



## Insurance Claims at Lloyd's – How Does it Work?

“Claims are the shop window of our company.” It’s an often-heard phrase, especially by those in the claims department; however, this really is the case when placing business into the Lloyd’s and London markets. While it is acknowledged that a claims department’s underperformance can lose a company business, it also holds true that the good performance of a claims department can help retain customers and even win new business.

### Lloyd’s of London

A common misconception is that Lloyd’s of London (Lloyd’s) is a single insurance company. However, Lloyd’s is the name of the corporate “umbrella” under which the various syndicates working within the organization operate. These syndicates are, in effect, individual insurers carrying the security rating of the Lloyd’s name – S&P “A+ Strong”, Fitch “A+ Strong”, and A.M. Best “A Excellent”.

Amwins Global Risks (AGR) is a Lloyd’s broker (a broking house, usually based in London, licensed by Lloyd’s to transact business with its member syndicates) and is one of the largest independent Lloyd’s broking operations, placing approximately 13% of all Lloyd’s U.S. premium. AGR handles approximately \$500 to \$750 million in claim payments annually through their award-winning claims team.

### CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

### LEGAL DISCLAIMER

Views expressed here do not constitute legal advice. The information contained herein is for general guidance of matter only and not for the purpose of providing legal advice. Discussion of insurance policy language is descriptive only. Every policy has different policy language. Coverage afforded under any insurance policy issued is subject to individual policy terms and conditions. Please refer to your policy for the actual language.

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## Placing business into Lloyd's and its syndicates

When placing a risk through Lloyd's, the broker can use one or multiple syndicates on a given contract of insurance, depending on the requirements of the insured. The first syndicate to write a risk is the "Lead" syndicate and if there is more than one syndicate participating on a risk, the market is known as a "subscription market," as the syndicates together subscribe to the contract document, known today as the "Market Reform Contract" (MRC) or, more commonly, the "slip." This slip historically contained all the coverage and contract conditions relating to the risk, as well as deductibles, premiums and other related information about the policy.

For brokerage business the policy wording is also included within the slip, which is the first document the claims department reaches for when advised of a new loss. The exception to this, which is particularly relevant on larger programs, is when the London policy is written on a co-insurance basis, following the form (but not the settlements) of a domestic carrier.



### **U.S. based business is predominantly placed into Lloyd's one of two ways:**

1. Traditional open market brokerage placed on a direct and facultative basis, or
2. Via a third-party binder written through a Coverholder or MGA/MGU

When handling a claim, the broker's role differs depending on which of the two methods is used to place the risk.



## The role of the broker in the claims process

For brokerage claims, London brokers, in addition to any retail agent or wholesale broker, act as an agent for the insured and assist the insured in achieving the best and most efficient outcome of their claim. Unlike in the U.S., where the loss adjusters' and other experts' reports are sent directly to the carrier, for Lloyd's policies, any such reports are first sent to the London broker.

The broker acts as a "gatekeeper" to the market and submits the reports and financial messaging to underwriters electronically. This is beneficial to the insured as their Lloyd's broker can better advocate on their behalf and proactively avoid potential disputes before a reservation of rights or denial letter is sent.

For Coverholder/MGA business, where risks are written under a delegated binding authority, the London broker acts as an intermediary who brings the Coverholder and the subscribing underwriters together and is therefore not an agent of the insured. The claims that arise from these binding authorities are typically handled by a third-party administrator (TPA).

The TPA and underwriters have a separate contractual arrangement and this contract will, among other things, grant the TPA authority to settle claims without prior approval from underwriters, provided the claim is within a pre-determined financial limit and there are no other "soft" triggers, meaning the claim must be referred to underwriters for direction; these soft triggers could be if a claim is seen to have potential for denial or litigation.

Any covered claims are then paid from a monetary fund that is held by the TPA and have been provided in advance by the underwriters. The loss fund is then reimbursed via collection of a monthly claims bordereau produced by the TPA and (currently) processed by the London broker to underwriters.

This TPA arrangement can improve the claims payment cycle by weeks for smaller routine claims and is also a benefit to the MGAs who utilize the information gathered by TPAs to improve the performance of the business being written through the binding authority.





## Catastrophic claims

Like the U.S., the London market is liveliest after a catastrophic event – although preparation takes place months in advance, as underwriters and brokers are required to have a plan as to how they will cope in the event such a catastrophe occurs. All parties should be looking at things such as internal resourcing as well as how best to prioritize urgent catastrophe-related business whilst juggling the needs of clients not affected by the event.

Using Atlantic hurricanes as an example, as a storm approaches the U.S. coast, underwriters will expect information concerning their potential exposure either on a per risk-basis or across their entire book. Sophisticated Coverholders can utilize their modeling tools to help with this analysis, but the Lloyd's broker increasingly has the data at their disposal and can assist.

There is naturally a significant spike in claims activity following a catastrophic event. First notifications of losses (FNOL), particularly on the open market business, will come into London and need to be shared promptly with the underwriters.

After the initial rush of notifying the markets there is often a brief lull before the loss adjusters' reports start to come in. AGR uses this time to establish increased settlement authorities for TPAs, collect larger loss funds and discuss a claims handling strategy with the carrier(s).

While the increased workload often levels off a few months after an event, the effects can be felt for much longer. A major catastrophe tends to attract public adjusters who work to make sure their insured is fully indemnified. Plaintiffs' attorneys are also active and will look to correct any potential shortfall an insured may suffer.

A claim that was believed to have been closed may be reopened with a lawsuit a year or two later, resulting in a tail on these claims that could last for a number of years. The most notable, and infamous, example of this was the in "loss creep" from Hurricane Irma which saw incurred amounts increase year over year for up to five years post-loss.

Today, underwriters are subject to much more scrutiny concerning how claims were handled following catastrophes and are required to provide a substantial amount of claims data to various regulatory bodies. This requirement creates downward pressure on the London broker and especially any TPA to whom claims authority has been delegated.



## The claims process

The process of advising underwriters of a loss is long and complicated, but the following is a concise and simplified summary of what occurs.



Upon receipt of a claim, the London broker will perform multiple checks, and if all is in order, assign a Unique Claims Reference (UCR) and create an Electronic Claims File (ECF) which, as the name suggests, will be submitted to underwriters electronically either via a portal or email.



The Lead syndicate acts as the Claims Agreement Party (CAP) and will review the file and add comments or questions as necessary to ECF. If a claim meets a certain financial threshold or is to be considered “complex,” the file will be routed to any other CAP as required for their additional comments.



All comments, questions or queries the various underwriters make on the file are either responded to by the broker, if possible, or forwarded to the agent or underwriters’ claims experts handling the loss – whoever is best placed to respond to the query.



Any subsequent expert reports are referred to the market in a similar fashion until a full adjustment or investigation into the claim is complete, all coverage questions have been answered and the claim is ready to be resolved.



When payment is due to be collected from underwriters, an electronic collection request is made via ECF to the relevant agreement parties.



Once all parties have approved the payment collection request, the claim is processed through Lloyd’s central accounting system and the money is deposited into the London broker’s account for ultimate transmission to the insured.

## Other London markets

While the above generally refers to the specifics of the Lloyd’s markets, AGR and other Lloyd’s brokers also have access to a number of non-Lloyd’s carriers. These include traditional insurance companies, some of which transact business in a similar way to Lloyd’s by operating through a central “bureau” called the International Underwriting Association. Or more recently, there has been an influx of MGAs willing to write London business on behalf of their capital providers.

Where these markets are involved, either alongside or in lieu of a Lloyd’s market, the role of the London broker and the benefits of placing business into the London market are very similar to that described above.





## Recent and future London market initiatives

Lloyd's is still working towards its "Blueprint 2" vision which aims to create a fully digital placement and claims process journey. While it will not be revolutionary from an insured's point of view it will, in part, allow for quicker and more efficient transaction of claims by ensuring certain, key information is supplied and validated at the outset of the claim – removing queries further into the process. It will achieve this by:

- Improving accessibility and transparency for (and greater communication between) all stakeholders in the claim.
- Increasing the speed of payment and processing by enhancing accounting, payment and settlement services.
- Establishing claims within the market on par with underwriting, based on the concept that claims are not viewed as a "back office" activity, with the competence of practitioners pushed to the forefront.

Other changes that AGR has been in the forefront of developing recently include:

- **Reducing the number of Claims Agreement Parties to one or two at most** – Previously any claim might need to be agreed to by multiple parties; however, this brings a lot of delay and confusion. Certain claims, especially those on risks placed over multiple policies and layers, will still require more than one CAP.
- **Faster claims process** – This initiative is still being rolled out and currently applies to third-party binder contracts where a TPA would have held a loss fund. By triggering a payment on a contract where FCP is in place, a check will be generated or money will move to an insured directly from underwriters' accounts. This eliminates the use of loss funds and removes the risk of a TPA running out of funds (therefore being unable to make a payment on time). FCP is likely a forerunner for all straight-through money processing from insurers to insureds.
- **Introduction of process automation** – This process will improve efficiency and scalability without compromising quality.



## Takeaway

While Lloyd's is adapting its ways and means of transacting claims, the process has essentially remained unchanged for years. The London broker is, and will likely remain, the conduit for all claims into the Lloyd's and London markets.

In an increasingly electronic world governed by workflow tools, the value added by the claims department in maintaining and nurturing their personal relationships with underwriters and being able to meet those underwriters face to face, is greater than ever. It allows brokers to quickly identify and reach the right decision-makers, escalate urgent or contentious matters and steer and assert influence over claims handling on a live claim basis or even on a program before a claim occurs.

Finally, a knowledgeable and experienced claims department, either within a broking house such as AGR or within a Lloyd's syndicate or insurance company, plays a crucial role. Working together we can identify, train and nurture the next generation of claims practitioners, identify ways in which the market can move forward and, most importantly, drive better outcomes for our stakeholders.

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