

FROM: Secretary to Lloyd's Disciplinary Board
LOCATION: 86/425
EXTENSION: 5530
DATE: 6 November 2002
REFERENCE: 031/2002
SUBJECT: MORGAN, READ & SHARMAN LIMITED
SUBJECT AREA(S): Disciplinary Proceedings
ATTACHMENTS: Notice of Censure
ACTION POINTS: **For information**
DEADLINE: **None**

Morgan, Read & Sharman Limited ("MRS") has admitted three charges of engaging in or being associated with discreditable conduct.

The following penalties have been imposed on MRS:

- (1) A fine of £100,000; and
- (2) Censure in the terms of the Notice of Censure attached to this bulletin.

In addition, MRS has agreed to contribute £15,000 towards the costs of Lloyd's arising from these proceedings.

Details of the events giving rise to the charges against MRS are set out in the attached Notice of Censure.

The case was determined by Lloyd's Disciplinary Board and its decision gives effect to a settlement of these proceedings agreed between MRS and the Council of Lloyd's pursuant to Part 5 of Lloyd's Disciplinary Rules (Schedule 2 to the Disciplinary Committees Byelaw (No. 31 of 1996) as amended).

This bulletin has been sent to all underwriting agents and members agents (corporate advisers), corporate members, market associations, the ALM and recognised accountants.

NOTICE OF CENSURE**MORGAN, READ & SHARMAN LTD**

Morgan Read & Sharman Limited ("MRS"), formerly a registered Lloyd's broker, has admitted 3 charges of engaging in or being associated with discreditable conduct, whether or not connected with the business of insurance. In respect of 2 of those charges, MRS is vicariously liable for the conduct of Mr Graham Evans ("Mr Evans"), who was then its employee.

In 1997 and 1998, The Management Company Limited ("TMC") operated travel insurance schemes (as coverholder) under binding authorities placed with Lloyd's brokers, TL Dallas (London) Limited ("TL Dallas") (which became part of Paul Group International Limited). Following the insolvency of TL Dallas and Paul Group International Limited, Mr Evans, formerly an employee of TL Dallas joined MRS together with two colleagues.

On 4.5.99, Lloyd's Syndicate 219 put its line down for 100% on a new binding authority ("the Syndicate 219 Binding Authority Agreement"). Under the terms of the agreement MRS was named as the coverholder and the Management Company (London) Limited ("TMC"), Journeys Travel Insurance ("Journeys") and Milsom Howard Associates (UK) Limited were named as additional coverholders.

Two schemes issued by TMC to JLT Travel Services Limited which had attached at 1.1.99 and which ran until 31.12.99, and a scheme issued by TMC to Journeys which had attached at 1.5.99 and ran until 30.4.00 were attached to the Syndicate 219 Binding Authority Agreement. These schemes were operated through and administered by TMC ("the TMC schemes").

On 21.7.99, Syndicate 219, wrote to Mr Evans, giving MRS as coverholder, 30 days' notice (from 27.7.99 expiring on 25.8.99) of the cancellation of those TMC schemes which had attached under the Syndicate 219 Binding Authority Agreement and under other binding authorities. The notice letter indicated that the schemes were being cancelled due to the continuing poor performance of the business on the 1998 year of account and the rapid and unexpected deterioration on the 1997 year of account.

Mr Evans informed TMC of the cancellation and gave to TMC a copy of the letter of cancellation. He also advised TMC that no new certificates were to be issued after 25.8.99 and told TMC that they should inform their client, Journeys, about the notice. He understood from TMC and from speaking to Journeys that this had been done.

Mr Evans, on the instructions of TMC, then made efforts to place a new binding authority with Lloyd's Syndicate 1242. In late July or early August 1999, Mr Evans instructed an employee of MRS to draft a binding authority slip with an inception date of 1.8.99. However, at a meeting between Mr Evans and the active underwriter of Syndicate 1242 on 3.8.99, the active underwriter indicated that his syndicate would not commit itself to write the binding authority without satisfactory underwriting statistics being provided.

After Mr Evans had seen the active underwriter, he approached the class underwriter responsible for Syndicate 1242's Personal Accident business. Mr Evans misleadingly told the class underwriter that Syndicate 219 had cancelled its binding authority because the active underwriter of Syndicate 219 had moved to a different company and his syndicate was not prepared to carry on with the scheme. He also said that there were difficulties with the amount of premium income which had been received. The class underwriter told Mr Evans in order to consider the business he needed to be provided with a full brokering pack. At a meeting in January 2000 the class underwriter wrote out a note for Mr Evans of the minimum information he wanted, particularly that which he needed, if the binding authority was to be written by Syndicate 1242 backdated to 1.8.99. He expressly made clear that no cover had been or would be provided in the interim.

At a meeting around February 2000 between Mr Evans and the active underwriter, the latter wrote a line in pencil on a copy of the 1.8.99 slip as follows:

- “H/C [Held covered] 100% to 1242*
- *Income no more than £750,000*
 - *SN requirements met*
 - *Advise signing”*

On its face the pencilled note expressed that Syndicate 1242 held covered a binding authority agreement. Mr Evans knew, however, that the active underwriter had not agreed to be bound and any agreement to do so was subject to the provision of further information. The pencilled note was not, nor was it intended by the parties to constitute an agreement by the active underwriter on behalf of Syndicate 1242 to provide cover in respect of the binding authority or at all.

Although MRS continued to press TMC for information to present to Syndicate 1242, there was no agreement reached whereby Syndicate 1242 agreed to grant a binding authority to MRS for the period commencing 1.8.99.

TMC continued to provide travel insurance to members of the public under the terms of the TMC schemes even though there was, in fact, no insurance cover in force to meet any claims made under such policies. The insurance documentation which was issued by TMC wrongly indicated that the cover was being provided by a Lloyd's insurer when it was not.

At some point during the Autumn of 1999, Mr Evans was aware that travel insurance in respect of the TMC schemes was being sold to the general public when there was no insurer on risk. He was aware that, at no stage, had Syndicate 1242 agreed to hold itself covered in respect of the 1.8.99 slip or at all and that no other insurance cover for the TMC schemes had been arranged by him in respect of the operation of the schemes. He was also aware that insurance documentation was being issued by those operating the TMC schemes which indicated that the risk was being underwritten by a Lloyd's underwriter when that was not the case. Mr Evans, and through him, MRS therefore engaged in or was associated with discreditable conduct.

MRS failed to have in place adequate systems of management or control which would have prevented or minimised the risk that an employee would misconduct himself as Mr Evans did. This failure was such as to amount to discreditable conduct.

The following penalties have been imposed on MRS:

- A fine in the sum of £100,000.
- A Censure in the form of this Notice of Censure.

MRS is to contribute £15,000 towards the costs of Lloyd's.

In imposing the penalties the Disciplinary Board took into consideration, amongst other matters, the fact that Mr Evans was employed by and reported to Mr McCarthy, then the Managing Director and Chairman of MRS, and, until his death on 11 November 1999, the majority shareholder of the company. Previously, MRS had not been involved in travel business. MRS reported this matter to Lloyd's as soon as it had established the position regarding the problem. Since Mr McCarthy's death, a new management philosophy has been adopted at the company and changes in procedures have been implemented.

LLOYD'S DISCIPLINARY BOARD