

# MARKET BULLETIN

<b>From</b>	Head, Market Reform Programme Office
<b>Date</b>	24 March 2006
<b>Reference</b>	Y3773
<b>Subject</b>	<b>Lloyd's Quality Assurance Tool – new Front End and implications for Contract Certainty Measurement</b>
<b>Subject areas</b>	Lloyd's standards and Franchisee CC data returns
<b>Attachments</b>	None
<b>Action points</b>	<ol style="list-style-type: none"> <li>1. <b>All Managing Agents to note forthcoming launch of new QA Tool front end, its potential to support contract preparation processes, and its relevance to CC measurement.</b></li> <li>2. <b>All Managing Agents to nominate contact for QA Tool content issues</b></li> <li>3. <b>All Managing Agents to note CC data return template for Phase 2 reporting</b></li> <li>4. <b>Each Managing Agency Compliance Officer to provide the required CC confirmation as detailed in Appendix B to this Bulletin</b></li> </ol>
<b>Deadlines</b>	<ul style="list-style-type: none"> <li>• Thursday, 6<sup>th</sup> April 2006: Deadline for nomination of QA Tool contact</li> <li>• Friday 21<sup>st</sup> April 2006: Deadline for Compliance Officers' confirmations</li> <li>• Friday, 28<sup>th</sup> April 2006: Deadline for initial feedback on QA Tool content</li> <li>• CC data return: Phase 2 now commencing 1 month later (first Phase 2 return due in June, in respect of business written during May)</li> </ul>

## 1 Background & Purpose

- 1.1 This work forms part of a wider programme - involving publication of requirements, improvement of related guidance, and measurement - which aims to reduce re-work and duplication of effort, drive the achievement of high contract quality, and support Contract Certainty.
- 1.2 Market Bulletins Y3698 and Y3741 detailed the Franchisor's initial requirements in respect of data from Franchisees on Contract Certainty ("CC").
- 1.3 Market Bulletins Y3547 and Y3584 announced the launch of the current QA Tools. During the preparations for this launch and in the months since, the Franchisor has liaised with XIS to rationalise the Tool's content.

As a result, the content of the Tools have been streamlined from the material originally provided by XIS, against which checking was performed for many years.

- 1.4 The structured process of improvement and rationalisation will continue over the coming months with Franchisees providing input via the LMA.
- 1.5 The purpose of this bulletin is to:
  - i) introduce the front-end which improves the usability of the QA tool;
  - ii) explain the relationship between QA Tool content and CC measurement and data reporting;
  - iii) announce a revised timetable for the transition from Phase 1 CC data reporting to Phase 2; and
  - iv) confirm requirements for Phase 2 reporting.

## 2 QA Tool Front End

- 2.1 The QA Tool Front End will be located on [lloyds.com](http://lloyds.com)<sup>1</sup>, and will be available for general market use from Friday, 31<sup>st</sup> March. From this date, the previous versions of the QA Tool (provided on [lloyds.com](http://lloyds.com) in an Excel format) will be withdrawn from use.
- 2.2 The new Front End will enable users to extract a filtered list of QA Tool content, specific to the type of business they are reviewing. This filtering is achieved by the user making choices under the following headings:
  - i) Open Market/Binding Authority
  - ii) Direct/reinsurance
  - iii) Market
  - iv) Type of Document
  - v) Class of Business
  - vi) Country (regulatory requirements)
  - vii) Taxation
- 2.3 The new Front End will also enable identification of that subset of QA Tool content which is relevant to CC assessment (please see Sections 4.1 to 4.3 below).

### Nominating QA Tool Points of Contact

- 2.3 We are keen to work with Franchisees to encourage their awareness and use of the QA Tool, and to improve it. CC Project Sponsors are, therefore, requested to contact the administrators of the QA Tool, by end of Thursday, 6<sup>th</sup> April, nominating a point of contact within each Managing Agency for QA Tool and related issues: please send an e-mail entitled "QA Nomination" containing the nominee's contact details to [gatoolsenquiries@lloyds.com](mailto:gatoolsenquiries@lloyds.com). If a Franchisee wishes to nominate more than one contact (for example, if responsibility for contract preparation/quality is located within individual areas of the organisation), please feel free to do so.

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<sup>1</sup> Monitoring of [lloyds.com](http://lloyds.com) web pages shows that:

- a) 96% of all visitors to [Lloyds.com](http://lloyds.com) require a Java script version of the QA Tool, however a Non-Java script version of the QA Tool is available on request. Please email [rebecca.mewis@lloyds.com](mailto:rebecca.mewis@lloyds.com) for further details;
- b) 92% of visitors arrive using a LAN speed connection at 10Mb or above. The QA Tool has therefore been built at a 10Mb LAN speed. If you experience any issues with speed or connectivity, please contact your company's LAN Supervisor in the first instance.

- 2.4 The nominated contact(s) will have the following role:
- i) Ensuring that underwriters/supporting staff are aware that the new QA Tool will be available for use following its launch on 31<sup>st</sup> March, and that it is the means by which they can identify those checks which are relevant to CC measurement (please see Sections 4.1 to 4.3 below);
  - ii) Ensuring that initial post launch feedback arising from QA Tool usage (particularly any queries relating to actual check content) is communicated to the Franchisor by Friday 28<sup>th</sup> April at the latest. Please provide feedback to this mailbox: to [gatoolsenquiries@lloyds.com](mailto:gatoolsenquiries@lloyds.com). It is important that Franchisees take the trouble to provide this feedback, as QA Tool content will become expressly related to Franchisees' CC data reporting during Phase 2;
  - iii) Receiving notification of any future updates of QA Tool content and/or of Front End functionality, and ensuring that Tool users within the Franchisee are made aware of these;
  - iv) Receiving (and distributing to the relevant senior personnel within the Franchisee) any Franchisor-collated data on that Franchisee's performance where this is measured in terms of compliance with the requirements published in the QA Tool; and
  - v) Acting as the initial point of contact should the Franchisor wish to initiate discussions with that Franchisee on matters relating to this performance.

### 3 Implications for CC Measurement and Data Reporting

- 3.1 The requirements for Phase 1 reporting remain unaffected by the launch of the new Front End. Consequently, we continue to expect that underwriters and brokers (and supporting technical staff) will continue during Phase 1 to make best efforts to achieve appropriate levels of technical contract quality.
- 3.2 Please note, however, that in order to allow sufficient time for the market to provide initial feedback on QA Tool content to the Franchisor, Phase 1 has been extended for one month. Deadlines for Phase 1 therefore remain as per Bulletin Y3741 but with the addition of one more month, 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
April 2006	Monday 15 <sup>th</sup> May

- 3.3 A template for Phase 1 reporting was attached as Appendix B to Bulletin Y3698 and is available via the Market Returns website at (at <http://info.lloyds/msuapps> ). Please complete the template in its entirety.
- 3.7 Franchisees may provide an alternative breakdown of their CC data if they wish to illustrate particular factors which have informed their analysis, but this should be done in addition to the standard return i.e. each Franchisee should, as a minimum, return a data breakdown using the standard template.

Reporting Late Placements during Phase 1

- 3.8 Franchisees have enquired about the impact on CC data capture/reporting of the Late Placement Guidance<sup>2</sup>, which was published on 1<sup>st</sup> March 2006 by the Market Reform Group (“MRG”). For the remaining Phase 1 returns (i.e. those returns made during April and May) Franchisees should report Late Placements which comply with this Guidance within the score reported for ‘CC Yes’, using the current i.e. Phase 1 return template.
- 3.9 Franchisees are encouraged to use the remainder of Phase 1 to continue developing, as necessary, their ability to distinguish Late Placements within their internal CC data-capture, in preparation for more detailed reporting during Phase 2. The amended data template for Phase 2 is attached at Annexe A.

**4 Phase 2 Requirements**

- 4.1 The new QA Tool Front End will also enable users to select that subset of QA Tool content which is to be included in CC measurement: MRPO, the Franchisor and Franchises have worked together to identify the CC Pre-Bind Checks (“CCPBCs”).
- 4.2 The CCPBCs are the minimum standards with which Franchisees must comply for a contract to be considered a success in terms of CC measurement. As such, the CCPBCs represent Lloyd’s requirements for the purposes of Point 2 of the ‘Pre-Inception Requirements’ (and thus for CC Attribute 6) contained in the CC Checklist<sup>3</sup>.
- 4.3 Underwriting teams will, therefore, be expected to factor the CCPBCs into their assessment of CC success during their pre-bind review of each contract. As a result, the Franchisor expects that, in accordance with the CC Code of Practice which all Franchisees have now adopted, each Franchisee will base its CC Phase 2 assessment on compliance with all six Attributes of the CC Checklist.
- 4.4 **The first Phase 2 report will be due on Friday June 16<sup>th</sup>, in respect of business written during May 2006.**

Sample Size during Phase 2

- 4.5 As advised at section 3.2 of Bulletin Y3698:  
 “It will not be acceptable to provide sample-based data on the future returns: details of all applicable contracts (consistent with Principle 7 of the Contract Certainty Code of Practice) will be required. This is necessary in order to enable effective validation of this data against data obtained from other sources.”  
 Franchisees should therefore ensure that the performance of all relevant contracts is factored into their CC data reporting during Phase 2.

Reporting Late Placements during Phase 2

- 4.6 The Late Placement Guidance explains how the CC Code of Practice will be applied in cases where the date on which (re)insurers formally commit to the contract is later than the start of the (re)insurance period. Principle 8 of this Guidance states that:

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<sup>2</sup> Available at: [http://www.marketreform.co.uk/Documents/CC\\_Pubs/Guidance/Late%20placement%20guidance.pdf](http://www.marketreform.co.uk/Documents/CC_Pubs/Guidance/Late%20placement%20guidance.pdf)

<sup>3</sup> Available at:

[http://www.marketreform.co.uk/Documents/CC\\_Pubs/Guidance/CC%20Checklist%20Publish%20V1.1%20\\_051010\\_.pdf](http://www.marketreform.co.uk/Documents/CC_Pubs/Guidance/CC%20Checklist%20Publish%20V1.1%20_051010_.pdf)

“In order to allow monitoring of the occurrence of late orders and incomplete placements, brokers and insurers should maintain key data regarding these placements, at individual contract level.”

- 4.7 In order to support achievement of Principle 8, the template for Phase 2 reporting contains two new sections to accommodate data on late placements. Franchisees should note that, for Phase 2 reporting, late placements must not be included within the general CC “Yes” category: all late placements which have complied with the Guidance should be recorded in the additional sections.

Format of Phase 2 Return

- 4.8 A template for Phase 2 reporting is attached to this Bulletin at Annexe A for information only at this stage. Actual Phase 2 returns should be made using the active version of this template which will be available via the Market Returns website from Monday 17<sup>th</sup> April.
- 4.9 Franchisees may provide an alternative breakdown of their CC data if they wish to illustrate particular factors that have informed their analysis, but this should be done in addition to the standard return i.e. each Franchisee should, as a minimum, return a data breakdown by completing the standard template.

Ensuring Consistency of CC Measurement & Reporting

- 4.10 In order to ensure that Franchisees measure CC success/failure and report this on a consistent basis, the Franchisor requires Franchisees to provide confirmation that Phase 2 measurement and reporting will be carried out on the required basis: please see Annexe B to this bulletin for further information. This confirmation should be provided by close of business on Friday, 21<sup>st</sup> April 2006.

Future Developments: Contracts where CC is not achieved

- 4.11 Additionally, and as advised in sections 5.2 to 5.4 (inclusive) of Bulletin Y3741:
- i) 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 the FSA has indicated that areas where contracts are not achieving CC will be a key focus from the middle of this year; and
  - ii) 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.
- 4.12 Work is continuing via the Contract Certainty Project Board to progress consideration of how CC failures are recorded and reported.

Lloyd’s will work 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.

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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**Appendix A: Template for Phase 2 Reporting**

(for information only: live template to be released on Monday, 17<sup>th</sup> April 2006)

APPENDIX A: Managing Agent Monthly Return <sup>1</sup> for Phase 2 CC data collection		LLOYD'S
Please complete cells shown in yellow.		
Managing Agent : <input style="background-color: yellow;" type="text"/> Syndicate No* : <input style="background-color: yellow;" type="text"/> Reporting Period: Month: <input style="background-color: yellow;" type="text"/> Year: <input style="background-color: yellow;" type="text"/>		Contact details: <input style="width: 100%; height: 50px;" type="text"/>
Type of Business**	Contract Certainty Acheived	
	CC Yes	CC No
<b>Open market contracts***</b>		
OM1	Underwriter formal commitment made prior to inception	
OM2	Underwriter formal commitment made after inception (Late Placements)	
<b>Binding Authority Agreements</b>		
BA1	Underwriter formal commitment made prior to inception	
BA2	Underwriter formal commitment made after inception (Late Placements)	
* Please provide a return for each syndicate run by the managing agent. **Including: reinsurance as well as insurance *** Including line slips <u>and</u> declarations off line slips <u>Note 1.</u> Information from individual managing agents will be treated as confidential. Please send the completed Monthly Return by email to <a href="mailto:measurement@lloyds.com">measurement@lloyds.com</a> within 15 days of the end of the month being		← Please complete cells on left with the number of contracts applicable to each field. ← ← ←

## Appendix B: Compliance Officer's Confirmation

Deadline: Close of business on Friday 21<sup>st</sup> April 2006 at the latest.

In order to improve the consistency of Franchisees' CC data reporting, Franchisee Compliance Officers are required to confirm that for Phase 2 reporting the Franchisee will, on behalf of the syndicate(s) under its management, provide CC data on the required basis.

This confirmation should be made to Andrew Brookes, Head, Market Reform Programme Office (by email to [measurement@lloyds.com](mailto:measurement@lloyds.com) or by post), by close of business on Friday, 21<sup>st</sup> April 2006.

The required basis for Phase 2 is that:

- i) CC data is based on review of business where the Franchisee is either the Lloyd's lead or the overall lead;
- ii) This data is based upon review of 100% of such business to which the Franchisee formally commits during the calendar month;
- iii) The monthly return(s) include the actual number of contracts reviewed;
- iv) The monthly return is made on the standard template;
- v) The open market figures in the monthly return include all declarations off lineslips;
- vi) The binding authority figures in the monthly return relate only to binding authority agreements and not to individual declarations under a binder;
- vii) Franchisees' assessment of CC 'success' includes assessment against the CC Checklist, including compliance with the CC Pre-Bind Checks ("CCPBCs") which form the CC-related subset of Lloyd's contract quality requirements;
- viii) Late placements are recorded and reported separately from business where underwriter commitment is made prior to inception, both in cases where CC is achieved and where it is not (the Phase 2 template will provide sections to accommodate this distinction);  
- and that:
- ix) Whilst Phase 2 will not require Franchisees to report data on individual contracts which do not achieve CC, such information should nevertheless be captured by Franchisees and should include the UMR of the contract(s) in question.