

Room for a huge database

Nigel Tutt looks at the computers Lloyd's has installed to help run its uniquely complex organisation

Coffee house owner Edward Lloyd, from whom the London insurance market takes its name, must have turned in his grave a few times since the seventeenth century. One of the causes: new technology.

Now Lloyd's has just completed a thorough overhaul of its computer system and kit. It is considering opening its massive database to more users.

Lloyd's is a curious multi-million City institution with a unique structure and way of business. In a normal insurance company shareholders and directors take on the risks for customers, who pay premiums, and occasionally pay out claims. Lloyd's however, has 'members' grouped into underwriting syndicates.

Rich individuals, some sports, stage and screen stars,

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pledge their capital to the tune of hundreds of thousands of pounds each to become members, sometimes called 'names'. It yields a relatively tax free return on their investment. There are currently 20,000 members of Lloyd's. Each underwriting syndicate, (members belong to an average of eight syndicates each) includes an active underwriter working in the famous 'Room' at Lloyd's Lime Street headquarters.

Lloyd's corporation itself makes the rules and provides the premises and other centralised services. Business is done in the 'Room'. A Lloyd's broker, acting for the customer, such as an oil company insuring its supertanker, places the risk among the underwriting syndicates for a premium payable by the broker and his customer to the syndicate.

It is complicated to control because of the number of members and syndicates. But Lloyd's is able to say that costs are low and claims always met.

The extensive details kept on members and the funds they put in trust with Lloyd's against claims is one of the two major areas on computers at its centre in Chatham.

People must commit funds in order to become members of Lloyd's and to back underwriting risks. Lloyd's explains: 'Deposits are lodged in the name of Lloyd's which act as trustees. Lloyd's buys and sells shares and securities on instructions from members.' A computer system to maintain members' stocks and

share portfolios was introduced in 1971, but more was needed.

One particular incident in 1976 made it increasingly important for the membership department to deal efficiently with dealings in the Stock Exchange. That was a rights issue by the UK's largest company, ICI. It proved a headache for the membership department since so many members held ICI shares and instructions were required urgently. Computerisation to improve the dealings on share issues followed shortly. A reappraisal of the membership's department computing needs took place in 1977.

Now the department has installed the first phase of an online system updating members' details in real time during the day. It uses Memorex terminals linked to an IBM mainframe. During the summer there are up to 2,500 entries each day. About 1,700 to 2,000 new members must be added to the file and data on existing members changed at the same time of year.

Volumes rise to up to 15,000 entries each day when Lloyd's and the band of auditors make their annual December 31 check on the solvency of members. That solvency test, says Lloyd's, is intended to ensure that the member has enough assets at Lloyd's to meet known and estimated future liabilities.

The old 1971 portfolio system produces the annual valuation of portfolios using market prices of shares from Extel. More recently the new online membership system has been used to address mailings. Next year underwriting 'arrangements' - details of the member's syndicates and premium limits - will be added to the system.

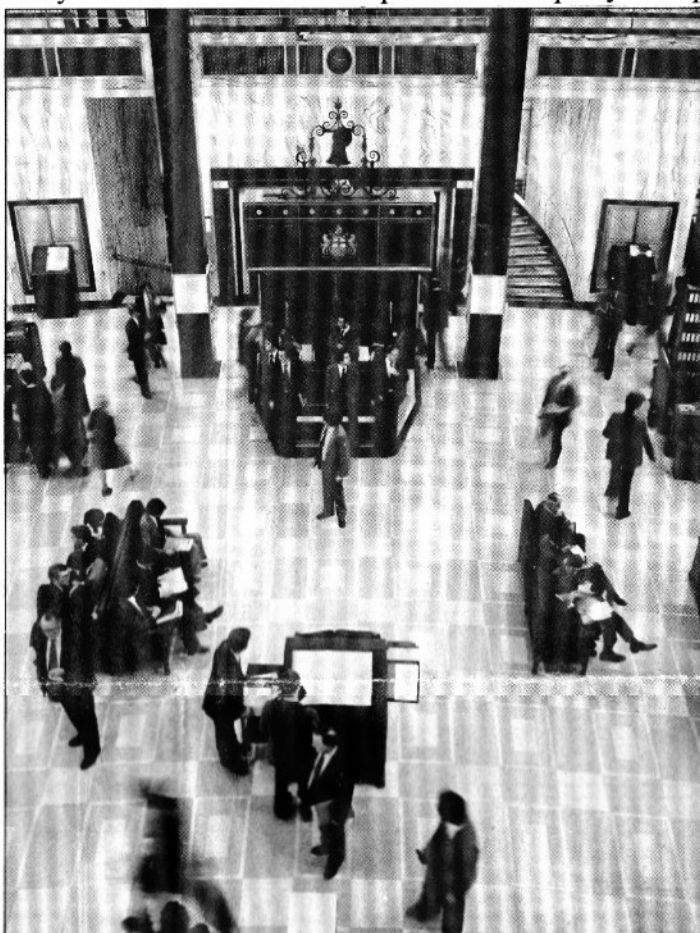
The mailings have been vital as a new bill to beef up the

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self regulation of the market has passed through parliament. The Act received its royal assent in July.

Major advances in the Lloyd's policy signing office (LPSO) are also now virtually complete. Between 150 and 160 terminals are now in place dealing with up to 5,000 transactions each day. In 1979, the last year for which accounts are available, Lloyd's premiums amounted to £2.8 billion.

Of those daily transactions 3,500 are Lloyd's policies



Lloyd's has 20,000 members and its policy signing office handles up to 5,000 transactions a day

from brokers covering anything from shipping risks to technological advance rendering a computer obsolete. The other transactions are claims being processed, additional or return premiums adjustments to policies, syndicate reinsurance and insurance treaty arrangements where Lloyd's underwriters take on risks from overseas, mostly US corporate insurance companies.

Between eight in the morning and six in the evening data is input via direct data entry terminals and validated on the three PDP11/70s (one for backup). The last one was bought in June. At six o'clock the online input is closed and the day's transactions prepared for mainframe processing.

Mainframe processing is done by two IBM machines, a 3033 and a 3031, the latter to be replaced next spring by a 3083.

The updated database is arguably the largest database in Europe Lloyd's computer people at the Chatham headquarters say. One can see why.

Each input document con-

tains 100 items instead of a normal 10 or so. It is the end product of the broker taking his 'slip' around the underwriters in the Room in Lime Street in the City. It contains details of the type of risk - marine, non-marine, aviation and so on.

Details of all the syndicates which shared the risk are there as well as government codes for statistical purposes. And then of course Lloyd's works in three currencies pound sterling, US and Canadian dollars. Since claims take time to agree, transactions are stored for seven years, though 80% of claims are settled within three years (the traditional accounting delay). In seven years 95% of claims are settled.

There are 20 3350 disk drives in the computer room under the car park. Lloyd's computer room houses more machinery and especially storage than the bank's automated clearing house in Edgware.

Lloyd's pioneering methodology in designing the database was done with consultants Learmonth and Burckett.

Lloyd's aims to open up the database to more users such as brokers and underwriters using a network of terminals in brokers' offices and on underwriting 'boxes' in the 'room'. But plans for a common information network (Coin) are only plans and possibilities.

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ties though whatever the scope of Coin it could involve millions of pounds and take several years.

So far accounting information to brokers and underwriters is sent to some of the largest in the form of magnetic tapes. One broker will soon be involved in a pilot project sending their raw input to the LPSO on tape too. But the ground is being laid if not more exactly being dug for Coin.

In 1985 or 1986 Lloyd's will have a new building designed by Richard Rodgers, the architect of Paris's Pompidou

Centre, and a new 'Room'. The futuristic glass affair will also incorporate new 'boxes'. Underwriters' boxes will be wired up to take a number (up to three) of terminals.

Consultants were asked to look at the way business was conducted so that changes could be made to take advantage of the new building and technology.

Maurice Paley head of the market relations section explains: 'For Lloyd's to expand and maintain its importance it must try to improve its efficiency by better communications between sectors of the market.'

Expansion and control of administration costs could be helped by Coin.

Take one instance. After the broker has walked around with his 'slip' placing risks among the underwriters and their syndicates, the underwriter is sometimes unsure if the broker has transferred this into an actual policy. The underwriter will thus be in the dark about his capacity to write further business. But with the information on a central database and with Coin it could be made available on a vdu in the underwriter's box.

There is the possibility of an 'electronic slip' in such a system. The progress of a broker around the 'Room' and the risk taken by each underwriter would be recorded on a Lloyd's database via the underwriter's vdu.

Such an innovation probably will not happen in full until the 1990s. There are no firm plans and the committee of Lloyd's, its ruling body, has yet to approve of Coin in outline.

It raises a number of issues fundamental to the whole London insurance market including the competing corporate sector.

Do you try to attract insurance around the world to London in general or do you restrict the new technology and its benefits just to Lloyd's? Extensions of communications to other London markets are possible.

Paley's views run as follows: 'The reality of the situation is that London is competing against other markets. If business comes to London then Lloyd's takes a cut. Coin means making Lloyd's more attractive to brokers.'

Paley hopes for a decision from the committee before the end of the year.

Whatever the scale of change that the committee decides on, it will be one of the most profound changes Lloyd's has undergone since the coffee house days of the seventeenth century.

Nigel Tutt is a staff writer on Accountancy Age.