

# MARKET BULLETIN

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<b>From</b>	Rolf Tolle, Franchise Performance Director (extn 6743)
<b>Date</b>	28 April 2006
<b>Reference</b>	Y3802
<b>Subject</b>	<b>Introduction of new Claims Minimum Standards (relating to Lloyd's Claims Management Principles)</b>
<b>Subject areas</b>	The management of Lloyd's market inwards claims
<b>Attachments</b>	Appendix A - Lloyd's Claims Management Principles Appendix B - Claims Minimum Standards under Principles 1-4 and 8 Appendix C - Claims Minimum Standards under Principles 5-7
<b>Action points</b>	<ul style="list-style-type: none"><li>• <b>To confirm that new claims minimum standards relating to Principles 1- 4 and 8 are now being introduced, in addition to those already in place relating to Principles 5 – 7</b></li><li>• <b>To confirm that the Franchisor Claims Team will be contacting managing agents to review how current procedures match with these new claims minimum standards</b></li></ul>
<b>Deadlines</b>	<b>New Claims Minimum Standards are effective from 1 May 2006, with a transition period to 31 December 2006, allowing for any necessary actions to be taken.</b>

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## Introduction

This Bulletin attaches the Lloyd's Claims Management Principles and Minimum Standards which were made by the Franchise Board under the Underwriting Byelaw. The Claims Minimum Standards set out in Appendix B come into force on 1<sup>st</sup> May 2006.

For completeness, the Lloyd's Claims Management Principles framework is attached as Appendix A and the Claims Minimum Standards which came into force on 1<sup>st</sup> July 2005 (under Market Bulletin Y3579) are also attached as Appendix C to this bulletin.

## Background

Effective claims management is essential for the delivery of individual managing agent's agreed business plans and collectively for the Lloyd's Franchise to deliver targeted results over the cycle. Leaders and XCS should be proactively managing claims and all managing agents should be measuring their overall claims-related performance, ensuring that agreed business plans are being delivered.

The Claims Strategic Review identified the need for clear minimum performance standards in claims management, as part of a set of solutions to achieve enhanced claims management performance. This conclusion was endorsed during the more recent development of the 'Optimal Platform' strategy. Consequently, the 'Lloyd's Claims Management Principles' framework was published in July 2005, along with initial Claims Minimum Standards, addressing Principles 5-7. The market was advised that further Claims Minimum Standards would follow in 2006, addressing the remainder of the Principles.

Over recent months these new Claims Minimum Standards have been developed by a working group including Lloyd's staff and market claims leaders, and they have been reviewed, and revised, during a thorough consultation process involving all claims and compliance leaders, coordinated by the LMA. During this review process external legal advice was sought, as well as input from internal and external sources, including personnel management, regulatory oversight and operations management. These further Claims Minimum Standards address areas of significance for the effective management of claims, including the need for board-supported claims-related strategies, clear processes, adequate skilled resources and the availability of essential documentation.

Following the conclusion of the consultation process the attached Claims Minimum Standards (Appendix B) were circulated to all managing agents in April, via the LMA.

## Scope

The Lloyd's Claims Management Principles and Minimum Standards apply to all Lloyd's market inwards claims, whether managed by managing agents or outsourced service providers (including run off claims and the market's shared claims service provider, XCS).

## Implementation

Via the consultation process, the claims leaders in managing agents have had the chance to become familiar with the new Claims Minimum Standards, although it will be for each firm to decide how best to meet the standards. To accommodate this process of review and to allow for the filling of any gaps there will be a transition period between the claims minimum standards becoming effective on 1 May 2006, up to the end of 2006. During this period Lloyd's Claims Team will be working in partnership with individual managing agents to see their review process, to provide assistance where asked and to understand how well the standards are being met. From 2007 it is expected that each managing agent will be able to demonstrate that the required standards are being met.

There is no presumption as to whether individual syndicates are currently operating above or below the minimum standards and hence the Franchisor Claims team will be contacting all managing agents to commence a process of review.

As has been stated before, the Claims Minimum Standards are intended to be the minimum performance acceptable from all firms, although not a ceiling on performance levels. It is recognised that many managing agents will wish to exceed the minimum level and Lloyd's encourages and supports each firm in setting its own performance standards.

Having established a set of Claims Minimum Standards under each of the 'Lloyd's Claims Management Principles' it is intended that there will be future annual reviews of how well the standards are working as a package. Following each review, proposals may be brought forward to revise existing standards, or to add new measures. Additionally, the Franchisor will review and where appropriate repeal, claims-related Codes which have been replaced by Lloyd's Claims Management Principles and Minimum Standards.

### **Additional Notes**

The Franchisor recognises important differences among syndicates and is not seeking to make all processes standard or introduce common manuals for the management of claims; rather it is recognised that individual managing agents will have different solutions, although all capable of meeting the minimum standards. The managing agent will need to demonstrate to the Franchisor how minimum standards have been maintained on all claims when requested to do so.

It is recognised that there are activities carried out elsewhere which also relate to claims, for example by actuaries in portfolio reserving – it is not intended that the Claims Principles and Minimum Standards extend to all such activities in the foreseeable future. However, it is expected that where staff outside the claims teams are engaged in activities within the scope of the Claims Principles and Minimum Standards, that they will operate to at least the minimum standards.

### **Enquiries**

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# CLAIMS MANAGEMENT

**THE FRANCHISEE MANAGES ITS  
CLAIMS EFFECTIVELY**

## **PRINCIPLES**

### **1 CLAIMS PHILOSOPHY**

The claims philosophy should be clearly documented and communicated within the syndicate, and reflected in the management and organisation

### **2 RESOURCES, SKILLS AND MANAGEMENT CONTROLS**

Managing agents should have appropriate claims resources, skills and management controls in each line of business they propose to write

### **3 CLAIMS PROCESSES**

Claims should be adjusted and processed in an efficient and timely manner

### **4 DOCUMENTATION**

The handling of a claim should be appropriately documented and information relevant to the management of the claim retained for a reasonable period

### **5 CLAIM RESERVING**

Claim reserving should be undertaken with the goal of a consistent, timely and accurate result

### **6 MANAGEMENT OF EXTERNAL SERVICE PROVIDERS**

Disciplined procurement and pro-active management procedures should be employed in the selection and use of third parties

### **7 PERFORMANCE MEASUREMENT**

Measurement of claims management performance and capabilities should be appropriate and regular

### **8 CLAIMS AGREEMENT FOR SUBSCRIPTION BUSINESS**

For subscription business there should be an effective claims agreement process to protect the interests of followers, supported by full co-operation of lead underwriters

These Principles broadly address many different types of insurance. The statements are intended to be flexible and to apply in varying ways based on the available facts, wordings, timing, and other circumstances specific to the claim. The Principles do not prescribe how any claim should be handled or set standards by which any insurer's conduct on a claim has been or should be judged.

# CLAIMS MANAGEMENT

## 1 CLAIMS PHILOSOPHY

## 2 RESOURCES, SKILLS AND MANAGEMENT CONTROLS

## 3 CLAIMS PROCESSES

## 4 DOCUMENTATION

## 5 CLAIM RESERVING

## 6 MANAGEMENT OF EXTERNAL SERVICE PROVIDERS

## 7 PERFORMANCE MEASUREMENT

## 8 CLAIMS AGREEMENT FOR SUBSCRIPTION BUSINESS

## 1 CLAIMS PHILOSOPHY

### PRINCIPLE

**THE CLAIMS PHILOSOPHY SHOULD BE CLEARLY DOCUMENTED AND COMMUNICATED WITHIN THE SYNDICATE, AND REFLECTED IN THE MANAGEMENT AND ORGANISATION.**

### MINIMUM STANDARDS

- The managing agent's philosophy includes executive and board commitment to, and oversight of, an effective claims management process
- The managing agent's philosophy relating to the management of claims is documented and communicated to staff
- Each managing agent's business strategy should address the management of claims
- Claims experience (information and knowledge) is available for, and used in, business planning and decisions
- The managing agent's philosophy includes a commitment to respond appropriately to claims enquiries and to manage claims in accordance with applicable standards
- An agency board member is accountable for effective claims management

# CLAIMS MANAGEMENT

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## 2 RESOURCES, SKILLS AND MANAGEMENT CONTROLS

## 3 CLAIMS PROCESSES

## 4 DOCUMENTATION

## 5 CLAIM RESERVING

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## 7 PERFORMANCE MEASUREMENT

## 8 CLAIMS AGREEMENT FOR SUBSCRIPTION BUSINESS

## 2 RESOURCES, SKILLS AND MANAGEMENT CONTROLS

### PRINCIPLE

**MANAGING AGENTS SHOULD HAVE APPROPRIATE CLAIMS RESOURCES, SKILLS AND MANAGEMENT CONTROLS IN EACH LINE OF BUSINESS THEY PROPOSE TO WRITE**

### MINIMUM STANDARDS

- Evidence of planned claims resourcing and succession planning for intended business portfolio
- There are job descriptions for each role
- Required skills have been identified and are being developed and supported via appropriate training and development processes
- Claims handlers have authorisation levels, which are reviewed and adjusted as circumstances require, and used as a management tool
- Performance criteria are explained to claims teams and individuals
- There is a structured process of annual performance review, used for learning and the management of performance
- Management controls/ audits are used to monitor adherence to required standards

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## 8 CLAIMS AGREEMENT FOR SUBSCRIPTION BUSINESS

## 3 CLAIMS PROCESSES

### PRINCIPLE

**CLAIMS SHOULD BE ADJUSTED AND PROCESSED IN AN EFFICIENT AND  
TIMELY MANNER**

### MINIMUM STANDARDS

- Processes & procedures for the proactive management of claims are clear, documented & shared with all relevant personnel
- Service/ quality levels are addressed, applied and, as appropriate, revised taking account of:
  - the managing agent's own claims philosophy/ strategies/ business plans and
  - Lloyd's Claims Minimum Standards and
  - market agreements on the creation and management of electronic documentation

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## 8 CLAIMS AGREEMENT FOR SUBSCRIPTION BUSINESS

## 4 DOCUMENTATION

### PRINCIPLE

**THE HANDLING OF A CLAIM SHOULD BE APPROPRIATELY DOCUMENTED AND INFORMATION RELEVANT TO THE MANAGEMENT OF THE CLAIM RETAINED FOR A REASONABLE PERIOD**

### MINIMUM STANDARDS

- Managing agents should specify documentation requirements that allow effective and proactive management of claims
- Open/ closed files are audited taking account of relevant requirements, and the results reviewed with the interested personnel and any adjustments made
- Feedback on files is shared with claims teams to develop good practice
- An appropriate document retention policy, taking account of legal and compliance requirements, is in place

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- 2 RESOURCES, SKILLS AND MANAGEMENT CONTROLS
- 3 CLAIMS PROCESSES
- 4 DOCUMENTATION
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- 6 MANAGEMENT OF EXTERNAL SERVICE PROVIDERS
- 7 PERFORMANCE MEASUREMENT
- 8 **CLAIMS AGREEMENT FOR SUBSCRIPTION BUSINESS**

## 8 CLAIMS AGREEMENT FOR SUBSCRIPTION BUSINESS

### PRINCIPLE

**FOR SUBSCRIPTION BUSINESS THERE SHOULD BE AN EFFECTIVE CLAIMS AGREEMENT PROCESS TO PROTECT THE INTERESTS OF FOLLOWERS, SUPPORTED BY FULL CO-OPERATION OF LEAD UNDERWRITERS**

### MINIMUM STANDARDS

#### RELATING TO LLOYD'S LEADERS:

- Assist the followers' claims agreement party(ies) to fulfil its (their) role in the subscription review process, consistent with the relevant service agreement, the Lloyd's Claims Scheme and Lloyd's Claims Management Principles and Minimum Standards
- Ensure that appropriate procedures are in place with the followers' claims agreement party(ies) where decisions are likely to be required at short notice

#### RELATING TO FOLLOWERS' CLAIMS AGREEMENT PARTY(IES):

- Deliver services in line with the relevant service agreement, the Lloyd's Claims Scheme and Lloyd's Claims Management Principles and Minimum Standards

#### RELATING TO LLOYD'S FOLLOWERS:

- Cooperate with their claims agreement party(ies) within the terms of their services agreement, the Lloyd's Claims Scheme and Lloyd's Claims Management Principles and Minimum Standards

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## 5 CLAIM RESERVING

### PRINCIPLE

**CLAIM RESERVING SHOULD BE UNDERTAKEN WITH THE GOAL OF A CONSISTENT, TIMELY AND ACCURATE RESULT**

### MINIMUM STANDARDS

- **Claim reserves** should make financial provision at **reported loss levels** without prejudice to coverage based on currently available information and factual supporting information in the claim file.
- Initial **claim reserves** on this basis should be created within 30 days of first receipt of report addressing reserves for **straightforward claims** and within 90 days for **complex claims**.
- Reserves on open claims should be reviewed and, as appropriate, re-validated at least every 12 months.
- Reserves on open claims should be reassessed within 30 days of receipt of additional information bearing on the reserve.
- Leaders should handle claims so that the followers' claims agreement service provider receives as soon as practicable the same reserve-related information provided to the leader.
- Reserves for **major claims** should be validated via an internal peer review process.

### Note:

Terms in bold defined within a separate [Glossary of Terms](#) attached to Market Bulletin Y3579

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## 6 MANAGEMENT OF EXTERNAL SERVICE PROVIDERS

### PRINCIPLE

**DISCIPLINED PROCUREMENT AND PRO-ACTIVE MANAGEMENT PROCEDURES SHOULD BE EMPLOYED IN THE SELECTION AND USE OF THIRD PARTIES.**

### MINIMUM STANDARDS

#### OVERALL:

- Managing agents should proactively and effectively manage their claims including where claims authority is delegated to **third parties** and where **external experts** are retained to assist with individual claims.

#### MANAGEMENT OF ORGANISATIONS TO WHOM CLAIMS MANAGEMENT IS OUTSOURCED:

- All **FSA requirements in relation to outsourcing** must be satisfied.

#### MANAGEMENT OF EXTERNAL EXPERTS EMPLOYED ON INDIVIDUAL CLAIMS:

- Managing agents should have a documented process for selection, appointment and monitoring of **external experts**.
- **External experts** should normally be selected from a managing agent's **approved panel**.
- The terms on which external experts are retained should be **competitive** with their peer group capable of providing the same service for that assignment.
- Managing agents should be able to justify why an **external expert** was selected for an individual claim.
- For each claim the insurer should communicate and agree approach and goals with any appointed **external expert**, and there should be supporting information indicating what the expert is required to deliver.
- Invoices should be checked against written agreements and non-agreed variances queried and, as appropriate, rejected.

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## 7 PERFORMANCE MEASUREMENT

### PRINCIPLE

**MEASUREMENT OF CLAIMS MANAGEMENT PERFORMANCE AND CAPABILITIES SHOULD BE APPROPRIATE AND REGULAR.**

### MINIMUM STANDARDS

- Each managing agent's claims team(s) should measure its performance via a **claims implementation plan** which includes relevant **KPI's**, relating to the delivery of claims-related objectives within the managing agent's annual **Agreed Business Plan(s)** and internal claims performance targets.
- Progress against the **claims implementation plan** should be reviewed and reported on, within the managing agent, in writing quarterly with variances identified.
- Variances should be escalated to higher levels of authority if and as required by the managing agent's policy.
- The managing agent's criteria applied for the control, review and assessment of **claim files** should be identified and in regular use.

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