



MEASURING THE BENEFITS OF MODERNISATION.

REPORT

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1. Background

London's market modernisation programme began in earnest with the response to the FSA's contract certainty challenge from 2005. Over those six years, the market has successfully delivered a number of projects aimed at streamlining the approach to processing business and making more effective use of technology support.

Much has been achieved. This has been the result of a collaborative approach, led by MRG (now LMG), the Market Associations and Lloyd's; but made possible by the efforts of all those with responsibility for process reform within individual market organisations. This report relates the achievements to date to specific areas of benefit for market organisations. It does not attempt to quantify these benefits but provides a checklist of areas in which these have arisen.

The prime objective of market modernisation work has been to improve client service; in particular the timeliness of response to client needs which should ultimately contribute to an enhanced level of business retention and attraction, and hence higher revenues and profitability for London Market organisations

There are examples of significant improvement in client-service timescales: for the issuance of contract documentation in recent years; and for the speedier agreement of claim movements made possible by the use of the Electronic Claim Files (ECF) system. Direct evidence of client experience and perceptions is limited. Nonetheless, the survey data that is available suggests that these improvements have been recognised; and that London is often now regarded as leading the way on processing capability, enhancing its long-standing reputation¹ as the premier market for speed and accuracy of quotations and risk placements.

A related achievement has been the ability to meet regulatory expectations. The contract certainty initiative represented a major achievement by the market in meeting the FSA's objectives as well as leading to the improvements in client service noted above. This demonstrated that the market had the change capabilities to respond to a major challenge and helped to create a platform for further improvements. The principles underlying market modernisation (early provision of accurate data in a structured form) will also make a significant contribution towards meeting the challenges of Solvency II.

A further motivation for the modernisation programme has been to improve management reporting, transparency and control over the business process. A number of respondents have cited improved reporting and control as a significant by-product of modernisation; that has led to greater focus, a better use of resources and greater efficiency.

In addition to the benefits outlined above, market modernisation has contributed to improvements in operational efficiency; although there are also other significant contributory factors such as the greater use of out-sourcing and off-shoring, as well as investment in systems. The message from most market organisations is not that they now have significantly lower staff numbers, or a lower cost base, but rather that they are now able to provide a better level of service with broadly the same cost base – despite operating in an environment with greater regulatory oversight.

Notwithstanding the achievements that have been identified, it is evident that, as a market, we do not maintain consistent data regarding operational cost savings or other benefits being achieved. Without such data it is difficult to properly assess the progress made. It is

¹ Lloyd's Customer Perceptions Survey 2008, Airmic Surveys, Federation of European Risk Managers (FERMA) Survey 2010)

therefore recommended that we should make it a priority for 2011 to develop such sources of information.

It is also clear that much remains to be done and other markets will continue to challenge our position. We need to ensure that the initiatives to date are applied to their full extent; that the speed and transparency of our claims service is enhanced; that we make greater use of ACORD messaging and structured data; and that there is greater scope for choice of service provision. Continuous improvement must be our mission for the future. This will, in itself, be evidence to clients of our commitment to better service their needs.

2. Quantification of Benefits:

We have been working with a range of broking and insurer organisations, of differing sizes, to seek quantification of the benefits that have arisen during the course of market modernisation work.

This has demonstrated that, as a market, we do not always have good data on the volumes of core business transactions (e.g. numbers of risk placements and endorsements); nor on the unit operational costs of processing these transactions. In other industries with a significant operational element one would typically expect to find such metrics readily available.

Such data as does exist on benefits quantification is inevitably clouded by other factors e.g. varying business volumes, premium rate fluctuations, exchange rate movements, outsourcing, off-shoring, efficiencies gained from internal projects and the commercial sensitivity of cost/benefits data.

Some organisations have been able to provide limited data regarding the impact of market modernisation on operational costs. Nonetheless, the data are sparse and not consistent in scope between organisations. Also there are clearly significant differences in the impact of modernisation work on individual organisations; depending on their start point and technological capabilities.

For these reasons we do not believe that it is currently possible to assemble meaningful data that quantifies the aggregate impact of market modernisation. Rather, we need to work towards such data being available in future, via the LMG's Benchmarking Work-Stream for 2011.

3. Modernisation Objectives

Market modernisation has been pursued to achieve improvements in:

- Client Service
- Process Efficiency
- Process Control (greater visibility and transparency)
- Perception of the "London Market Brand"

4. Areas of Benefit for Insurers and Brokers

These objectives in turn should result in potential benefits for insurers and brokers as follows.

Client Service

- business retention and attraction

Process Efficiency

- reduction in operational costs and speedier processing

Process Control

- ability to achieve regulatory compliance
- reduction in operational risk
- improved quality of documentation
- for insurers, improved capital efficiency (e.g. as a result of faster information flow)

Perception of the Brand

- business retention and attraction
- attraction for staff and provision of ancillary services

5. Achievements to Date

Each of the major initiatives is described below, together with a high-level assessment of the areas of benefit.

5.1 Placing

5.1.1 Develop slip standards (LMP, MRS, MRC) - Benefits Arising:

Slip standards have been enhanced, and implemented, across the London Market. These offer consistency, ease of slip construction by brokers in a standardised format and easier access by underwriters to relevant information; as well as offering a sound foundation for the exchange of structured information in electronic ACORD placing messages. The benefits of slip standards have been recognised by global brokers that have chosen to export the use of MRC into their overseas offices.

The Market Reform Contract (MRC) slip standard facilitated the use of this document as the insurer authorised contract documentation. This has resulted in a significant proportion of risks, typically where the 'client' is an insurance organisation, being evidenced in this way; avoiding the need for a separate covernote or policy document. Not only has this eliminated the additional work involved in the previous 'two stage' contract documentation process, it has also speeded up the issuance of contract documentation to the client and reduced the likelihood of any future legacy policy issues.

5.1.2 Contract Certainty - Benefits Arising:

The market's success in responding to the contract certainty challenge, set in December 2004 by the FSA, demonstrated that the market has the ability to achieve significant changes in process, culture and behaviour. Throughout 2007 the market maintained levels of Contract Certainty performance significantly above 90% and the ongoing maintenance of demonstrable contract certainty performance now lies with individual market organisations.

Contract certainty led to improvements in contract quality and to the speed in which contract documentation was delivered to the client. A recent (October 2010) survey of European Risk Managers demonstrated that the UK market outperformed its continental competitors by 40% in producing contract documentation promptly; a significant turn-around from previous surveys. From a broker perspective, the reduction in the need for covernotes reduced cost as well as reducing E&O exposures. Lawyers dealing with contract disputes also tell us that they are seeing an impact on their work e.g. a reduction in time spent on disagreements relating to the appropriate Law and Jurisdiction. The impact of contract certainty has been such that both the Bermudan market and the New York Insurance Commission have indicated a desire to adopt comparable codes of practice.

5.1.3 Improve contract documentation quality - Benefits Arising:

Lloyd's developed and implemented a contract Quality Assurance (QA) Tool to assist with up-front contract checking. It has also reformed the way in which post-contract quality checking is performed. As the contract certainty work has led to firms significantly enhancing their quality procedures during contract negotiation, the need for post bind review has been lessened.

Therefore, whilst signed Lloyd's Policy documents are still available from Xchanging In-sure Services (XIS), and still a key client requirement in many instances, the previous "stage 2" checks are no longer carried out. This has contributed to improvements in the timeliness of policy signing. The greatest improvement in client satisfaction in recent years (as measured by the Lloyd's Customer Survey responses) has been in their perception of the speed of delivery of contract documentation.

5.1.4 Substantially reduce legacy policies - Benefits Arising:

Over a number of years the market had built up a backlog of 'legacy policies' i.e. contracts for which no policy (or other appropriate evidence of cover) had been issued to the client. The market reduced its legacy policy backlog systematically year on year. By the time central measurement ceased at the end of 2008, it had been reduced to approximately 8% of its mid-2006 level.

5.1.5 Develop electronic policies - Benefits Arising:

There has been a very significant reduction in the number of policies required. Of these, 80% are now submitted electronically to XIS and approx. 90% of those are also signed & returned electronically. These changes deliver final contract documentation to the client between 5 and 7 days earlier than the previous paper process, helping to meet the overall contract certainty target of 30 days.

5.1.6 Endorsements - Benefits Arising:

A revised standard for endorsement agreements (MRCE) has been developed, improving the quality of the documentation and allowing it to be used as the basis of contract change documentation to the client.

An electronic endorsements initiative has enabled endorsements to be submitted, and in many cases agreed, electronically. This can achieve efficiency savings and a faster agreement cycle. This approach is the basis for the current electronic endorsements pilot in the marine market.

5.2 Claims

5.2.1 Use of Electronic Claim Files (ECF) - Benefits Arising:

The adoption of the Claims Agreement & Settlement System (CLASS) for Lloyd's has resulted in comparable platforms being used within the Lloyd's and Company markets to monitor the agreement of claims. The use of CLASS for Lloyd's supports the use of the Insurers' Market Repository (IMR) to hold electronic claim files.

The Electronic Claim Files (ECF) system is now being used for approx. 70% of all new Lloyd's claims (which represents over 90% of in-scope new claims). In the company market, use approaches 60% of all new claims. . The use of ECF results in earlier sight of claims information by following insurers (and hence the potential for earlier reserving) as well as offering opportunities to make the claims agreement process faster and more efficient. A time & motion study undertaken by the ECF user group demonstrated that the average ECF file now takes 47% of the time taken to complete a transaction on the equivalent paper file.

5.3 Accounting & Settlement:

5.3.1 Electronic submissions using IMR - Benefits Arising:

Approx. 95% of Original Premiums are now submitted to XIS as a scanned London Premium Advice Note (LPAN) on the IMR (and more than 85% of Additional/Return premiums). This speeds up the process by removing "van time" and is a stepping stone towards the submission of structured data in an e-accounting message – which is going live in the same week this report is published (January 2011).

In the Lloyd's Customer Survey 2008, 57% of Lloyd's brokers reported that the use of the IMR for accounting submissions had improved the speed of premium processing, partly as a result of "de-linking" checking from settlement which has been estimated to reduce payment cycles by up to 8 days and which results in earlier advice of signed lines to insurers. The use of the IMR has enabled Xchanging to reduce their premium processing service level from 5 to 3 days – therefore improving cashflow to insurers.

6. Supporting Factors:

6.1 Role of LMG & other market governance groups

The London Market Group (previously Market Reform Group), and the other market governance bodies, have been effective in agreeing the necessary changes, ensuring that funding is in place and driving the implementation work. The recent agreement of the IMR contract, the IMR upgrade and the Finish What We've Started programme of enhancements to IMR/ECF represent an investment in the future of the market. The ability to reach cross-market agreement on such matters, via the LMG and Market Associations, is a sign of the growing maturity of the market in managing the change programme.

6.2 Measurement Framework

The use of appropriate metrics to monitor progress is an important component of any change programme. Wherever possible, LMG has sought to obtain data to validate the up-take and success of the reform initiatives. The use of 'league tables' to highlight comparative performance between an individual organisation and the market average has also been a successful reform tool for some projects.

Nonetheless the recent work on benefit quantification indicates that much remains to be done in ensuring good quality data to underpin modernisation work.

6.3 Supporting Tools

During the course of market modernisation the constituent communities have worked together to produce tools that support and enhance the business process; examples of this are the Lloyd's Wordings Repository (a store of model wordings and clauses), the Lloyd's Quality Assurance tools (that support contract quality checking), Lloyd's Crystal (that provides guidance on territory specific requirements) and the LIIBA Tax Tool (that offers a means of completing and verifying tax information).

6.4 Business Protocols

Various business protocols have also been developed that make a significant contribution to the control and efficiency of business processes e.g. the Lloyd's 2006 and 2010 Claims Schemes, the Contract Certainty Code of Practice (setting out the principles and practicalities of contract certainty) and the General Underwriters Agreement (governing the agreement of contract changes).

6.5 ACORD Standards

The accounting projects have been underpinned by the use of Document Repository Interoperability (DRI) standards. The eAccounts work, Marine Endorsements pilot, and the Future Process work, are all supported by the exchange of structured information in the form of ACORD messages. These reduce development costs, by providing a common standard for all to work to, and by easing the task of connecting to multiple parties – both in London and globally. Ultimately the end goal is Straight-Through-Processing; re-using data to avoid the costs and errors introduced by the re-keying of data. The London Market has played a pivotal role in developing and

widening the use of ACORD standards and Xchanging, on behalf of London Market insurers, are the world's largest user of ACORD messages.

6.6 Market change capability

It has been noticeable, throughout the years of market modernisation, that market organisations have become more accustomed to, and better at, managing change programmes. Some indicators of this are the job titles of those managing change within market organisations; a few years ago it would have been unusual to encounter a specialist Change Manager – now titles like Director of Process Reform are not unusual. This is one small sign that change management is being taken seriously as a skill-set that firms need to have. Another sign of growing change capabilities is in the increased willingness of suppliers and consultants to commit resources to support market change initiatives – an indication that market organisations are taking change seriously and putting their resources behind it.