

Title	Electronic Placement
Purpose	To provide details of the requirements with regard to quotes from Q2 2019
Type	Event
From	Peter Montanaro Performance Management Directorate Tel. 020 7327 5971 Email. peter.montanaro@lloyds.com
Date	28 March 2019
Deadline	Updated Electronic Placement Mandate implemented from 1 April 2019

Related links

Further to Market Bulletin Y5227 dated 20 December 2018 on Electronic Placement, the Electronic Placement Mandate has now been amended with effect from 1 April 2019 to include targets for processing quotes through a Recognised Electronic System.

Targets have been set for the last three quarters of 2019 and syndicates will need to report against those targets. However, please note that only performance against the fourth quarter target will have an impact on any potential incentive rebates, additional fees or capital loadings under the mandate.

There is an FAQ document attached to this bulletin. If you require any further information, please contact Peter Montanaro (details above).

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

1. 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 1.3(a), 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 Each managing agent shall ensure that for each syndicate managed by it, for each period set out in the table below at paragraph 1.3(b), of the Relevant Contracts with an Inception Date commencing during that period and which have been entered into using a Recognised Electronic System, no less than the prescribed target percentage of such Relevant Contracts shall have been preceded by a corresponding Relevant Quote that has been made using a Recognised Electronic System.
- 1.3

Period / Class	Q1 2019 Target	Q2 2019 Target	Q3 2019 Target	Q4 2019 Target
(a) All classes (Relevant Contracts)	40%	50%	TBA	TBA
(b) All classes (Relevant Quotes)	NA	5%	10%	15%

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

This table will be supplemented from time to time.

- 1.4 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 paragraphs 1.1 and 1.2.

2. 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 and with the Q4 2019 requirement set out in paragraph 1.2 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 and with the Q4 2019 requirement set out in paragraph 1.2 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.

3. 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 1.3(a) and (b) (limited to Q4 for Relevant Quotes), 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 a target requirement (either Relevant Contracts or, in the case of Q4 2019, Relevant Quotes) set out in paragraphs 1.1 and 1.2 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.

4. 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).
- 4.3 *Relevant Quote* shall mean a quote issued on behalf of a syndicate managed by the managing agent in question in respect of a contract of insurance or a contract of facultative reinsurance (where the syndicate is the leading

syndicate) other than quotes for -

- a. a contract to be entered into by a coverholder; or
- b. a contract to be entered into on a verticalised basis.

4.4 *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.

4.5 *Inception Date* shall mean the start of the (re)insurance period of the contract of (re)insurance in question.

4.6 The Franchise Board may give such guidance or direction as to the application or interpretation of these requirements as may be necessary or appropriate

Lloyd's Electronic Quote Mandate

The objective of the new mandate is to increase electronic Broker Submissions which will result in increased value being derived by market firms from the electronic binding of lines.

The definition which will be used by Lloyd's as a measure is:

'Of the Lead Firm Orders bound (through a recognised ePlacing system), the % that originated as an electronic Broker Submission and subsequently an electronic Quote (through a recognised ePlacing system)'

FAQs

Why are we not counting Electronic Quotes as a percentage of All Quotes?

Due to the inconsistent and incomplete recording of Quotes within Underwriting systems, it is felt that measuring electronic Quotes as a percentage of All Quotes is never going to yield an accurate number, and would be overly burdensome on businesses which may need to change recording systems and working practices in order to capture all quotes given by Underwriters.

Why are we measuring Broker submissions when it is Underwriters who are being measured?

This is no different from the Lloyd's mandate on electronic Firm Orders which is reliant on Brokers submitting Firm Orders to Underwriters.

What is a Broker Submission?

An offer from a Broker to an Underwriter to consider a risk placement. In PPL terms, this is a "Quotation Request" message. It is not a "Notification of Declaration".

What is the definition of a quote?

Any electronic response to a Broker. This may include a decline or multiple quote options for a single Submission. It may even constitute an expression of interest or request for negotiation. The key point is that the measure is the % of Submissions and electronic Quotes that ultimately lead to Firm Orders?

What if the Submission and the Bind is electronic, but the Quote is not?

The objective is to increase electronic Broker Submissions to Underwriters.

Why are we counting Lead Firm Orders only?

To de-skew the stats. We are trying to avoid counting instances where a Broker may send a Submission to say 20 underwriters and all 20 count it, but only one or two actually respond to the Broker.

Can the required information be retrieved from PPL's current MI extracts?

Currently, there is no definitive way to connect quotes and firm orders in the PPL MI extracts but PPL are looking to provide a solution as soon as practical.