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Lloyd's begins to get the message

With the announcement of the pilot scheme of the Lloyd's Exchange, electronic trading has become an unstoppable force in the London market.

The London market has often received criticism for its reticence towards embracing electronic trading and other technological initiatives. The financial crisis and the ensuing recession would have given most Lloyd's firms the best excuse for not embarking on a potentially costly process of reform.

However, this has not been the case. When Lloyd's of London announced it had launched the Lloyd's Exchange pilot, a messaging hub service that will enable the market to send risk information using Acord standard electronic messages, it became evident the market was intent on pressing ahead with its agenda of electronic reforms.

The exchange will allow market participants to transfer risk information to each other using electronic messaging standards and will remove the need to maintain multiple connections with other parties and suppliers in the market.

Reactions has spoken to some of the leading reform technology specialists and an IT director at a London-based insurer to discuss how the financial crisis has affected the market's desire for electronic reform and how a successful pilot of the Lloyd's Exchange will alter the market.

The panellists comprise:
Ian Forwood, insurance business development director, Eurobase
Alex Letts, CEO of RI3K
Jeff Ward, business development director of TriSystems
Jonathan Sinfield, group IT director insurer at Marketform
Carl Phillips, head of market operations and north America at Lloyd's and responsible for all aspects of Lloyd's market change projects
Julian Smith, managing director of Trace Isys
Igor Best-Devereux, CEO of eReinsure
Roy Laker, vice-president, London office at Acord

"The danger is that not enough brokers participate and give it the data traffic that it needs. Without that, it dies. The fate of the entire effort relies on brokers."
Alex Letts, CEO, RI3K

What effect has the financial crisis had on the market's desire to push forward with electronic trading?

Carl Phillips, Lloyd's: The market has got into the habit of change and can see the benefit of it. The Lloyd's Exchange has all been done on the basis of market demand. People want to see that delivered and have bought into the future. The only reason we are doing the Lloyd's Exchange is because there is that demand from the market. We wouldn't be where we are if there wasn't that demand.

Jeff Ward, Tri-Systems: We are seeing some caution being applied in the big push towards electronic reform but we haven't seen any evidence at all of brakes being applied, which is very encouraging. It also vindicates what we have been saying about costs that can be driven out of market in terms of streamlining. The technology is seen as being quite an important part of that. Some scepticism still exists in the market towards electronic reform. But if people really didn't want to do this, they could turn around and say they don't have the money because of the financial crisis and reform should be put on hold until further notice. And that hasn't happened.

Alex Letts, RI3K: There hasn't really been a negative effect that we have seen. It's my understanding that after talking to the managements of Lloyd's syndicates that they don't expect the good time to last forever. Firm's will be focusing on costs, which e-trading can help reduce. But I don't believe the sector has invested nearly enough in good or right technology. More is needed to catch up with other industries.

Ian Forwood, Eurobase: Within financial services as a whole there is evidence that, in some areas such as foreign exchange and money markets, e-trading has pushed forward despite the financial crisis. This has been prompted by the need for more robust e-trading platforms, as highlighted by the much higher degrees of volatility that have been experienced during the financial crisis, and the desire to cut operational costs.

From the insurance carriers' perspective, the financial crisis has dampened the enthusiasm for new initiatives due to concerns over the impact of lower investment returns for the foreseeable future coupled with the prospect of higher capital requirements and pricing issues in some areas of the market.

Where has the market reached with its development of e-trading?

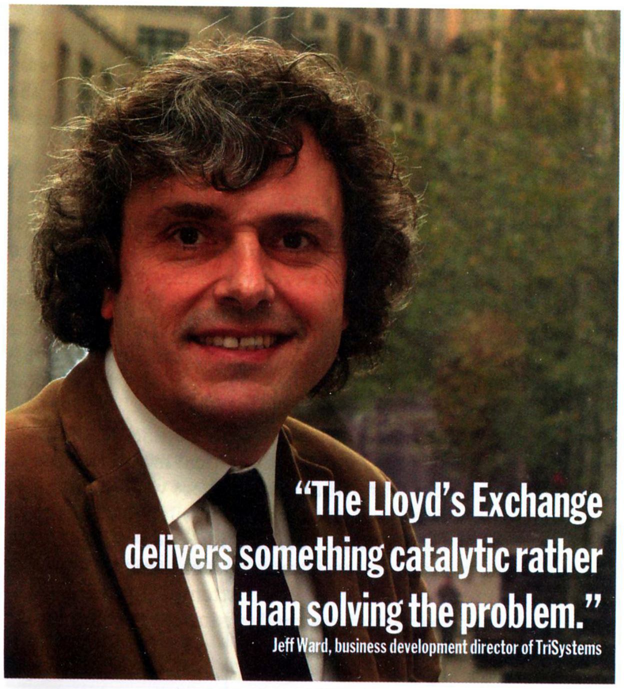
Jonathan Sinfield, Marketform: The technology is there, a greater level of market involvement and higher volumes of electronically placed risks is now needed. Hopefully with the launch of the Lloyd's Exchange 2009 will be the year that achieves this tipping point.

Julian Smith, Trace Isys: The market has moved towards the electronic claims file and that has gained momentum. But there is a general acceptance that the holy grail of e-trading has always been to create something at the placing end. Placing is seen to replace face to face but quite a lot happens in that part of the business process. For high-volume, low-value business a placing initiative can play part in that and deliver efficiency without affecting face-to-face discussions for the complex risks the London market handles.

Igor Best-Devereux, e-Reinsure: The broader global marketplace is where there is appetite for the extensive use of electronic messaging to support reinsurance transactions. We see interest in future initiatives like the Lloyd's Exchange but you must appreciate that this is something we have done actively for some years. The greatest progress in e-trading in the last 10 years has not come from core industry bodies or the marketplace in general, but has happened through relatively small companies spending time and effort and their own money to make it happen.

What effect will the Lloyd's Exchange have on the e-trading project?

Carl Phillips, Lloyd's: It gives managing agents and brokers choice rather than being forced on them as a one-size-fits-all solution. All the exchange does is route the messages correctly and validate them correctly. Peer-to-peer solutions require multiple connections and that has a cost associated with it but the Lloyd's Exchange will only require one straight-through connection.



"The Lloyd's Exchange delivers something catalytic rather than solving the problem."
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"Competitive advantage will be achieved in the London market by being the first market to engage in electronic placing for medium to large risks."
Jonathan Sinfield, group IT director insurer at Marketform

Jonathan Sinfield, Marketform: The Lloyd's Exchange has provided the catalyst that was needed to break the catch-22 situation that was causing many organisations to wait until there was sufficient market engagement before getting involved. At Lloyd's, 55 organisations will be involved with electronic placing by the close of 2009. This must be a positive step.

Alex Letts, RI3K: To have an electronic messaging exchange that is a bit like a telephone exchange with routes to write messages is something the industry does need. Without it, what we call e-trading will never happen. Lloyd's has gathered the bull by horns. This is important because it has Lloyd's and the market's energy behind it. It has the right impetus. But the danger is that not enough brokers participate and give it the data traffic that it needs. Without that, it dies. The fate of the entire effort relies on brokers.

Jeff Ward, Tri-Systems: People have got to stop worrying about volumes. Volume will come as a result of success. The exchange has got to get 300-odd companies using this. They can't do a big bang approach so they have got to get people comfortable with the fact that it is not getting in their way as a technology.

Since the demise of the previous attempt at doing this centrally, there has been no central market standard for everyone to gather round. But there has been lot of activity around getting stuck into building systems without that central standard. The Lloyd's exchange delivers something catalytic rather than solving the problem.

Roy Lake, Acord: It could well speed the project up. I am for an exchange hub because it will enable people to connect quicker and easier. And from a data standards point of view,

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Julian Smith, managing director of Trace Isys

we can make sure they adhere to the standards fully because it does validation. I think that will be for the good of all.

What is the next step towards data standardisation?

Jonathan Sinfield, Marketform: The market has agreed to converge on the Acord 2009.1 standard in the fourth quarter of 2009. Companies that are already live for electronic placing will upgrade to this standard, and organisations engaging after that date will adopt those standards. The new standard will allow organisations to exchange a richer set of data and engage in more sophisticated processes such as multi-section risks and subjectivities.

Alex Letts, RI3K: One of the ways you make life easier for yourself, whether flicking data from trading systems or going peer-to-peer, is to talk the same language. That is a huge facilitator. Without it you get a Babel of languages.

Jeff Ward, Tri-Systems: The idea behind any standard set is to ensure you can all speak same language. The problem will be that there is always an opportunity for misinterpretation or correct interpretations being different to other people's. What a messaging hub will allow is the ability to sniff data as it goes past, have look at it, and validate it. However, that does potentially raise some questions as to who has responsibility and liability for data validation.

The Lloyd's Exchange focuses on placement, while the Swift initiative focuses on accounting and settlement (A&S). Can you see any union between the two?

Carl Phillips, Lloyd's: We are working very closely with Swift and are both represented on a European steering committee. We do see the ability to harmonise on distribution.

Jonathan Sinfield, Marketform: The Lloyd's Exchange will initially allow placing messages only, but once proven will be extended to include claims and A&S [accounting and settlement] messages. Swift is a service provider whose services include A&S and movement of cash. It is entirely feasible that, in line with the concept of choice of services articulated by Lloyd's in their vision for the market, Swift will be connected to the exchange for the purpose of providing electronic accounting services.

Should the Lloyd's Exchange be a success, can you see the hub model being exported to other markets?

Alex Letts, RI3K: It has taken long time to get to where we have got to in this market. However, with the right amount of energy and volumes and if it is a success and it could certainly act as blueprint.

Jonathan Sinfield, Marketform: I can see no reason why the model would not be used in other markets. The Lloyd's Exchange will use a global standard for the exchange of messages and data, and this common standard should be used universally. A hub such as Qatar is not a subscription market, so the placement process would involve lead-only or co-insured risks. But the data and processes will be the same. Competitive advantage will be achieved in the London market by being the first market to engage in electronic placing for medium to large risks. Such competitive advantage will be sustained through the ongoing innovative use of technology to improve efficiency and service choice, even after other markets copy the model.

Jeff Ward, Tri-Systems: We need to analyse the different trading platforms and messaging hubs and which particular model would be suitable for emerging markets. In London it has been shown that an established market doesn't like idea of a central trading market and some platforms have not had as much traction as envisaged. The Qatar Financial Centre seems to be going down the trading platform route. Well-established markets do not seem to favour the trading platforms. However, less mature markets seem to be more comfortable with the notion.

Julian Smith, Trace Isys: The key for the London market is the nature of the subscription market. Because of the multi-participants on deals, that hub approach greatly simplifies talking to each other.

Igor Best-Devereux, eReinsure: I think the hub model has been chosen because of the particular structure of Lloyd's. Emerging markets are really no different in their needs to anywhere else. What is very interesting is that some markets are more ready to adopt technology. In Lloyd's you have the hub-based approach because it's a subscription market. The Lloyd's Exchange is unique to the London market. The question is how it fits in to different business needs.

Ian Forwood, Eurobase: The hub model could be exported to other markets in time, but it is the critical mass required to make the investment viable that is key. There will be a number of factors to consider in each new market, such as whether or not the trading models and volumes involved would make the hub model viable, and resistance to ideas emanating from London that may be perceived as an attempt to take control at the expense of local and regional businesses. ●

By Richard Crump