



Date: 10/02/2021

Attendees: Capacity Management expert at an Underwriting Agency

1. Interview:

1.1 Background:

- The SME works for one of the world's largest international underwriting agencies and one of Lloyd's of London's largest international coverholders. The world's largest international MGA with over US\$1 billion of GWP, based in 16 countries, 100 people and providing over 50 products.

1.2. Interview Questions:

What do you like about DA?

- The company is not a typical MGA, they have a dedicated Claim team mostly dealing with Lloyd's business.
- Thinking about DA widely, Lloyd's initiative is very welcome. Last couple of years it shows some improvement but lots of Lloyd's brokers don't understand DA itself. Some information from third parties never gets to the company, that affects the business that the company transact on behalf of Lloyd's underwriters.
- Information flow and communication improvement is a primary need.
- Largest non US coverholder on the world the real value in Lloyd's is the world wide licencing. It is more difficult to deal with Lloyd's than with the company market in that perspective.
- Without Lloyd's licencing the company would need to pass their capacity more and pick and choose between different local carriers who have the licence. To bring SME business to the London market from all over the world would be difficult without Lloyd's.



What don't you like about DA?

- One issue with Lloyd's DA is third party arrangements, between Coverholders, Lloyd's and the Syndicates.
- Company market can decide what kind of delegated underwriting authority Coverholders will have in depth and the amount. Lloyd's is another party to satisfy in the chain.
- Lloyds performance management for syndicates.
- For MGAs there is an uncertainty that the syndicates who they partner with will be allowed to renew DA, and provide capacity. SME's example was that they had to look for additional capacity outside of Lloyd's because the syndicate they partnered up with didn't get enough capacity from Lloyd's for the next year. They had no other option but to replace the capacity.

Lloyd's restricting the capacity of syndicates, what do you think the driver is?

- Problem that Lloyd's is concentrated on two areas: forming lines of business and performing syndicates. None of them are transparent for coverholders. Since 2018, they have closed 11 syndicates, mainly because they were not happy with their business plan.
- Example: Lloyd's classes: professional indemnity and commercial PI which haven't performed well over the last 10 years. Finding syndicates who can offer enough capacity for these types of books is very tough. Lloyd's doesn't consider giving capacity based on the appetite of underwriters for renewal, this creates an uncertainty for MGAs. In the company market they don't face these problems.

Scenario – If the syndicate performs well to the business plan, giving them the capacity automatically, on an ongoing basis?

- The annual venture is part of Lloyd's feature, but it makes things difficult. In theory Lloyd's have a light touch process for top performing syndicates. Lloyd's annual renewal process needs to be simplified and in a shorter period. It is not customer friendly at all.

Could multi-year binders work as the default in DA?

- Multi year binders are good ideas, but the problem is if the capacity comes off then there is no point for binding renewal, because it's not enough to have 90% capacity on the binder, so you still need to go through the process again to find the extra 10%.



Would it help if the entity compliance and due diligence information were centralised, in a place that the capacity provider can easily access and review when they need to?

- It would make it easier. One of the issues with Lloyd's is the duplication. Managing Agents requires the same data, often in different formats. Lloyd's tried to standardise in Atlas, but the data is inconsistently recorded.
- Having all of the information in one place for all of the stakeholders is the way forward. Where all due diligence, compliance data can be stored correctly but it might be better if the CH upload it instead of Lloyd's.
- Electronic form, digitally provided by the Coverholder, enter details and don't need to redo it again.

Suggestions from SME:

- The key is to be able to confirm quicker what capacity the syndicates will have in the following year. That will be an assurance for MGAs as well.
- Coverholder approval: put an end to separate coverholder approval process for branches, it doesn't make sense.
- Paper BDX: electronic version needed
- BDX new data standards are coming out yearly and it's very costly to make lots of changes often in different systems that link together. They should settle on a standard and use that. These changes sometimes are unnecessary changes, adding more cost.
- Consolidate data, streamlining it and not asking for additional data.
- Use APIs to share data in real time, maybe build an adapter that transforms different styles/formats of data for different companies into a single standard and send the data in a repository.
- Lloyd's had an initiative previously to supply smaller Coverholders with an underwriting system, but they never got around to doing it. For smaller Coverholders trying to keep up with Lloyd's requirements is expensive, it's a significant amount, Lloyd's should contribute to that.
- It's the same for carriers whose own expenses are too high, that will automatically hurt the profitability of the business.

How hard is it to add capacity to a new product?

- Covid has had an impact, it's difficult for the insurer to do the usual level of due diligence as before. The uncertainty to the syndicate will be allowed to provide capacity.



On contracts what notice period do you get?

- Annual binders notice period for determination standard is 180 days. Finding capacity less than 6 months is a challenge.
- At the moment the challenge is their own internal due diligence requirements without being in the office.
- The reason why this takes long: the syndicates due diligence requirements, good example is the conduct risk: they introduce a form, the slip lead fills the form on behalf of co-insurers, high – medium – low product risk and pass it to following syndicates. But they still need to satisfy themselves around conduct risk, which is a duplication of effort.
- It would help if the Information would be accessible for the following syndicates, so they can see what type of checks the lead has done already.
- Due diligence should align with the contract cycle, it would make more sense than to do it annually.

Do you use brokers to find capacity?

- Yes, the real value is their access to the market. They don't add any real value in contract wording or exchanging BDX etc.
- Lloyd's coverholder can't access ECS. If they had the access coverholders would be able to do it themselves and support capacity providers rather than going through a broker.
- The value chain shouldn't include an entity who doesn't add any value. To cut out those who don't add value would help to reduce cost. The end to end process and value chain need to be refreshed.

Would it work, if you as a Coverholder was responsible for listing the broker if needed and paying them?

- It would work well for larger, established companies, but not likely to be a good option for newer, smaller Coverholders.
- Individual companies are starting to find their own ways of reducing costs. For example: some of the company's facilities have agreements, there is brokerage on the slip but the brokers rebate that to the company, and only get brokerage for placement services.