

Underwriting Update



The last few months have seen an incredible amount of energy focussed on the conflict in **Ukraine**, including the implications for affected classes of business, regulatory issues (notably sanctions) and, most recently, support for shipments of grain from Ukrainian ports.

With the 2023 **Business Planning** process underway we have remained in close contact with Lloyd's to understand the implementation of **Project RIO** (Re-Imagining Oversight) and its impact on planning.

We have also become involved in the process to design the **iMRC** under the auspices of the **Data Council**. Changes to the existing MRC template are designed to allow for straightforward extraction of the requisite data for a **Core Data Record (CDR)**.

We remain closely involved in the delivery of the **PPL NextGen** platform, specifically ensuring that an upgraded platform is delivered to the market as soon as possible.

We remain focussed on **enhancing the technical underwriting expertise of the market**, through the publication of model clauses and wordings. As well as the many clauses published in the last quarter, we are also close to publication of a completely redesigned Home Insurance Policy (HIP) as part of our work on **product simplification**.

Environmental, Social and Governance (ESG) remains a hot topic, with 2022 seeing Lloyd's and the wider market taking further steps towards realising the ambition of truly embedding ESG strategies into operations. The LMA has formed a new sustainability committee to better coordinate and support the growing volume of ESG activity.

Along with colleagues from the LMA's legal, regulatory and market operations team we continue to work closely with Lloyd's to finesse the new **Lloyd's Insurance Company (Europe)** operating model.

We are also in the process of creating a senior **Underwriting Committee**, aimed at managing agent CUOs (or equivalent), which will provide a forum for discussion of topics of interest to the Lloyd's underwriting community.

Ukraine

The LMA underwriting team has deployed its expertise in support of the market in a multitude of ways during the ongoing conflict in **Ukraine**. The relevant committees, including the Joint War Committee, Terrorism & Political Violence Business Panel, Political Risk, Credit and

Financial Contingencies Panel and Aviation Hull War Forum have provided invaluable support for the market in understanding the complex situation.

Most recently, we have been engaged in detailed discussions with HM Treasury, Foreign & Commonwealth Development Office, Department for International Trade, the International Maritime Organisation as well as managing agents to support the recent successful UN efforts to create a humanitarian corridor for the shipment of Ukrainian grain. It has been extremely pleasing to see the willingness of the market to support the UN brokered agreement as it highlights many of the best facets of the Lloyd's insurance market, namely the desire and ability to respond nimbly to emerging issues as well as the underlying importance of the insurance market in supporting global trade and the wider economy.

Working closely with the LMA's legal and regulatory teams as well as with counterparts at Lloyd's, we have sought to influence UK government sanctions policy, including seeking alignment between UK, EU, US regulations. This remains an area of high complexity, particularly in light of political imperatives, but we have improved alignment between UK and EU sanctions on aircraft as well as successfully lobbying for clarificatory General Licenses in respect of marine vessels and satellites. Engagement is ongoing as the various sanctions regimes continue to evolve.

In terms of model clauses, we published model territorial exclusions (LMA5583A and LMA5584A) in April. Serial Loss and Serial Defect clauses (LMA5587 and LMA5588) in May, updates to our suite of contingency wordings and US Zero Collateral clauses (LMA5585 and LMA5586) with a guidance note and two model PFAS exclusions in July (LMA5595 and LMA5596).

2023 Business Planning

As is common at this time of year, I am using my regular discussions with managing agent CUOs to understand how the business planning process is progressing, including highlighting any areas of concern.

Those of you who attended the Lloyd's market message in May will have heard Patrick Tiernan clearly articulate a focus on inflation as part of 2023 business planning. This focus extends to an expectation that managing agents will make reference to the impact of inflation on exposures, pricing and reserving at a class of business level.

Lloyd's is also focussed on several specific classes of business which they have identified as underperforming, including property treaty, segments of D&O and contingency. We have facilitated meetings between Lloyd's and underwriters in these markets so that there is a transparent dialogue ahead of planning.

Additionally, and related to the conflict in **Ukraine**, Lloyd's is keen to understand managing agent approaches to classes of business most impacted by the war. Aviation (including war), political risks, marine (including war), war on land and terrorism & political violence are all areas of focus. In respect of the latter, the LMA have facilitated discussions between Lloyd's and the market to ensure clear communication of Lloyd's-specific areas of interest, given some of the features of the market in addition to the challenges posed by events in **Ukraine**.

When considering these classes of business which are subject to additional Lloyd's oversight, we are not only keen to ensure the market is aware at the earliest possible stage of Lloyd's views, we also consider it valuable that the market is given an opportunity to

challenge the Lloyd's view. We will continue to work to improve this two-way dialogue and I would encourage you to raise any questions you have with the LMA or Lloyd's directly.

We will also run our usual business planning questionnaire at the end of the year and follow this up with further discussions with managing agents early in 2023. Consolidated feedback will be provided to Lloyd's with a view to helping to shape the planning process for 2024.

The Future at Lloyd's

Data Council

As part of the work of the **Data Council**, specifically the focus on the creation and extraction of a **Core Data Record (CDR)**, a consultation on changes proposed to the Market Reform Contract (MRC) has been launched. The consultation defines how data should be captured in the proposed **iMRC** alongside a set of revised guidance. The **Data Council** is very clear that the **iMRC** is a step towards a data first digital marketplace and over time, it is expected that firms will transition to the other two adoption paths of either data first shared platforms or via APIs. The LMA will be closely involved in the review of feedback to this consultation.

Placing Platform Limited (PPL)

Through our membership of the PPL User & Operations Sub-Committee, the LMA has been working closely with PPL to understand the functionality that will be available to the market with the first release of NextGen PPL in early 2023. We will also ensure that the market has sufficient opportunity in the coming months to familiarise themselves with the new platform, including through a robust testing process.

Technical Underwriting Expertise

Product Simplification

We are well advanced on a project to update the Lloyd's Home Insurance Policy (HIP) which is the most widely used LMA model wording drafted for consumer business. As well as redrafting and redesigning the existing policy to make it more consumer-friendly, we will publish an all risks version. Once this project is complete, we will look to apply any lessons learnt to other consumer wordings and, where applicable, commercial products; for example, an SME-friendly commercial property wording is also in development.

Credit Risk Insurance (CRI) Policy

Working with the Loan Market Association and the International Underwriting Association, a model Credit Risk Insurance Policy ("CRI Policy") has been published (LSW1950).

The model CRI Policy was developed to provide a starting point for insurers and lenders to address single borrower credit risk insurance arising from a loan agreement, taking into account the CRR requirements for unfunded credit protection.

US Zero Collateral

Following changes to US federal law, the LMA published a [guidance note](#) and two model clauses to help ensure that specific funding provisions are addressed in any US reinsurance contract incepting on or after 01 October 2022. This is necessary where the US reinsured

seeks to take credit for the reinsurance. The new reciprocal recognition of Lloyd's paper means that the Lloyd's Credit for Reinsurance Trust Funds can be closed.

Perfluorinated Compounds, Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS)

The LMA's US General Liability Committee and the International Liability Committee have published two versions of a model PFAS exclusion clause (one with a reversal of burden of proof and one without). The exclusion uses an up-to-date technical definition of PFAS materials (provided by an external consultant) which was an area of concern following a review of existing clauses in use in the market.

Forced Labour Clause

The Joint Cargo Committee (JCC) has updated their forced labour clause to ensure that it remains up to date with regulatory changes. This clause is designed to support underwriters undertaking supply chain due diligence and identify those companies whose labour practices prove to be unacceptable.

Model Wordings

The LMA published 101 new wordings/clauses to the Lloyd's Wordings Repository (LWR) in 2021. Currently there are over 30 wordings projects in the pipeline, including:

- Terrorism & Political Violence Liability wording
- US Excess Healthcare Liability wording
- Commercial Equine policy (Australia)
- Liability Cyber clauses
- UK Home Insurance Policy (named perils and all risks)
- Renewable energy clauses
- UK Commercial Property and BI policy
- Update to PL & Products liability wording
- Review of war exclusion re cyber exposures
- Quebec-compliant wordings project
- Use of exclusions under French law

Environmental, Social & Governance (ESG)

This quarter the LMA launched a new Sustainability Committee with the mission to support the market in developing its own ESG strategies and assisting the wider economy in its transition to net-zero. The committee will also play a key role in coordinating the LMA's activity across all aspects of sustainable business.

The short-term focus of the committee will be environmental, with reaction to the Lloyd's common carbon measurement framework (initial results of the feasibility study due to be released in Q3) being an immediate priority. Lloyd's requirements for ESG policy and strategy submissions, as part of the 2023 syndicate planning process, are also high on the agenda.

Another workstream for the second half of 2022 will be the identification of new business opportunities created by the transition and the new commercial realities it presents. The committee has set up a working group which will explore these new opportunities, aligning

closely with the ongoing work of individual underwriting panels as well as the climate action roadmap activity led by Lloyd's Futureset.

Lloyd's Insurance Company (LIC) Europe

Q2 has seen the new IDD compliant LIC operating model move into 'business as usual' with the LMA continuing to work closely with LIC to facilitate a successful transition and tackle issues as they arise.

LIC has further articulated its vision for the future, announcing in Q2 a consultation on Project Clock 'solution 2' (the secondment of managing agent underwriters into LIC's European offices), and a focus on supporting syndicates in expanding their business generation on the continent.

LMA Underwriting Committee

Work is underway to create a new **Underwriting Committee**, which will represent the views of the market on issues of strategic importance to the underwriting community. There are an increasing number of these issues and they are of growing importance to the Lloyd's market, including the development of NextGen PPL and implementation of ESG strategies as well as a structured engagement with Lloyd's on other strategic underwriting issues (for example the market response to events in Ukraine).

LMA Underwriting Academy

The LMA Underwriting Academy experienced a busy first half of 2022 as we returned to providing face-to-face sessions in the LMA offices.

The demanding Syndicate Business Planning (SBP) programme helps prepare delegates to lead and assist their managing agent's delivery of SBPs and ran through April and May. It culminated with some excellent presentations in front of a panel of experts in the Lloyd's Old Library. LMA members also returned to Chicago for the first time since 2018 as eighteen delegates took part in the 'Conducting Business in the US' development programme in July. This programme enabled them to meet and hear from Lloyd's America, US insurers, brokers, coverholders, risk managers and other experts to deepen their knowledge of trading in the US.

Our popular 'Commercial Acumen for Underwriters' programme was delivered three times, along with the Foundation for Underwriting in the Lloyd's market and our new reinsurance programme. These programmes provide a complementary and structured learning pathway for early careers underwriters and will be delivered again later this year along with Foundation and Liability Contract Wordings programmes during September and October.

We continue to build and develop new courses in Portfolio management and Risk management which should be available later this year and early 2023. We are also pleased to introduce you to a new offering from the LMA Academy. Our Understanding Risk programme will be a useful addition to learning opportunities for underwriters and is being delivered this Autumn.

Looking ahead into 2023, we continue to build and develop new courses in Portfolio management, Delegated Authority and Data for Underwriters, whilst also exploring relevant

and useful learning opportunities in the ESG space. These, alongside our popular programmes will be available during 2023.

Look out for 2023 curriculum that will be published before Christmas.

All programme details are available by visiting the [LMA Virtual Academy](#).

If you have any questions on the issues raised above or wish to discuss any other topics, please contact me or one of the team.

Patrick Davison
Underwriting Director