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Viewpoint

SPRING/SUMMER 2019

the newsletter from the Lloyd's Market Association

YOUR CHANCE TO SHAPE OUR FUTURE

By Sheila Cameron, CEO

Once-in-a-generation change is under way at Lloyd's. The market is charting a transformation that will return us to the front of the international insurance flotilla. It is a real opportunity to reinvent our market and lead the world into the future.

The need for change is incontrovertible. Disruptive technology is leaping ahead of Lloyd's entrenched processes. Alternative capital is making its mark, but finds Lloyd's difficult to enter. Our products cover only about half of clients' risk managers' top risks, we are not cost-competitive and we are short of talent for the future. We must act now to make our 300-year-old institution fit and competitive for the next three centuries.

For the past four months, the LMA Board has been closely involved in defining Lloyd's purpose, creating a new Lloyd's value proposition and outlining the market's future strategy. The result, The Future at Lloyd's **(https://futureat.lloyds.com/prospectus/home/),** is part of a genuinely collaborative process, not a directive pushed outwards from the centre.

Together we identified various possibilities that are before you now, but they are not set in stone. We want your input. Everyone is likely to support some proposals strongly, suggest or endorse modifications to others, and probably find some disagreeable, but we must and will reach consensus. Our future depends on it.

Six new 'transformational initiatives' are outlined in The Future at Lloyd's:

1. evolve our platform for underwriting complex risks
2. create a low-cost risk exchange for straightforward risks
3. devise a simple, effective structure for capital of all kinds to back Lloyd's
4. implement an automated, next-generation claims service
5. construct a simplified process to launch new syndicates and products
6. develop a resource ecosystem to support innovation and service.

These initiatives will have to be underpinned by a new, alternative lead-follow model: something the LMA Board has worked closely with Lloyd's to map out.

Lloyd's says some of the initiatives could be operational as early as 2020, so there is no time to waste. That said, the LMA will be focused on ensuring that any initiative implemented is thought-through, tested and workable before it goes live.

The market entered a ten-week consultation that presented the opportunity for practitioners to help shape the market's future via an online survey and Lloyd's forums. If you have any questions or would like to provide further feedback, contact the LMA expert looking after your specific area of interest for an informal conversation.

The LMA will continue to gather your views informally, and to explore them formally, through our many market committees.

Feeding back through the LMA has some advantages. First, members may not wish to make some of their observations directly to Lloyd's. The LMA provides a channel of anonymity. More importantly, you will help to form the LMA's collective view, which ultimately I will present to Lloyd's on behalf of all members. We will also deliver an LMA response to the online survey. Of course, you may want to convey your views directly to Lloyd's as well.

The LMA will continue to work tirelessly with the market and with Lloyd's to reach an agreed vision for our future. Together we have advanced six transformational propositions to make Lloyd's lean and efficient, even more innovative, easy to work with, and hyper-responsive to customer needs and emerging risk issues. It is now time to fill in the detail – and I am under no illusion that the process will be simple. Some of the proposals will fly, but others may not.

I am equally confident that we will get there in the end and I am determined that, by working together, we will get it right, which makes it all the more essential that we hear your opinions about the biggest changes at Lloyd's since R&R in the 1990s. Synthesising opinion to reach consensus is a key part of the LMA's role in this process. It is a rare opportunity for the LMA to enable the success of our members and the market. Let's work together to define how change should look.

IMO SULPHUR REDUCTION PLAN: LMA CALLS FOR REFINERY OUTPUT TO BE USER READY

By Neil Roberts,
Head of Marine Underwriting

Ahead of a change to international standards on shipping fuel emissions, the London market's Joint Hull Committee (JHC) recently introduced a wording amendment that aimed to help insurers address potential issues that could arise from this major upheaval.

The updated survey wording requests that surveyors check the fuel suitability and exhaust gas cleaning systems known as scrubbers - if fitted. The move comes ahead of new legislation requiring ships to drastically reduce the amount of sulphur emissions from the fuel they use.

The International Maritime Organization's (IMO) new cap on sulphur emissions for ships will come into force on 01 January 2020. The change will require the sulphur content of ships' fuel to be reduced to 0.5% by mass from the current cap of 3.5%.

The undoubted environmental and health benefits of this change are to be welcomed, of course, but considerable uncertainty remains about the supply and suitability of fuels once the cap comes into force. Additionally, there are concerns over fuel management on board, as well as the fuel stability and compatibility which, in turn, poses questions for marine underwriters around the potential for consequential damage and resulting disputes. This is a multifaceted and complex issue.

In 2018, an incident emanating in Houston, but with echoes further afield, highlighted many of the potential issues that could affect ships as they seek to comply with the new sulphur fuel cap. Multiple vessels – some reports say as many as 1,000 - were affected by contaminated fuel in compromised fuel bunkers from the Houston area. Having the wrong fuel in the tank can cost shipowners and their insurers dearly. As well as damage to engines, there are potential losses from loss of hire and trade interruption to be considered.

This incident highlighted a number of points beyond the widespread machinery damage. Firstly, biofuels are not explicitly catered for under the International Organization for Standardization's (ISO) 8217 fuel standard for marine distillate fuels.

Secondly, coverage may be affected. Annex VI of MARPOL – the International Convention for the Prevention of Pollution from Ships – states: "The fuel oil shall not include any added substance or chemical waste which either jeopardises the safety of ships or adversely affects the performance of the machinery."

In the Houston contamination event, it is widely believed that the biofuels supplied contained added substances that adversely affected the performance of the machinery. This raises the question of whether the affected ships were rendered unseaworthy – which would invalidate insurance coverage and leave owners to pay for repairs.

Another serious challenge raised by a switch to low sulphur fuels is that ships themselves cannot test the quality of the fuel as it requires specialist laboratories - and there is a shortage of such facilities since the testing of aviation fuel tends to take priority.

This problem is exacerbated by the time it takes to test fuels as it often takes a week for results to be received. This already means that ships have to utilise multiple fuel tanks but, as the new fuels definitely cannot be mixed with existing stock due to likely incompatibilities, it is thought that ships in future could need six fuel tanks and two settling tanks to cope with the variations they will encounter. Ships' crew must then make sure that fuel is fit for use by removing anomalies through a complex and regrettably imperfect process in which mistakes are sometimes made and engine damage results. Machinery damage accounts for about 40% of all marine hull claims, so it is clear that any mitigation would be welcomed both by insurers and, indeed, by members of the ship-owning community.

The JHC has been working alongside the International Union of Maritime Insurance (IUMI) to raise awareness of these issues and seek solutions ahead of the 01 January 2020 start date for the new cap. The JHC and IUMI believe that the current system of having end users filter the fuel they have bought and then pay to test the fuel quality is increasingly unsatisfactory and illogical. Insurers have also called on the IMO to press the ISO about improving the 8217 fuel standard for distillate fuels so that it encompasses biofuels.

While the reduction in emissions will bring health and environmental benefits, as things currently stand, the cost burden will fall unfairly on shipowners and their insurers.

Insurers believe that governments should compel refineries to produce fuel that needs no further intervention before use - as they do for the aviation and motor sectors. As shipowners ready themselves for the rule change in 2020, it is hoped international bodies will turn to address the source of high sulphur fuel rather than just the symptoms of its use.

LLOYD'S BRUSSELS PROVIDES CERTAINTY

By Alison Colver, Head of Wordings

Lloyd's Brussels is fully operational, enabling managing agents to underwrite and service EU/EEA risks from 01 January 2019 despite ongoing uncertainty over Brexit. The timely creation of Lloyd's EU insurance entity, Lloyd's Insurance Company S.A., and the hard work of managing agents, meant the threat of a no-deal Brexit and the delay in the UK's departure from the EU has not led to any significant disruption for the market and its customers in respect of 2019 business.

Lloyd's Brussels is authorised and regulated by the National Bank of Belgium and operates as a fully capitalised EU insurer under Solvency II. It is now fully staffed, with the majority of personnel based in Brussels. Sonja Rottiers joined as CEO of Lloyd's Brussels and Lloyd's Regional Director for Europe, Middle East and Africa in February 2019. The new entity carries the same financial ratings as Lloyd's and benefits from Lloyd's chain of security.

Lloyd's Brussels has proven to be a good solution for the market and policyholders. Opening three months ahead of the original 29 March 2019 UK departure date, Lloyd's Brussels provided much needed certainty and continuity for policyholders during recent politically turbulent months. It will now ensure Lloyd's future customers continued access to the market's expertise and capacity from 01 January 2019 onwards.

The LMA worked closely with Lloyd's Brexit and legal teams to prepare guidance, clauses and policy documentation to support the underwriting of EEA risks by Lloyd's Brussels. We have also offered guidance on the drafting of the Market Reform Contract (MRC), for open market and non-proportional reinsurance treaties that can be underwritten by Lloyd's Brussels, along with the creation of specific guidance and clauses for delegated authority business.

The LMA continues to work on behalf of managing agents with regard to the smooth operation of Lloyd's Brussels, fine-tuning processes and ironing out any arising issues, such as with back-office processing and the flow of data.

One matter which deserves special mention is the issue of risk location. Managing agents will need to be acutely aware of this when underwriting on behalf of Lloyd's Brussels. Placements under syndicate and Lloyd's Brussels stamps will need to be priced separately and the MRC will need to be split or have separate sections for non-EEA and EEA risks. Lloyd's, in conjunction with the LMA, has published a Lloyd's Brussels addendum to the MRC Guidance and model clauses to assist the market in this regard.

It is important to note that, while Lloyd's Brussels now operates as a carrier for new EU/EEA business, Lloyd's Brexit contingency planning for the servicing of EU/EEA risks underwritten before 2019 centres around the market Part VII transfer scheme. This is a major project scheduled for completion in October 2020 and is the subject of a separate article in this edition.

THE NEW AND IMPROVED LLOYD'S WORDINGS REPOSITORY IS ON ITS WAY

The Lloyd's Wordings Repository (LWR) has been updated with a new interface and improved search capabilities. The new features will make it easier for the market to search and develop policy wordings and clauses.

To ensure the platform continues to meet the future needs of the market, we recently invited those who currently use the LWR to test the new features and provide their feedback by visiting the staging application here: **https://new.lloydswordings.com.**

The upgraded platform is currently running alongside the legacy system to enable users to experience the test environment with the full data available on the LWR. This includes the 350 wordings added during 2019 and 144 to date in 2019.

The official launch is scheduled for early July 2019. If you have any questions, please contact **LWR_Suggestions@lloydswordings.com.**

ELECTRONIC PLACEMENT ADOPTION CONTINUES APACE, BUT MORE WORK TO BE DONE

By Patrick Davison, Deputy Director of Underwriting

The LMA is encouraged by the continued movement towards electronic placement within the London market. But there is still work to be done before syndicates, brokers and buyers of insurance and reinsurance are truly deriving the benefits that electronic placement, and the data it can produce, will bring.

In May 2019, the Placement Platform Limited (PPL) board announced that 78,000 risks had been bound on the platform.

During the last quarter of 2018, PPL announced, 100% of Lloyd's syndicates reported under the mandate from Lloyd's for syndicates to meet various targets for electronic placement.

More than 76% of Lloyd's syndicates met or exceeded Lloyd's target of 30% of in-scope risks to be placed via a recognised electronic placement system in the final quarter of 2018.

Indeed, on average, in the final quarter of 2018, Lloyd's syndicates accepted 39% of in-scope risks electronically – almost meeting the 40% target set for the first quarter of 2019.

While the move towards electronic placement has been spurred in large part by the Lloyd's mandates, we have seen a general shift to a position where underwriters and brokers have now accepted that electronic trading is a good thing for the market, not simply something they feel they have to do. And this must be welcomed.

We believe, however, that there is a need to get electronic earlier in the transaction. If electronic placement was used earlier in the submission process, not only would this improve efficiency and reduce keying errors, for example, it would begin to enable underwriters to extract truly meaningful data. It is our hope that electronic placement platforms can become more than administration tools.

We hope, of course, that a move towards electronic trading will help to reduce Lloyd's expense ratio. But we believe it can be more than that.

The need for human value-add, the real underwriting skill on which this market rightly prides itself, should never be underestimated. But we believe that an increased use of electronic trading could, for example, arm underwriters with better, straight-through data to enable them and brokers to more effectively and efficiently negotiate coverage.

Simon Clegg, Atrium Property Underwriter and Chairman of the LMA Worldwide Property Business Panel, agreed, commenting: "There will always be a place for the added value of a London broker; PPL does not change this. However, there needs to be wider acceptance that brokers can broke risks face-to-face with submission information and the slip presented on PPL.

"Underwriters can agree the slip there and then using PPL with no paperwork changing hands – much more efficient and the whole transaction is recorded".

Technology, we believe, can help to underpin that negotiation; it will never replace it.

MIS-SELLING SCANDAL SOUNDS ALARM BELLS FOR LIABILITY MARKET


By David Powell, Head of Non-Marine Underwriting, and Tony Ellwood, Senior Executive, Underwriting

The recent mis-selling scandal in the Australian financial services industry has highlighted the potential for catastrophe-style loss events for the casualty and financial & professional lines market.

Over the past year, the Australian financial services market has been rocked by allegations of misconduct in the country's banking and insurance sectors, with the publication of a lengthy report in February 2019 by the Australian Royal Commission.

The report was scathing in its criticism of banks and financial advisors especially, but also insurers and pension providers. Conduct in the industry had "fallen short" of that expected and, in some cases, had broken the law.

The Commission uncovered an industry-wide culture of greed, driven by companies' "pursuit of profit" and individuals' "pursuit of gain", while the provision of service to customers was "relegated" to second place. Banks, insurers, intermediaries and pension providers mis-sold products, offered inappropriate advice and charged fees for no service. The report also identified conflicts of interest, where financial advisors were paid by providers and acted in the interests of banks and insurers, and not the client.

The Commission has referred 24 cases of potential breaches of criminal or civil law to the Australian Prudential Regulation Authority (APRA) or the Australian Securities and Investments Commission (ASIC).

The report called on regulators to consider maximum fines and custodial sentences, and a new law provides increased civil penalties and criminal sanctions against banks and other financial sector institutions and their executives guilty of misconduct. These powers include an increase in maximum civil penalties to $525m or up to 10% of profits.

The scandal is expected to see at least A$850m paid out in compensation.

While generating much noise in Australia, the implications of the Commission's report for the insurance industry are still emerging. Regulatory investigations, potential prosecutions and litigation have yet to run their course, let alone translate into insured losses.

The mis-selling and conduct issues could trigger a number of insurance coverages purchased by banks, insurers, intermediaries and superannuation firms. These include directors' and officers' liability, professional liability and combined policies sold to financial institutions.

Much of the exposure sits in the Australian market, although the London market and international reinsurance market could also see claims. However, the degree to which regulatory investigation and defence costs, as well as fines and compensation, are covered by insurance is an open question.

Potentially, there could be coverage issues around notification and the application of policy wordings. Importantly, some coverage will hinge on the form of misconduct, with deliberate acts generally excluded. The Australian market has hardened significantly over the past year and cover and capacity in some areas has become restricted (although the London market has been able to support some Australian clients with capacity). Some underwriters have sought to exclude potential claims not yet notified and arising from the Royal Commission's investigation for new or renewed policies.

This is not the first occurrence of misconduct or mis-selling in financial services. The UK has seen a number of similar cases, including the pension mis-selling scandal of the late 1980s and early 1990s, and the recent payment protection insurance mis-selling, which has seen the industry pay some £34bn in compensation since 2011.

The findings of the Royal Commission present a reminder of the potential for liability events that cut across multiple sectors and product lines. The format of this scandal could be used as the basis for realistic disaster scenarios in the casualty sector, potentially triggering a wide range of liability insurance coverages.

Australia is a litigious society, where class actions and litigation funders combine with consumer-friendly legislation and courts. Similar trends are emerging in other markets, albeit not to the same extent. For example, a number of data breaches have sparked class actions in the US, while emissions cheating in the automotive sector has given rise to collective actions in Europe.

Consumers are emerging as a powerful interest group and regulators are showing a growing willingness to hold companies and their directors to account. Incidents of mis-selling and conflicts of interest are almost certainly to feature in other territories and other sectors in coming years.

DIGITALISATION OF CLAIMS: SUPPORTING THE CLAIMS WORKFORCE OF THE FUTURE

By Lee Elliston, Claims Director

The LMA continues to help modernise various areas of our members' and the London market's processes in order to drive carrier and value chain efficiencies and cost savings, while creating a cultural and operational shift in how we transact and interact with our policyholders and value chain.

An important part of this work is recognising that cultural shift will be needed to equip employees with the skills and mindset to align to a technology enabled and customer-centric service model of the future.

Claims has been a particular area of our modernisation focus since the introduction of Electronic Claims File (ECF) in 2006; however, later initiatives have been iterative and siloed. As stated within a report published recently by PwC (entitled Claims Workforce of the Future: 2030): "The speed of change is arguably greatest within the claims function."

The opportunity lies now within the heart of true transformation. This transformation cannot be the replacement or modernisation of platform(s) - that will just redecorate the house, so to speak. The vision and objective that the market is supporting is to build an ultra-modern house (for claims) with a supporting infrastructure and a bespoke state-of-the-art extension: one that the market is proud of and our customers want to visit, and feel both excited and safe to be in and a part of.

This cannot just be a technology-focused transformation - this has to be a multifaceted approach, which incorporates technological opportunities as an enabler, ensuring that business process and operating model changes define the new structure as it develops, while the culture and importance of the market's people and talent are engaged to deliver the transformation. The recently published Claims Workforce of the Future – London Market **(lmalloyds.com/FutureWorkforce)**, published with PwC, refers to the opportunities and areas of focus that the market needs to consider.

One of the major challenges facing managing agents and their claims staff as processes evolve is the desire to enhance the customer experience, to ensure that the customer feels more engaged and can see the status of their claim at any stage in the process.

Improved process and better use of data are a way to achieve this. But this means that the work of the claims professional must adapt. A more emotionally intelligent approach from the 'human' side of the process will be needed to complement the technology enabled and responsive process while being less transactional and more connected and collaborative.

Technical skills will always be needed to underpin the claims function. However, there will be a much greater focus on the service that customers get and the analysis and insight that can be gathered from pre and post loss data.

Improved technological processes and better use of data will enable claims teams to make more informed decisions, and it will also free up claims professionals to be less focused on administrative and reporting tasks, so they can focus on complex, value-added and client advocacy areas of work.

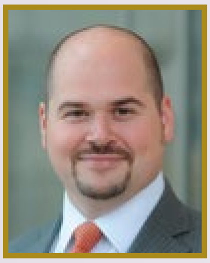
Claims professionals of the future will need to be client advocates, customer experience professionals and account managers, as well as having the skills of a claims adjuster or processor. Claims professionals of the future will likely be using human and technical insight, artificial intelligence (AI) and analytics to enhance the service we offer to our policyholders, underwriters and actuaries.

The effort and focus to radically improve data standards and quality is step one, once delivered with the right technology and tools. Step two will be to develop the skills needed to use and analyse the data – all of which creates a modern, bespoke and differentiating service model for claims.

At the LMA, we are working with our members to identify the skills that the claims workforce of the future will need while understanding ways to support current claims professionals in honing new skills and adapting to the transformational change.

We are keen to help our members and the wider London market take the next steps, benefit from the opportunities and adapt to the transformational change that will help redefine the world of claims now and for the future of London and Lloyd's - a future that has to be modern, flexible, unique and responsive. It is a new era for claims - an era to be part of.

MODERNISING THE DELEGATED CLAIMS LIFE CYCLE - TOWARDS A MORE HOLISTIC APPROACH



By Tom Hamill, Manager, Claims and Delegated Authority Operations

The LMA has been working to modernise the delegated claims life cycle in order to achieve a more holistic approach to the management of delegated claims. Modernising the delegated claims life cycle will streamline the key components in the model and supply chain, from selection of third party administrators (TPAs), due diligence and agreement of terms to claims handling, monitoring and audit.

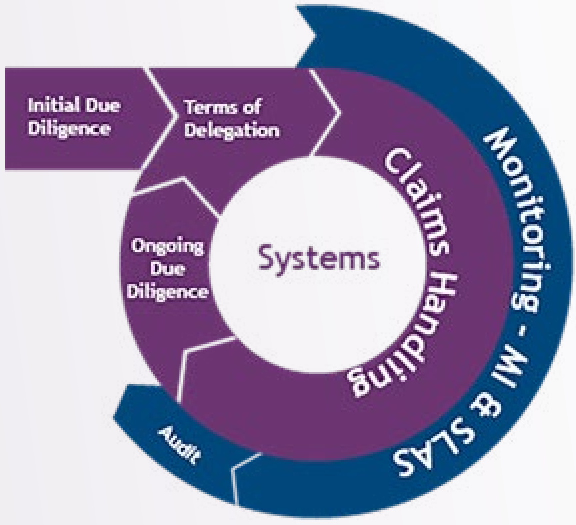
The delegated claims programme of work is aimed at improving the tools available to managing agents. Key tools being delivered throughout the programme include new model terms of delegation, Service Level Agreement (SLA) measures for use by managing agents and a market TPA audit scope, with a number of other tools also being developed. The critical element across all of these is to ensure that these tools work together.

For example, the SLA measures decided on through consultation will be built into the model contract of delegation. These can then be built into reporting templates and requirements, monitoring of which by managing agents will then create a feedback loop into changes in the terms of delegation based on the information presented.

If each component tool within the DA life cycle informs the other, then a risk-based approach can be applied, any gaps highlighted and rectified, and information passed more efficiently through the chain to improve the oversight processes. This is true across both delegated claims and delegated underwriting. All the collaborative work that we're doing in this space looks to drive a consistent approach to all delegated authority management.

We've spoken previously in Viewpoint about tools being put in place to assist these processes. For example, Chorus supports due diligence and contractual requirements, DA SATS supports bordereaux and reporting, and AiMS supports audit processes. Linking the tools together leads to more logical integration between these systems to support all aspects of the life cycle.

This is not simply about adopting individual component tools or systems, but is about a more cohesive and joined-up ecosystem. Managing agents can engage with all the available tools to garner greater rewards from the interlinking of the systems that support those processes through the analytics and decision making. Buying into that full network of tools also drives more consistency down the supply and distribution chain, bringing huge benefits to TPAs, coverholders and, ultimately, the customer.



'TALENT AND TECH' KEY TO DELIVERING WORLD-CLASS CLAIMS SERVICE, REPORT FINDS

The LMA, in collaboration with PwC, published a report entitled Claims Workforce of the Future - London Market.

The report found that by effectively combining the workforce and technology, the London market has the opportunity to create bionic claims teams that deliver leading customer service.

Other key findings include:

- new skills and processes are required to successfully transform the London market
- a shift in emphasis is needed by insurers to be much more customer-centric
- technology is not a panacea: culture, processes and approach need to change
- better support is required for claims staff to adapt to the 'new world'.

Read the report here:

lmalloyds.com/FutureWorkforce

BREXIT AND LLOYD'S PART VII SCHEME

By Kees Van Der Klugt, Director of Legal and Compliance

The date and terms of the UK's withdrawal from the EU remain uncertain. Against this difficult backdrop, Lloyd's continues to make plans so that the servicing of pre-2019 policies with EU/EEA interests, underwritten by Lloyd's syndicates, can continue uninterrupted.

This covers two interwoven areas:

(1) hard Brexit contingency plans, so that claims can be handled and paid and endorsements agreed in respect of EU/EEA business in any period between a hard Brexit (if that happens) and completion of Lloyd's Part VII transfer scheme

(2) preparing for the actual transfer of all syndicates' EU/EEA insurance business underwritten between 1993 and 2018 (inclusive) to Lloyd's Insurance Company in Brussels, where that business cannot be serviced from the UK without breaching law and regulation in the EU/EEA states concerned.

Lloyd's hard Brexit contingency planning revolves around the helpful recommendations that European Insurance and Occupational Pensions Authority EIOPA published for EU member states in February this year. These include a recommendation that member states make appropriate run-off or transitional arrangements, so that UK carriers can continue to service post Brexit insurance contracts underwritten pre-Brexit, and that 'in-flight' Part VII schemes be recognised.

The upshot is turning out to be quite a varied patchwork of member state legislation, rules and statements of intent, but Lloyd's is confident that, pending completion of the transfer scheme, managing agents will be able to continue to service existing contracts without breach of local EU/EEA law and regulation if a hard Brexit occurs - and that a compensation scheme could be put in place for policyholders if a particular state has not made appropriate rules to allow orderly run-off.

The subject matter of the proposed insurance business transfer to Lloyd's Brussels is essentially all syndicates' EU/EEA business underwritten after the Equitas transfer - that is years of account from and including 1993 up to and including the 2018 year of account. From 01 January 2019, EU/EEA risks have been written by Lloyd's Brussels (although some EU/EEA coverholder business attaching to 2019 will also be included in the transfer scheme).

The transfer is shaped by the requirements of Part VII of the Financial Services and Markets Act 2000. Ultimately, the Lloyd's scheme will need the approval of the Independent Expert (who has been appointed), of the PRA and FCA, and also the National Bank of Belgium (as the regulator of Lloyd's Brussels), and of the UK High Court. The planned date of transfer is now October 2020. The timetable is already tight for the completion of all the preliminary work.

The Part VII scheme is being organised by Lloyd's centrally. It would only be cancelled or postponed if the UK stays in the EU or if it becomes certain that, after withdrawal, UK carriers will continue to have passporting rights across the EU single market.

The LMA has formed, at Lloyd's request, four market groups to act as sounding boards for Lloyd's plans and to advise on technical matters. These are a main cross-disciplinary group (claims, operations, finance, actuarial, risk, DA, legal, compliance areas are all represented); a data and reserving group, which interfaces with Lloyd's finance and actuarial team; a policyholder communications group; and a reinsurance group.

There are a number of matters that have been discussed within these groups which are on the critical path in terms of how Lloyd's runs the project. These include:

- the EU/EEA data validation exercise, where the output will go to the liabilities and reserves transferred to Lloyd's Brussels, and also the policyholder communications exercise - four managing agents are assisting Lloyd's in a pilot exercise and others will become involved in the pilot work
- the shaping of the policyholder communications programme, which will involve brokers and coverholders, and which is expected to take place where there are active claims and in relation to all current EU/EEA contracts and those written within specified 'look-back' periods
- consideration of how the splitting of multi-territory policies into EU/EEA and non-EU/EEA elements will operate and the effect on syndicates' reinsurance programmes.

Lloyd's sent a circular to all managing agents in early May this year setting out broad timelines and points where managing agents and others (e.g. auditors) will be involved directly in the scheme. We also expect Lloyd's to set up a communications system with dedicated points of contact within each managing agency and Q&A helplines (as for the Lloyd's Brussels set-up). Lloyd's will embark on a series of communications with brokers, coverholders and their associations (this engagement has started).

On 09 October 2018 Lloyd's made a public commitment that the market would continue to honour contractual obligations and pay valid claims whatever shape Brexit takes - the hard Brexit contingency plans and Part VII transfer scheme underpin that commitment.

FCA'S PROPOSED GI VALUE MEASURES REPORTING

By Steve Morrell,
Head of Regulatory Affairs

It was back in March 2013 that the FSA (as the UK regulator was then) first suggested the idea that publishing claims metrics would assist transparency and consumer decision making. The Financial Conduct Authority (FCA) continued to progress the idea as a possible remedy to what it saw as poor value provided by certain add-on products during its 2014 Market Study.

We have always been supportive of the regulator's consumer protection objective. However, we continue to doubt the ability of the FCA's proposals to meet that objective.

Despite industry opposition to the publication of claims metrics in the way proposed, because of the risk of giving consumers a false picture about the value of insurance, the FCA has since completed three pilot exercises where selected firms reported claims frequencies, claims acceptance rates and average claims payouts. The FCA published the reported data on its website.

In its recent consultation, the FCA proposed to mandate the reporting and publication of claims metrics by all insurers (including Lloyd's managing agents) for the majority of consumer products where the insurer meets the minimum policy and premium thresholds for a particular product. The proposed metrics are the three used in the pilot plus claims complaints data. Reporting complaints data creates an additional issue for managing agents, as complaints are currently reported on an aggregated basis by Lloyd's centrally.

We submitted a substantive response to the FCA's consultation, expressing our concerns about the proposals. We believe that the FCA's view, that quantitative metrics can accurately describe the value of an insurance product, is flawed. To mandate these metrics for high-volume, low-premium, standard-form products is one thing; to apply these measures to bespoke policies underwritten in an intermediated, wholesale market, on a subscription basis, is another. The proposed FCA requirements are developed for insurers distributing directly to a mass market or via price comparison websites.

We have advised the FCA that many Lloyd's customers want to buy cover for 'non-standard' risks and go to the Lloyd's market for bespoke cover. The comparisons available from the proposed value metrics will be of little benefit to them. Indeed, they could prove confusing, by suggesting that customers may be better off with products which are not, in reality, available to them or suitable for them. We believe the most important element of any product is its suitability. In terms of coverage and price, placement is typically negotiated by brokers on behalf of insureds in a competitive environment.

We believe that, if the FCA does publish claims metrics data, it should limit publication to those standard-form products it feels may not be offering sufficient value – some interest from media, consumer groups and the general public might then be expected.

We believe the FCA's proposals in their current form may add additional regulatory burden and cost to the market for little, if any, benefit. The FCA has not provided evidence of benefit from the pilot exercises. We will continue to push back on the FCA's current proposals, as will Lloyd's and the Association of British Insurers who share similar concerns, and we will keep our members informed of developments. Our response to this and other consultations can be found on **lmalloyds.com/legalconsultations.**

DATA SUBJECT ACCESS RIGHTS

By Manreet Sher, Senior Executive, Legal & Compliance

The LMA and DXC Technology have produced three market protocols in relation to data subject (e.g. an individual policyholder) rights. The first protocol concerns the data subject's right to make a data subject access request (also known as a DSAR). If the managing agent (data controller) cannot satisfy the DSAR from the data that it holds, because it is held by DXC (as the data processor), the managing agent will need to make a further request to the processor to help collate the details required.

A DSAR gives data subjects the right to obtain a copy of their personal data as well as other supplementary information. It helps individuals to understand how and why firms are using their data, and to check that firms are doing so lawfully. Under the General Data Protection Regulation (GDPR), managing agents have one month to respond to a DSAR. The DSAR market protocol explains the steps that managing agents need to take when they require DXC's assistance.

The GDPR also introduced a right for data subjects to have their personal data erased. The right to erasure is also known as 'the right to be forgotten'. Data subjects can make a request for erasure verbally or in writing. Again, managing agents have one month to respond to a request.

The data subject also has the right to ensure that the data that firms hold about them is correct. In most cases the managing agent as the data controller should be able to rectify any erroneous data held but they will also need to ensure that DXC rectifies the erroneous data where necessary.

The three protocols on DSARs and the rights of erasure and rectification have been reviewed by the LMA cross-market GDPR working group. This group comprises representatives from the LMA, IUA, BIBA, LIIBA and market practitioners. A joint LMA/DXC market communication is being prepared and will be published on the LMA website in due course.

FINCOM SETS PRIORITIES FOR 2019

By Gary Budinger, Senior Executive, Legal & Compliance

FinCom has refreshed its leadership from the beginning of 2019 with Mark Allan, CFO of Brit, succeeding John Dunn as Chair, while Hermien Smeets-Flier, CFO of Aegis London, has been appointed Deputy Chair, replacing Martin Bride (Beazley). Paul Davenport has also recently joined the LMA as Director of Finance and Risk.

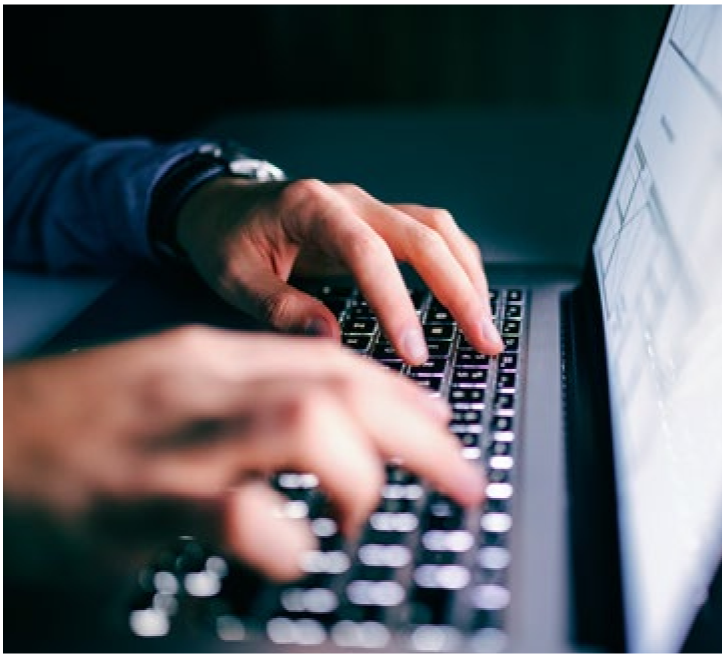
The changes coincide with recent changes at Lloyd's, with Burkhard Keese (previously CFO of Allianz Deutschland AG, Germany's largest insurer) joining as the CFO from April 2019, succeeding John Parry.

FinCom is to focus on three key priority areas during 2019, following a survey of CFOs and FDs in the Lloyd's market earlier this year. The setting of these priorities is part of a wider initiative to increase communication with the market and address the needs of the finance community within managing agents.

The survey identified a wide range of potential topics that could be addressed by the committee, including Lloyd's strategy, market modernisation plans, funding and delivery of market services, Brexit, capital and ratings.

It has been decided to concentrate on capital planning, performance management information and reserving for 2019. Sub-groups are to be formed, which will scope the work required for each of these areas and take this forward during the course of 2019.

In an effort to improve communication with the wider market and following the launch of 'The Future of Lloyd's' strategy on 01 May 2019, FinCom invited Lloyd's to a forum to discuss the next steps. Burkhard Keese (Lloyd's CFO) provided views on the Lloyd's market, Ben Reid covered the future strategy work and Mark Allan outlined the FinCom plans for 2019.



LMA ANNOUNCES BOARD MEMBER APPOINTMENTS FOR 2019

Three new members have been appointed to the LMA Board of directors for 2019.

Effective from the AGM on 22 May 2019, the members, who each successfully stood for election to the Board, will be:

- Paul Culham, Group Chief Underwriting Officer, Tokio Marine Kiln
- Adrian Cox, Chief Underwriting Officer, Beazley
- Paul Greensmith, Regional Chief Executive Officer, AXA XL

All three will serve a term of three years. Andrew Brooks, Chief Executive Officer, Ascot Underwriting Ltd, will continue as Chairman of the LMA.

A CLEARER PATH FOR INNOVATION

By Peta Kilian, Senior Executive, Market Operations and Innovation

The LMA is exploring ways in which it can help facilitate innovation in the Lloyd's market, by introducing a new Market Innovation Group for a more structured approach to micro services.

Innovation is not just about technology, although this is clearly a big part of the market's drive to reflect the changing world of risk and needs of its customers. Innovation is also about ideas, identifying areas for improvement or opportunity and matching them to solutions.

Innovative ideas are not the preserve of 'tech' people – there are lots of people in underwriting and claims that have valuable thoughts on better ways of working or new services. However, currently, there is no clear pathway for them to explore and test these ideas.

To this end, the LMA has formed the Market Innovation Group to co-ordinate and test innovative services on behalf of the Lloyd's market. Comprising a diverse range of participants from Lloyd's managing agents, the group would be able to listen to the innovation needs and ideas of managing agents and match them to a potential service provider.

In this way, the LMA will act as a hub for developing innovative micro services in the Lloyd's market.

The LMA has previously piloted a satellite imagery service provided by McKenzie Intelligence Services (MIS). The MIS Claims Imagery Intelligence Service has since been adopted by the market and proved its worth in recent hurricane and wild fire loss events.

A similar partnership model will be used to bring other third party services, data and insurtech solutions to the market. The LMA will facilitate such partnerships and pilot them in the market.

Lloyd's and individual managing agents already focus on product innovation, but there is also an opportunity to encourage innovation in process and service across the market.

There are a growing number of innovation and technology initiatives underway in the Lloyd's market which include Lloyd's lab, TOM, DXC Digital Minds and several London market forums on operations and innovation. For those in the Lloyd's market, it is not always clear what each of these do.

This is where the LMA and the new Market Innovation Group can help, matching the needs of managing agents to insurtech and service providers, as well as providing a forum for discussion. These are early days, but we are now engaging with managing agents to see how the LMA can best facilitate innovation in the market.

The LMA may also be able to positively influence innovation in the market through training and education. For example, the technology and insurance industries speak different languages, while decision makers in the industry will increasingly need a level of technical understanding in order to assess what is realistic or achievable.

The market will also need to provide feedback on a number of market initiatives linked to innovation. For example, AM Best recently consulted on how an assessment of innovation will form part of the insurance credit ratings process. The market will also need to respond to the London Market Group and KPMG's Future Workforce Think Tank, which is due to publish findings and recommendations for meeting the challenges faced by the market's future workforce.

The market is not short of entrepreneurial people, and the LMA is ready to help turn good ideas into a reality.

ACADEMY LAUNCHES NEW AND CONVENIENT ONE-DAY PROGRAMMES

By Laura Cullen, Senior Executive, LMA Academy

In response to the changing needs of Lloyd's managing agents, the LMA launched the first in a series of six one-day training programmes for 2019.

The first series of one-day programmes responds to market demand for both technical needs and the requirements of Lloyd's emerging talent in order to ensure the success and ongoing growth of the Lloyd's market.

Previously, LMA Academy programmes involved a series of five or six half-day events held over a number of months. Our members can now benefit from high-quality modular programmes and gain additional skills directly related to their role, all in one day.

The LMA Academy, for the first time, is running the one-day Introduction to the Lloyd's Market programme, moderated by Linda Prewett. Steven Brookson will hold one-day courses on How to read financial statements and Understand syndicate accounts. Dr Ana Mata is hosting two programmes on The fundamentals of insurance pricing and Managing an underwriting portfolio.

There is also an opportunity for new underwriters to develop their negotiation skills in a programme developed and run by Richard Mullender, a former hostage negotiator and lead trainer at the National Hostage and Crisis Negotiation Unit at Scotland Yard. The course will equip underwriters with techniques and the confidence required to stand their ground at the underwriting box.

Due to high demand for the one-day programmes, the LMA Academy has added additional dates for a number of the courses, which will run throughout 2019. For further details, email **lma@lmalloyds.com** or visit the LMA Academy at **lmalloyds.com/academy** for course listings.

ACADEMY PROGRAMMES RAMP UP FOR 2019

Our technical educational programmes are attended by over 7,000 market practitioners annually. The demand for technical training grows year-on-year and we are pleased to be the leaders in the delivery of bespoke technical training for the managing agency community.

For more information on any of the programmes, please visit **lmalloyds.com/academy.**

Masterclasses

IFRS17 accounting - changing standards - 10 July 2019

One day programmes

Fundamentals of Insurance Pricing – 02 October 2019

How to read Financial Statements – 04 November 2019

Managing an Underwriting Portfolio – 04 December 2019

Modular programmes

Delegated Authority Foundation Programme,
03 September - 30 October 2019

Introduction to Regulation Programme,
26 September - 31 October 2019

Claims Foundation Programme, 01 October - 21 November 2019

Risk Management Foundation Programme, October 2019

Maximising the Value in a Lloyd's Business Programme
- 04 September - 26 November 2019

AND FINALLY...

By Sheila Cameron, CEO

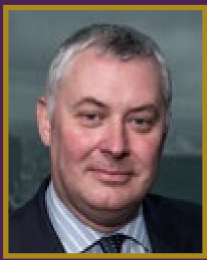
Since starting at the LMA earlier this year, I continue to be inspired at how committed LMA members are to ensuring the ongoing success of the Lloyd's market. The role of the LMA is to enable a Lloyd's marketplace in which you, our members can succeed. The LMA seeks to achieve this in many different ways - be that through the high quality, technical educational programmes run by our Academy or by the dozens of technical model wordings we issue each year or through our behind the scenes lobbying work.

There are significant changes happening in the market, but I truly believe the Lloyd's marketplace has turned the page and is setting itself up for success through a new unity of consensus and ongoing resilience.

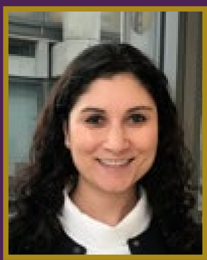
NEW STARTERS AND PROMOTIONS

We are pleased to announce that Patrick Davison has been appointed to the role of Deputy Director of Underwriting. Patrick joined the LMA in 2012 to support the International Casualty Reinsurance, US Casualty Reinsurance, Property Reinsurance, Worldwide Property, Onshore Energy and Engineering Business Panels. He was appointed Deputy Director of Underwriting in April 2019.

The LMA is pleased to announce the appointment of Paul Davenport as Finance Director. Paul previously held senior positions at The Navigators Group as International CFO and, prior to that, Finance Director at Chubb Insurance Company of Europe and has more than 25 years' experience in the insurance industry.



Rob Myers joins the LMA as Operations Director. Rob started his career in the Corporation of Lloyd's and has held a number of senior roles in Xchanging, and latterly CSC and DXC Technology; most recently he was Global COO for Xchanging Insurance & Banking Business Process Services and Managing Director of London Market Insurance Services' JV businesses. Rob has been operating as an independent consultant for the last year.



Shanaz joined the LMA in March 2019 and most recently worked at MSF Pritchard as an Aviation Claims Adjuster. She has over 12 years' experience within the London Insurance Market and, prior to MSF Pritchard, she worked at Catlin.

Shanaz will be responsible for the LMA Aviation Claims Committees and the Operations Committees and will be technically and operationally supporting the market modernisation initiatives and agenda as prioritised by the LMA claims governance.

If you would like further information about anything featured in this edition of Viewpoint, please contact us at lma@lmalloyds.com or 020 7327 3333.