



Endorsement initiative



It's up to you?

Whether or not the New York Insurance Exchange comes to pass, there is a clear message for London's continuing competitiveness. The stated aim of the NYEx is to specialize in coverage of complicated, unpredictable and catastrophe risks. 43% of Lloyd's and 13% of Company Market business originates in North America and New York Governor David Paterson has been clear that he intends to attract that business to NY as "part of a bold and decisive plan to rebuild our state's economy." Of course, business would not flow to NYEx just because of slick, electronic processes but equally no-one would build this new Exchange based on costly, slow, manual ways of moving data and documents between trading partners. If you don't believe NYEx will happen then take Amsterdam, a €1.5bn market where approximately 50 insurers and 60 brokers transact business including subscription and face-to-face. Amsterdam is already supported by their eABS system which not only makes the placement of business more efficient but joins that up to accounting and claims. These examples tell us something – and that is that we must not step back from our commitment to change if London is going to continue to compete.

Benefits? What benefits?

Changing processes which support the way brokers and underwriters work together raises the not inconsiderable challenge of demonstrating to brokers and underwriters the benefit arising from those changes. The implied question is clear: 'If, as a broker or

underwriter, I get no benefit personally, why should I change?' The benefits certainly need to be sufficiently persuasive to justify the effort to adopt new ways of working - yes. But do those benefits need to accrue

personally to an individual broker or underwriter – I suggest not.

That is not to say the adoption of 21st Century processes to support the tried and trusted, and value-adding, relationship based nature of trading in the London market offers no benefits personally for both brokers and underwriters. It does, and we'll look at those in a moment. But brokers and underwriters do not exist in isolation. The organization of which they are a part must operate in a fiercely competitive market, both in London and globally. Unattractive and inefficient organizations will not survive. The realization of benefits by their organizations is an equally valid justification for change by practitioners as personal advantage.

What's in it for me?

A good broker will be skilled at structuring risk in a way that meets their clients' needs, presenting that risk

I'm a broker; a negotiator; the deal maker; without me the agreement of insurers to the endorsement of our clients couldn't be secured. But ... it's not just about me!

Clearly there are certain other critical functions which I either don't, won't or can't perform. For example:

- who discussed with our client their contract change requirements;
- who drafted the endorsement document;
- who will confirm coverage to our client;
- who will provide contract change documentation to our client;
- who will calculate any appropriate insurance premium tax obligations for our client from the endorsement;
- who will invoice our client;
- who will correlate any additional premium (and any tax) and disburse it to insurers;
- who will collect any return premium (and any return tax) and remit it to our client;
- who will process the endorsement with the bureaux where necessary;
- who (if a claim occurs) will compile the information necessary to ensure that the claim can be presented to insurers properly;
- who will raise any claims payment entry, collect and disburse claim moneys;
- who will deal with any queries emanating from our client, the insurers or the bureau;
- who will create and supervise the necessary management information to satisfy the various requirements of regulators and auditors.

So it's not just about me. And I can appreciate that an integrated electronic version of the endorsement will provide my various colleagues the benefits of instant access to an entirely reliable version of the work I have done. It will also avoid the drudgery of everyone in the process having to rekey data and eliminate the valueless and irritating rework caused by erroneous rekeying. My electronic submission of an endorsement and its electronic agreement and receipt by insurers equals a better use of the time of others; utilising a process which would be much more in line with the expectations of our clients.





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I'm an underwriter; a risk taker; the decision maker. Without me our clients wouldn't be able to secure the agreement of their insurers to their contract change needs. But ... it's not just about me!

Clearly there are certain other critical functions which I either don't, won't or can't perform. For example:

- who will update our contract records as a result of the change which I have agreed;
- who will update our specific and overall exposure positions as a result of this change;
- how will the increasing demands for efficient central data capture be satisfied;
- who will perform credit control functions to ensure any additional premiums are paid in a timely manner;
- who (if a claim occurs) will need sight of the entirety of the contract in order to be equipped to deal with the claim;
- who will be responsible to ensure that claim records are updated after payment and any reinsurance positions or recoveries addressed;
- who will create and supervise the necessary management information to satisfy the various requirements of regulators and auditors.

So it's not just about me..... and I can appreciate that an integrated electronic version of the endorsement will provide my various colleagues as well as my bureau back office workforce, where required, the benefits of instant access to an entirely reliable version of the work I have done. It will also avoid the drudgery of everyone in the process having to rekey data and eliminate the valueless and irritating rework caused by erroneous rekeying. My electronic agreement of an endorsement equals a better use of the time of others; utilising a process which would be much more in line with the expectations of our clients.

and negotiating cover and pricing; the good underwriter will be skilled at assessing and pricing risk. These are expensive and intellectually challenging skills and are hardly compatible with the drudge and inefficiency of our current manual processes. In LMG's August 2011 newsletter Allianz expresses the view of many firms when considering electronic support processes "This is about improving the working lives of our staff. We want to remove a level of administration from their day jobs and make sure they can focus more on developing and writing quality business and less on the mechanics of processing it.....".

This sort of change doesn't just happen. Benefits are there for those who care to look and take steps to adapt to new ways of working. For some brokers and underwriters delegating simple endorsements to other members of the team has freed up the time of more senior colleagues to concentrate on complex work and key clients. Risks can be packaged, distributed and responses requested and provided outside core trading hours. A number of underwriters are finding they can agree electronic endorsements first thing in the morning before going into the market or heading for the box. To quote Allianz again (a Marine Hull and Liability underwriter): "I am probably dealing with 15 to 20 endorsements a week in a few minutes total. Previously I would have had to see the broker and they could have taken up to half an hour each." Remote working opportunities arise, especially with use of mobile technologies. Reducing the impact of time differences and geographical separation supports global trading.

Access to better management information over both the process and the endorsements themselves is a key benefit. This allows the underwriters to make better underwriting decisions; more carefully managing their exposures and available capacity, as well as keeping tighter control of their operations. Information and documents can be delivered direct to underwriters in real time; these can be sent to underwriters'

back office directly, in real time, reducing the need for manually intensive processes like scanning.

Where integration has occurred, data messages can update underwriting back office systems with endorsement data automatically. This benefits the underwriters by removing or reducing the amount of data rekeyed or copied and pasted into their systems. A reduction in rework due to fewer errors associated with rekeying improves the consistency of data between both broker and underwriter systems and improves the quality of data – particularly important with increased regulation such as Solvency 2.

Where an underwriter or broker chooses to draw the line between these benefits accruing to them personally or to their organisation is a moot point. An attractive and efficient organisation is a healthy organisation in which the broker or underwriter can excel.

The market has agreed the adoption of these supporting processes for endorsements on all classes of business by the end of Q1 2012. The focus will then turn to placing; indeed the planning has already begun. So the message is clear,

there is real market momentum behind these changes. Those brokers and underwriters who work with their firms, and each other, to hasten the transition and shape their firm's response will be the winners.



Rob Gillies
LMA

The broker position



approach to implementation is to avoid training and support bottlenecks that may occur if all teams were to go live in March. This is valuable ground-breaking activity in those classes and the project team is tracking brokers' plans and presenting this in a 'Class of Business Roll Out Matrix' on the LMG website.

To further build on volumes to date, the members of the LIIBA Board, who consist of a wide array of brokers, confirmed their firms' support for the project. The majority of LIIBA's Board were already actively engaged with the project and had presented detailed rollout plans by class spanning the next three months. The remaining members of the Board who had yet to engage confirmed their commitment to joining shortly. A number of other broking firms, who with the LIIBA board represent a significant proportion of the premium volume into the market, recently met with Lloyd's CEO Richard Ward and these brokers also stated their support and commitment to engaging with the initiative.

In parallel with increasing broker volume, LIIBA called for the improvement in response time performance from carriers to continue.

Recognising the inter-related nature of broker volumes and carrier response times and in order to drive change in these areas, the various market governance groups involved in the endorsements project have supported the concept of publishing data on firms' performance which is more transparent than has

previously been available. This would be effected through the associations which will communicate further with their members in due course.

In a circular to its members last November, LIIBA encouraged all brokers to establish bi-lateral partnerships with carriers across any class of business as the market moved towards bringing all classes into scope on 5 March 2012. This follows the introduction of Specie, Professional Indemnity and Property last July, sponsored by the partnerships of Willis/Ace, Marsh/Beazley and Aon/Catlin respectively. LIIBA reported that since July the response from the broking community had been one of support and commitment. There had been a steady take up of activity across multiple classes of business, which saw on average, 2500 electronic agreements being processed each month. One advantage of adopting a staged



Chris Buer
LIIBA

Endorsements in the Company Market

Starting in December 2009, IUA sought a reciprocal commitment from its members to that offered by the 'Big 3' brokers to transact all endorsements using ACORD messaging by January 2011, preceded by a pilot to be conducted during 2010. Always a tall order, the majority of our Marine markets were ready for the pilot in that chosen class by October 2010 and the remainder were involved by the time of its transition to full business operation in April 2011.

Since then, the Company market has continued its steady engagement, not always providing complete markets for additional classes within the target timeframes, but nonetheless advancing to a point where now less than a handful of members have yet to confirm any form of participation in the initiative. In particular, the significant company aviation market looks set to build on this progress with some trading partner testing already underway; well ahead of the March 2012 target for all remaining business classes.

In December 2011, the IUA Board took a similar supporting step to that taken by the LIIBA Board, with represented firms confirming their support for the project, either by ensuring that their own engagement levels were up to date with current business class implementations, or by joining the initiative within the next few months if not already participating.

With the continuing support of the cross market project team and full participation in the Placing Support Steering Group and TMEL, the IUA will continue to promote the engagement of all its members to the fullest extent possible in this initiative.



John Hobbs
IUA



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Process changes



Electronic endorsements have been processed in the London market on a bilateral basis for some time by several visionary firms who were keen to see the benefits that would arise from this enhanced way of working. Since late 2010 a significant part of the market has lent its support to the current endorsements initiative, starting with marine endorsements and extending to property, specie and professional indemnity. The plan to roll out to all classes in the first quarter of 2012 is a clear indication that the market sees this as the de facto way of working in the future.

Over the past year the project team has been alert to recommendations for improvements that would make the process easier to use. As a result of listening to those concerns and recommendations, a number of process enhancements were implemented in 2011. Full details of these improvements are available on the LMG website, and include: extending the process to cater for agreement practices other than GUA; providing evidence of agreement and the MRCE in a single docu-

ment; and requiring brokers and underwriters to provide supporting comments and explanatory notes when submitting endorsements or requesting further information.

Two additional, and more significant, process improvements were requested and are works in progress. These are:

- Providing the ability for underwriters to capture simple subjectivities or changes when responding electronically to the broker's endorsement request, so that a face-to-face negotiation is not forced when both parties feel this is not necessary for such simple changes. A solution has been defined, the implementation of which will be discussed and agreed by the appropriate market bodies in 2012. A more dynamic solution that will provide real-time electronic support for face-to-face negotiation, perhaps involving tablet technology, is on the drawing board, and will likely emerge mid to late 2012.
- The ability to manage complex multi-section risks electronically is still under discussion. This will not hold up the processing of non-complex multi-section risks because the current process already caters for these. It is believed that this encompasses about 80% of all multi-section risks. The analysis work to define a solution for complex multi-section risks will likely progress through 2012 and will probably not be implemented before full placing comes on stream.



Thus, as far as process is concerned, we are in a good place. Many firms are reaping clear benefits by recognising and taking advantage of the possibilities that integration of messaging with the own internal systems provides.

Peter Holdstock
LMA

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Project Surgeries will be held on the dates below (9.30am - 11.00am, ACORD Conference Room):

Wednesday 11th January
Thursday 26th January
Wednesday 8th February
Wednesday 22nd February
Wednesday 7th March

This will be the main communication channel for the project team to interact with market firms in the build up to 5 March. Please register your attendance for the first event with Krupa Mistry at Lloyd's (krupa.mistry@lloyds.com).