



# LOSS FUND BEST PRACTICE GUIDE



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## Contents

Introduction .....	3
Vitesse.....	4
The Loss Fund .....	5
Cash Calls .....	7
Claims Bordereau Submission (where managed by Underwriters) .....	8
Replenishment of Loss Funds.....	10
Issuing payments from the Loss Fund .....	11
Oversight (where managed by Underwriters) .....	12
Claims Slip Wording/TPA Agreement/Binding Authority Agreement.....	13
Repatriation .....	15
Additional Reading & Links .....	16

## INTRODUCTION

With approximately one third of all Lloyd's GWP emanating from delegated business, the timely provision of funds is crucial to enable the prompt settlement of claims being handled by a delegated claims entities on behalf of the market. We as a market need to ensure that adequate funds are made available to those that support us in delivering a world-class claims service, and that streamlined settlement processes are in place to allow us to continue to compete on a global stage.

The loss fund model and approach to managing funds has been in need of some focus, with the Lloyd's market supporting the implementation of a common and consistent approach to fund management, oversight, settlement, and any related reconciliation.

The practice of setting up and managing a loss fund has evolved over time across all 55 managing agencies, with some controls existing on the submission of the claims bordereaux, and the oversight of those loss funds being captured within Lloyd's Minimum Standards and Lloyd's Reporting Standards (V5). Having an aligned approach to loss fund management across the market will deliver improvements for carriers, brokers, TPAs, and coverholders, but most importantly, the customer.

A focus on enhancing the loss fund model and prompt local settlement of claims via our delegated claims entities can enhance the Lloyd's markets claims offering, whilst utilising modern technology and banking services make it easier for our delegated claims entities to transact with Lloyd's carriers. In addition this will help make Lloyd's a more attractive market, improving processes, introducing efficiencies and offering cost reductions.

Following a review of data provided by Lloyd's\*, there are

- over 10,000 separate loss funds in place across the Lloyd's market, equating to approximately £900m in value
- over £825m of this sits within delegated business
- more than £75m (of the £900m) held in over 1,800 separate loss funds that are older than five years.

\*A more detailed analysis of loss funds by class of business and year of account are retained by the Lloyd's Policyholder & Third Party Oversight team.

The prize for improving how the market manages loss funds, both legacy and current, is significant. A sub-group of the Binding Authority Strategic Claims Group (BASCG) was formed in 2017 to explore the variety of approaches taken in the market and agree the best course of action to take this forward. The result of that collaboration is this best practice guidance, which looks to identify the various areas of loss fund management, and for each, outline the activity for consideration, the context behind the activity, why this is important, and when the activity needs to be completed.

All of this has been established to support a consistent approach being applied by multiple carriers that have delegated arrangements with the same TPAs and or coverholders.

Following a successful market pilot in 2017 with Vitesse, a section of activity that is required within a loss fund model has been added to this guidance to identify any changes affecting a carrier that is utilising a technological solution. At the time of writing approximately, 70% of the market are either contracted with Vitesse or at an advanced stage of negotiation. A common technological solution and service being provided also supports the need for a consistent and common approach to loss fund management.

It should be noted that other vendors are able to provide a loss fund management solution or service, some of which may be utilised by managing agents currently. Much of the guidance within this document would also apply to other services.

## VITESSE

Vitesse is a UK-based, FinTech company who has been working with a number of Lloyd's carriers for a number of years to streamline the management of loss funds. They have created an alternative solution to the historical approach of each carrier providing a loss fund to their claims handling entities, who then hold the funds locally with little visibility to the carrier in question.

The Vitesse solution provides an online banking platform for each carrier where the loss fund is held, with delegated claims entities (such as TPAs) being able to draw down on the funds using a range of methods. This includes the production of an electronic cheque at a fraction of the cost of generating an international paper cheque in much the same way as they did when they held the fund themselves. The Vitesse solution provides users with the additional benefits of cheaper, faster settlement times, which reduces banking charges, operational costs and overheads of a paper-intensive process, and the complete transparency and audit capability for all interested stakeholders of all transactions.

The TPA has access to funds, and the carrier has clear line of sight of the loss fund and all transactions on a real-time basis. The carrier also has the reassurance that all funds are held in a protected trust fund within an FCA regulated company.

Vitesse also offers a repatriation service, where they will track down trapped funds on old years of account and recover them on a conditional fee agreement basis.

## THE LOSS FUND

ESTABLISH LOSS FUND	
Context	The loss fund will be established by the lead underwriter via the broker. The broker or TPA/coverholder requesting the fund should provide adequate rationale as to the size of the fund required.
Why	To ensure adequate funds are available and minimise any delays in the settlement of claims.
When	For business expected to attract claims immediately after inception the loss fund should be established immediately. For business where the expected claims activity is not known or is expected to be low the loss fund can be established upon notification of the first claim - albeit this should be avoided where possible in order to prevent delay in the settlement of valid claims.
Vitesse Solution	Loss funds can be established in Vitesse via the broker as per the usual loss fund establishment process. Loss funds can be established and segregated as the lead underwriter finds appropriate. For singleton, 100% and company business loss funds can be established in Vitesse and funded directly by the lead underwriter.

TRUST FUND	
Context	Requirement for the delegated claims entities to hold the loss fund in a separate and protected trust fund. No requirement for funds to be held in a non interest-bearing account, but any interest accrued should be returned in due course to subscribing insurers.
Why	To ring-fence the carriers funds in the event of the delegated claims entities becoming insolvent.
When	All loss funds.
Vitesse Solution	Already in place for Vitesse, and FCA regulated.

LOSS FUND LEVEL	
Context	The level of the loss fund needs to be agreed by the lead underwriter to ensure adequate funds are available to pay claims, and should reflect the delays in submission, the time to process loss fund replenishment, and any likely variances in settlement amounts. Should, as a bare minimum, reflect twice the average monthly spend. The loss fund level can be increased or decreased during the contract period, by the lead underwriter, as necessary, depending on the claims activity. The lead underwriter may elect to temporarily increase the loss fund in the event of a singular large loss, negating the need for a cash call, and facilitating a faster settlement.
Why	To ensure adequate funds are available and minimise any delays in the settlement of claims. Also consider release of funds no longer required.
When	When the loss fund is first established, and reviewed at regular intervals (i.e. every six months) by the lead underwriter to ensure adequacy.
Vitesse Solution	Vitesse has a 'balance alert' function which enables the lead underwriter and delegated claims entities to set a level for each loss fund where a notification gets sent via email to the lead underwriter, broker and delegated claims entity (as pre-agreed) to prompt a top-up. Greater visibility and security of funds being held by a FCA regulated company should give confidence to underwriters to hold a larger loss fund, negating any funding shortfalls.

## CAT LOSS FUNDS

Context	For Lloyd's CAT coded events a separate loss fund should be established. For events not attracting a Lloyd's CAT code, the lead underwriter should consider increasing the existing loss fund to cover the potential increase in claims volumes or set up a separate loss fund. This to be decided at discretion of the lead underwriter.
Why	Increased claims volumes and the need to make advance payments to support customers displaced by an event.
When	As soon as event occurs, or before where possible.
Vitesse Solution	CAT loss funds can be established in Vitesse via the broker as per the traditional loss fund establishment process. Greater visibility and security of funds being held by a FCA regulated company should give confidence to Underwriters to hold a larger loss fund, negating any funding shortfalls. Excess funds can easily be claimed back once funding requirements are clearer.

## SINGLE LLOYD'S LOSS FUND

Context	It is acceptable to allow a delegated claims entity to operate a single Lloyd's loss fund where the lead underwriter is confident that adequate controls are in place. [Refer to Lloyd's note of 11/05/2018]
Why	Minimise administrative burden on delegated claims entity and avoid multiple payments to a policyholder from each separate account.
When	When delegated claims entity is able to reconcile funds. When only Lloyd's capacity. When separated from delegated claims entity assets. When funds ring-fenced in case of insolvency.
Vitesse Solution	Greater visibility and security with funds being held by a FCA regulated company, with complete visibility for underwriters to all transactions.

## LOSS FUND FOR FEES

Context	A separate loss fund to cover TPA and expert fees.
Why	Ensure there are adequate funds to discharge policyholder/claimant settlements.
When	If there is a concern that irregular or significant fees will be incurred, leaving loss funds for indemnity payments exposed - consider one larger loss fund to cover both. This would however be the exception rather than the rule.
Vitesse Solution	Separate loss fund for fees easily created, but increased visibility of fee spend will likely negate the need for a separate loss fund.

## CASH CALLS

CASH CALLS	
Context	When the payment is too large to draw down from the loss fund.
Why	The draw down of large payments from a loss fund could leave it inadequately funded, potentially resulting in the inability to make claim payments until the loss fund is replenished.
When	When the settlement would leave the loss fund 70% or more eroded, or exceeds the Delegated Claims Entities authority. The lead underwriter may set a lower monetary limit for cash calls based on the size of the total loss fund value. Cash Calls are designed to avoid the depletion of the loss fund due to large settlements, and should not therefore be used to fund small settlements or expert fees.
Vitesse Solution	Any Cash Calls can be processed via the broker (or by Direct Settlement) to Vitesse.

CASH CALLS TO REPLENISH LOSS FUND	
Context	Where the claims settlement meets the cash call criteria, but can be paid from the loss fund.
Why	To speed up settlement of larger claims.
When	When there are adequate funds to settle a claim which is outside the cash call criteria, the lead underwriter can pay directly from the loss fund, and use the cash call to replenish the loss fund.
Vitesse Solution	The Vitesse 'balance alert' will automate the reminder to the lead underwriter, broker and delegated claims entity to replenish the loss fund.

## CLAIMS BORDEREAU SUBMISSION (WHERE MANAGED BY UNDERWRITERS)

RECONCILIATION FORM	
Context	Delegated claims entities to attach a reconciliation form for each loss fund explaining debits, credits and outstanding amounts related to the loss fund in the period.
Why	To aid the lead underwriter in the reconciliation of the loss funds against the claims bordereau.
When	With every claims bordereau submission.
Vitesse Solution	The lead underwriter has real time access and audit history to all financial transactions, so the requirement to supply reconciliation forms becomes redundant if using Vitesse. To further reduce the administration, the delegated claims entity can schedule an automated cash book report for each loss fund in order to reconcile against the claims bordereau.

LEAD UNDERWRITER CONSIDERATION OF CLAIMS BORDEREAU	
Context	The lead underwriter must validate the claims bordereau in order to process a transaction.
Why	To comply with Lloyd's Claims Scheme, as well as ensuring claims are attaching to the correct facility and all financial information is collated against the correct record.
When	With every claims bordereau submission.
Vitesse Solution	Easy access to all financial transactions will make it easier for the lead underwriter to validate the loss fund replenishment request. To further reduce the administration, the delegated claims entity can schedule an automated cash book report for each loss fund in order to reconcile against the claims bordereau.

LEAD UNDERWRITER ANALYSIS OF CLAIMS BORDEREAU	
Context	As well as validating the claims bordereau, the lead underwriter should be checking the data for performance oversight purposes.
Why	To identify any detrimental performance trends or inconsistencies or gaps in data.
When	With every claims bordereau submission. Delivery of the DA SATS solution will allow extraction of performance data by system generated reports.
Vitesse Solution	N/A

LOSS FUND EXCEPTIONAL DEPOSITS (ADDITIONAL CLAIMS BORDEREAU SUBMISSION)	
Context	Request by a delegated claims entity to make an exceptional deposit into the loss fund, supported by the presentation of an interim claims bordereau.
Why	To fund the loss fund so it does not deplete to such a level where the delegated claims entity is unable to pay claims.
When	When there has been an unusual level of claims activity.
Vitesse Solution	In Vitesse, as the lead underwriter has full visibility of the loss fund transactional history therefore are able to substantiate the request for an exceptional deposit and process the transaction without delay.

## LLOYD'S REPORTING STANDARD

Context	Ensure all delegated claims entities are issuing claims bordereau that is compliant with the current Lloyd's Reporting Standards.
Why	Provides additional data fields to allow underwriters to have oversight of the delegated claims entities' performance.
When	Mandatory from 01 July 2017.
Vitesse Solution	In addition to the Lloyd's Reporting Standards the Vitesse merchant fees need to be added to the claims bordereau.

## DELEGATED CLAIMS ENTITIES TO COPY CLAIMS BORDEREAU TO THE LEAD UNDERWRITERS WHEN SUBMITTING TO THE BROKER

Context	At the request of the lead underwriter, the delegated claims entity will send the claims bordereau to the lead underwriter at the same time as submitting to the broker.
Why	To alert the lead underwriter of a new claims bordereau, and flag where the normal submission is delayed by the broker. It also makes it easier for the lead underwriter to retain a copy of the claims bordereau [pre-delivery of DA SATS].
When	With every claims bordereau submission.
Vitesse Solution	N/A

## TPA TO SUBMIT CLAIMS BORDEREAU DIRECT TO ECF

Context	Where a TPA has a fee broker code, they will be able to upload the claims bordereau to create an ECF entry. broker to be copied in on the transaction.
Why	Reduce duplication of work, fewer delays in processing and faster settlement of funds.
When	When the TPA has a fee broker code, and it is agreed between the lead underwriter and broker that the TPA may submit the claims bordereau directly to underwriters.
Vitesse Solution	N/A

## DELEGATED CLAIMS ENTITY CLAIMS BORDEREAU SLA

Context	Set an SLA for the delegated claims entity to submit the claims bordereau.
Why	Remove delays in processing claims bordereau.
When	Should be contained within every claims slip wording/TPA agreement/binding authority agreement.
Vitesse Solution	N/A

## LEAD UNDERWRITERS CLAIMS BORDEREAU SLA

Context	To ensure claims bordereau is processed in accordance with the lead underwriters internal SLA.
Why	Remove delays in processing claims bordereau.
When	Processing of every claims bordereau submission.
Vitesse Solution	N/A

## REPLENISHMENT OF LOSS FUNDS

REPLENISH LOSS FUND VIA THE BROKER	
Context	Standard process for loss fund replenishment to be paid via the broker.
Why	Standard process, and no change to existing broker participation.
When	Standard process where no issue or urgency.
Vitesse Solution	Loss fund replenishment via the broker to Vitesse, as per usual process.

REPLENISH LOSS FUND DIRECT TO DELEGATED CLAIMS ENTITY	
Context	Request DXC to pay funds directly to Delegated Claims Entity (and confirm arrangement to the broker). N.B. £48 direct settlement charge levied by DXC (rate wef 01/01/2018 for 5 years) plus usual SCM/USM charges.
Why	To remove the broker from the settlement chain, and improve speed of settlement.
When	When funds required quickly, or known delays where sent via the broker.
Vitesse Solution	Loss fund replenishment direct from DXC to Vitesse, without involvement of the broker.

## ISSUING PAYMENTS FROM THE LOSS FUND

DELEGATED CLAIMS ENTITY DRAWING FUNDS FROM THE LOSS FUND	
Context	The release of claims monies to the customer/third party. Consideration to be given to the method of payment, speed of issuance and the cost of the settlement transaction.
Why	Discharging liability under the insurance policy.
When	All payments from the loss fund.
Vitesse Solution	Reduced banking charges from the Vitesse banking network and economies of scale. Clarity on funds being received as transaction costs excluded from settlement monies. E-cheque production in territories resistant to electronic fund transfer (i.e. the US) introduces significant cost and time savings.

## OVERSIGHT (WHERE MANAGED BY UNDERWRITERS)

LLOYD'S REPORTING STANDARD	
Context	The standard includes additional data fields that allow underwriters to have oversight of claims performance, so these should be reviewed to understand performance when reviewing the claims bordereau submission.
Why	To identify and address any performance issues.
When	To be reviewed upon receipt of claims bordereau.
Vitesse Solution	N/A

CLAIMS BORDEREAU SUBMISSION SLA	
Context	lead underwriters to identify any delays from the delegated claims entity or broker in submitting the Claims Bordereau.
Why	To identify any delay in submission from either the delegated claims entity or the broker, allowing corrective action to be taken.
When	To be reviewed upon receipt of each claims bordereau.
Vitesse Solution	N/A

## CLAIMS SLIP WORDING/TPA AGREEMENT/BINDING AUTHORITY AGREEMENT

LOSS FUND TERMS	
Context	Where an underwriter is to provide a loss fund to a delegated claims entity, the underwriter should include within the claims slip wording/TPA agreement/binding authority agreement the following: <ul style="list-style-type: none"> <li>- the amount of the loss fund to be provided</li> <li>- the risks to which a loss fund is to be applied, including the reference number of the binding authority agreement where the funds relate to risks bound under a binding authority agreement</li> <li>- how and when the loss fund will be reviewed, replenished or repaid</li> </ul>
Why	To provide contractual clarity
When	Within every claims slip wording/TPA agreement/binding authority agreement.
Vitesse Solution	N/A

INCLUDE REQUIREMENT FOR CLAIMS BORDEREAU TO BE COMPLIANT WITH MOST CURRENT LLOYD'S REPORTING STANDARDS	
Context	Mandate the minimum standard claims bordereau report required.
Why	To ensure compliance with Lloyd's claims standards.
When	Endorse whenever a new standard is mandated by Lloyd's.
Vitesse Solution	N/A

CLAIMS BORDEREAUX SUBMISSION SLA	
Context	Add a suitable SLA to the claims slip wording/TPA agreement/binding authority agreement for the submission of Claims Bordereau. (This should already be in the slip, covering risk. Premium and data bordereau submission).
Why	Remove delays in processing claims bordereau submission.
When	Within every claims slip wording/TPA agreement/binding authority agreement.
Vitesse Solution	N/A

RECONCILIATION FORM	
Context	Add a requirement for the delegated claims entity to submit a reconciliation form with every claims bordereau submission. A template reconciliation form has been developed for use, and can be found below. <div style="text-align: center;">  <p><b>Loss Fund Reconciliation Form Fi</b></p> </div>
Why	To aid the lead underwriter in the reconciliation of the loss funds against the claims bordereau.
When	Within every claims slip wording/TPA agreement/binding authority agreement.
Vitesse Solution	The lead underwriter has real time access and audit history to all financial transactions, so form becomes redundant.

## TRACING EROSION OF LOSS FUND

Context	Add a requirement in the slip wording/TPA agreement/binding authority agreement for the delegated claims entity to track the erosion of the loss fund and flag if any likely shortfall.
Why	To avoid delays in issuing settlement of a claim.
When	Within every claims slip wording/TPA agreement /binding authority agreement.
Vitesse Solution	Vitesse has a 'balance alert' function which enables lead underwriter and delegated claims entities to set a level for each loss fund where a notification gets sent via email to the lead underwriter, broker and delegated claims entity (as pre-agreed) to prompt a top-up. Requirement for delegated claims entities to manually track therefore removed.

## REPATRIATION

LOSS FUND LEVEL	
Context	As part of the regular review on loss fund adequacy, each lead underwriter should consider the return of loss funds no longer required, or the reduction of the loss fund level where claims exposure is in run off. Where a loss fund is no longer required, any final payments should be recovered first, with the full value loss fund returned.
Why	Recover excess loss fund held by delegated claims entities, improving underwriter solvency. Full fund to be returned in one transaction to make it clear to underwriters that this represents the return of the agree loss fund.
When	Adequacy of fund to be reviewed every six months, or at an interval deemed appropriate by the lead underwriter.
Vitesse Solution	The Vitesse 'balance alert' will automate a reminder to the lead underwriter where excess funds are being held so they can be claimed back.

TRAPPED FUNDS	
Context	Where historic loss funds have been held by delegated claims entities, the visibility of those funds is often lost by the lead underwriter, so consideration should be given to tracking down loss funds.
Why	Recover excess loss fund held by delegated claims entities, improving underwriter solvency.
When	When the lead underwriter considers it likely there are dormant facilities with trapped loss funds.
Vitesse Solution	As the lead underwriter will have full access to the loss fund balance and all transactions for every loss fund held by Vitesse, there will be no trapped loss funds. Vitesse do offer a loss fund repatriation service to track down and recover trapped loss funds.

## ADDITIONAL READING & LINKS

- Lloyd's market communication on Single Lloyd's Loss Fund Bank Account - 11 May 2018
- LMA Bulletin LMA17-024-LE issued on 8 June 2017  
[http://www.lmalloyds.com/LMA/News/LMA\\_bulletins/xLMA\\_bulletins/LMA17\\_024\\_LE.aspx](http://www.lmalloyds.com/LMA/News/LMA_bulletins/xLMA_bulletins/LMA17_024_LE.aspx)
- Loss Fund Reconciliation Form

