

Lloyd's /London market: Thoroughly modern

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With London still perceived as an expensive place to conduct business, Daniel Dunkley reports on the London Market Group's ambitious plans for modernisation.

On 21 January, the London Market Group set forth its targets for the modernisation of the market in 2010. London, the world's oldest and largest insurance centre — and one might say still a fairly traditional one — continues to be perceived as an expensive place to conduct business, and the "ambitious agenda" set out by Barnabus Hurst-Bannister, chairman of the LMG, underlined the necessity to expand the role technology plays in the London market.



The LMG, consisting of Lloyd's, the Lloyd's Market Association, the London & International Insurance Brokers' Association and International Underwriting Association, stressed a range of technological advancements need to be implemented as the year unfolds, in order to move the market firmly into the 21st century.

Within the group, there has been a widespread desire to implement technological solutions throughout the claims and accounting processes. Among the measures proposed by the LMG are the need to deliver e-accounting, which would enable a speedy exchange of money between intermediaries and insurers, to 40 brokers by mid-2011. Also, the claims usability enhancements package ECF2 (electronic claims filing) is expected to go live mid-2010.

In a letter to all London market chief executives in January, Mr Hurst-Bannister detailed the positives that have already been achieved from the modernisation programme, including a 40% improvement in customer satisfaction and ECF halving the end-to-end transaction time for the average claim.

In 2009, modernisation measures saw the London market achieve 90% coverage for electronic premium submissions, a figure set to rise to 100% in quarter two this year.

Single connection point

The Exchange, a service within Lloyd's aimed at enabling brokers, underwriters and IT suppliers in the London market to have a single connection point to transmit information, is another example of the desire to implement time-saving, technologically savvy measures to the benefit of the industry. The system's sign off in 2009 was a key signal of intent. And David Gittings, chief executive of the LMA, says the LMG is already looking beyond e-accounting and ECF2.

In December, Brit and Miller traded the first live bound risk over the Exchange, a major breakthrough in the modernisation programme. Mr Gittings says using the Exchange for endorsements, the changes to policies placed, will be a further priority for the LMG in 2010, enabling the group to make inroads into electronic placing support: "The work that we are doing to support electronic endorsements over the Exchange is something that the LMA is leading on. We have got 100% sign up from the managing agents for that piece of work, which is good news.

"I anticipate that, by the end of this year, we will be witnessing a significant number of endorsements. We have looked hard at the back office stuff, claims and accounting, but making these changes to the front end of the business is the last piece of the jigsaw."

Mr Gittings indicates the London market will also look to increase its amount of electronic central processing: "We are already in a position where we are looking at the future of central processing in the London market. We have considered the possibility of also having a central London clearing house. These are bigger questions that are beginning to surface."

He adds that the Exchange will widen in scope to incorporate new functions — although he stresses it is not yet ready to handle settlements: "It is conceivable that the Exchange will be used for more than the placing of business in the future. There are those that want to see it used for accounting and settlement but, to be realistic, that is not

going to happen in the next 12 months. For the mid to long-term that is the target — it is a question of bringing everyone on board."

The market is clearly looking ahead to the possibilities of the future, and what a modernised London market could achieve.

Potential benefits

Jonathan Palmer-Brown, chairman of Liiba, says the market has finally woken up to the potential benefits of modernisation, and believes brokers' overheads can be reduced in the long-term, justifying any short-term spend: "Everybody has a great realisation that we have to get to the point where we improve the efficiency and reduce the cost. From the work done in the last couple of years, everybody knows there is inevitably going to be a headcount reduction — and that is a large cost in the broking fraternity.

"You can reduce re-work by 40% and reduce the headcount. Savings will materialise differently for each firm. We are well aware there will be substantial savings, but it depends on the work they do, and where they started," he adds.

Mr Palmer-Brown acknowledges the London market is seen as an expensive place to do business, and believes the LMG's reforms will go some way to addressing the cost associated with the multi-faceted London market: "I know London has had some blame for inefficiency, because of administrative burden. But this is a unique place, and the only one that deals with subscription marketing. One of the inherent costs lies in the complexity of this. What we are trying to do is make it similar in cost to individual placements."

He says the insurance market lags behind other sectors, and must take significant forward steps to embrace younger generations: "People are seeing the LMG's reforms as the future, not as a step too far. In every other field of commerce they transact electronically. And young people do everything else electronically, so why wouldn't they want to do this?" he asks.

Mr Palmer-Brown adds that the challenges faced by the company market are no greater than those of Lloyd's: "I think the tide has turned, and everyone is putting their shoulders to the wheel now. I don't want to underestimate the importance of winning hearts and minds, because that still has to be done. However, we are not encountering substantial resistance to what we're trying to achieve."

A pilot of electronic endorsements is set to begin in the second quarter of this year, and the LMG is currently scoping the level of market involvement. Mr Gittings says he has "100% sign up" from managing agents. The pilot currently has the support of 18 IUA members and 10 "major" brokers, according to Lloyd's.

One encouraging sign for the modernisation programme came in November last year, when Aon, Marsh and Willis signalled their intent to commit to electronic endorsements in 2010 (www.postonline.co.uk/1562299).

Joe Plumeri, chief executive of Willis Group Holdings, said at the time: "Modernisation of the London market is essential. A more efficient market will deliver benefits for all participants, most importantly for our clients. We look forward to working with the other brokers and underwriters on the endorsements pilot."

While Mr Plumeri's plans are backed by some of the deepest pockets in the industry, the question remains whether smaller firms with less money to invest are ready to follow the lead of the larger firms across all areas of the modernisation programme.

Roger Foord, of Roger Foord Associates, has worked in technology in the London market since 1977 — and remains far from convinced modernisation measures are comprehensively backed by the market. He says of the Exchange: "I know people are going along with it, but I don't believe people exactly think it is the best thing since sliced bread. Lloyd's has come up with it and people have signed, but that doesn't mean they are going to use it, and there is no financial commitment."

He adds a note of caution on plans to conduct endorsements over the Exchange: "There was a meeting on the endorsement issue recently, and I don't know if people are sure whether to use the Exchange or not."

Invest in technology

However, several firms seem keen to invest in technology. Jonathan Ibbot, chief processing officer at XL Insurance, says the insurer is actively pursuing the LMG's agenda: "What the LMG sets out is achievable and

realistic; they have touched on the issues, and the market will be receptive. We have put in place gateway and message management solutions for the two stages of the endorsement process, and are able to get those endorsements in electronically, and present them in a structured way to our underwriters. At the moment, we are live on three classes with Willis. We are confident of getting a good response from our underwriters."

Mr Ibbot sees XL's modernisation spend as a long-term investment, which he says will reap rewards further down the line: "We haven't seen savings, but this is a long-term play for us. There will be savings ultimately, as we move towards structured data on the placement side, in which we can reduce re-keying. That requires integration with back office systems. We are not yet in the place where we can make that investment, and a lot of insurers aren't either.

"We think turnaround times will be improved; we have already seen this on ECF. We have taken on tasks and responsibility where we hadn't before. That was a challenge for us. However, we see that times are improving because of this reform, so we understand in the greater scheme of things it is good for the market."

Hiscox chief executive Bronek Masojada is also supportive of the LMG's goals, despite being critical of the Lloyd's Claims Transformation Programme. Mr Masojada says the insurer has already made headway in ECF: "The LMG's reforms are the right issues to focus on. We need electronic claims, and are a supporter of that. We think more emphasis should be placed on e-accounting than electronic endorsement, but they are two peas in the same pod.

"I think claims and processing efficiency is a long steady grind, which we will have to keep working on," he adds.

Mr Masojada, despite welcoming the attempts at reforming the market, insists there is no quick fix: "The perception of the London market being seen as a costly one will only be addressed in time. If there really was a magic bullet we would have fired it long ago."

The incentives of modernisation are quickly becoming apparent to the industry. However, market consensus seems to agree on one major barrier that could affect the involvement of smaller firms in 2010 and the immediate future — cost.

Nigel Roberts, chief placement officer at Willis Specialties, says: "It will take several years for the LMG goals to come to fruition and many feel that the modernisation is not happening fast enough. Success will demand a considerable investment of time and money, allied with close, open collaboration to change the customs of a multi-billion pound, 300-year-old market."

Jeff Ward, director at Lime-St.com, connects underwriters and brokers to the Lloyd's Exchange. He argues modernisation measures are becoming more accessible for smaller firms: "The likes of Brit, Aon and Miller have made fairly heavy investments, yet they only account for 10% of the market. Getting the other 90% has proven an extremely difficult job. The cost issue is significant, and technology has been quite expensive in the past.

"However, software houses have made a great effort to commoditise price, which is good for brokers outside the top 10. There are around 160 other brokers who aren't interested in anything complicated or expensive. Small brokers just can't afford to spend £250 000 on modernisation," he adds.

Leapfrogging counterparts

Mr Ward stresses it is crucial London avoids a two-tier market, where larger firms with more to invest in technology leapfrog their smaller counterparts: "We can't be playing in a two-speed market. Aon, Marsh and Willis have about 45% of the market share, and that other 55% cannot be left behind. Only commoditisation can level the playing field."

Mr Gittings admits cost is a potential barrier but insists modernisation measures have been carefully considered: "Cost is the only problem. Because there are central costs, as well as costs that have to be carried by each of the businesses, different people spend different amounts of money along that route. We are doing what we can to ensure costs are properly controlled and not excessive."

It remains to be seen to what extent the market will embrace the LMG's programme in 2010, and despite the best intentions and results achieved so far, it may be a struggle to achieve blanket modernisation across the London market. But Mr Gittings is convinced it will pay dividends, and stresses the cost of modernisation is nothing, considering the size, scale and scope of the London market: "The total cost of the 'finish what we've started' programme is £14m. The Lloyd's market has £23bn underwriting capacity — and when you put the £14m in that context it is not hugely significant."