Pictured left to right, standing: **Brett Jesson**, senior vice-president of strategy and development, WNS; **Joe Dainty**, global head of operations, Lloyd's; **Jon Hiller**, executive officer, QBE; and **Vince Wooding**, global head of insurance, WNS. *Pictured left to right,seated:* **Adam Rushin**, chief operations officer, Hiscox; **Mark Daly**, group chief information officer and COO, Sompo Canopius; **Carys Lawton-Bryce**, head of IT, CNA Hardy; **Laura McDonagh**, underwriter, Chaucer; **Peter Lewis**, underwriter, Chaucer; and **Stephen Manning**, group COO, Dual. *Not pictured:* **Chris Bentley**, director of underwriting, Axa.

Modernising the London market

For years, Lloyd's of London has been grappling with the challenges of modernisation. As businesses within the London market come under increasing competition and margins are challenged, both Lloyd's and the wider market are focusing greater energies on realising change

By Ryan Hewlett

At the very heart of the Lloyd's modernisation strategy is the Target Operating Model, a £250m programme involving 350 businesses and 48,000 professionals across the London market.

The TOM's objective is to make London an easier place to do business, while boosting efficiency and bringing business benefits to market participants.

But what does the market really think about the changes? At a recent roundtable, in association with WNS, we heard from a range of London market professionals as they frankly discussed what has been accomplished and what remains to be done.

Broker participation

Several attempts to reform the market, including the Kinnect platform in the early 2000s, have failed. Those trying to modernise the market and those affected by the changes haven't always agreed on the pace needed for those reforms.

Attendees felt one of the factors behind the success of the TOM is that it has been sponsored and paid for by the brokers as well as the insurers and carriers within the market.

"The difference between the TOM and Kinnect is that Kinnect was very much driven by Lloyd's. The brokers never really engaged in it at all," a participant said. "In the TOM, we're seeing for the first time ever that the brokers have provided funding. They're much more engaged, and they can see the benefits."

The need for the broking community to get behind the modernisation programme is essential, another participant agreed. "The dynamics of the funding are important too. In the case of carriers, certainly the syndicates, it's the Lloyd's Market Association within Lloyd's that pays for it.

"For the brokers, the trade bodies don't pay. This means the individual broking firms have to pay for their share of the TOM. It's individual brokers writing out individual cheques."

A further factor behind the success of the TOM is that it is being led by the market participants. One attendee said that having prominent market leaders on the boards of the modernisation workstreams provides the rest of the market with voices to trust.

"The people really driving this forward are the heads of the firms in the market, sitting round the table, talking among themselves about reform," the participant said. "If those people are deciding this is the right thing to do, then who's going to argue? These are people you would follow. The structure of the TOM steering board has made a big difference."

Another attendee expressed concern that while the programme has such high-level patrons, the message may not be translating down to those who are working on the Lloyd's underwriting floor.

"We need to get the people who are in Lloyd's every day having those conversations. It's those who are doing the broking that have to change their appetite, to stop picking up a slip case and start to use the system a little bit more."

Remaining challenges

The need to modernise is being driven in part by the revelation that London is slipping as a go-to destination for global specialty insurance and reinsurance business.

In May, the London Market Group updated its *London Matters* report, a document highlighting the need for change within the Lloyd's market. Key areas of concern, particularly in reinsurance, emerging markets and diversity were brought to the fore, with market modernisation listed as a central remedy in tackling these challenges.

One participant said that the modernisation programme may benefit the London market internally but questioned whether it sufficiently removes the threat Lloyd's faces from emerging markets and new and disruptive entrants to the market.

A major criticism of the TOM is that many feel it does not go far enough. "Unfortunately the modernisation programme isn't bringing the London market into 2017," one participant said.

"If you look at every technological reform in other areas, such as Airbnb and Uber, these businesses have come to dominate those markets in a way that no one ever expected," the participant said.

"There's an argument that what we're talking about is cracking something the boards of established insurance companies and broking houses don't have the answer to. The answer is potentially going to be from someone who none of us are aware of."

Another participant said that perhaps it was time to look at the model in a new way.

"We're trying to fit something into the way in which we currently conduct business, rather than actually just ripping that all up entirely and starting again. There's a positive to having senior and established faces leading the charge, but I question whether they are the breath of fresh air that the new world is looking for."

Another participant cited the slow pace of change as a concern. "We're not going fast enough. If you look at what the competition is doing, and how fast they're doing it, they're quietly or quickly investing in this sort of technology. There is a need to move quicker.

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"We've got a natural resistance because of our unique ecosystem and we tend to move slower. We've seen improvement in the speed, but there needs to be further improvement."

The technological phase of the TOM will be finished by the end of 2018. All of the systems will be implemented and running. The challenge that follows will be how separate market members implement these changes into their models.

One of the milestones in the TOM initiative is Placing Platform Limited, the London market's electronic placing platform.

A year on from its launch and there are four lines of business on the platform with over 9152 risks placed on PPL, and 21 brokers and 90 carriers live on the system.

A participant said getting more business classes and brokers and carriers live on the platform will be a key test of adoption phase.

Another participant expressed concern that electronic placement could reduce quality in other areas: "If you're a broker, and PPL is serving you very well, because you've cut your broking staff from 10 to two, you're operating a far more efficient model in terms of cost. But the way you're doing that is, essentially, reducing the quality of broking. Not just now in this moment, but for the future.

"At the very extreme end of this, you're replacing the art of broking and the ability to present risks in a way that underwriters can easily digest."

Another participant countered this statement, arguing that electronic placement is already established in the claims environment, without that result.

"Now claims are electronically traded and 96% of claims that go through are accurate. The quality of claims broking has not altered. All that's changed is that you're not seeing people with their flight cases going round the market."

TOM 2.0

At its core, the TOM is about driving efficiency across the market and making London a faster and more competitive place to conduct business.

So far the initiative has focused on tackling how risks move in the market, how money moves through the central services, how the market can be more attractive for coverholders and how the market uses data.

The question remains as to what the future is for the London market; in short, what will come next.

Lloyd's and several other London market businesses are already working with artificial intelligence and machine learning to enhance their business practices, one participant explained.

"Much of the TOM has been an efficiency play," another attendee added. "It's about trying to get the costs out of the business. the TOM part two could be a distribution play. It could see us drive innovation in how we distribute our products."

"So far we've been building at the foundational level," another participant concluded. "For a lot of organisations, that's probably as far and as fast as they want to go. But we can't afford to stop it, because if we do, then all of the characteristics that differentiate the market are eroded.

"There is a real appetite for change across the market now, and people are invested in it. Now we've taken the first step, we may find that the next, and the steps that follow become easier and easier." ■