potential consequences of it not complying with the agreed remediation plan.

## Definitions and interpretation

4.1 *Recognised Electronic System* means a system recognised from time to time by the Franchise Board as meeting its required criteria for –

- (a) forming contracts of (re)insurance electronically;
- (b) security and data integrity;
- (c) record retention and audit;
- (d) resilience and disaster recovery;
- (e) usability;
- (f) compliance with legal and regulatory standards; and (g) data transmission and data standards.

4.2 *Relevant Contract* shall mean a contract of insurance or a contract of facultative reinsurance, entered into by a syndicate managed by the managing agent in question (either as a leading syndicate or as a following syndicate) either other than –

- a. a contract entered into by a coverholder; or
  - b. a contract entered into on a verticalised basis (i.e. where a following syndicate subscribes to a risk at a different premium to the lead syndicate);  
or
  - c. a contract broked by a broker that is not a member of the London & International Insurance Brokers' Association (for the period of Q1 2019 only).
- 4.3 *Bind Volume* is the total number of Relevant Contracts that a syndicate managed by the managing agent in question has entered into using a Recognised Electronic System during 2019.
- 4.4 *Inception date* shall mean the start of the (re)insurance period of the contract of (re)insurance in question.
- 4.5 The Franchise Board may give such guidance or direction as to the application or interpretation of these requirements as may be necessary or appropriate.