

FROM: Iain Saville, Head of Business Process Reform EXTN: 5932

DATE: 23 December 2004 REF: Y3472

SUBJECT: **Xchanging Quality Assurance Checking**

SUBJECT AREA(S): Contract certainty and the publication of the quality assurance checking carried out by Xchanging.

ATTACHMENTS: None

ACTION POINTS: **Introduction of a quality assurance tool for binding authority business.**

DEADLINE(S): **Available from 4th January 2005.**

The Contract Certainty Steering Group, reporting to the governing bodies of the London Market Principles programme, has identified practical means of promoting contract certainty at inception. Their report was published by LMA to members on 14th December 2004 under reference LMA04 – 085 – BT, and by LMBC to its members, reference 94/2004.

A key theme identified by the Group is the need to explain and streamline the checking process undertaken by XIS on behalf of franchisees. This reflects the undesirability of contracts entered into during the placing process having to be revised after the conclusion of placing, because they fail to comply with the checking process. As well as this being inefficient in process terms, issues identified by the checking process may indicate a lack of contract certainty at inception. FSA has recently emphasised the importance it attaches to contract certainty [see <http://www.fsa.gov.uk/pubs/press/2004/106.html>].

Accordingly, Lloyd's has committed to the market that it will:

1. collate, and publish in a useable form, the checks which XIS undertakes, in order to make transparent to the market (in particular, to the brokers who prepare slips for the market) the standards that are required to be met; and
2. review the checks critically, with market input, in order to convert them into prudential practice requirements (PPRs), again published in useable form.

Both parts of this exercise are intended to be completed by the end of June 2005.

Binding authority agreements have been identified as a first stage of this work. This reflects the substantial progress already made towards contract certainty in this area, following the recent adoption of LMP slip standards (mandated by Lloyd's) which require the slip to be fully worded; this is generally achieved through the use of LMA's recently-revised model binding authority agreements.

The results of this first binder phase to document all existing quality checks will be made available to the market-place through Lloyd's web-site by 4th January 2005. The web-site tool is intended to allow market users, and in particular brokers, to interactively create a check list

applicable to a given type of business within binding authority agreements. Brokers, underwriters and their compliance officers are asked to put the tool into active use within their organisations in order to quality check binding authority contracts and any supporting endorsements incepting on or after 1st January 2005.

This tool is being released in prototype form as an excel workbook, in order to establish whether it is in a format that best meets the market's need to understand what the quality checks are, and to engineer them into their own processes. We will work with the LMA and LMBC to gather views on the tool. We will also welcome questions and feedback from individual firms, which should be addressed to; Cindy Blaney in Business Process Reform on ext 5745 (email cindy.blaney@lloyds.com), or Susan Blackman in Worldwide Markets on ext 6267 (email susan.m.blackman@lloyds.com).

At the same time, we will review critically the current XIS checks listed in the document, to establish how far they remain important, and relevant to Lloyd's PPRs. Again, we will seek input from the market, through the trade associations and directly, on this matter.

In determining our PPRs, we have no wish to impose unnecessary compliance burdens on the market place; but we are mindful that we must:

- Ensure that Lloyd's contracts meet the requirements of International regulators and tax authorities, so that Lloyd's members can continue to comply with International overseas licensing, regulatory and fiscal requirements.
- Maintain a high standard of wording coherence, consistency and clarity to support the reputation of the Lloyd's brand and its franchisees.
- Maintain and (where relevant enhance) Lloyd's reputation for high presentational quality of documentation, to support the Lloyds brand.

A number of the current XIS checks relate to the use of particular wordings, and in part stem from the LMA and its predecessor trade associations. This is an ideal time to review the current value and appropriateness of these checks; we will work with LMA in the review process.

While this process of gathering and assessing market reaction proceeds during January and February, we will also be continuing further phases of the analysis work, with the objective of delivering a well-structured tool covering Lloyd's PPRs, which can be used by brokers to prepare submissions on all classes of business, and by underwriters to understand particular issues that brokers may bring back to them as a result of XIS checking.

We are grateful for your co-operation in helping us make these valuable first steps towards creating contractual clarity and enabling the market-place to meet those requirements in an efficient way, thus contributing to the goal of improved contract certainty.

The quality assurance tool can be located on the Lloyd's web site in the area for the Lloyd's market and under the tools and reference section, or via the link at www.lloyds.com/QAtool

This bulletin has been sent to all managing agents, underwriters, Lloyd's brokers and compliance officers.

Iain Saville
Business Process Reform