

FROM: General Manager, LPSO
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SUBJECT: DE-LINKING THE CLOSING PROCESS
SUBJECT AREA(S):
ATTACHMENTS: Standardising business processing at Lloyd's
ACTION POINTS: **For information**
DEADLINE: None

This bulletin is designed to let LPSO customers know how we will amend our processes to enable the de-linked submission of accounting transactions by brokers, with effect from the third quarter 1999. This will enable risks written in the 2000 renewal season to be closed on a de-linked basis.

Background

A number of initiatives are underway to make it as easy for intermediaries to deal with Lloyd's as it is with any other insurer. For information a summary of those known collectively as the International Process Compliance project (IPC) is attached. Part of this work has shown that the current Lloyd's, and London, processes which links first submission of documentation to premium settlement is peculiar to the London market and adds costs to the process for brokers and underwriters.

During 1998, in conjunction with LIMNET, LIBC and the London Processing Centre (LPC), Lloyd's undertook IPC trials which, amongst other things, sought to determine whether the closing process could be 'de-linked' and appear more in line with internationally accepted processes. These trials concluded that it was feasible for LPSO and LPC processing to be 'de-linked'. The financial model produced by consultants Ernst & Young, who were commissioned by LIMNET, showed a significant overall benefit to parties involved in the London process. **For a summary of what is meant by "de-linking" please see the section**

under this heading in the Standardising business processing at Lloyd's document attached.

Following the trials the LIMNET board, on which Lloyd's was represented, recommended a phased implementation of the proposals. The intention is to make it as easy as possible. The timetable is designed to be consistent with introduction of a mandatory scheme of risk registration as set out in the market bulletin from the Chairman of Lloyd's (reference Y2096 21st July 1999). The LPC intend to make similar changes in line with the timescales to those documented below.

Implementation in two stages:

Stage 1 (Target End of 3rd Quarter 1999)

LPSO systems will be amended so that those brokers* who wish to start de-linked processes are able to do so. LPSO will capture submission details and allocate a signing number and date to the completed risk at this stage. The paper slip will also be marked as 'de-linked'. To minimise the impact on the market and thus avoid imposing changes to current messaging and systems in the run up to Year 2000, an earlier advice via the USM will not be available.

*(*It is anticipated that there will be a gradual take up of de-linking by broker and business types from October 1999 onwards.)*

Brokers will have the ability to trigger settlements in accordance with terms of trade agreed via an on-line function for both LPC and LPSO de-linked risks.

When the instruction to settle is received from the broker, the USM will be produced in the usual manner without structural change. The signing number and date will be as allocated at the initial stage.

Example:

Broker submits a risk for closing to LPSO in November 1999 which is accepted and processed. The signing number and date is allocated for 25 November 1999. The premium settlement is processed by the broker on 12 January 2000.

The USM will be transmitted on 13 January 2000, with the signing number and date of 25 November 1999. Note, the transaction version will be '3' or greater to indicate it is a de-linked item.

Stage 2 (Target mid 2000)

This will enable the advice to underwriters of any risks processed as de-linked to LPSO. To ensure the method for producing this meets underwriter requirements LPSO will consult with the market during 1999 to determine the format of such advices.

Scope of De-linking

De-linking can apply to the following business types:

- Direct and facultative original and additional/return premiums
- Excess of loss premiums and adjustments
- Binding authority premiums.

Impact

Feedback from underwriting organisations and the USM user group have shown that there should be little, if any, impact on underwriter systems using USM information. **However, any systems that have processing driven by the date component of the LPSO signing number and date may be affected.**

Any paper documentation related to items processed as de-linked by LPSO will be clearly marked to ensure all parties are aware. The Account Enquiry application will display indication that a transaction has been de-linked.

Claims

As a consequence of premium de-linking data will be available to support Insurance Services claims processing before advice of the original premium signing to the market via the USM. It will therefore be possible for the USM and Syndicate Claims Message (SCM) to notify claims with an original signing number and date not previously advised.

There will be no further impact on the claims process.

If you have any questions on this change please either contact me or Martin Lancaster on Lloyd's extension 2485 or on Email, Martin.X.Lancaster@Lloyds.com (or via market mail).

This market bulletin has been sent to all active underwriters, managing agents and Lloyds brokers.

Michael Collins
General Manager
LPSO

Standardising Business Processing at Lloyd's

The practical implications of International Process Compliance

People who bring business to the market should be able to deal with the 'back office' - that is to say administration and processing of business at Lloyd's - at least as easily, and with the same or better levels of service, as they experience when they bring business to other risk carriers. There should be no barrier to doing business with us whether created directly, through continuing unique unhelpful practices, or indirectly, for example as a result of additional regulatory requirements imposed because Lloyd's appears to be in some way inferior or different to other international risk carriers. A key factor in realising the aims set out in the Lloyd's Market Board document "Priorities for Growth" is international process compliance, that is to say adapting our administrative process to meet emerging international standards and as far as possible remove these unique practices peculiar to our market. This objective is also shared by the Lloyd's-IUA Forum, recognising that the wider London market will benefit by simplifying and standardising administrative processes.

But Lloyd's is not just another insurer. Global licences and relationships with regulators and fiscal authorities are handled collectively, but risk carrying is not (except for the higher levels of the chain of security of course). Many other functions are organised collectively, either on a mandatory or optional basis. This is because either it is necessary to protect our licences, ability to pay claims or reputation, or because it makes economic sense. In the latter case, the corporation, in effect, acts as a back office department of the risk carrier, adding value to managing agents' own administration. Often, it is a combination of both factors which drives how things are done; and it should always be remembered that the needs and competencies of individual syndicates are not ubiquitous.

Changes in Processes.

The changes described here affect how Lloyd's deals with business from the time risks are written to the time all administration and premium movements are dealt with. Claims processing is not directly referred to at this stage. The changes touch three stages of this continuous process, i.e. **Risk Registration**, **De-linking** and **Accounting splits**. The last two of these three are being pursued in close co-operation with brokers and the IUA under the

auspices of the IUA/Lloyd's Forum. (IUA via its bureau, the London Processing Centre, already operates the first of the three, a risk registration and premium monitoring regime). This co-operation reflects the belief that from a global perspective, what is good for the London market is good for Lloyd's, although of course IUA members and Lloyd's syndicates are not in identical positions. For example, failure by an IUA member affects only the ability of that member to trade and does not put all others at risk.

A summary description of changes in each of the three steps and the benefits they can achieve follows. When considering the benefits it should be borne in mind that the changes are predicated on the basis that it is a desirable objective to make progress towards Lloyd's complying with international standard processes and maintaining a mix of provision of functions partly by individual syndicates and partly collectively.

Risk Registration. This involves capturing basic information as soon as a risk is written. The ultimate benefits are these. Firstly, to pass control of, and responsibility for, progressing a risk from a Lloyd's broker to Lloyd's, starting from the moment it is written, thus making it easier for existing Lloyd's brokers and encouraging for those who are not tolerant of Lloyd's processes, or familiar with them to become accredited to Lloyd's. Secondly, to give comfort to regulators that Lloyd's collectively is in no worse a position than conventional insurers over control of its business. Thirdly, in conjunction with de-linking, to make it possible to confirm signed lines and issue insuring documentation earlier in the process. Next to help realise the important objective of improving cash flow for the market overall by accumulating data to provide league tables showing poor performers, giving information to individual underwriters of their own actual and relative position, reducing 'missed' premiums and avoiding being at a disadvantage compared with IUA members.

Risk registration need not provide perfect or complete information on all risks at the time of writing, but will provide a flag of the expectation of receiving complete information in due course. In just the same way, with any other insurer, it is

only when the information is complete that the broker account is debited, but the insurer once on risk takes responsibility for ensuring this happens in a timely way (and may debit a deposit premium if there is delay).

Lloyd's Market Board has mandated a risk registration scheme for certain risks from the 1st January 2000. Further information is given in the market bulletin Y2096, 21st July 1999.

De-Linking. Lloyd's does not operate conventional debtor accounts as other insurers do. Instead, there is currently an automatic link that ties processing a risk to cash settlement. This link is a positive disincentive for brokers to move to early processing. Removing the link and replacing it with a 'settlement trigger' (i.e. where a broker initiates payment against a signing number and date) is what de-linking means. As well as removing the disincentive, de-linking makes it easier to deal with a wider population of business introducers.

De-linking encourages earlier submission of insurance documentation by brokers once signed line information is known – something brokers welcome. It means we can capture signed line information in Lloyd's central systems as soon as it is available so as to provide accurate signed line information to underwriters earlier. It helps provide an environment where policy documentation can be signed and sealed and dispatched, for forwarding to the assured as soon as possible after a risk is placed. For the future, it provides information to assist underwriters in production of GAAP style accounts. Potentially it reduces the additional costs some brokers perceive they incur in closing business to Lloyd's and reduces costs for underwriter organisations by reducing effort in chasing brokers for signed line information, estimating of exposure, capacity utilisation and assessing requirements for reinsurance. Delays in cash settlement may be reduced too since queries can be dealt with well before the settlement due date.

De-linking is being introduced into the Lloyd's market late in 1999. It will be introduced in the London company market at the same time or slightly earlier. Further information on how it will operate is given in market bulletin Y2109, 5th August 1999.

Accounting Splits. Historically, Lloyd's brokers have been required to provide LPSO with risk information in a very specific way and in particular to provide 'accounting splits' data. Other insurers perform this work in-house. The

accounting splits change means this work will be carried out by Lloyd's, just as any other insurer, and delegated to LPSO. This removes one requirement of Lloyd's brokers to deal with Lloyd's in a unique way, and removes a potential disincentive to becoming a Lloyd's broker. Much of the cost saving will accrue to brokers, and although additional work will have to be done by Lloyd's this will be offset, in part at least, by a reduced number of queries and loss of cash flow and by designing in the capability into the LPSO replacement systems. Brokers will be able to submit transactions to Lloyd's without the overhead of holding system data at a level that is required solely for Lloyd's internal, regulatory, or taxation purposes. It reduces reconciliation problems for brokers and underwriters and means we can reduce the number of advices to Lloyd's underwriters where a premium is split solely for Lloyd's central requirements. Longer term, there will be changes to reduce the amount of data to be captured, such as removing the need for full transactions to be processed where there are multiple risk codes.

Michael Collins
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 August 1999

For further information contact Michael Collins on 0171 327 2113 (Lloyd's extension 2113) or via email at Michael.collins@lloyds.com or Martin Lancaster on Lloyd's extension 2485 or email, Martin.x.lancaster@lloyds.com (or via market mail).