

Inside this month:

Non bureau accounting goes from strength to strength – proving the power of standardisation to drive efficiency in processing.

# LMG



## the LMG

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# newsletter



## Standardisation strokes it home...

**A**s Alan Thicke, Gloria Loring, and Al Burton famously opined in the theme song for *Diff'rent Strokes*: “the world don’t move to the beat of just one drum, what might be right for you may not be right for some”. A profound thought in the context of kids from Harlem being adopted by a New York millionaire but, as our main article by Simon Squires this month demonstrates, of no use whatsoever when it comes to settling the premium and claims payments for

complex commercial insurance. What we are seeing with the growth of our non-bureau accounting initiative here in London, following as it does on the pioneering efforts of the Ruschlikon group and with the emergence of sister programmes in Bermuda and the US, is firm evidence that global standards can be used to support global business whatever the insurance centre in which it is administered.

By moving to the beat of the eBOT drum, brokers and insurers here, in Europe, in the Atlantic and America are

pursuing a common approach to resolving a previously inefficient aspect of their processing. Six months on from the launch of live business partnerships between Aon, Willis, XL and Ace we are in a position to review how the project has been delivering. The answer seems to be pretty well. There are clear challenges in getting partnerships up and running. Not the least among these is establishing what a book of business that one counterparty calls X is called by the other counterparty so that the implementation can be progressed (one likes to imagine, to return to our theme, that at some stage, some insurer, somewhere has been heard to decry “whatchu talkin’ ‘bout Willis” in these debates).

Once common ground is established though, the power of a globally applicable repeatable process kicks in. Brokers in London with experience gleaned from continental European implementations have brought that knowledge to bear in getting up and running here. The net result is that the improvements in reconciliation rates – and thus the removal of rework that was such a feature of the old approach – and in the speed of payment are being realised just a short time into the work. All for limited incremental cost given the investment in message management tools has often already been made as part of the endorsement initiative. Simon’s article provides a window to a more comprehensive lessons learned and benefits statement that is available on our website ([www.londonmarketgroup.co.uk](http://www.londonmarketgroup.co.uk)). From this it is clear - banging the ACORD drum seems to be right for all of us.

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### Useful Links

**LMG** [www.londonmarketgroup.co.uk](http://www.londonmarketgroup.co.uk)

**LMA** [www.lmalloyds.com](http://www.lmalloyds.com)

**LIIBA** [www.liiba.co.uk](http://www.liiba.co.uk)

**IUA** [www.iua.co.uk](http://www.iua.co.uk)

**ACORD** [www.acord.org](http://www.acord.org)

# NBA proves t



*In the November newsletter we heard from a cavalca potential for significant benefit to emerge from our At that point, live partnerships between firms were it seemed like a good time to revisit the project and a on this early promise. **Simon Squires, CPO Regional and chairman of our non-bureau working group, tak***

**I**f you were going to choose the ideal project to work on, you might look for something that would shine new light on established practice and show up inefficiencies; one that allowed you to deliver obvious improvements to those processes; that had an immediate beneficial effect; and one that didn't need to cost that much. I am not saying Non Bureau Accounting is the ideal project, but it certainly ticks many of those boxes. Six months in to live usage, I think it is fair to say that all of us London pioneers of the initiative retain the same enthusiasm we had at the start.

I don't think it is giving too many insurer secrets away to say that this was a project that was seeking to farm on pretty fertile ground. Both our and, as we discovered, broker approaches to accounting have tended to grow up somewhat organically. When we came to examine them there was not that much logic as to why some of our processes differed across certain locations other than "that's the way it is". So to an extent what we have been doing has brought order and consistency, which is driving market efficiency.

Let us start with a reminder of the basic proposition we are seeking to implement. We are seeking to use the rule book and implementation guide developed by the Ruschlikon group of brokers and European (re)insurers to support the accounting and settlement for business that is administered in London outside of the bureau services run by Xchanging. This is based on sending

and receiving ACORD standard eBOT and eCOT messages.

Given that this is not bureau processed business, we have been far less dependent on collective progress to get somewhere on the project. Our key challenge has been to identify broker and insurer partnerships - with transactions that lend themselves to message based processing at both ends. Brokers and insurers tend to have a number of

**"The previous methods, by which pap considerable time after inception, n and may not be received at all, all gaps in the extent and timeliness of process whereby brokers issue an e of booking the business resolves th**

books of business in common – possibly processed in different territories and locations using different systems. Whilst our ultimate aim would be to bring as many of these as possible into scope, it was necessary to have a common understanding of what would initially be addressed.

As I have already noted, this element of the project was more challenging than we thought due to the vagaries of where business was being serviced and due to some of the approaches to terminology we uncovered.

This is why these exercises also highlighted the difficulties of defining scope in a way that could be agreed by both organisations. "All business processed on our system X" may be a perfectly good definition as far as one organisation is concerned – but have little meaning for their counter-party.

This has been one of the many

# to be a slam dunk...

*... of insurers and brokers about the Non-Bureau Accounting initiative, just going live. So, six months on, assess the extent that it is delivering Global Manager International P&C at XL and how the story...*

... areas where the full engagement of the business users has been vital. Technologically this is a pretty simple project – we have all been using stuff that we pretty much had already. But in business terms it is more complex. Being able to identify that business that looked like apples at one end and pears at the other, but was in fact the same thing – it was just that we called it apples and they called it pears – takes serious expertise. But, as is demon-

... er closings could be submitted some may be sent to the wrong department shows the possibility for considerable information provision. An automated electronic message within a few days these discrepancies. "

... strated by the increasing volumes of transactions we are processing, it is not an insurmountable hurdle.

Once we had identified business to progress we needed to have a fundamental reappraisal of how the process was working. At the insurer end it has proven essential to gain an in-depth understanding of the end-to-end transaction for both parties – from writing the line, through booking the business, credit control, statementing & ledger reconciliation through to settlement & ledger update (and equivalent steps in relation to claims settlements). Only by understanding each of these touch-points could the implications of this messaging initiative be fully understood; and the new process designed to remove the inefficiencies that currently existed.

We discovered that the key benefit of messaging arose because it fundamentally changed the timeline for these



processes; separated reconciliation from settlement and brought it forward to a time when it could be completed more readily. Attempting to introduce messaging without re-addressing the process would fail to achieve the benefits that were available.

There has been an interesting quirk

to this project when you compare it to others in the modernisation stable. Whereas, in initiatives such as electronic endorsements, we go to great lengths to emphasise that the introduction of technology support will not undermine the relationship based nature of the market, one of the things

our work has done in the accounting world is to re-establish relationships between broker and insurer colleagues. All projects rely on good communication between the team charged with delivering the work. But here, engaged as we were in a bilateral delivery, we are particularly reliant on developing good relations with our broker colleagues – particularly the respective business teams. It has rekindled a level of collaboration that is mutually extremely healthy. Over time it is easy to forget how important that close collaboration can be.

So, how is it working out? For us insurers, the key benefits were seen to arise from the opportunity to redesign the process, separating reconciliation from settlement and allowing the former task to be completed more speedily as it is addressed much earlier. And re-establishing communication channels between the appropriate broker and insurer units at reconciliation stage has greatly eased this task; and reduced the likelihood of a build-up of unreconciled ledger items, as could easily happen before.

The use of electronic methods, via a central point, also meant that we can ensure that information was sent

and received in respect of all transactions. The old methods, by which paper closings and emails can be submitted some considerable time after inception, may be sent to the wrong department and may not be received at all, allows the possibility for considerable gaps in the extent and timeliness of information provision. An

**“[W]e now have 10 of the top 11 IUA non bureau insurers engaged at some level in the initiative, plus an increasing number of brokers. Our target this year in London is to deliver another 10 broker and insurer live partnerships and we are confident of getting there. ACORD is pushing forward with implementations in Bermuda and the US – and firms in both are considering using the Exchange to connect with their counterparties.”**

automated process whereby brokers issue an electronic message within a few days of booking the business resolves these discrepancies.

The knock-on effect of faster reconciliation is to improve speed of settlement, as this becomes a relatively mechanical step, and hence to improve cash-flow for both premiums and claims. The improved premium cash-flow reduces the cost of capital for insurers; whilst improved claims cash-flow offers better client service which is

in the interests of brokers and insurers.

An important spin-off from the use of an electronically-supported standard approach is that the level of management information, control and visibility of the process is greatly improved. As well as having benefits in terms of regulatory compliance, this improved process control gives management the opportunity to apply early corrective measures, to resolve any blockages in the process, before their impact becomes too severe.

All of which means that those headline benefits we anticipated back in October – better than 95% reconciliation rates and getting paid up to 15 days earlier are being realised. And word is spreading – we now have 10

of the top 11 IUA non bureau insurers engaged at some level in the initiative, plus an increasing number of brokers. Our target this year in London is to deliver another 10 broker and insurer live partnerships and we are confident of getting there. ACORD is pushing forward with implementations in Bermuda and the US – and firms in both are considering using the Exchange to connect with their counterparties. Undoubtedly, we are on the non bu-road to success.

# Events...

## Dates for your diary

The LMG Forum sessions are designed to provide an update on the progress of the modernisation programme and give more detailed information on particular projects or aspects of the process. All sessions start at 9:15am at Willis Auditorium, Lime St.

**Thursday 29th March**  
**Wednesday 18th April**  
**Monday 28th May**

Only those who pre-register will gain admittance. Online booking is available via [www.londonmarketgroup.co.uk](http://www.londonmarketgroup.co.uk) Places are reserved on a first come first served basis.

### ACORD Club dates:

ACORD Club provides an update on the latest technological innovations in the market. The venue for this is Balls Brothers, Minster Court. All sessions start at 11am. Dates coming up are:

**Thursday 29th March**  
**Thursday 26th April**  
**Thursday 31st May**

For more details on upcoming speakers, visit the ACORD website ([www.acordlondon.org](http://www.acordlondon.org)) or email Melanie Harding ([mharding@acord.org](mailto:mharding@acord.org))