VIEWPOINT

# Pandemic could provide boost to Lloyd's lead/follow reforms

## Covid-19 is changing the way the market works and many changes will remain in the long term

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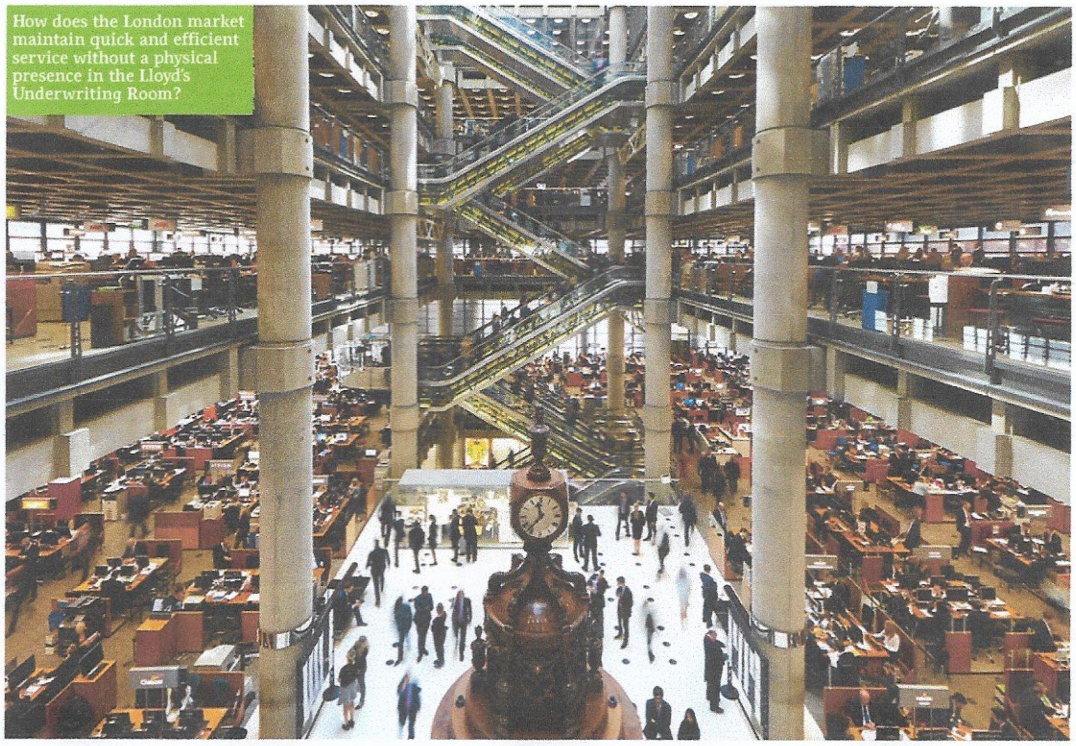

How does the London market maintain quick and efficient service without a physical presence in the Lloyd's Underwriting Room?

The world as we know it has retreated into its bunker as we all fight the enemy that is Covid-19. But where we possibly can make it do so, life goes on in our battle for survival – and this applies to insurers as anyone else.

The insurance markets of the world owe it to our customers to keep their vital protection both in place and effective, even if our products do not cover losses directly from the virus itself.

We are seeing how e-trading is helping to keep the wheels turning and this is being helped by other initiatives such as email, Webex, WhatsApp, Zoom and even telephone and shortly, no doubt, secure e-stamps to legalise insurers' agreement to contracts.

Previously, the London market operated as a specialist market offering amazingly quick turnaround and response to often complex and huge packages of risk; the placing of these has been enabled by the physical presence of both Lloyd's and company market underwriters, either in the Lloyd's Underwriting Room or in offices gathered in EC3. This is no longer possible and teams are now operating in home silos, so the question is: how does the London market maintain the same level of quick and efficient service?

The reason to ask this is that complex packages of risk contain multiple types of normally specialist coverage. For example, energy packages may include: offshore platforms (which require not just physical damage but removal of wreck; business interruption; cost of controlling multiple wells; equipment, including overside or underwater; those working on the platform), third party and/or contractual liability; seepage and pollution; and onshore property and equipment, including onshore drilling rigs or production equipment.

These may be in huge schedules of worldwide locations, which may be subject to sanctions restrictions... the list of complications goes on.

Face to face, the underwriter is able to fire many questions at the broker quickly and often get responses there and then, which the underwriter can assess literally at "face value". The consequence of remote trading can be slower response time or in some cases less thorough investigation by the underwriter, in response to time pressure from broker and client.

### Lead time

If underwriters are to be able to do their job fully, there will need to be an understanding by the broker and the client that more lead time is needed to secure the contract. If the broker or client persists in brinkmanship, it may work in the short term but may also lead to complications if lack of clarity of contracts causes problems when claims occur, as they surely will; these could stem from alleged non-disclosure or inadequate coverage being in place.

Underwriters also need to allocate more time for each transaction, both in assessing risks and also in administering them once agreed; their management now need to take all this into account when reviewing business plan target numbers and also in assessing how to provide adequate support online to their frontline underwriters.

Lloyd's initiative to restrict the number of lead syndicates has so far not been fully accepted by the market, but is this an idea whose time may have come in this crisis? London has been here before (is nothing new under this sun?): after Hurricane Betsy devastated the world energy markets and London was the only market left standing, the London master drilling rig contract was established in 1966. This had five leaders and the rest of London followed, with all energy business placed under the contract.

Thus, restricting leads is not a new idea, but can it work in the global markets as they are today for all classes of insurance?

### No broker resistance

One strand of resistance to restricting leaders would almost certainly have been the brokers, who remain the main marketing arm for London insurers. Under normal conditions, brokers would have resisted not being able to choose the lead insurers for what they perceive as "their" risks and the Lloyd's initiative would almost certainly have failed. However, it seems likely such resistance by brokers may melt away as they seek to maintain their speed of response to their clients needs.

They may also find it is quicker to focus on placing business under covers and line slips, thus reducing open-market placements. Market facilities such as consortia, where underwriters establish their own lead with following insurers and which are open to all brokers via the lead, may increase. Lloyd's may find it needs to help create more of these in the fragmented world we are in, and adopting such a rolen may enable Lloyd's to implement its blueprint for lead/follow by effectively reserving approval of leaders. This crisis is changing the way the market works (and not just in the lunches) and many of these changes will remain once Covid-19 is history. ■

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