INSIGHT

'Cautious' progress for Lloyd's direct reporting as first birthday nears

It has been almost a year since the Lloyd's Direct Reporting system went live, promising to provide managing agents with an easier, cheaper and automated method of reporting their regulatory and tax information

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UK correspondent

The Lloyd's Direct Reporting (LDR) technology system went live in September 2013 with the intention of allowing managing agents to report regulatory and tax information directly to Lloyd's for service company business.

The existing back-end technology processing system at Lloyd's, run by Xchanging on an outsourced basis, used to handle such reporting duties for managing agents, processing all market participants' activity together and effectively merging accounting and reporting duties into one system, which was not to everyone's liking.

The introduction of the LDR platform means another operational choice is now available. The system, which is being slowly rolled out, uses ACORD-standard XML messaging to aid efficiency and cuts the amount of time participants need to spend producing Lloyd's premium advice notes (LPANs). The LDR should mean managing agents can reduce their costs by no longer having to go through an external service provider for in-scope business.

The LDR platform allows managing agents to avoid unnecessary data entry rekeying and the possibility of manual processing errors, as well as long reporting chains. The LDR allows them to do so by using their own accounts to report directly into Lloyd's via ACORD XML automated messaging, without an outsourced intermediary.

The LDR project covers 100% of the business where an insurer underwrites the whole risk and it also caters for "separate" subscription business (ie, where an insurer underwrites part of a risk using a separate insurance document to other insurers which underwrite that risk).

It is important to note "conventional" subscription business at the Lloyd's insurance market (ie, where all underwriters underwriting part of a risk use the same market contract for subscription) is out of the scope of this project. In that case market participants will no doubt continue to use the existing Xchanging back-end processing engine, which has been proven to work and has been in use since 2001. Lloyd's used to provide the service itself before outsourcing it at the turn of the millennium.

While the rollout has not been without its problems, the project is ongoing and a clear implementation roadmap has been established for others to follow (see graphic).

Chaucer, Catlin and XL were involved in the initial September 2013 rollout, with Hardy Underwriting joining in March 2014. Carl Phillips, chief operating officer at Hardy, says: "We were the fourth to migrate, I believe, with a few predecessors before us and have experienced no problems moving to direct reporting."
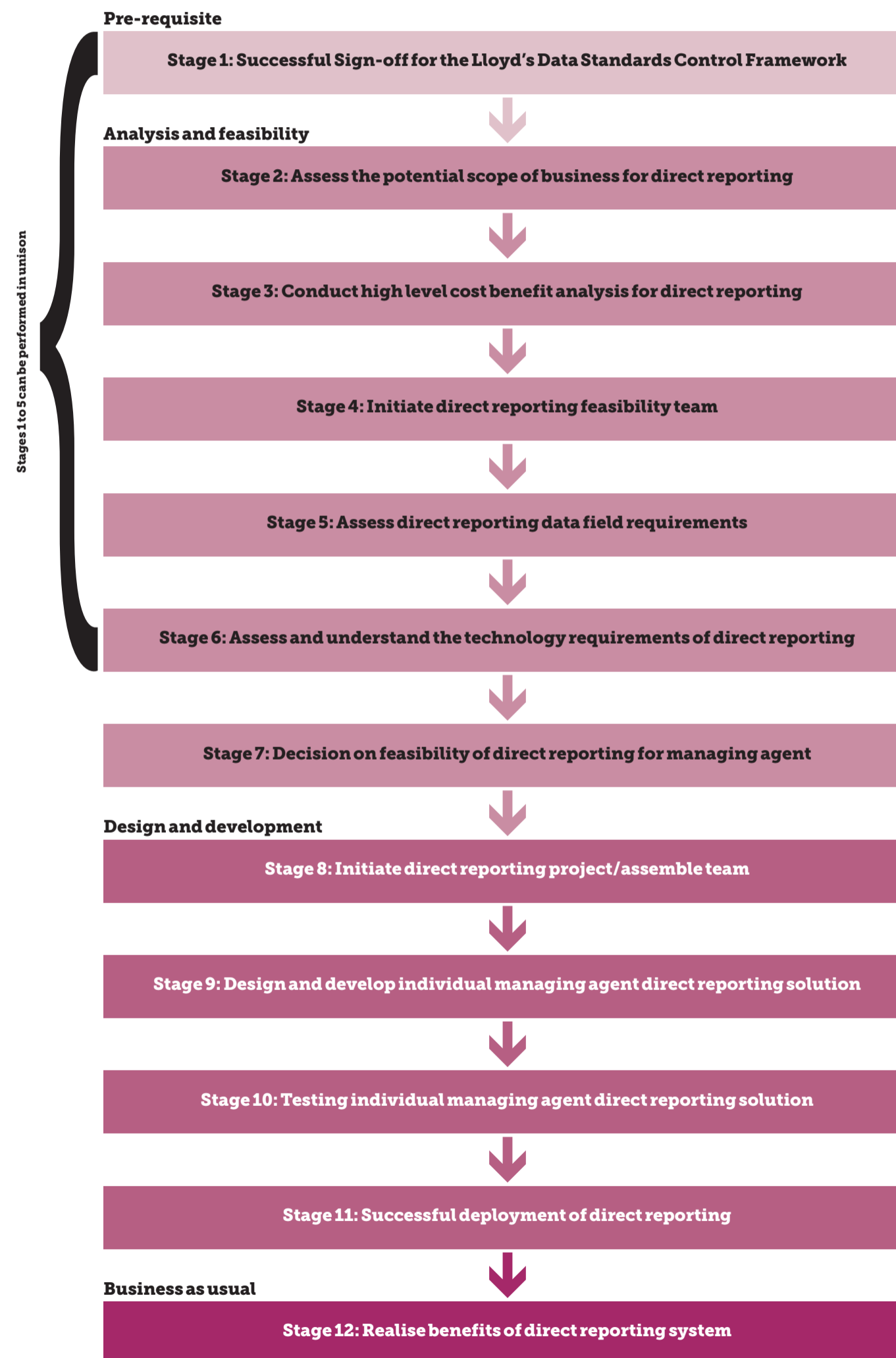
He believes the number of firms migrating is into double figures, but not yet at the hoped-for 20 to 30 users. Lloyd's, however, is not releasing the full migration or volumes figures on the new platform as yet.

"We've provided feedback to other managing agents looking to join LDR as we feel it is a beneficial project for the market that improves efficiency. As such, we're happy to share our positive experience."

The LDR has brought Hardy benefits in three key areas, Phillips says. It has eliminated transaction charges, as the insurer no longer has to use Xchanging's back-end system for in-scope business. It has cut the amount of effort required to produce LPANs and it has also improved service to clients.

"Hardy Underwriting has been able to reduce its claims settling period by around 14 days as the LDR has massively simplified our claims handling processes," Phillips says. He predicts a positive return on investment (RoI) within 12 months, although he does admit some of the benefits accrue from a wider internal technology overhaul at Hardy, which used the move to the LDR platform as a springboard for internal improvements. "Whether others can get the same operational benefits I cannot say," he adds.

As Hardy already conformed to Lloyd's data framework, the insurer just had to output it to the new LDR system by linking the reports it already generates to the platform via a piece of middleware installed to convert their data into the required ACORD XML format.

Whether others would be able to connect so easily is dependent on each individual case. Hardy is a relatively small sub-£5m ($8.3m) business and it might be different for a larger agent to migrate smoothly with hundreds of millions of pounds-worth of business.

There have inevitably been teething problems, however, with a full migration not yet complete and complaints about IT "gremlins" – in common with any such large IT project. This is to ignore the technological issues involved in delivering such a large back-end IT processing system, however, where onboarding niggles are almost inevitable. Migrating many different users to a shared platform is never easy.

Sharmi Bakrania, the LDR senior project manager at Lloyd's charged with delivering the new IT system, says the programme is on track, pointing out the system was developed in response to demand from the market. "In the first 12 months of operations it has received positive feedback from all the managing agents that have signed up to the service," Bakrania says. "Users have also reported significant savings in resourcing and cost. The free, automated service adds choice to the market as an alternative method of reporting regulatory and tax information when that business does not require any cash allocation; effectively it breaks the link between accounting and reporting."

Robert Gillies, director of market processes at the Lloyd's Market Association (LMA), says the LDR concept is in line with encouraging further choice in the marketplace regarding firms' accounting and settlement procedures and as such is to be welcomed, although he stresses the LMA's involvement with the project so far had been limited.

The LDR project is, he says, "moving forward fairly cautiously", suggesting full uptake and the high volume flows that will deliver economies-of-scale savings across the market are still some way off. But the rationale behind the initiative is certainly sound.

The main change as Gillies sees it is that large single insurers that want to report their regulatory and tax information to Lloyd's directly for efficiency and ease-of-use purposes can now do so with the LDR solution, whereas those involved in large multifaceted consortiums that require a service to break up complicated premiums and allocate money on a conventional subscription basis will still rely on the old Xchanging system.

The LDR will have an impact on Xchanging's role as *the* back-office processing provider at Lloyd's and could lead to reduced volumes long term as the separation between accounting and reporting gathers pace for some firms.

Xchanging Insurance Services' managing director, Max Pell, says: "We have been working with both Lloyd's and our customers during the development of the LDR process and will continue to support the business needs of our customers as they evolve."

Pell says Xchanging processes more than 1.2 million premium transactions every year at present and there are constant variation in the business types submitted to it, with natural growth in some areas and reductions in others. "We will continue to work flexibly with our customers to ensure their business is being supported in the most appropriate manner to meet their business objectives," he says.

The other major market impact is brokers that once might have charged a reporting fee on behalf of insurers are now much less likely to be able to do so. If the process has been simplified and data can be exported directly out of underwriters' back-end systems and sent to Lloyd's automatically using ACORD XML messaging, the need for external assistance in navigating long processing chains over the Xchanging system is eliminated, along with the broker's fee.

Hardy did not rely on a broker before migrating to the LDR. Phillips reckons more than 50% of agents do it themselves these days any way, reflecting one of the trends of the past decade. "Reporting has been moved in-house in a lot of cases," he says, "and consequently I don't think brokers are facing a huge loss in fees."

In terms of future iterations and new functionality for the evolving LDR technology platform, Phillips speculates coverholder business might be added in the future where it is non-subscription business. He also argues the direct reporting initiative might have ancillary benefits in reforming the Xchanging back-end processing engine, cutting LPANs and enhancing efficiency widely across the market by encouraging increased XML usage and more automation.

Whether the advent of the LDR might eventually lead to the centralisation of all reporting is another matter entirely. Bringing the system processing back in-house would be very tricky and complicated for Lloyd's; it is not, however, beyond the bounds of possibility. The LDR has a long way to go yet to obtain full market penetration in this specific segment, so any wider market ripples and long-term operational impacts of its advent are still some way off. ■

Graphic: Lloyd's Direct Reporting roadmap to implementation

Electronic data: the LDR allows managing agents to avoid unnecessary data entry rekeying and the possibility of manual processing errors, as well as long reporting chains

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Sharmi Bakrani
Lloyd's

Pre-requisite

Stage 1: Successful Sign-off for the Lloyd's Data Standards Control Framework

Analysis and feasibility

Stage 2: Assess the potential scope of business for direct reporting

Stage 3: Conduct high level cost benefit analysis for direct reporting

Stage 4: Initiate direct reporting feasibility team

Stage 5: Assess direct reporting data field requirements

Stages 1 to 5 can be performed in unison

Stage 6: Assess and understand the technology requirements of direct reporting

Stage 7: Decision on feasibility of direct reporting for managing agent

Design and development

Stage 8: Initiate direct reporting project/assemble team

Stage 9: Design and develop individual managing agent direct reporting solution

Stage 10: Testing individual managing agent direct reporting solution

Stage 11: Successful deployment of direct reporting

Business as usual

Stage 12: Realise benefits of direct reporting system

Source: Lloyd's