

# MARKET BULLETIN

<b>From</b>	Head, Market Reform Programme Office
<b>Date</b>	7 February 2006
<b>Reference</b>	Y3741
<b>Subject</b>	<b>Contract Certainty Returns – Update</b>
<b>Subject areas</b>	Franchisee data returns
<b>Attachments</b>	None
<b>Action points</b>	<b>All Managing Agents to note clarification of current data requirements, and further commentary on future data requirements</b>
<b>Deadlines</b>	<b>Unchanged from Bulletin Y3698: CC data return due 15 days after the end of each month, with second return due on 15<sup>th</sup> February</b>

## 1 Background & Purpose

- 1.1 Market Bulletin Y3698, issued on 15<sup>th</sup> December 2005, detailed the Franchisor's requirements in respect of data from Franchisees on Contract Certainty ("CC").
- 1.2 Following further discussions with Franchisees, the purpose of this Bulletin is to:
  - i) provide an update on data collection so far and on matters being reviewed by the Contract Certainty Project Board;
  - ii) clarify the requirements detailed in Bulletin Y3698; and
  - iii) provide further information on likely future CC data requirements.

## 2 Update

- 2.1 Feedback on Franchisees' first CC Data Return on 16<sup>th</sup> January will be provided, on a firm by firm basis, by the end of week commencing 6<sup>th</sup> February.
- 2.2 Whole market performance against the 30% target for December 2005 (and 60%, 85% for June and December respectively) will be based on aggregated broker data. This data will be the starting point for the market's discussions with the FSA over the coming months. Lloyd's data will be used to complement the broker data in discussions with the FSA, as well as to enable the Franchisor to detect signs of lagging performance in particular areas, and to work with relevant Franchisees to address any such difficulties.

- 2.3 The majority of Franchisees supplied data within 2-3 days of the deadline of 16<sup>th</sup> January. Most did so on a sampling basis (typically in excess of the required 25%) in accordance with the guidance in Bulletin Y3698. A number of these noted that they would increase to 100%, in line with Principle 7 of the Contract Certainty Code of Practice, over the coming months.
- 2.4 All Franchisees (but one, which has scheduled the matter for a board meeting this week) have adopted the CC Code of Practice.
- 2.5 A number of Franchisees noted difficulties in relation to “late orders”. Work to address this is underway under the oversight of the London market Contract Certainty Project Board (with discussion due to take place at the Market Reform Group later this month), and to produce further guidance on signed lines.
- 2.6 A small number entered specific qualifications relating to their current inability to assess contracts against all the items indicated in Bulletin Y3698. This Bulletin is in part a clarification to assist firms in moving to achieving full compliance, over time.

### 3 Clarification of Current Requirements

- 3.1 Bulletin Y3698 states (at section 8 of Appendix 2) that:

“...Managing Agents’ contract certainty assessment should be on the basis of the agreed definition of Contract Certainty and upon the Contract Certainty Checklist, in particular Points 1 – 4 (inclusive) of the ‘Pre-inception Requirements’ detailed in that Checklist”.

This statement prompted requests from several Franchisees for the Franchisor to clarify specifically what this entails in respect of the pre-inception requirement made under Point 2, namely:

“[that] Contract certainty attributes, listed overleaf are satisfied, together with any internal quality requirements (e.g. for Lloyd’s insurers, the contract certainty aspects of the Lloyd’s published checking requirements).”

- 3.2 Lloyd’s technical contract quality standards, expressed as checking requirements, are published in two QA Tools (for open market contracts and for binding authority agreements) available via the Lloyd’s website. We recognise – and some Franchisees have emphasised – that these standards need both further rationalisation, and a more user-friendly front-end in order to identify more easily those checks which are relevant to a particular submission.
- 3.3 We also recognise that, whilst firms are already requiring underwriters (and supporting technical staff) to utilise the CC Checklist when assessing a submission, firms are at varying stages in the incorporation of the Checklist (and the associated references to QA Tool checks) in their processes and procedures.
- 3.4 In light of the above, Lloyd’s requirements in respect of Point 2 of the ‘Pre-Inception Requirements’ will, for Phase 2 reporting (see Section 4 below for timings), be that syndicates should record compliance of each contract with a subset of the standards published in the QA Tools. This subset (the CC Pre-Bind Checks - “CCPBCs”) will be identified in good time for Phase 2 reporting.
- 3.5 To support this improvement, a web-based front end will be developed for the QA Tools. This new front end will support users’ access to the CCPBCs, and will also be ready in good time for Phase 2 reporting.

3.6 In the meantime, and for the purposes of Phase 1 assessment, we expect that underwriters and brokers (and supporting technical staff) will continue to make best efforts to achieve appropriate levels of technical contract quality.

**4 Phasing of CC Data Requirements: moving from Phase 1 to Phase 2**

4.1 In order to enable completion of the projects described at 3.4 and 3.5 above, Phase 1 will be extended to include business written during March 2006.

4.2 This means that returns for Phase 1 should proceed as follows:

Reporting Period	Deadline for Submission of Return
December 2005	Monday, 16 <sup>th</sup> January
January 2006	Wednesday, 15 <sup>th</sup> February
February 2006	Wednesday 15 <sup>th</sup> March
March 2006	Monday 17 <sup>th</sup> April

4.3 We expect Franchisees to progress during the period ahead of April towards implementing a checklist-based approach to assessing CC for each individual contract, in line with Code of Practice Principle 7:

“Brokers and insurers will each collect and maintain data on their contract certainty performance at individual contract level.”

**5 Phase 2 Requirements**

Focus of Phase 2

5.1 The first Phase 2 report will be due on Monday, 15<sup>th</sup> May in respect of business written during April 2006. As noted above, underwriting teams will be expected to factor the CCPBCs into their assessment of CC success during their pre-bind review of each contract.

5.2 Additionally, Franchisees’ internal data collection during Phase 2 should identify reasons why CC has not been achieved on particular contracts, and record the quantity of contracts so affected. This is necessary because:

- i) the FSA has indicated that areas where contracts are not achieving CC will be a key focus from the middle of this year. Thus, the FSA’s note of its meeting with the insurance industry on 7<sup>th</sup> December<sup>1</sup> records that:  
 “[The FSA] reminded the market of the need for all firms to be engaged, and confirmed that the FSA will focus on individual firms or sectors which are making insufficient progress...”
- ii) the FSA reiterated this via David Strachan’s speech in the Old Library on 10<sup>th</sup> January:  
 “We are expecting some very clear examples by the Working Groups of the type of transactions which fail to meet the targets set at each critical stage.”

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<sup>1</sup> Please see [http://www.fsa.gov.uk/pages/Library/Other\\_publications/Miscellaneous/2005/contract071205.shtml](http://www.fsa.gov.uk/pages/Library/Other_publications/Miscellaneous/2005/contract071205.shtml)

- 5.3 In light of this, Managing Agencies must ensure that syndicates maintain detailed records concerning those contracts which do not achieve contract certainty. These detailed records should be capable of supporting robust analysis which is sufficient to respond to Franchisor (and possibly FSA) enquiries into the reasons for, and therefore the potential for overcoming, CC failures. It is assumed that individual Franchisee Boards will also require such information in order to obtain sufficient management information on CC, to support internal quality control/audit processes, and to provide input to the ICA process in respect of operational risk.

Syndicate records should include the UMR of all contracts which do not achieve CC in order to facilitate comparison, if necessary, with Franchisor-held datasets.

- 5.4 Lloyd's is working with Franchisees, via the LMA, to establish how the data collected by Franchisees on CC failures can be categorised and communicated to the Franchisor. This is necessary to enable the Franchisor to form a market-level view of the extent and nature of CC failure. It is possible that the Franchisor will, at a future date, require Franchisees to provide transaction-level data on CC failures.

#### Phase 2 Data Returns to the Franchisor

- 5.5 Returns will continue to be on a calendar monthly basis, with a return due for each syndicate active in 2006. In addition, Franchisees should continue to provide a high-level aggregate split of CC success/failure, and continue to capture all contracts where the syndicate is the overall lead, or is the Lloyd's lead.
- 5.6 As with Phase 1, Phase 2 will require data on declarations under lineslips, but not data on certificates written under binding authorities. It is possible, however, that the Franchisor will wish to review Franchisees' arrangements for ensuring that they have put in place sufficient controls to be confident of the CC performance of their coverholders.
- 5.7 As noted at Section 2.5 above, work is still underway to resolve the position of "late orders" (i.e. where the client request for coverage is not sufficiently timely for it to be practicable for contracts to be entered into ahead of the required inception date) under CC. Pending this, Franchisees may wish to distinguish those contracts which, had the order not been received post-inception, would otherwise have met CC requirements. To support this, an additional optional row for 'Late Orders' will be available in the return template for Phase 2 and beyond.
- 5.8 A template for Phase 2 returns will be published by the end of February.

If you have any questions in relation to this bulletin, please contact Paula Singleton at [paula.j.singleton@lloyds.com](mailto:paula.j.singleton@lloyds.com).

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