LLOYD'S

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Lloyd's Innovation:

Making your case to Lloyd's

A quick start guide

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Introduction

Innovation continues to be vital to the Lloyd's market, and we are encouraging syndicates to put their most innovative ideas forward.

This guide was produced by the Market Innovators Group, Capital Planning Group (CPG) and Lloyd's Innovation Team to help you fast-track your innovative ideas.

And if you don't find the help you need in this quick start guide, then come and ask us. Lloyd's is keen to encourage early discussion so it can help and support its managing agents and syndicates generate profitable business. Even if your ideas are still early stage, we think having a discussion about them is worthwhile.

Want to talk? In the first instance, contact your Syndicate Business Planning contact.

Using this quick start guide

The first question you need to ask yourself is:

Does this innovation need to go to Lloyd's?

It may if any one of the following is true:

- If this is a new class for the syndicate
- If the premium expectation is outside the syndicate's agreed plan
- If there is a substantial change to distribution channel, risk profile and product mix
- If there is a material change to Conduct Risk
- If any innovation is likely to have significant media profile
- If there is additional capital required
- If the innovation cannot be managed within the agreed exposure management plan

It does not need to go to Lloyd's if:

- It's an innovation in a class already written and that's not substantially changing the syndicate's risk profile
- Premiums are within agreed business plan
- The distribution channel is already one the syndicate is using
- There are no regulatory implications
- If there is no impact on capital
- If the innovation may be managed within the current agreed exposure management plan

If you need to submit your proposal to Lloyd's, here are some useful tips on what we will be looking for:

Information about your proposal:

1. A clear statement that this is an innovative proposal
2. What is the innovative initiative covering: products, geography or significant process change? This establishes the scope covered by the proposal and should be one of the first sections of the proposal. Be clear and concise. Innovation in lines that have been unprofitable in the past are not excluded, but in such areas Lloyd's corporation will focus more strongly on validating proposals to ensure they will assist with a return to profitability.
3. How does the profitability develop over the years? Lack of profitability in the early investment phase is acceptable providing that the growth is sustainable in later years when the investment and subsequent returns can be made.
4. What are the innovative steps in this initiative? Is it about…
    a. Doing new things? Providing new products and/or services.
    b. Developing within a new geography? Selling established products and services to new markets?
    c. Substantial re-engineering or establishing new distribution channels?
    d. Doing things in new ways? Changes in processes to bring down the cost of acquisition; make the buying process easier or improve the customers experience in post stages such as services or claims?
5. Why should it be profitable growth if based on new things or new markets?
    e. Do you have the expertise available to write these lines in these geographies?
    f. Are you building on a good track record in these classes? If not, how do you propose to establish a good track record in this line?
    g. Does the line itself have a good track record for profitability across the market? If not, how do you propose to do this differently?
    h. Do you have proven skills and established process in turning around poor performance in other lines?
6. How you will compete and remain profitable with this innovation?
    i. What does the competitor profile look like and how will competitors react to this innovation?
    j. What is the unique selling proposition (USP) that will make this growth sustainable and profitable?
    k. What is the target customer base for this product/ service and is this segment large enough and concentrated in this geography enough to make the selling of the product viable?
    l. Will the innovation affect (positively or negatively) any of the critical regulatory requirements?
    m. Capturing the customer's requirements.
    n. Treating the customer fairly.

The ‘sound estimate’ test

Are the investment estimates realistic? Here, it will help the Lloyd’s corporation if market data is provided and references are made to the risk section of the proposal covering investment. Financial data should include impact the investments may have on the core ratios from when the investment is made through to improvements in those ratios when the investments turn to profit.

Have you explored all the business models you can use at Lloyd’s?

Lloyd’s is open to managing agents using a range of business structures and capital providers. Special Purpose Arrangements (SPAs) may be useful to support the kind of innovation you are planning to take. Lloyd’s has produced a guide on SPAs which may be found here:

https://www.lloyds.com/about-lloyds/joining-lloyds/starting-a-new-business-at-lloyds/spa

How do you propose to keep Lloyd’s informed if your proposal goes ahead?

What data will you collect, and how will it be analysed and reported? Your own planned monitoring for both assessing past performance and looking forward to how the innovation is developing should be sufficient. Lloyd’s will not expect you to capture any extra information.

Where an innovation includes process change, can it safely reduce costs, or improve the customers buying experience or improve the service the customer receives? Lloyd’s corporation will expect to see this information descriptively, but also where it applies numerically to explain how you expect the key ratios to change.

Which stages in the customer engagement lifecycle does the innovation have an impact? This should be clearly and concisely set out in the proposal as well as quantitatively assessed.

Providing assurance on risks and dependencies

This section covers how Lloyd’s corporation will expect you to have addressed the risks involved in making any innovative change. In reviewing this section, Lloyd’s corporation will be seeking confidence that all key risks have been covered and that credible plans are in place to monitor, control and respond to risks.

1. What are the risks and dependencies of this innovative initiative? (Threats and opportunities.)
2. How significant are they?
    a. What aspects of the business (managing agent and, if applicable, Lloyd’s as a market) would the risks affect? The *what* and *who*.
    b. What would the consequences be for each aspect identified in a)? The *impact*.
    c. How likely are they to be realised?
3. What controls need to be in place to protect opportunities and reduce the threats?
4. What is your risk appetite?
    a. How much variation around that appetite are you prepared to tolerate (risk tolerance)?

   b. At what level would the innovation fail to be economically viable (risk capacity)?
   c. How would the managing agent monitor the risks? Would the method of monitoring be sensitive enough?
   d. What would be the trigger points for intervention and what additional actions would you take if the trigger points were reached? This should not require extra work; it is expected to be part of your normal progress monitoring.
5. How will you protect the interests of customers through the experimental and developmental stages of this development? This is important for regulators.

Is the innovation supported by sufficient capital?

Solvency is a crucial consideration pre-empting any trade or business deals, whether it supports innovation or not.

Following a change in business, Lloyd's will need to conduct an overall solvency assessment before considering any changes to syndicate business plans for capital levels.

A prudent view of risk and capital may expedite discussions around regulatory capital. The prudent view of risk can be followed by a more detailed assessment of capital and risk, leading to a possible adjustment of capital.

Note: the Capital and Planning Group (CPG) is responsible for any decision on capital.

Guidance on innovation proposals

Any proposal submitted should have a planning outline that shows how the innovation will be developed and rolled out. Milestones should be included for key points within the proposal where the development hits a critical stage of its development or where a significant turning event is expected to occur. As part of the proposal, we expect you to propose a process for reporting to Lloyd's.

Tell us how we can support your innovation further

We want to support you to bring through the next wave of innovative products to Lloyd's. Contact us and tell us how we can support you.

Contacts

- At the prospect stage, your Lloyd's Development Manager is a helpful first contact point.
- For questions about how your innovation may relate to plans, contact your allocated Syndicate Business Planning contact.
- For capital issues, classes and performance related to your innovative proposals, speak to the Class of Business team.
- For all innovation issues, including access to the Lloyd's Lab, speak with the Innovation team.

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- The Lloyd's Market Innovators Group
- Lloyd's Capital Planning Group (CPG)
- Lloyd's Innovation Team

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Change Log

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