

New and improved

The Lloyd's Exchange, use of the Insurers' Market Repository and electronic trading are just a few of the steps Lloyd's has taken to bring itself in to the 21st Century but Sarah Hills asks whether these measures are making it harder for new entrants to join the market.

LLOYD'S OF LONDON has worked hard over the past decade to make itself a more attractive and appealing place to work. While the subscription market has always been recognised for its unique identity, its strong rating, global licenses and the security of its central fund, Lloyd's has been focused on bringing one of the most traditional trading environments in the world into the 21st century with a series of electronic trading initiatives as part of its ambitious market reform programme.

The London market has made significant progress in meeting its goal of transforming business processes, and the desire to see electronic trading become 'business as usual' seeps down from the top hierarchy of Lloyd's. Richard Ward, the chief executive officer, is one of the driving forces behind market reform, stating the aim is to make London as efficient as its international peers.

So far, key areas of success have included the E Bot accounting standard, which enables brokers and underwriters in the company market to exchange technical and financial accounts electronically; and the

newly established Lloyd's Exchange. In addition, work on contract certainty and the development and use of the Insurers' Market Repository present major growth opportunities for the market.

However, the Market Reform Group, which sets priorities for London's insurance industry, said in January this year that in order to retain its position in the global industry, Lloyd's needed more progress of this magnitude. Then MRG chairman Peter Harmer explained in a letter to chief executives of all London market brokers and insurers (*Market Reform: 2008 in review and plans for 2009 to 2011*) that 2008 had been "another year of solid progress for market reform".

Crucial milestones

He noted the 'electronic claims filing' initiative had been particularly successful, and was now embedded as 'business as usual' in Lloyd's with significant roll out across companies in other parts of the London market. In addition, he highlighted the removal of paper from the original premium process and ahead-of-target

progress on reducing legacy volumes. Also, 250 firms have signed the IMR agreement — a "uniform contract and a crucial milestone" he said, adding the contract has put in place the "necessary legal and operational controls around this key piece of market infrastructure, to deliver a faster and more robust system for users, even as volumes increase".

Looking to the future, market reform requirements will intensify. The goals the MRG will be focusing on over the next three years include getting to full usage of ECF for all claims and moving to the use of structured, Acord standard data for premium submissions.

While Lloyd's continues to push the importance of electronic trading and market reform, the reputation behind its brand is still proving to hold strong appeal for many wishing to enter the market. The last 12 months has seen the launch of a number of new syndicates, including WR Berkeley, Beaufort, Renaissance Re and Arch — all of which prove the market is still growing.

Joining the market

But how easy is it to join the market in today's environment of electronic trading initiatives and market reform requirements? The process of setting up a new syndicate within the market has always been notoriously difficult — the Lloyd's Franchise Board was set up to protect the neutral assets of the market and the Central Guarantee Fund, and there are new parameters, processes of reviewing business plans and performance-related reports. A new syndicate will need to consider distribution and capital while the Franchise Board continually challenges loss ratios, level of premium and the type of business that a new syndicate will write. And then there are structural and tax issues to resolve.

Add to this the market reform requirements, and new syndicates have a lot on their plate when entering the Lloyd's market, regardless of the current economic downturn.

However, David Gittings, CEO at the Lloyd's Market Association, says there is no evidence that market reform is discouraging firms from joining the market — if anything it is having the opposite effect. "The proof is in the fact that so many syndicates have joined this year and that there has been so much merger and acquisition activity. New entrants realise that they are coming into an innovative and modern trading market," he states, adding the Lloyd's Exchange is a powerful mechanism that will "unblock the log-jam of using different service providers", which has historically proved difficult in the past.

The Lloyd's Exchange has been in the pipeline for a while but, in January this year, IBM was selected as the sole service provider for the new central trading hub — after a long tender process that started with 27 bidders. The exchange allows market participants to transfer risk information to each other using electronic messaging standards — and



<17 Lloyd's has agreed to foot the bill of the initiative for the first three years.

While technology is probably not the top priority for any new syndicate, it cannot be denied it does play an important role in any new entrant's development. This has represented a shift in attitude towards electronic trading in the once traditional market of Lloyd's.

Jeff Ward, business development director at Tri Systems, says there is by no means a wide-supported acceptance that electronic trading is the way to do things. "However, compared to two years ago there has been a significant sea change," he adds. "There are still separate views in various corners of the market and they need to be managed, but on the other hand some companies are fully committed to this."

Mr Ward says it helps that the attitude to modernising the London market comes down from the top of the organisation, but he thinks the acceptance of electronic trading initiatives in the London market is a psychological issue rather than a technology concern. "The technology is already there and has been for a while, but to change the way people think about trading is more of a challenge — it is a political change for most of them," he says.

Unique selling point

This challenge manifests itself in the belief from some in the market that electronic trading will take away the unique selling point of Lloyd's. Ian Summers, director of change strategy at Aon Benfield, is quick to defend the market reform. "Lloyd's has always positioned itself well and has tried to keep the balance between knowledge and entrepreneurial spirit, but technology is helping to drive the market and turn it into an efficient global market," he says.

Mr Summers adds that there is a clear distinction between electronic trading and electronic trading support. "For the big complex risks, electronic trading will never happen — it is designed for risks that can be auto-quoted. There is a danger in the market that people think we are trying to erase the face-to-face dynamics of the London market — that is not true, market reform is not designed to undermine Lloyd's. The negotiation between the broker and the underwriter will not change; instead it affects the transactions that happen after that, such as re-keying, queuing and stamping. Currently the re-keying process generates a 30% error rate — that disappears when trading electronically," he comments.

While there is a continuing battle to win the hearts and minds of those doubters in the market, Lloyd's has tried to make it as easy as possible for new syndicates to begin trading and to meet the market reform requirements. For example, it encourages the use of so-called turnkey operations, such as Whittington Capital Management, which provides support services that can be implemented or utilised with no additional work required by the buyer.

Whittington helped to set up WR Berkley in April, while Chaucer has been known to 'rent out' its services to help syndicates run their managing agents. Meanwhile, companies like CTC Axiom can manage the back office systems while the syndicate is operating — all

with the support and active encouragement of Lloyd's.

Whittington's UK CEO Stephen Cane says so-called 'turnkey' operations are a well established model within Lloyd's. "There is plenty of risk associated in any business start-up in our environment, but that has certainly not stopped new entrants coming into

the market," he says. "Lloyd's will scrutinise the business operations of a new syndicate, but we can help to reduce the likelihood of any problems that may be faced by inexperience."

He adds the route Lloyd's has taken with its new trading hub is a "sensible approach". "It has been designed to fit in with all the

existing technology in the market," he explains. "It would be difficult to try and prescribe one solution in an environment such as Lloyd's — you can't expect people to get rid of expensive systems that work. Lloyd's has recognised that and has identified the type of business that can be delivered electronically."

This newly created trading hub has proved Lloyd's is intent on pressing ahead with its agenda of electronic reform.

Rob Stavrou, Northdoor's Lloyd's market specialist, says the trading hub will break down the historical cost barriers. "It has come about at the right time," he says. "IT suppliers benefit from this and want to be involved, which means more competition and reduced costs for buyers. In addition, brokers and carriers can see the benefit of trading electronically. Now all players can operate on a level playing field, and new start-ups can define the process of how they operate sooner. After choosing the right technology for the operations, they can start writing profitable business quicker."

More efficient

Helen Sainsbury, head of sales and marketing at Trace Isys, agrees. "The Lloyd's Exchange is perfect for smaller carriers and brokers," she says. "Any idea of a free service to support companies that have not built their own mechanism to send and receive messages is encouraging. This trading hub is the start of more flexible solutions that will allow people to trade with each other more efficiently."

In light of this, Pricewaterhouse Cooper's head of the technology and controls team Andrew Smith says there is an increasing expectation from brokers to use similar technology in other markets as well. "For example, some of the brokers that operate in the London market and Bermuda want to use electronic placement across both. The Lloyd's Exchange is a facility that can be used in a number of ways. It is deliberately being flexible

and ultimately gives people a place through which they can exchange information. This has certainly helped in Lloyd's evolution," he explains.

"The goal is to make trading in London easy for everyone involved," adds Mr Summers. "We need to bring the London market standards in line with everyone else in the world. Lloyd's still has the knowledge and experience that is internationally envied but the 300-year-old plumbing needs to be replaced.

The advantage of being a new syndicate in today's climate is it will have a competitive advantage over a more established player with legacy problems," he continues, adding that a new entrant in the market will immediately be able to choose a cutting-edge technology supplier that can provide appropriate rating support and a more efficient electronic platform.

Market evolution

In many ways, the adaptation of technology for new entrants in the market and the acceptance of new ways of working will be easier than it would be for some more established players in the market. Mr Ward says there are no obstacles in the battle for hearts and minds for new entrants: "They are not entrenched in legacy issues and can start from scratch. As this develops in the market, it will make London an easier place to transact business with — it will remove all the curious London-isms in the market and players will seek to improve business with technology in different ways."

In fact, according to Sequel's director, Michael Graham, technology needs to adapt for the market rather than the reverse. "IT providers need to cater for both electronic initiatives, but also allow Lloyd's to place big complex risks. Yes, technology has become more important, but players in the market now expect a system that allows them to deal with business efficiently. Rather than being regarded as a necessary evil, there has been a mind shift in the market."

Lloyd's and technology have never been two words seen as synonymous, but that now appears to be changing. The market is being modernised, whether it likes it or not, and any new syndicate joining Lloyd's now has found itself at a competitive advantage in the eyes of the global industry. Those that are dragging their heels may find themselves left behind in the evolution of Lloyd's and the London market.

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