

Square mile e-evolution

By Helen Yates

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Nothing will ever replace face-to-face negotiations in the London and Lloyd's market, but e-placement will minimise the mundane and maximise time for complex business

After more downs than ups, the London market is closer than ever to trading electronically.

In June, testing began via the Exchange. Eighteen brokers, all relevant 48 Lloyd's managing agents and 19 IUA members are connected and ready to send and receive marine-related endorsements as electronic messages.



An endorsement pilot will follow and it is hoped that this market initiative – allowing brokers, underwriters and system providers to communicate via a single connection point – will help the Exchange to gain the critical mass it needs.

The pilot begins in September and underwriting and claims operations manager at Beazley, Ian Fantozzi, says this is a milestone. "We've seen initiatives for electronic placement before but we've never had this kind of take-up and we've not had the level of interest we now have from the brokers.

"We've certainly got the key names involved and we may not get this opportunity again. We want to make it as easy as possible for brokers to place business with us."

He continues: "If we can expand the distribution channel by having this electronic route, then it opens up the opportunity for the brokers to place business with Beazley and the market in general."

Past initiatives to automate the market have had less success with Kinnect proving the most high-profile failure. Costing Lloyd's £70m, the over-ambitious technology platform was shelved in 2006 when the project leaders realised they were fighting a losing battle.

By contrast, the Exchange has emphasised simplicity from the start. The main aim is to get market practitioners connected to each other and able to speak the same language.

The language is the industry-agreed ACORD XML messaging. Beyond that, individual brokers and underwriters can decide what technology they want to use and how advanced they want it to be.

"At the moment all brokers and carriers will have different back-office systems," Fantozzi says. "The part that is consistent is the gateway technology and the standard. In order to gain maximum benefit from electronic placement, the brokers and carriers can integrate their gateways to their back-office system."

The aim with the endorsement pilot is to save time on straightforward market processes in order to free brokers and underwriters to focus on complex negotiations.

"We'll never move away from the face-to-face aspect because we're a specialist insurer at the end of the day," Fantozzi says. "We want to make the placing process more efficient so we can focus on specialist underwriting."

According to those involved in the pilot, the days of brokers queuing at Lloyd's, weighed down by heavy files to do something as perfunctory as changing an address, will soon be behind us.

Head of strategic business applications at Miller, Steve Spicer, says: "What the technology can do now is take out the things that do not need face-to-face negotiation skills to complete and streamline the end-to-end process. There's no doubt that the historic London process includes a lot of straight admin tasks that involve expensive resources, both on the underwriter side and on the broker side."

Segmenting the business

If e-broking is to be a success in London, it is essential to segment the business appropriately. "The London market is not Direct Line Insurance," Spicer says. "There's very little that formula-driven, but there's no doubt there is a high-volume low-value end of the market where it is more cost-effective to place electronically than by traditional face-to-face methods. Individual organisations have to look at their book of business and identify where the opportunity lies."

There is a clear business case for automating the market's less complicated business. Beazley estimates that it will see potential savings of up to nine months of manpower by channelling its 30,000 marine endorsements through the Exchange each year. Nevertheless, the enthusiasm for electronic initiatives in London has typically received a mixed reception.

The bigger brokers were always going to buy into integrated electronic messaging first, Spicer explains. "Rekeying stuff in order to send messages is a bit pointless, particularly when you're only five minutes down the road from the guy you want to talk to," he says. "There's a different perspective on electronic placement depending on the scale of the operation. The business case is different depending on whether you're a 'local' London broker with no international reach, a big global broker with lots of international reach or someone who wants to avoid brokers altogether and just wants to place business directly."

Until all brokers and underwriters have their messaging systems aligned with their back-office processing, some rekeying will be necessary. In a subscription market, it is also necessary to have everyone on board otherwise intermediaries will be forced to perform every task twice. While all managing agents have signed up to the endorsement pilot, there are a number of insurers missing from the company market.

Timing is another issue for brokers. They do not want to lose the upper hand when introducing a complex new risk to the market, explains Spicer. "Like it or not, brokers often like to determine who they see, when they see them and what is said when they see them ... and for high-value insurance contracts I don't blame them in the slightest because they want the best deal for their clients."

"As long as the electronic process retains that 'visit first, electronic afterwards' flexibility when needed, the inefficiencies of scanning and rekeying can still be avoided and there's every chance of succeeding."

No silver bullets

Many relationship-critical processes in the London market will never be fully automated. The value of operating in and around Lime Street will remain the selling point of the specialist London and Lloyd's insurance market. The current challenge is in segmenting the business to gain more efficiency. "This is a long-haul job. There are no silver bullets or magic pills. From a market point of view, there's got to be a collective understanding that there are real benefits for everyone," Spicer says.

But ultimately, the market needs to work towards straight-through processing (STP), something the banking sector has enjoyed for over a decade. STP is a realistic aim for the market but one that needs to be realised over time, says business development director of Lime-St.com, Jeff Ward. Lime-St.com is a broker's platform for electronic trading, allowing users to create and send electronic messages via the Exchange.

"It is unrealistic to think that, within a few short years, brokers will be able to extract copious amounts of data from their systems and send that to underwriters, who in turn will STP it into theirs," he says. "That Herculean task requires wholesale change to everyone's systems. Yes, one day it will happen, but I firmly believe we will need to evolve relatively slowly towards that model over the next, say, five years."

"Much more achievable right now is the STP of documents and supporting data," he continues. "This is a huge benefit for everyone – the synchronisation of document management and workflow systems across the market. There's no scanning, no rekeying of reference data, everyone with the same version of the documentation. And this is what we are doing right now, starting with the Lloyd's Exchange pilot."

Most market participants recognise they cannot continue to operate without technology, particularly with competitor jurisdictions embracing the electronic age. A second attempt at creating a New York Exchange (which originally failed in the 1980s) is under way, with the operations working group of this US rival to Lloyd's thought to be focusing efforts on introducing messaging technology.

“No market is an island when it comes to STP,” Ward says. “As we see in everyday banking, STP knows no boundaries – a credit card used in Australia will debit your account in the UK within seconds and that transaction winds a scenic route to arrive here. So it must be with STP in insurance.

“The real benefit is where the originator of the data, not the London broker, keys the data in and kicks off the process. Then, as it makes its way through the producing chain, it is augmented by the various players, acquiring additional data and value until it arrives in London where the London broker finally places it and it arrives at its ultimate destination in the underwriter’s systems.” **IT**