

# MARKET BULLETIN

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| <b>From</b>          | Sean McGovern, Director and General Counsel (extn 6142)            |
| <b>Date</b>          | 22 January 2007  |
| <b>Reference</b>     | Y3958  |
| <b>Subject</b>       | <b>Streamlining Lloyd's broker registration</b>                    |
| <b>Subject areas</b> | Lloyd's broker registration  |
| <b>Attachments</b>   | Proposals for change   |
| <b>Action points</b> | <b>Feedback requested from Lloyd's brokers and managing agents</b> |
| <b>Deadlines</b>     | <b>16 February 2007</b>  |

A key priority for Lloyd's in 2007 is to work on eliminating the actual and perceived complexity of operating in the market and make it easier for managing agents, brokers and capital providers to do business at Lloyd's. We are also determined to remove unnecessary duplication of effort between Lloyd's and the FSA and to improve the accessibility of Lloyd's to brokers around the world.

In light of these priorities Lloyd's is proposing to streamline its approach to broker registration. The proposals are designed to reflect the FSA's regulatory framework for insurance intermediaries and reduce the burden on brokers who transact business at Lloyd's. In summary the proposals set out:

1. a streamlined application process and criteria for new broker applications;
2. a lighter touch for existing Lloyd's brokers;
3. revised group access and sponsorship arrangements; and
4. transitional arrangements.

In practice, the proposals will result in new applicants experiencing a much quicker and more efficient application process, no longer needing to prepare a Lloyd's specific business plan or be subject to unnecessary duplication of requirements between Lloyd's and the local regulator. Existing Lloyd's brokers will also experience a significantly reduced compliance

burden as a result of removing Lloyd's routine reporting requirements such as the annual broker questionnaire.

We are currently looking at ways in which we can further assist managing agents in managing their relationships with brokers and coverholders. To that end we are working with the LMA and LMBC on a new secure online system (Project Oracle). This will help make the process of managing coverholders faster, more efficient and more transparent. It will also remove the duplication of effort in the collection and dissemination of coverholder and broker information across the market. Further updates on this project will be provided during the course of this year.

We have already discussed the proposed changes to our broker registration process with the market associations and the attached document reflects the feedback we received. We are now publishing the proposals for wider market consultation. Comments or queries on the proposals should be directed to Stephen Moore, Manager, Admissions (extn 6984, email [stephen.moore@lloyds.com](mailto:stephen.moore@lloyds.com)) or Nigel Williamson, Manager, Agents and Broker Accreditations (extn 6145, email [nigel.williamson@lloyd's.com](mailto:nigel.williamson@lloyd's.com)) by 16 February 2007.

Sean McGovern  
Director and General Counsel

## **PROPOSALS FOR CHANGE**

### **STREAMLINING BROKER REGISTRATION AT LLOYD'S**

#### **PURPOSE**

This document sets out proposals for a streamlined approach to Lloyd's broker registration ("the proposals"), prior to making the necessary changes to existing rules.

Comments on the proposals should be sent to Stephen Moore, Manager, Admissions by no later than 16 February 2007.

#### **BACKGROUND**

One of Lloyd's strategic plan priorities is to make it easier to do business at Lloyd's. In view of this, Lloyd's proposes to streamline its approach to broker registration by removing unnecessary duplication with the FSA's statutory regime for broker regulation. The FSA regime has now been in place since 14 January 2005, with clear rules relating to broker approval which address, for example, suitability, client money, conduct of business, financial strength, reporting, monitoring and supervision.

The intention of the proposals is to achieve a quicker, more efficient registration process, where activity is performed once by the most appropriate party to undertake the work. The proposals will contribute towards easier, more cost effective access to the Lloyd's market. In reviewing our accreditation process we have taken as our starting point that: -

1. regulatory checks (e.g. fit and proper checks of both firms and their directors) are a matter for the FSA, or equivalent overseas regulatory authority. There is little value in Lloyd's replicating those checks;
2. Lloyd's should focus upon checking that applicant brokers are likely to bring business to Lloyd's, that suitable protections are in place to protect syndicates and policyholders in the event of broker insolvency and that brokers have the ability to process and transact that business at Lloyd's; and
3. all other matters are commercial matters for managing agents to assess when determining whether or not to enter into a Terms of Business Agreement ("TOBA") with a broker.

We have discussed the proposals with the Lloyd's Market Association's Regulatory Committee ("LMA"), the London Market Insurance Brokers' Committee ("LMBC"), Xchanging and the FSA and revised the proposals in light of feedback from the LMA and LMBC. We would now welcome comments from any interested party.

#### **PROPOSALS**

The proposals are set out in four areas:

1. a streamlined application process and criteria for new broker applications;
2. a lighter touch for existing Lloyd's brokers;
3. revised group access and sponsorship arrangements; and
4. transitional arrangements.

Each of these areas is considered in turn below.

## 1. New Broker Applications

For new broker applications Lloyd's proposes restricting its checks to the following 5 key areas: -

- **Check 1 – Has the applicant been approved by the FSA or by the relevant authority in an EU member state (or, outside the EU, by an equivalent overseas regulatory authority)?**

As part of its normal regulatory checks the FSA (or the relevant authority in the broker's home EU member state) carries out a number of regulatory and prudential checks including:

- character, suitability and reputation checks on directors or partners;
- suitability and financial soundness checks on the firm;
- review of adequacy of the firm's business plan; and
- minimum PI and capital requirements (discussed in greater detail below).

Since these areas will be checked by FSA (or the relevant authority in the EU member state) the proposal is that Lloyd's will no longer itself check these matters as part of its registration process. Instead, Lloyd's will wish to be satisfied that the broker has the appropriate regulatory authorisation.

In respect of overseas applicants from outside the EU who are not subject to approval by a competent regulatory authority that imposes similar requirements to those imposed under the Insurance Mediation Directive, we will continue to ask them to demonstrate their suitability and to complete a fuller application form that addresses such matters.

- **Check 2 – Does the applicant have the support of at least one Lloyd's managing agent that is prepared to enter into a Terms of Business Agreement ("TOBA") with the broker?**

We already include this check as part of the current accreditation process. We think that it is important to continue to include this as part of our on-going process as we only want to register intermediaries who have some market support and will actually be able to bring business to Lloyd's.

- **Check 3 – Does the applicant have the ability to transact and process Lloyd's market business (to be re-assessed in the 2nd year of registration)?**

The ability to transact and process business in the Lloyd's market is a key factor in deciding whether an applicant should be registered.

Only applicants who can properly connect to the necessary systems and competently transact Lloyd's business (using their own systems or those of an outsource provider) will be eligible to be Lloyd's brokers. In practice this will be assessed by asking Xchanging (or other appropriate third party) to work with the applicant to assess whether the broker (or its outsource provider) can operate the necessary accounting and settlement and claims advice and settlement processes to transact at Lloyd's (see Annex 3 for further details of business processing at Lloyd's).

- **Check 4 – Does the applicant have suitable procedures in place to ensure that insurance monies are properly safeguarded?**

As part of our registration checks, we shall ensure that all Lloyd's brokers have necessary procedures in place to protect insurance monies in the event of the insolvency of the broker.

In practice this will mean ensuring that the broker operates strictly segregated client money accounts or has alternative equivalent arrangements in place that we believe are prudent and appropriate.

We believe that this should be a requirement because it will contribute to greater policyholder and syndicate protection in the event of broker insolvency.

We understand that both the LMA and LMBC are in principle supportive of the need to ensure that this area should be subject to appropriate controls.

- **Check 5 – Does the applicant meet Lloyd's minimum PI Requirements?**

We are considering whether to have the further requirement that applicants should continue to meet our current minimum PI cover limits (which are higher than those set by the FSA).

We recognise that it could be argued that Lloyd's no longer needs to impose higher PI cover limits given that: -

- at present, medium and large Lloyd's brokers generally buy PI cover with limits well in excess of Lloyd's minimum requirements and moving to rely on the FSA requirements would mainly affect smaller brokers;
- the current requirement represents a burden that other similar non-Lloyd's brokers do not need to meet;
- it may therefore be more appropriate that managing agents should assess the adequacy of a broker's PI limits as part of the wider set of commercial criteria by which they determine if and on what basis they may choose to enter into a TOBA with a broker.

On the other hand it can be said that the current Lloyd's PI limits are of value to the market in that: -

- higher exposures are presented by Lloyd's specialist property and casualty business and Lloyd's minimum PI cover limits should properly reflect these risks;
- by imposing such higher PI cover limits we are providing a valuable service to the market in providing some level of comfort that, at least smaller brokers, hold higher levels of PI protection.

On balance we are currently of the view that we should continue to impose our higher PI requirements. Although our informal discussions to-date with market representatives indicate differing views exist in the market on this matter, on balance the market feedback is supportive of the requirement to have higher PI cover. However, before we reach a final decision we would welcome views on this point.

Any applicant broker who can successfully demonstrate that it meets the above requirements will be eligible to be a "registered Lloyd's broker", subject to payment of the application fee.

## Consequential Benefits

The main consequential changes that will arise as a result of the new streamlined approach include: –

### **1. Removing the unnecessary distinction between ‘Provisionally Accredited’ and ‘Accredited’ broker status**

In practice this distinction has added little and for all practical purposes “provisionally accredited” brokers can undertake any function that a fully accredited broker can perform. Therefore, we propose that going forward all Lloyd’s brokers will be simply referred to as “registered Lloyd’s brokers”.

### **2. Removing the requirement to submit business plans as part of the application process**

This is already addressed by the FSA as part of its regulatory process.

### **3. Removing Lloyd’s current separate capital requirements**

We believe that we no longer need to impose separate capital requirements which are higher than those set by the FSA. We have reached this view because:

- we believe that this is a matter more appropriately considered by managing agents when considering if and on what basis they may choose to enter into a TOBA with a broker; and
- in practice, we understand that managing agents already generally set much higher threshold levels of capital than either the FSA or Lloyd’s minimum requirements as part of their commercial criteria in deciding whether to do business with a broker.

### **4. By streamlining our checks we will be able to improve the service standards for Lloyd’s**

This means that we expect, on receipt of a properly completed application form, to be able to give a decision whether an applicant should be registered within the following time frames: –

- 1 week for UK/EU applicants (subject to TOBA / business processing ability), compared to the current 6 week service standard
- 4 weeks for overseas applicants (subject to TOBA / business processing ability), compared to the current 6 week service standard

### **5. There will also be a clarified role and service standard for Xchanging**

- 1 week for the review of a complete applicant submission incorporating all required processing documentation

### **6. Amend the current Lloyd’s Broker Byelaw**

The current accreditation process is set out in the Lloyd’s Broker Byelaw (of 2004). This byelaw would be replaced with new shorter byelaw provisions to reflect the above provisions.

A copy of the draft byelaw can be made available upon request.

A summary of the current and proposed application process as well as criteria for UK/EU and overseas brokers is set out in Annex 1. A flow chart showing how the revised process will work in practice is set out in Annex 2.

## Questions

As part of our consultation we would welcome comments on any of these proposals but in particular on the following questions: –

- 1 Do you agree with our proposals to streamline the accreditation process by concentrating our checks on the 5 key areas outlined above?**
- 2 Do you in particular believe that we should retain the current Lloyd's requirement that Lloyd's brokers have higher PI cover limits than that required by the FSA and that Lloyd's should check that the broker has suitable procedures in place to ensure that insurance monies are properly safeguarded?**
- 3 Do you agree with our proposal to remove the distinction between "provisionally accredited" and "accredited" Lloyd's brokers?**

## 2. Oversight of Existing Lloyd's Brokers

Under the proposals, once a broker has been registered, Lloyd's will not undertake any ongoing monitoring and will not impose any routine reporting requirements. In particular:

- **Lloyd's will no longer perform an annual review of brokers and require completion of the associated annual broker questionnaire**

We believe that it is no longer necessary to perform this activity in view of the FSA's continuing statutory regulatory oversight of brokers. This will significantly reduce the compliance burden for existing Lloyd's brokers.

To ensure that Lloyd's is able to act in the interests of the market, Lloyd's will continue to:

- **maintain contingency plans to co-ordinate a market response to broker insolvency;**

We think that we can continue to add value to the market by helping to co-ordinate any activities that managing agents need to take in the event of a broker becoming insolvent; and

- **reserve emergency powers to review, and where appropriate, withdraw broker registration**

This would include for example, dealing with the situation when a broker no longer meets the criteria to be a registered Lloyd's broker.

A summary of the current and proposed process for UK/EU and overseas brokers is set out in Annex 1.

## Question

- 4. Do you agree with our proposal to reduce the extent of post-registration activities by Lloyd's by removing the annual review process?**

### 3. Group Access and Sponsorship Arrangements

#### Group Access Arrangements

Currently, a UK or overseas subsidiary of a Lloyd's broker, which meets Lloyd's full accreditation requirements, may apply to become a fully accredited Lloyd's broker, without a three year probationary period as a provisionally accredited broker (with the support of a parental guarantee, if appropriate). This arrangement is known as "Group Access".

Going forward, Lloyd's wishes to encourage overseas subsidiaries of existing Lloyd's brokers who wish to access the market directly to apply to become registered Lloyd's brokers in their own right:

- the above streamlined application process will help make it easier to do business at Lloyd's by simplifying and clarifying the broker registration process and so will make it quicker and easier to become a registered Lloyd's broker;
- any applicant that is a subsidiary, holding company or under common control with an existing registered Lloyd's broker may, at Lloyd's discretion, make an application using a short form application form and be subject to fewer suitability checks than would ordinarily be performed for overseas brokers.

In order that Lloyd's may manage any such applications in an orderly manner, existing Lloyd's brokers who are aware of any interest from their associated companies are requested to contact Lloyd's to discuss the opportunities arising as a consequence of this proposal.

## Question

- 5. Do you agree with our proposals to help brokers who are connected to existing Lloyd's brokers (i.e. where they are in the same corporate group) to become Lloyd's brokers in their own right?**

#### Sponsorship Arrangements

At present, there are certain arrangements known as 'sponsored broker arrangements', whereby FSA authorised firms may enter into arrangements with a Lloyd's Broker in order to place business at Lloyd's. The sponsored broker operates under its own Central Settlement Number and gains access to the



Underwriting Room, but places business in the name of the sponsoring Lloyd's broker and relies on the Lloyd's Broker TOBAs and systems for processing business at Lloyd's.

In view of the proposed simplified arrangements for broker registration at Lloyd's, we do not believe that any new sponsored broker arrangements are properly justified and that therefore no new sponsored broker arrangements should be permitted.

Current sponsorship arrangements will be permitted to continue for the time being, however, we would wish to invite these brokers to seek registered Lloyd's broker status in their own right. We propose discussing with these brokers a suitable timetable for an orderly transition to move to registered broker status, ideally by 31 December 2007. However, we would seek to do this in a way that did not obstruct the placement of business at Lloyd's.

#### Question

6. ***Do you agree with our proposal to cease accepting any new "sponsored broker" arrangements and to phase out existing "sponsored broker" arrangements by 31 December 2007?***

#### 4. Transitional Arrangements

Since our proposals involve the streamlining of current activities and requirements rather than the addition of new obligations it is expected that the proposals will cause minimum disruption.

The key transitional arrangements are set out below (subject to consultation): -

- **streamlined registration process:** - the simplified application process and criteria for new broker applications and changes to the oversight of existing Lloyd's brokers to come into effect once approved by the Council of Lloyd's at the end of Q1 2007;
- **grandfathering of provisionally accredited brokers:** - existing provisionally accredited brokers, accredited brokers and accredited run-off brokers to be grandfathered in as "registered Lloyd's brokers" at the end of Q1 2007;
- **sponsorship arrangements:** - it is expected that the current population of 'sponsored brokers' will apply for registered broker status during 2007 and that current sponsorship arrangements will be phased out by 31 December 2007; and
- **group access arrangements:** - the simplified group access application process will be phased in over 2007, subject to market interest, in order to ensure that implementation is undertaken in an orderly manner.

## **NEXT STEPS**

During Q1 2007, subject to consultation, the Admissions team will work with the LMA, LMBC and Xchanging to: -

- take account of market feedback arising from the consultation process;
- update the byelaw provisions, the Lloyd's Broker Application Form and Guidance Notes, Xchanging Broker Application Pack and Lloyd's Broker web pages on Lloyds.com;
- seek Franchise Board and Council approval for the final proposals and revised byelaw;
- grandfather existing provisionally accredited brokers as registered Lloyd's brokers;
- implement the revised group access and sponsored broker arrangements in an orderly manner.

## **RELATED AREAS OF WORK**

### Coverholder/Broker Document Repository

As a separate workstream, we are working with the LMA and LMBC to facilitate the agreement of a standard set of broker standing data which all Lloyd's brokers would agree to maintain on a coverholder/broker document repository ("the repository") held by Lloyd's and to be made available to all or selected managing agents:

The intention of the repository is to remove the duplication of effort across the market in the collection and dissemination of financial and compliance information relating to coverholders and brokers to all or selected managing agents. In partnership with the LMA and LMBC, Lloyd's has approved the initial analysis and design phase of this project, which has a target completion date at the end of Q1 2007.

Assuming it is implemented, it could allow us to provide value added services for managing agents and/or brokers, the appetite for which would be discussed with market associations.

### Streamlined Requirements

While revising the current Brokers Byelaw, Lloyds will also take the opportunity to reduce the overall number of byelaws by co-locating the current Delegated Underwriting Byelaw and the revised Brokers Byelaw within one new byelaw, the Intermediaries Byelaw. This is in line with Lloyd's overall intention to streamline the byelaws into a more accessible and user friendly set of requirements and will mean that all our byelaw requirements relating to Lloyd's intermediaries will be in one place.

We will also take the opportunity of making the new Intermediaries Byelaw to make some amendments to the Delegated Underwriting sections which reflect certain changes identified and previously consulted upon with the market associations on our coverholder and lineslip rules. In particular this includes requirements for the contents of motor binding authority arrangements and requirements relating to the content of line-slips.

## **FURTHER INFORMATION AND QUERIES**

Any questions on this paper should be directed to Stephen Moore, Manager, Projects, Admissions, Tel (020) 7327 6984, Email [stephen.moore@lloyds.com](mailto:stephen.moore@lloyds.com)

## CURRENT AND FUTURE STATE: - UK / EUROPEAN BROKERS

| CURRENT  | FUTURE   |
|--|--|
| <b>UK / EUROPEAN BROKERS</b>   |  |
| <p><b>Pre application review</b></p> <ul style="list-style-type: none"> <li>quality of business to Lloyd's</li> <li>financial strength</li> <li>depth of management / operational resource</li> <li>minimum of 2 TOBA's from managing agents</li> <li>ability to process business / interface with XIS</li> </ul> <p><b>Application process</b></p> <ul style="list-style-type: none"> <li>detailed application form</li> <li>submission of Lloyd's business plan</li> </ul> <p><b>Approval criteria (include)</b></p> <ul style="list-style-type: none"> <li>FSA / EU competent authority approval</li> <li>minimum capital £50,000</li> <li>minimum PI of £3m / 4 x net brokerage (capped)</li> <li>suitability checks on firm and individuals</li> <li>confirmation of TOBAs from 2 managing agents</li> <li>assessment of knowledge of conduct of business in Lloyd's market</li> <li>demonstrate ability to process business / interface with Xchanging</li> </ul> <p><b>Approval</b></p> <ul style="list-style-type: none"> <li>provisional approval granted</li> <li>called 'provisionally accredited Lloyd's broker' for 36 months, at which point a further application is required to reach 'accredited Lloyd's broker' status</li> <li>added to register of accredited Lloyd's brokers on Lloyds.com</li> </ul> <p><b>Service Level</b></p> <ul style="list-style-type: none"> <li>6 weeks for broker provisional accreditation</li> <li>4 weeks for broker full accreditation</li> </ul> | <p><b>Pre-application review</b></p> <ul style="list-style-type: none"> <li>initial meeting to clarify Lloyd's application process and approval criteria</li> </ul> <p><b>Application process</b></p> <ul style="list-style-type: none"> <li>short form application form</li> </ul> <p><b>Approval criteria (complete list)</b></p> <ul style="list-style-type: none"> <li>FSA / EU competent authority approval [note 1]</li> <li>minimum PI of £3m / 4 x net brokerage (capped)</li> <li>procedures to protect insurance money</li> <li>confirmation of TOBA from 1 managing agent</li> <li>demonstrate ability to process business / interface with Xchanging</li> </ul> <p><b>Approval</b></p> <ul style="list-style-type: none"> <li>called Registered Lloyd's Broker</li> <li>added to the Register of Registered Lloyd's Brokers on Lloyds.com</li> </ul> <p><b>Service Level</b></p> <ul style="list-style-type: none"> <li>1 week - subject to the above approval criteria</li> </ul> |
| <p><b>Post approval activity</b></p> <ul style="list-style-type: none"> <li>annual confirmation of re-accreditation</li> <li>Lloyd's annual questionnaire covering: -<br/>- capital / PI / financial accounts<br/>- contract quality / late signings</li> <li>maintain insolvency contingency plans</li> <li>reserve power to stop brokers handling delegated underwriting arrangements</li> <li>reserve powers to review / revoke accreditation</li> </ul>  | <p><b>Post-approval activity</b></p> <ul style="list-style-type: none"> <li>maintain access to up to date FSA data</li> <li>maintain insolvency contingency plans</li> <li>reserve powers to review / revoke registration</li> </ul>   |

**Notes: -****1. Comparison of current Lloyd's requirements against FSA / IMD requirements**

- FSA / EU competent authority approval includes: - minimum capital requirements, e.g. £10,000 / 5% brokerage, minimum PI requirements, e.g. €1m and €1.5m in aggregate, and suitability checks on the firm and individual.
- However, the detailed capital and PI rules differ between Lloyds, FSA and the IMD, for example depending on the holding of client money (for capital requirements) and the level of premium income and PI excesses (for PI requirements). The above illustration therefore only provides a headline comparison.
- IMD requirements include: - registration with a competent authority / possession of appropriate knowledge and being of good report / holding PI of €1m for each claim and €1.5m in aggregate / protection of premium & claims payments, for example through legal payment measures, capital requirements of 4% premium with a minimum of €15,000 and segregated accounts.
- The overseas broker application process will apply if a European country has not implemented the IMD.

## CURRENT AND FUTURE STATE: - OVERSEAS BROKERS (NON EU)

| CURRENT  | FUTURE   |
|--|--|
| <b>OVERSEAS BROKERS</b>  |  |
| <p><b>Overseas brokers applications</b></p> <ul style="list-style-type: none"> <li>• registration with an appropriate regulatory authority (equivalent to that of the FSA);<br/>OR</li> <li>• approval process to ensure that minimum FSA and Lloyd's Broker Byelaw standards are met: -               <ul style="list-style-type: none"> <li>- insurance money separate from other money</li> <li>- financial strength</li> <li>- suitability checks on firm and individuals</li> <li>- conduct of business</li> </ul> </li> <li>• supported by a full application form</li> </ul> <p style="text-align: center;">AND (in all cases)</p> <ul style="list-style-type: none"> <li>• minimum PI of £3m / 4 x net brokerage (capped)</li> <li>• obtain agreement from 2 managing agents to provide TOBAs</li> <li>• demonstrate ability to process business / interface with Xchanging</li> </ul> <p><b>Approval process as above for UK/European brokers</b></p> <p><b>Service Level</b></p> <ul style="list-style-type: none"> <li>• 6 weeks for broker provisional accreditation</li> <li>• 4 weeks for broker full accreditation</li> </ul> | <p><b>Overseas brokers applications</b></p> <ul style="list-style-type: none"> <li>• registration with an appropriate regulatory authority (equivalent to that of the FSA);<br/>OR</li> <li>• approval process to ensure that minimum 'FSA equivalent standards' are met: -               <ul style="list-style-type: none"> <li>- insurance money separate from other money</li> <li>- financial strength</li> <li>- suitability checks on firm and individuals</li> <li>- conduct of business</li> </ul> </li> <li>• supported by a full application form</li> </ul> <p style="text-align: center;">AND (in all cases)</p> <ul style="list-style-type: none"> <li>• minimum PI of £3m / 4 x net brokerage (capped)</li> <li>• obtain agreement from 1 managing agent to provide TOBA</li> <li>• demonstrate ability to process business / interface with Xchanging</li> </ul> <p><b>Approval process as above for UK/European brokers</b></p> <p><b>Service Level</b></p> <ul style="list-style-type: none"> <li>• 4 weeks for broker registration - subject to the above approval criteria</li> </ul> |

**Notes: -**

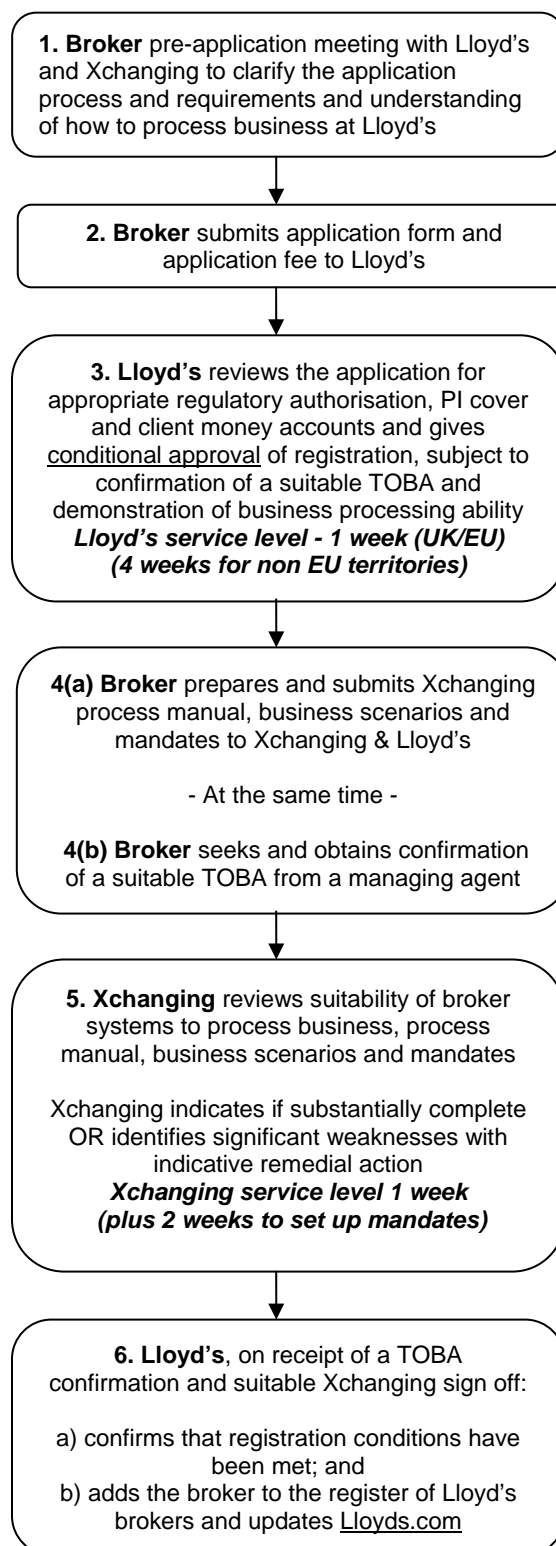
**1. Key changes**

- There is minimal change to the overseas broker application process, apart from:
  - the IMD standard will now apply
  - revised group access arrangements may apply (please refer to the main proposal document)

## REVISED BROKER APPLICATION PROCESS

### Overview of the Registration Process

An overview of the application process to become a registered Lloyd's broker is summarised in the flow chart below.



## PROCESSING BUSINESS AT LLOYD'S

### Current Business Process

Today, for brokers to place and transact business at Lloyd's, they need to be able to interact directly with managing agents and conform with the market's contract certainty rules with regard the risk, placement (including use of the Market Reform slip), Lloyd's Claims Scheme (for the advice negotiation and management of claims) and with Xchanging (for premium closing and as the operator of Claims Agreement for Followers and the processing of agreed claim payments):

- **placement of insurance risks** currently requires a broker to have the ability to deal face-to-face with underwriters at Lloyd's, although there are initiatives in place which are beginning to address the adoption of electronic placing to provide a geographic location independent facility.
- **premium closing** is completed by the broker providing appropriate documentation to Xchanging in work packages either on paper or electronically using repository services. Xchanging will then verify the closing on behalf of participating Lloyd's syndicates and pass the file to central settlement.
- **claims** are reported and managed using electronic services that have now been introduced using the Insurers' Market Repository to hold claim files electronically, supported by transactions loaded on to CLASS@Lloyd's (the Claims Loss Advice and Settlement System) which manages the routing of claims between agreement parties. Once all necessary agreements are achieved and captured on CLASS, if the transaction is a payment request the authorised transaction is passed to central settlement.

Nevertheless, in some circumstances claims will need to be presented on paper and there may also be occasions when face-to-face negotiation is required. Brokers will need to be able to interact with CLASS (either on-line or using bespoke London EDI messages) and the Insurers' Market repository (either on-line or using ACORD messages) and be able to receive bespoke London EDI messages output from central settlement.

- **central settlement** is a function where all agreed premium and claim settlement transactions on a given day are added together to create a single cash movement between parties.

### Planned Future Enhancements

Planned future enhancements include:

- moving towards the use of ACORD data and messaging standards, for which there are proposed changes to current processes to further adopt ACORD standards; and
- the roll out for wider acceptance of certain Electronic Placement pilot projects in place in the market. These will be supported by moves towards increasing the use of standard wordings.

### Longer Term Developments

In the longer term, Lloyd's will have greater capability to conduct business electronically using ACORD standards for all aspects of Placing, Premium Closing, Claims Agreement and Settlement, primarily directly between the business principals but supported by centralised services e.g. Central Settlement where they are of benefit.

**SCHEDULE OF CONSULTATION QUESTIONS**

As part of our consultation we would welcome comments on any of these proposals but in particular on the following questions: –

- 1 Do you agree with our proposals to streamline the accreditation process by concentrating our checks on the 5 key areas outlined above?**
  
- 2 Do you in particular believe that we should retain the current Lloyd's requirement that Lloyd's brokers have higher PI cover limits than that required by the FSA and that Lloyd's should check that the broker has suitable procedures in place to ensure that insurance monies are properly safeguarded?**
  
- 3 Do you agree with our proposal to remove the distinction between "provisionally accredited" and "accredited" Lloyd's brokers?**
  
- 4 Do you agree with our proposal to reduce the extent of post-registration activities by Lloyd's by removing the annual review process?**
  
- 5 Do you agree with our proposals to help brokers who are connected to existing Lloyd's brokers (i.e. where they are in the same corporate group) to become Lloyd's brokers in their own right?**
  
- 6 Do you agree with our proposal to immediately cease accepting any new "sponsored broker" arrangements and to phase out existing "sponsored broker" arrangements by 31 December 2007?**