No pain, no gain

Project Darwin, the ambitious Lloyd's modernisation initiative, faces challenges, reports **Alex Wright**

Richard Ward came with a big reputation when he landed the role of Lloyd's chief executive in 2006. As boss of the International Petroleum Exchange, he transformed it from open outcry trading to electronic trading, and showed courage to boot. His reforms were so controversial he needed bodyguards.

It gave Ward the perfect credentials to lead the conservative London market into the 21st century, dragging and screaming if needs be.

Now, six years later, Ward's mission to push through technological change in the back-office processing at Lloyd's is at crunch point.

Competition to Lloyd's is increasing from international centres such as Singapore and Switzerland. Meanwhile, at home Lloyd's is coming under pressure from brokers who tell *Global Reinsurance* that they are keen to be more involved in the technology transformation.

Lloyd's insurers are struggling to make money in the post-financial crisis world of low investment returns, but technology improvements could see billions more premium processed each year.

Lloyd's and Ward's answer to this challenge is to plough ahead with Project Darwin, an initiative to update and improve the London market's electronic back-office systems, currently dominated by outsourcing firm Xchanging. Ward is also keen to simplify and improve the governance of London market back-office systems.

But the scale of the challenge is immense. A Lloyd's Project Darwin 2012 update briefing to key market players, seen by *Global Reinsurance*, is revealing.

The report, based on research by Boston Consulting Group, says the current governance model is "complex, fragmented and [has] made effective supplier requirement management and specification difficult". It adds that it is not an "efficient environment to drive and manage change".

Furthermore, the current governance "failed to incentivise suppliers, limiting the focus on innovation and transparency".

On the technology side, Lloyd's faces a huge upheaval. Change would be "difficult, costly and time-consuming" given the age and complexity of the system, the report states.

It recommends establishing a new, simpler and professional governance model; and selecting the right suppliers for individual contracts based on capabilities and performance.

The challenge for Ward and his colleagues on the Project Darwin team is two-fold: to inject competition into a market dominated by Xchanging, and to slash all the red tape suffocating innovation and efficiency. They want to start by shaking-up the corporate governance. This they are labelling "phase one".

Lloyd's Market Association chief executive David Gittings says: "Until such time as we have the new governance in place, we don't intend to take any decisions over anything beyond that. All our focus is on getting new governance arrangements in place."

Simplifying the current Byzantine structure, possibly into one body, while keeping everyone happy, will be extremely difficult.

The back-office governance is overseen by numerous people sitting across myriad bodies, including the Association of Administrations Committee, the Xchanging Review Board, the International Underwriting Association (IUA) and the London Market Group.

If Ward and the Project Darwin team can somehow simplify the corporate governance, they hope decisions can be made quickly and clearly over how to bring in greater competition to back-office processing.

Currently, Xchanging dominates the processing through its subsidiary companies. Xchanging In-sure Services runs the document back-office processing, and Xchanging Claims Services controls the claims processing for a large chunk of the London market.

A further complication to loosening Xchanging's market dominance is the web of overlapping interests in the outsourcing firm.

Take the shareholding structure: the Corporation of Lloyd's owns a 25% interest in Ins-sure Holdings Ltd and 50% interest in Xchanging Claims Services Ltd, while the International Underwriting Association owns a 25% interest in Ins-sure Holdings Ltd.

Some feel Xchanging is so entrenched in the London market it will be near impossible to uproot.

On top of this, Xchanging has a big card to play against rivals such as Capita, Accenture and Genpact, which would like a slice of the action, in that its arguably limited service is respected for being well functioning.

Shore Capital analyst Robin Speakman says: "Although Lloyd's has taken the view that greater competition is to be encouraged, given Xchanging's market penetration, its strategic importance and the embedded nature of its services, the reality is that it's going to be difficult for anyone else to effectively compete."

The most likely result of Project Darwin is that Xchanging will remain the main player, but will have to invest and open itself to competition. Acknowledging this, Xchanging reckons a £30m investment over five years could result in £7bn additional premium churn.

Speakman says: "I think Lloyd's is also sending a message out to Xchanging that investment has to continue. It requires an open attitude to the operation of systems so that if a competitor wants to come in, or a syndicate wants to take a different approach, it has to be compliant."

Xchanging insurance sector managing director Max Pell says the system works perfectly well, but there are some points that could be modernised.

> 'I think Lloyd's is sending a message out to Xchanging that investment has to continue' **Robin Speakman, Shore Capital**

Whether Ward and his Project Darwin team decide to bravely break up Xchanging's power or opt for a piecemeal approach, frustration is growing in the London market.

For example, Aon Benfield's director of change strategy Ian Summers wants greater consultation with brokers.

He is putting a paper together, reflecting brokers' and clients' desire for improved back-office processing, which he will deliver to Lloyd's. "From a broker point of view," he says, "we have been kept informed of what's moving forward and what the high-level proposals are, but haven't really been consulted in any great depth."

London market technology provider Sword Insurance's senior business director Phil Race says: "No one from Lloyd's has come to us and said what they are thinking of doing and how it will impact the technology infrastructure that sits within the market participants."

The Lloyd's press office says the market is looking at a number of suppliers, but is not able to put a timeframe on the project.

The market briefing update seems to suggest that Ward and the Project Darwin team will make their decisions clear by the third quarter of this year. For many, that time can't come soon enough.

HAS THE LLOYD'S PROJECT DARWIN LO ITS WAY?

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TECHNOLOGY PROVIDERS POTENTIALLY IN THE RUNNING FOR PROJECT DARWIN

Xchanging

Founded in 1999 by David Andrews, a former partner in Andersen Consulting, to create joint ventures with large multinationals for outsourcing back-office transaction processing. The business process and technology services provider and integrator operates in 42 countries.

Capita

The business process outsourcing and recruitment firm was formed in 1984 as a division of the Chartered Institute of Public Finance and Accountancy. A management buy-out followed in 1987, led by Rod Aldridge, and it was first listed on the London Stock Exchange in 1991.

Accenture

The management consulting, technology services and outsourcing company originated as a division of Arthur Andersen. Based in Dublin, it is the largest consulting firm in the world and a Fortune Global 500 company with more than 244,000 employees across 120 countries.

IBM

The US technology and consulting giant, which has its headquarters in New York, manufactures and sells computer hardware and software, as well as offering infrastructure, hosting and consulting services. It was formed in 1911 and is today the second largest firm in America, according to Fortune.

Genpact

The business process and technology management provider, formerly owned by General Electric, went public in 2007. It operates in India, China, Guatemala, Hungary, Mexico, Morocco, the Philippines, Poland, the Netherlands, Romania, Spain, South Africa, Australia, UAE, Brazil and the USA.

TIMELINE XCHANGING MILESTONES

1999

Xchanging founded

2002

Xchanging and Lloyd's of London create two Enterprise Partnerships for claims processing and the back-office system, the latter including the IUA as a partner

2006/07

The company signs further partnerships with Aon and Allianz GI

2009

Xchanging acquires a 75% stake in outsourcing firm Cambridge Solutions

2010

Xchanging lists on the London Stock Exchange as a FTSE 250 company

2011

Founder and chief executive David Andrews steps down from the board

LLOYD'S SYSTEMS

THE EXCHANGE AND ACORD

The exchange uses agreed ACORD messaging standards to ensure a common framework and guidelines for all electronic communication within the London market. Ultimately, a single standard will be adopted and the market will move to the next version of the standard at the same time.

THE INSURERS' MARKET REPOSITORY (IMR)

Supports the electronic processing of premiums, policies and claims through the Accounting and Settlement and Electronic Claims File solutions. It enables users to create, maintain and submit premium, policy and claims documentation direct to Xchanging and share documents with their trading partners.

ELECTRONIC CLAIMS FILES 2 (ECF2)

An enhanced electronic platform for claims handling. The programme was designed to provide the user with greater flexibility, better productivity, swifter turnaround times in the claims cycle, and access to better management data and improved claims capability.

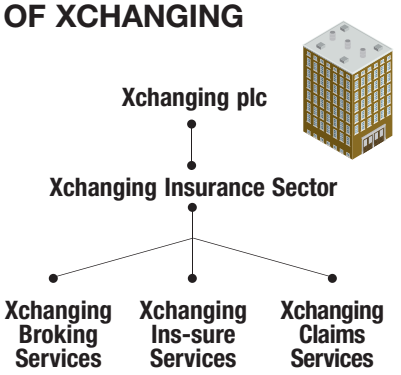
£100m-£150m

The estimated cost of Project Darwin

102.25p

Xchanging's share price

INSURANCE STRUCTURE OF XCHANGING



XCHANGING INSURANCE SERVICES KEY FINANCIAL RESULTS

	2011	2010
External adjusted revenue	**£189m**	£179.8m
Adjusted operating profit	**£36.6m**	£33.4m