The Future at Lloyd's: Blueprint Two

6 November 2020

Following a preview tweet posted on 2 November 2020, Lloyd's of London ("Lloyd's") published on 5 November 2020 its plan to deliver the second phase of the Future at Lloyd's – the strategy to modernise the 334-year-old insurance marketplace, which has previously suffered from a reputation for being arcane, opaque and having a sometimes costly expense base. Among the main aims of the plan is a material reduction in operating costs for brokers, insurers and partners—estimated at £800 million ($1 billion) (the equivalent of about 3% of current operating costs). A summary of Lloyd's Blueprint Two proposals is set out in the client update.

The Future at Lloyd's strategy sets out an impressive variety of goals including, in relation to the risk platform, claims, capital and the new "syndicate-in-a-box" solution ("SIABs").

Lloyd's update to Blueprint One – Lloyd's plan for 2020 - confirmed that the initial focus would be on the London market's electronic placing platform – Placing Platform Limited ("PPL") (a commonly used third-party placing platform), which was expected to form a key component of the new complex risk platform and a new digital solution for coverholder business as part of the Lloyd's risk exchange. The new strategy also celebrates the successes of Blueprint One in connection with the creation of the following four SIABs:

- Munich Re, syndicate 1840—innovation syndicate;
- Asta Carbon—syndicate 4747—international binder book via MGA;
- Ascot Parsyl, syndicate 1796—pharmaceutical/vaccine cargo syndicate. This has been agreed in principle by the Council of Lloyd's (the "Council"), with a target launch date of the end of 2020; and
- Asta Picnic, syndicate 2460—providing bespoke cover to mutual schemes. This has been agreed in principle by the Council, with a target launch date of 1st January 2021.

Indeed, the paper discloses that 10 more SIAB proposals are in the pipeline.

Our previous updates on the Future at Lloyd's strategy and Blueprint One can be found here and here.

As a result of the Covid-19 pandemic, Lloyd's closed its underwriting floor in March and announced a trial of a "virtual underwriting room" in June. Following the start of the second UK-wide lockdown, it was announced that the Lloyd's underwriting room would only be open on Wednesdays, and it seems unlikely that the return to the physical underwriting room on a regular basis will be swift. Lloyd's—like so many other businesses—has become increasingly reliant on digital processes. It is unsurprising that Lloyd's has focussed on digitalisation plans in Blueprint Two—indeed, as with other (re)insurers, it is likely that a greater emphasis will be placed on conducting business remotely going forward.

Blueprint Two goes into considerable detail on how Lloyd's intends to create a "data-led digital market" through a redesign of the placement and claims processes. The plan focuses on two core placement types—open market and delegated authority business—which, together, account for more than 80% of the value and 90% of the insurance contracts placed in the Lloyd's market.

Lloyd's is seeking design solutions that avoid "Lloyd's-isms", recognising that the participants in the Lloyd's market are operating in the wider London insurance market, often in larger, global insurance groups.

By way of a summary, the following form the basis of the key elements of Lloyd's plan for 2021-2022:

- PPL is the most widely used platform in the Lloyd's market and has been one of the platforms that have supported the significant increase in the number of electronic transactions that have taken place during lockdown. In 2021 and 2022, PPL will deliver a new platform with "significant enhancements".

- Lloyd's does not intend to develop its own open market placement platform but will provide risk placement standards to enable transactions to be processed faster and at a lower cost. This is a change from the original plan under Blueprint One, where Lloyd's planned to build a complex risk platform itself.

- A Lloyd's-owned delegated authority facility and risk placement platform. This will be the Core Data Record and will be the single source of data connecting each of the processes including, accounting, payment, reporting and following endorsements and claims.

- Creation of a "digital gateway" to link the data created from the placement process to new digital processing. This is designed to limit laborious data extraction, validation and manual processing, therefore significantly reducing delays in processing. Lloyd's also intends to offer a suite of services in connection with placement support to "enable the market participants to get it right first time" including, the virtual marketplace, compliance checking and "doc-check" placement validation.

- A new central repository for the market known as the "Data Store". This will incorporate the Core Data Record, the intelligent Market Reform Contract and links to disclosure documents where they are held on placing platforms. It will only contain post-bind data (there will be no submission or quote-specific data that is captured or stored). This will replace the Insurance Market Repository.

- The "Digital Spine" will form the "digital architecture"—a flexible platform designed to improve customer experience, efficiency and innovation.

- A new platform to deliver efficient claims processes which will ultimately replace ECH and CLASS. The core of this new platform will be a workflow solution that will interface with claims systems, enabling participants to view the status of their claims, among other things. The intention here is that this will drive transparency and reduce claims lead times.

- Lloyd's recognises that there is an opportunity to work with the market on two distinct areas, which will be the subject of consultation in 2021: (i) treaty reinsurance platforms, including building a "data-first platform", and (ii) the use of artificial intelligence and algorithms to automatically underwrite business including supporting this placing method by providing connectivity from multiple markets to multiple retail brokers and wholesalers through an exchange of exchanges capability. Further updates are expected in 2021.

Lloyd's has recognised that, given the nature of business in the Lloyd's market, legacy processing may continue for some time. However, it anticipates that new business will utilise the new processes quickly. Lloyd's confirmed that there is no intention to migrate legacy systems and processes to the new systems for historic business.

The work outlined in the strategy paper will be funded by the capital raised by Lloyd's earlier in 2020.

Lloyd's believes that all market participants will benefit from the digital marketplace and that the more of the changes they adopt, the more of the benefits they will realise. To Lloyd's, the new model is "better, faster, cheaper". It remains to be seen how much of this plan Lloyd's will achieve, but the opportunities it is considering show its continued focus on establishing "the world's most advanced insurance marketplace".

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Please do not hesitate to contact us with any questions.

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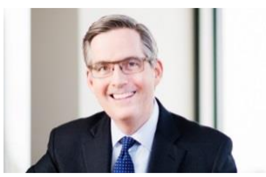

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