LLOYD'S

Market Bulletin

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Title	Electronic Placement Mandate
Purpose	Requirements to use electronic placement in the Lloyd's Market
Type	Event
From	Inga Beale, Chief Executive Officer Contact details: +44(0) 20 7327 6800 Inga.Beale@lloyds.com
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Deadline	Implemented from Tuesday 3 April 2018

Related links

To accelerate the transformation from paper to digital placement, the Lloyd's Board and Council have today approved the details of a mandate for electronic placement on a phased basis. The mandate has been developed following detailed discussion with members of the Lloyd's market, the Lloyd's Market Association (LMA), the London & International Insurance Brokers' Association (LIIBA) and the International Underwriting Association (IUA).

The formal mandate is attached to this bulletin and will work as follows:

Which contracts of (re)insurance are covered?

- Each managing agent must ensure for each syndicate it manages, no less than 10% of contracts of (re)insurance entered into as leading Lloyd's underwriter during Q2 2018 must be entered into using a recognised electronic system.

- Currently, this doesn't include contracts written through coverholders (including service companies) or contracts written on a verticalised basis (i.e. where a following syndicate subscribes to a risk at a different premium to the lead syndicate). Verticalised contracts will be added to the mandate when the functionality is available on recognised electronic systems.

What is a recognised electronic system?

- Placing Platform Limited (PPL) is a recognised electronic system. Based on feedback from the market, PPL continues to develop and evolve. There is a development roadmap in place to ensure it meets the needs of its users. Other systems may be recognised providing they meet Lloyd's specified criteria. Applications for a system to be recognised should be made to Joe Dainty, Lloyd's Global Head of Operations (Joe.Dainty@lloyds.com).

What are the adoption targets after Q2 2018?

- The target percentage of contracts placed electronically across all classes increases in Q3 2018 to 20% and in Q4 2018 to 30%. These targets have been carefully set in consultation with the LMA to ensure they are realistic and achievable by all managing agents.

- Further targets, expected to increase to 80%, will be set over time and these will be set in consultation with the Lloyd's market. Different targets may also be set for different classes of business.

- Consideration will also be given to how the mandate will apply to business written through coverholders.

How will compliance with the mandate be assessed?

- Each managing agent will need to self-certify compliance with the mandate within 30 days of the end of each period. Your Lloyd's development manager will work with you on this and guidance on the mechanism by which to submit certifications will be provided. They will be able to answer questions and discuss any particular concerns you have about meeting the requirements of this mandate.

What are the incentives for exceeding the targets?

- If a syndicate exceeds the targets for 2018 then members of the syndicate will qualify for a partial rebate of their annual subscriptions for 2018 payable in respect of that syndicate. The rebate will increase for each percentage point the Q3 and Q4 targets were exceeded up to a maximum of 15%.

What happens if a managing agent does not meet the targets?

- If a syndicate fails to meet the targets for 2018 then additional fees will be charged to members of the syndicate in order to contribute to the costs of modernising market systems and processes. Calculation of the additional charges mirrors the rebates up to a maximum of 15%.

- If a managing agent does not meet at least 50% of the requirement for a syndicate in a quarter, then Lloyd's will need to understand why and what is being done to address the situation. The managing agent will be asked to complete a remediation plan setting out how it will meet each of the forthcoming targets. That must be agreed with their Lloyd's development manager.

- If at the end of the year a managing agent has not ensured a syndicate it manages has achieved at least 50% of the Q3 and Q4 targets, then Lloyd's will inform them that it reserves the right to increase the syndicate's Economic Capital Assessment (ECA) by 5% at the next coming into line date if the current remediation plan is not complied with. This will give a managing agent time to address the position. The use of capital loadings in this way is designed to address the risk to the Lloyd's as a whole of managing agents not embracing electronic trading with all of the benefits that brings.

The Lloyd's Board will keep the operation of the electronic placement mandate under close review to ensure it is achieving the desired impact. The mandate is designed to accelerate the pace of digital transformation and ensure the Lloyd's market realises the benefits of electronic placement which supports face to face negotiation, increases efficiency in the market, reduces back office costs and improves customer service. The Board may also issue further guidance or directions as to the application or interpretation of the mandate as necessary or appropriate.

If you have any queries regarding this bulletin please contact Adrian Thornycroft, TOM Programme Director, +44(0) 20 7327 5086 (email: Adrian.Thornycroft@lloyds.com).

Requirements to use
electronic placement in the Lloyd's market

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, no less than the prescribed target percentage of *Relevant Contracts* of all *Relevant Contracts* entered into by the syndicate during that period have been entered into using a *Recognised Electronic System*.

Period / Class	Q2 2018 Target	Q3 2018 Target	Q4 2018 Target	Q1 2019 Target	Q2 2019 Target	Q3 2019 Target	Q4 2019 Target
All classes	10%	20%	30%	TBA	TBA	TBA	TBA
Targets for specific classes of business may be prescribed in due course							

This table will be supplemented from time to time.

1.2 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 paragraph 1.1.

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 2018

2.1 If, as at 1 January 2019, a managing agent has complied with each of the target requirements set out in paragraph 1.1 for the prior periods 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 2018 equal to A x B where –

i. *A* shall mean a number equal to the average percentage by which the Q3 and Q4 2018 target requirements were exceeded (providing *A* shall not exceed 15); 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 2018.

Potential additional fees for 2018

2.2 If, as at 1 January 2019, a managing agent has not complied with each of the target requirements set out in paragraph 1.1 for the prior periods 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* x *D* where –

i. *C* shall mean a number equal to the average percentage by which the Q3 and Q4 2018 target requirements were missed (provided *C* shall not exceed 15); 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 2018.

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

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 1.1, a managing agent has not ensured that a syndicate managed by it has achieved at least 50% of the 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 2019, a managing agent has not ensured that a syndicate managed by it has achieved at least 50% of each of the target requirements for Q3 and Q4 2018 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 *Lead Syndicate* means the first Lloyd's syndicate to underwrite the contract of (re)insurance or such other Lloyd's syndicate nominated in the contract as the lead syndicate.

4.2 *Recognised Electronic System* means a system recognised from time to time by the Franchise 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.

4.3 *Relevant Contract* shall mean a contract of (re)insurance entered into by a syndicate managed by the managing agent in question (where the syndicate is the *Lead Syndicate*) 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*).

4.4 The Franchise Board may give such guidance or direction as to the application or interpretation of these requirements as may be necessary or appropriate.