Insurance. Technology

Changes at the top of Lloyd's amid IT project snags cause frustration

Market performs at its best since 2007 but vital systems upgrade is running very slow

IAN SMITH

For the underwriters and brokers on the trading floors surrounding the vast atrium at the centre of the Lloyd's of London insurance market, business is good.

The centuries-old institution — a marketplace of more than 50 insurers and hundreds of brokers selling policies covering everything from cyber attacks to hurricanes — has shaken off disruption from the Covid pandemic and a run of costly years for natural catastrophes to deliver its best underwriting performance since 2007.

Efforts by management to help some of the market's underperforming insurers improve have contributed, alongside rising insurance prices. September's announcement of former senior Treasury official Sir Charles Roxburgh as its next chair was well received.

Roxburgh said on his appointment the market offered "valuable protection to its customers and healthy financial returns to members and investors".

But the positive news belies unease among senior market figures about changes at the top of Lloyd's in the midst of long-running problems with a crucial IT project, according to multiple people who talked to the Financial Times.

Some are keen for Roxburgh to start as soon as possible to tackle the challenges, even ahead of his formal start date in May.

A key frustration has been "Blueprint II", a project to replace the market's fragmented, decades old back office systems. The IT upgrade was first set out in 2019 and refined the following year, but there have been repeated delays. An announcement in June scrapped a planned October launch.

"It has been promised and promised and promised, and not delivered, and now it is going to be 2025," said one senior executive in the market. "People are very frustrated."

Another complained of a lack of clarity about how the project was progressing. "It had not [been built] to the degree that everyone thought it had. This was something that in January they were telling us would launch in July." A third said it was a "credibility issue" for Lloyd's senior leadership.

Lloyd's declined to comment.

The institution has long struggled with the challenge of creating a common IT platform for the market. Currently, participants use a patchwork of sometimes aged systems, with different data standards and lots of manual tasks. Much of the trading is still face-to-face.

The initial goal is a common system with claims and policy data recorded in a standardised way for everyone to see. The bigger prize would be faster and more streamlined processes, connecting seamlessly to the platforms where policies are agreed and allowing automated settlement of the tens of billions of pounds of claims paid every year.

But a lot of the work has been held up, executives say, by the difficulties of coordinating a single system for all of the market and the complexity of some insurance and reinsurance policies.

Lloyd's has long struggled with the challenge of creating a common IT platform for the market, with changes at the top of Lloyd's fanning further doubts among senior market figures — Hollie Adams/Bloomberg

Some senior market participants say the delays are harder to understand given the project had already been split into two stages: upgrading back office systems and standardising data first, and the more ambitious changes later.

The corporation that runs Lloyd's "accepts responsibility for the delay, but is confident of delivery in 2025" said a person familiar with its position. The project is the responsibility of Velonetic, a joint venture between Lloyd's and IT consultancy DXC. The person added that "market testing identified much greater complexity in the interactions between market and settlement systems causing delays".

Lloyd's chief operating officer Bob James was appointed boss of Velonetic this year, and the unit promised to provide more transparency and a "clear timeline". DXC did not respond to requests for comment.

Others draw parallels with a previous attempt to digitise. In 2016, the market started using Placing Platform Limited, a digital system for "placing, signing and closing" insurance contracts.

Robert Iremonger, a risk consultant in the Lloyd's market, said it was often not used as originally envisaged.

"Many of the underwriters still use paper slips in some instances and then the broker puts it on to PPL," he said. "It is duplicating the workload." PPL said roughly 70 per cent of contracts uploaded to the system had already been agreed in the market.

John Mason, the new chief executive of PPL, which is majority owned by Lloyd's, said it was exploring how to encourage uptake.

In addition to frustration about the slow progress on Blueprint II, some senior people in the market also worry about strains at the top of the leadership of Lloyd's Corporation, which oversees the wider Lloyd's market.

'It has been promised and promised and promised, and not delivered'

It is in a handover period for its new chair, its interim COO George Marcotte started the job only this month, and its chief of markets Patrick Tiernan is on temporary medical leave.

Chief executive John Neal has temporarily taken over Tiernan's regulatory responsibility for overseeing the market performance of Lloyd's insurers, adding to his existing regulatory and management responsibilities.

One insurance executive said the corporation's reliance on Neal for a few key roles was an "operational risk".

A person familiar with the corporation's view highlighted the "strong bench of talent" beneath top executives that is helping to manage the situation.

Roxburgh's job is likely to include the appointment of an eventual replacement for Neal, who was appointed in 2018 with no fixed term.

Roxburgh returns to the UK in February from the US, and is expected to start to shadow outgoing chair, Bruce Carnegie-Brown, according to people familiar with the plans.

Roxburgh is an "outstanding intellect with deep strategic understanding" of Lloyd's, said industry veteran Michael Wade.

Lloyd's faces big challenges, he added, but its highly skilled underwriters and brokers surrounded by an ecosystem of specialist consultants and lawyers should see it through.

"Its strengths far outweigh its weaknesses," he said.

Energy

Vitol-owned power group reaps profit surge from war fallout

RACHEL MILLARD — LONDON

Trading group Vitol's UK electricity generation company made profits of more than £600mn last year as it continued to enjoy the benefits from higher prices during the energy crisis.

VPI has reported adjusted annual pretax profits of £639.8mn, more than 250 per cent higher than the £177mn made in 2021, before the surge in commodity prices due to the war in Ukraine.

It is also up on £555.5mn made in 2022, according to accounts for VPI Holding seen by the Financial Times, illustrating how Vitol has benefited from market disruption since Russia invaded Ukraine two years ago.

Parent company Vitol, the world's largest commodity trader, made $13bn of net profits in 2023, which were revealed by the FT in April, far ahead of rivals, underlining the group's powerful position in global energy markets.

Jorge Pikunic, VPI chief executive, said while prices had fallen in 2023, much of the power generated had been sold in advance in 2022, when prices were high due to shortages and concern about gas supplies. "The operational performance was very strong," he said. "Reliability metrics were even stronger than in 2022 due to the investment we have put into our assets over the past three years."

'The years of stable profits for power generation are way behind us. This is an incredibly volatile market'

But he added the market had changed "significantly" during 2023, with prices falling due to higher output from France's nuclear power fleet, high levels of wind power and lower demand. "The high prices resulted in demand reducing and that demand hasn't come [back] up," he said. "All that has translated into lower prices. It has also resulted in lower volatility." He added: "The years of stable profits for power generation are way behind us. This is an incredibly volatile market [for earnings]."

The adjusted profits exclude the value of contracts VPI buys in advance to hedge supply commitments. When those are included, the company made pre-tax profits of £196.8mn in 2023, down from £1.3bn in 2022.

VPI owns four rapid-cycle gas-fired power stations bought from the UK's Drax in 2020 as well as a gas-fired heat and power plant in Immingham, North Lincolnshire, which supplies steam to next-door oil refineries. The rapid-cycle gas-fired power stations respond quickly to fluctuations in supply and demand, giving them an important role in the electricity system as they can step in to fill any looming gaps. That role is likely to become more important as intermittent wind and solar power play a larger role in the electricity system.

Power generators' profits have come under scrutiny in recent years as high wholesale gas prices feed into consumer bills. UK household energy bills are set to rise 10 per cent tomorrow due to higher wholesale prices.

VPI invested £225mn during 2023 to maintain its fleet and build new gas-fired power plants in the UK and Ireland.