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DATE: 1st July 2005      REF: Y3579

SUBJECT: **Introduction of Lloyd's Claims Management Principles and Minimum Standards**

SUBJECT AREA(S): The management of Lloyd's market inwards claims

ATTACHMENTS: Appendix A: Lloyd's Claims Management Principles  
Appendix B: Claims Minimum Standards

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- ACTION POINTS:
- **To confirm minimum standards for claims management relating to claim reserving, the selection and management of external experts and the measurement of claims performance**
  - **To provide standards against which Lloyd's and managing agents can assess performance**
  - **To confirm that the Franchisor Claims team will be contacting managing agents to commence a review of claims management performance**
- DEADLINE(S):
- **Minimum standards are effective from 1<sup>st</sup> July 2005, with a six months transitional period, allowing for any necessary action to be taken**
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## Introduction

This Bulletin attaches the Lloyd's Claims Management Principles and Minimum Standards (Claims Principles and Minimum Standards) which were made by the Franchise Board under the Underwriting Byelaw. The Claims Principles and Minimum Standards come into force on 1<sup>st</sup> July 2005.

The Claims Principles and Minimum Standards are applicable to all Lloyd's market inwards claims and relate to the activities of all managing agents' claims teams working within the Lloyd's market, whether claims are managed in-house or outsourced.

Effective claims management is essential for the delivery of individual managing agent's agreed business plans and collectively for the Lloyd's Franchise to deliver targeted results over the cycle. Leaders and XCS should be proactively managing claims and all managing agents should be measuring their overall claims-related performance, ensuring that agreed business plans are being delivered.

Recognising that managing agents may require time to assess performance and address any gaps, a six month transition period will commence from 1<sup>st</sup> July 2005 during which managing agents will need to ensure that they are operating at or above the levels set out in the minimum standards.

There is no presumption as to whether individual syndicates are currently operating above or below the minimum standards and hence the Franchisor Claims team will be visiting all managing agents to commence a process of review.

The Lloyd's Claims Management Principles are attached as Appendix A to this bulletin.

The Claims Minimum Standards for 2005 (to be amended from time to time) are attached as Appendix B to this bulletin.

## **Background**

Claims and their associated costs are the market's single biggest expense (accounting for 80% of the market's costs in 2003) and their management plays a critical role in financial performance, risk management and the establishment of a strong Lloyd's brand. The effective management of claims is critically important for Lloyd's reputation.

The Lloyd's review of claims management activities across the Lloyd's market in 2004 involved extensive canvassing of views and review of existing processes. The most appropriate solutions for the Lloyd's market were identified as follows and endorsed by the Franchise Board :-

- the introduction of a framework of Claims Principles with targeted minimum standards;
- an effective 'claims agreement for followers' process; and
- a strengthened Lloyd's Claims Scheme, compliant with relevant regulation (details confirmed within a separate Market Bulletin)

## **Scope**

The minimum standards for 2005 relate to claim reserving, the selection and management of external experts and the measurement of claims management performance, linked to the delivery of agreed business plans.

The Claims Principles and Minimum Standards will apply to all Lloyd's market inwards claims whether managed by managing agents or outsourced service providers (including run-off claims and the market's shared claims service provider, XCS).

The overall process will involve setting expected standards and reviewing performance against the standards.

## **Implementation**

The initial package of minimum standards introduced via this Bulletin is seen as the first step in a 3 year process. During this period minimum standards will be progressively introduced under all eight Claims Principles (and enhanced where necessary).

The review of Claims Principles and Minimum Standards will be linked to the annual business planning timetable and process. and will take account of external regulatory expectations. There is a clear link to business planning as the Claims Principles and Minimum Standards should facilitate the delivery of business plan targets relating to claims drivers of performance.

The Franchisor is committing to meeting with all managing agents during the 6 months transition period to review whether these minimum standards are currently being met and to provide assistance where requested.

The Franchisor is aware that there are managing agents in the Lloyd's market who will wish to develop claims management capabilities well ahead of minimum standards and this is fully supported, as the minimum standards will represent the lowest level of acceptable performance at the end of the transitional period.

### **Additional Notes**

The Franchisor recognises important differences among syndicates and is not seeking to make all processes standard or introduce common manuals for the management of claims; rather it is recognised that individual managing agents will have different solutions, although all capable of meeting the minimum standards. The managing agent will need to demonstrate to the Franchisor how minimum standards have been maintained on all claims when requested to do so.

It is recognised that there are activities carried out elsewhere which also relate to claims, for example by actuaries in portfolio reserving – it is not intended that the Claims Principles and Minimum Standards extend to all such activities in the foreseeable future. However it is expected that where staff outside the claims teams are engaged in activities within the scope of the Claims Principles and Minimum Standards, that they will operate to at least the minimum standards.

Lloyd's used relevant legal advice in the drafting of the Claims Principles and Minimum Standards including US lawyers.

Recognising that this initiative will raise a number of queries an extensive information pack has been produced and will be supplied to all managing agents' 'heads of claims teams' and compliance officers within the Lloyd's market, when this Bulletin is released. This presentation includes a 'Glossary of Terms' used within the Claims Principles and Minimum Standards which is attached as Appendix C, and has previously been circulated in draft to the LMA claims committees for review.

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## **Appendix A: Lloyd's Claims Management Principles**

1. The claims philosophy should be clearly documented and communicated within the syndicate, and reflected in the management and organisation
2. Managing agents should have appropriate claims resources, skills and management controls in each line of business they propose to write
3. Claims should be adjusted and processed in an efficient and timely manner
4. The handling of a claim should be appropriately documented and information relevant to the management of the claim retained for a reasonable period
5. Claim reserving should be undertaken with the goal of a consistent, timely and accurate result
6. Disciplined procurement and pro-active management procedures should be employed in the selection and use of third parties
7. Measurement of claims management performance and capabilities should be appropriate and regular
8. For subscription business there should be an effective claims agreement process to protect the interests of followers, supported by full co-operation of lead underwriters

**These Principles broadly address many different types of insurance. The statements are intended to be flexible and to apply in varying ways based on the available facts, wordings, timing, and other circumstances specific to the claim. The Principles do not prescribe how any claim should be handled or set standards by which any insurer's conduct on a claim has been or should be judged.**

## Appendix B: Claims Minimum Standards – effective from 1<sup>st</sup> July 2005

- ◆ Terms in bold italics are defined within the Glossary of Terms section within the 'Explanatory notes for Managing Agents' document which will be supplied to 'heads of claims teams' and to compliance officers within managing agents
- ◆ Each of the three sections that follow state the relevant Claims Management Principle followed by the individual Minimum Standards
- ◆ This is a first step and Minimum Standards can be expected to be applied to other Claims Principles and to be raised where appropriate, in the future

### 5: Claim reserving should be undertaken with the goal of a consistent, timely and accurate result

*-**Claim reserves** should make financial provision at **reported loss levels** without prejudice to coverage based on currently available information and factual supporting information in the **claim file***

*-Initial **claim reserves** on this basis should be created within 30 days of first receipt of report addressing reserves for **straightforward claims** and within 90 days for **complex claims***

*-Reserves on open claims should be reviewed and, as appropriate, re-validated at least every 12 months*

*-Reserves on open claims should be reassessed within 30 days of receipt of additional information bearing on the reserve*

*-Leaders should handle claims so that the followers' claims agreement service provider receives as soon as practicable the same reserve-related information provided to the leader*

*-Reserves for **major claims** should be validated via an internal peer review process*

## Appendix B: Claims Minimum Standards – effective from 1<sup>st</sup> July 2005

### 6: Disciplined procurement and pro-active management procedures should be employed in the selection and use of third parties

#### **Overall:**

*-Managing agents should proactively and effectively manage their claims including where claims authority is delegated to **third parties** and where **external experts** are retained to assist with individual claims*

#### **Management of organisations to whom claims management is outsourced:**

*-All FSA requirements in relation to outsourcing must be satisfied*

#### **Management of external experts employed on individual claims :**

*-Managing agents should have a documented process for selection, appointment and monitoring of **external experts***

*-**External experts** should normally be selected from a managing agent's **approved panel***

*-The terms on which external experts are retained should be **competitive** with their peer group capable of providing the same service for that assignment*

*-Managing agents should be able to justify why an **external expert** was selected for an individual claim*

*-For each claim the insurer should communicate and agree approach and goals with any appointed **external expert**, and there should be supporting information indicating what the expert is required to deliver*

*-Invoices should be checked against written agreements and non-agreed variances queried and, as appropriate, rejected.*

### 7: Measurement of claims management performance and capabilities should be appropriate and regular

*-Each managing agent's claims team(s) should measure its performance via a **claims implementation plan** which includes relevant **KPI's**, relating to the delivery of claims-related objectives within the managing agent's annual **Agreed Business Plan(s)** and internal claims performance targets*

*-Progress against the **claims implementation plan** should be reviewed and reported on, within the managing agent, in writing quarterly with variances identified*  
*-Variances should be escalated to higher levels of authority if and as required by the managing agent's policy*

*-The managing agent's criteria applied for the control, review and assessment of **claim files** should be identified and in regular use*

## Appendix C: Claims Minimum Standards – Glossary of Terms

- **Agreed Business Plan:** the managing agent's annual business plan submitted to and approved by the Franchisor (see Definitions Byelaw)
- **Approved panel:** a panel of external experts selected by the managing agent. The composition of this panel will be reviewed by managing agents against business requirements and performance delivered. External experts would normally be selected from the approved panel, unless the required expertise for an individual claim is not available, or where sharing an external expert appointed by another insurer addressing the same event.
- **Claim Files:** Reference to claim files includes files held by brokers, individual insurers and/or third party service providers
- **Claim Reserves:** Claims reserves depend on reliable information provided to the insurer(s) at notification and as subsequently received. Reserves are contingent financial provisions which do not reflect coverage positions or expected outcomes unless and until the insurer(s) accept coverage without reservation
- **Claims implementation plan:** the managing agent's plan(s) for delivery of all claims-related objectives within the Agreed Business Plan and other claims-related objectives
- **Competitive (referring to external experts):** capable of providing the required service (taking account of location, reputation and expertise) at rates which are in line with their peer group
- **Complex Claims:** Reference to straightforward claims means those claims where the reported facts permit reasonable early estimate of quantum and potential involvement. Where these conditions do not pertain, the claims are referred to as complex claims
- **Delegated Claims Authority:** any arrangement entered into by the managing agent for another person to manage portfolios of claims on its behalf
- **External Expert:** any external organisation or person retained by the insurer (or on the insurer's behalf) to provide services in relation to the assessment and settlement of claim(s)
- **FSA requirements in relation to material outsourcing:** Rules and guidance set out by the FSA relating to material outsourcing from the FSA website

- **Key Performance Indicators (KPIs):** key financial & non-financial measures which together can be used to track progress against the Agreed Business Plan and other claims-related targets.
- **Major claims:** claims which the managing agency would normally identify for regular reporting of progress to the managing agent's board
- **Reported loss levels:** estimates of the expected ultimate cost of individual claims prepared by internal claims staff with relevant experience, or by external experts retained in accordance with the 'Claims Principles and Standards'
- **Straightforward Claims:** Reference to straightforward claims means those claims where the reported facts permit reasonable early estimate of quantum and potential involvement. Where these conditions do not pertain, the claims are referred to as complex claims
- **Third Parties:** any organisation or person retained to manage claims or provide claims –related services to a managing agent
- **TBAs:** claim file entries which indicate that no reserve value can be quantified – should only be used within the periods defined by the 'Claims Principles and Standards'