

| | |
|----------------------|---|
| Title | Electronic Placement |
| Purpose | To provide details of the Electronic Placement Mandate for Q3 and Q4 2019. |
| Type | Event |
| From | Peter Montanaro Head of Syndicate Capability Oversight Performance Management Directorate 020 7327 5971 peter.montanaro@lloyds.com |
| Date | 2 nd July 2019 |
| Deadline | Updated Electronic Placement Mandate implemented from 1 July 2019 |
| Related links | |

Electronic Placement Mandate

Further to Market Bulletin Y5241 dated 28 March 2019 on Electronic Placement, the Electronic Placement Mandate has now been amended with effect from 1 July 2019 to include Q3 and Q4 2019 targets for processing relevant contracts and relevant submissions through a Recognised Electronic System.

The formal mandate is attached to the bulletin and includes the following key amendments:

- Targets for Q3 and Q4 2019;
- Change of the target requirement from processing quotes to processing broker submissions through a Recognised Electronic System; and
- Confirmation that Reinsurance Treaty contracts will be in scope with effect from Q4 2019.

Additional fees and rebates will be calculated based upon performance against targets. However, the maximum fees / rebates may be limited subject to the volume of in scope contracts that have been entered into using a Recognised Electronic System.

Requirements for the use of electronic placement in the Lloyd's market Requirements for 2019

1. Requirement to use electronic placement

These requirements are made under section 6 Lloyd's Act 1982, paragraph 12(b), 13 and 63 of the Underwriting Byelaw

- 1.1 Each managing agent shall ensure that for each syndicate managed by it, for each period set out in the table below at paragraph 1.3(a), no less than the prescribed target percentage of Relevant Contracts of all Relevant Contracts with an Inception Date commencing during that period have been entered into using a Recognised Electronic System.
- 1.2 Each managing agent shall ensure that for each syndicate managed by it, for each period set out in the table below at paragraph 1.3(b), the number of all Relevant Submissions that have been received from brokers by that syndicate where that syndicate is the leading syndicate as a percentage of the number of all Relevant Contracts with an Inception Date commencing during that period and which have been entered into by that syndicate where that syndicate is the leading syndicate using a Recognised Electronic System is not less than the prescribed target percentage.
- 1.3

| Period / Class | Q1 2019 Target | Q2 2019 Target | Q3 2019 Target | Q4 2019 Target |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| (a) All classes (Relevant Contracts) | 40% | 50% | 60% | 70% |
| (b) All classes (Relevant Submissions) | NA | 5% | 10% | 15% |

Targets for specific classes of business may be prescribed in due course

This table will be supplemented from time to time.

- 1.4 Within 30 days of the end of each period set out in the table above, a managing agent shall certify to the Society whether it has complied with the requirements set out in paragraphs 1.1 and 1.2.

2. Incentive rebates and additional fees in connection with the adoption of electronic placement

These requirements are made under section 6 Lloyd's Act 1982, paragraph 2 of the Membership (Entrance Fees and Annual Subscriptions) Byelaw and paragraph 2 of the Powers of Charging Byelaw

Potential partial rebate of annual subscriptions for 2019

- 2.1 If, as at 1 January 2020, a managing agent has complied with all of the target requirements set out in paragraph 1.1 for the prior periods in 2019 and with the Q4 2019 requirement set out in paragraph 1.2 for a syndicate managed by it, then in recognition of that, the members of that syndicate shall receive a rebate on the annual subscriptions payable by them to the Society for the calendar year 2019 equal to $A \times B$ where –
- i. A shall mean a number equal to the average percentage by which the Q1-Q4 2019 target requirements under paragraph 1.1 were exceeded (provided A shall not exceed 5 if the Bind Volume is less than 600, 10 if the Bind Volume is between 600 and 1199 and 15 if the Bind Volume is 1200 or more); and
 - ii. B shall mean a number in pounds equal to 1% of the annual subscription payable by members in respect of that syndicate for the calendar year 2019.

Potential additional fees for 2019

- 2.2 If, as at 1 January 2020, a managing agent has not complied with all of the target requirements set out in paragraph 1.1 for the prior periods in 2019 and with the Q4 2019 requirement set out in paragraph 1.2 for a syndicate managed by it, then in order to further contribute to the costs of modernising market systems and processes and to further the objects of the Society, the members of the syndicate shall pay additional fees to the Society equal to $C \times D$ where –
- i. C shall mean a number equal to the average percentage by which the Q1-Q4 2019 target requirements under paragraph 1.1 were missed (provided C shall not exceed 5 if the Bind Volume is less than 600, 10 if the Bind Volume is between 600 and 1199 and 15 if the Bind Volume is 1200 or more); and
 - ii. D shall mean a number in pounds equal to 1% of the annual subscription payable by members in respect of that syndicate for the calendar year 2019.

3. Capital loadings for the risks associated with failure to adopt electronic trading

These requirements are made under section 6 Lloyd's Act 1982, paragraph 63 of the Underwriting Byelaw and paragraph 40 of the Membership Byelaw.

- 3.1 If, at the end of a period set out in the table in paragraph 1.3(a) and (b) (limited to Q4 for Relevant Submissions), a managing agent has not ensured that a syndicate managed by it has achieved at least 50% of a target requirement, then by no later than 30 days after the end of the period the managing agent must have prepared an appropriate remediation plan for the syndicate setting out how it will meet each of the forthcoming target requirements and have submitted that plan to the Society for agreement.
- 3.2 If, as at 1 January 2020, a managing agent has not ensured that a syndicate managed by it has achieved at least 50% of a target requirement (either Relevant Contracts or, in the case of Q4 2019, Relevant Submissions) set out in paragraphs 1.1 and 1.2 for the prior periods in 2019 then –
- a. Lloyd's will inform the managing agent that it reserves the right to increase the properly derived economic capital assessment for that syndicate by 5% at the next coming into line date for that syndicate if the current remediation plan is not complied with; and
 - b. the managing agent must inform the members of the syndicate of the potential consequences of it not complying with the agreed remediation plan.

4. Definitions and interpretation

- 4.1 *Recognised Electronic System* means a system recognised from time to time by the Lloyd's Board as meeting its required criteria for –
- (a) forming contracts of (re)insurance electronically;
 - (b) security and data integrity;
 - (c) record retention and audit;
 - (d) resilience and disaster recovery;
 - (e) usability;
 - (f) compliance with legal and regulatory standards; and
 - (g) data transmission and data standards.
- 4.2 *Relevant Contract* shall mean a contract of insurance or a contract of facultative reinsurance or, from Q4 2019, a contract of reinsurance treaty, entered into by a syndicate managed by the managing agent in question (either as a leading syndicate or as a following syndicate) either other than –
- a. a contract entered into by a coverholder; or
 - b. a contract entered into on a verticalised basis (i.e. where a following syndicate subscribes to a risk at a different premium to the lead syndicate).
- 4.3 *Relevant Submission* shall mean a submission issued by a broker to a syndicate managed by the managing agent in question using a Recognised Electronic System in respect of a contract of insurance or a contract of facultative reinsurance or, from Q4 2019, a contract of reinsurance treaty (in each case where the syndicate is the leading syndicate) other than submissions for -
- a. a contract to be entered into by a coverholder; or

b. a contract to be entered into on a verticalised basis.

4.4 *Bind Volume* is the total number of Relevant Contracts that a syndicate managed by the managing agent in question has entered into using a Recognised Electronic System during 2019.

4.5 *Inception Date* shall mean the start of the (re)insurance period of the contract of (re)insurance in question.

4.6 The Lloyd's Board may give such guidance or direction as to the application or interpretation of these requirements as may be necessary or appropriate.