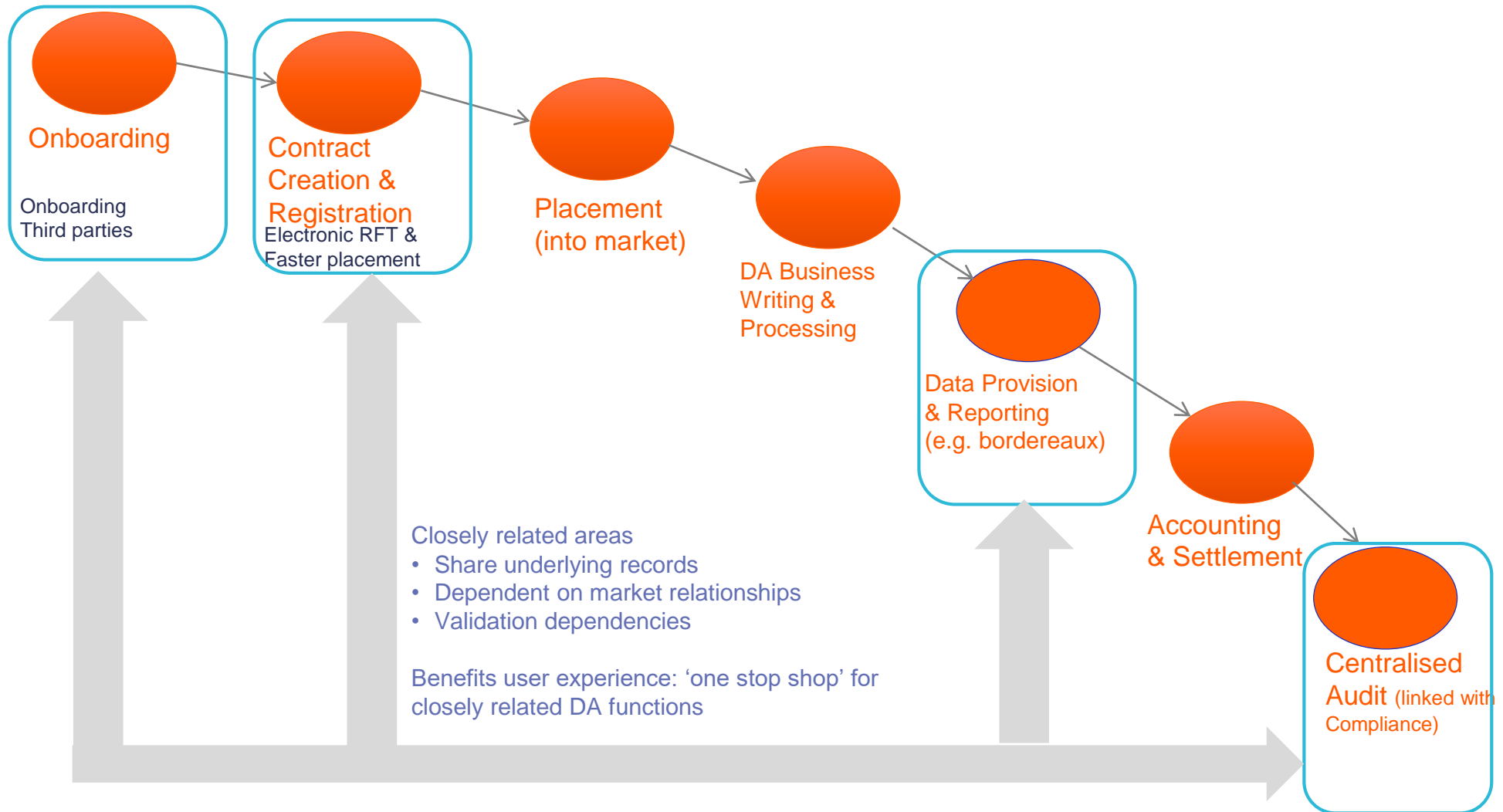

Policyholder and Third Party Oversight – Modernisation & Risk Based Oversight Town Hall

22 January 2019

DA workstreams within the lifecycle

DA Initiative to enhance process and technology around four highlighted areas



Why is Lloyd's oversight important?

Lloyd's aims to ensure that decisions around who is allowed to enter into contracts for binding business or handling claims is carefully controlled and key risks managed.

Oversight is required because:

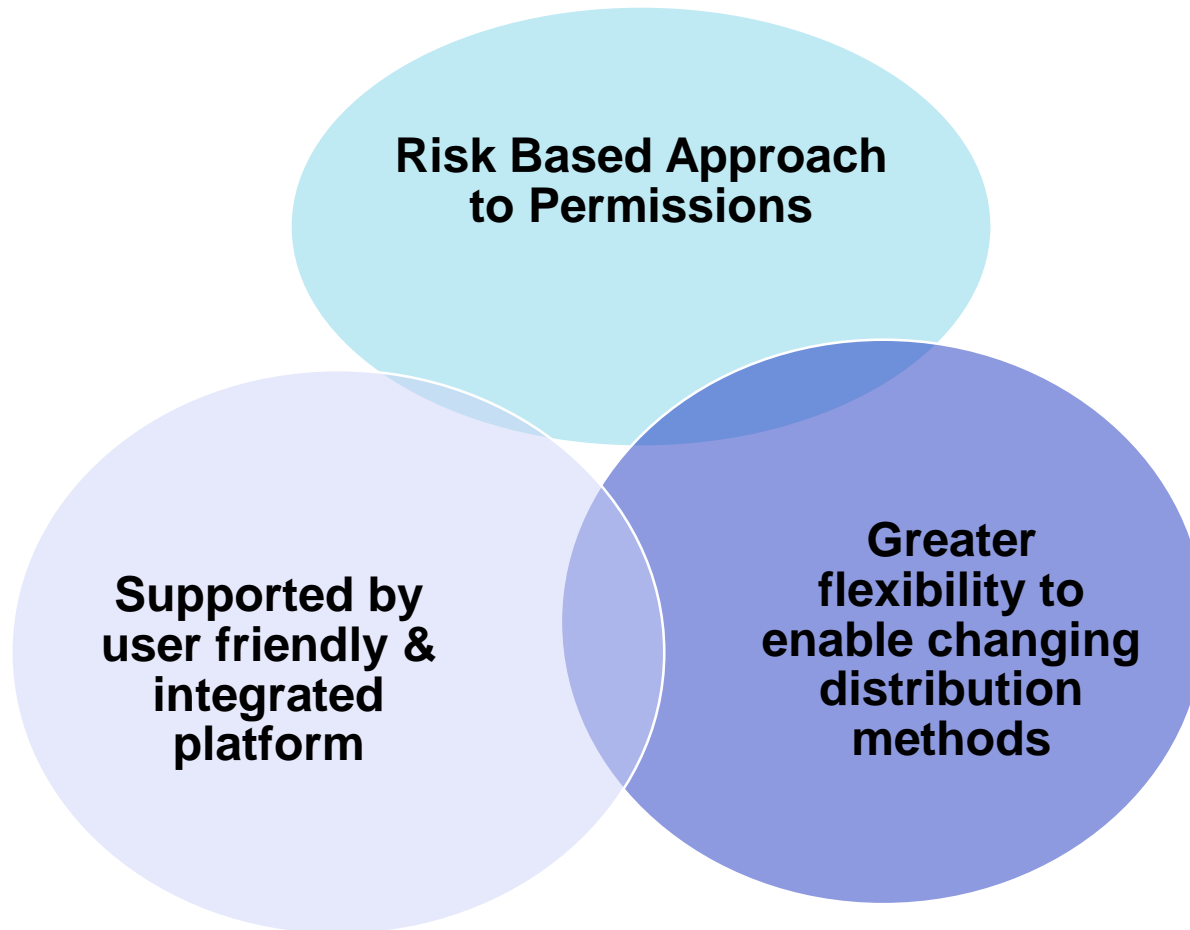
- Almost 4100 coverholder offices worldwide (including service company coverholders) and 400 claims TPAs. Vary enormously in terms of size, operational sophistication and location.
- Effective service network but risks include –
 - Underwriting
 - Conduct
 - Brand and reputation – the local “face of Lloyd's”
 - Credit
 - Service risk to the Lloyd's Market.
- Generally, Lloyd's overseas licences are in the name of the Society of Lloyd's. Improper conduct of coverholders or TPAs can adversely reflect on our central licences and local reputation.
- Central approval and ongoing oversight function means -
 - Coverholder approval reflects Lloyd's business planning process and the competencies of the lead managing agent.
 - Reduces need for each managing agent to separately undertake core compliance checks and allows them to focus on commercial due diligence.
 - Reduces frustration for coverholders in having to separately deal on core compliance issues with each lead managing agent.

We have listened to your feedback

Consistency, transparency, digitisation, flexible and future proofed – reducing costs for all

Problem	Solution	Benefits
Lead time for approvals – should be quicker from start to finish	Re-engineer approval process both process and rules	Approval time reduced & compliance touchpoints reduced
Inconsistent & multiple DD requests from MA's	Use new technology - Chorus – create consistent & intelligent question sets	Risk based approach to approvals, transparency to all stakeholders
One size fits all approach not risk based		
Missed opportunities for business that doesn't fit into Lloyds current rules – difficult to change	Change rule set to be flexible to allow for changing distribution methods	Removal of unnecessary barriers to new business opportunities
Lots of manual processes and no reuse of data	Leverage LM TOM solutions Chorus to feed DA SATS contract data	Rekeying eradicated
Too many binder rejections @ Xchanging	Chorus has binder creation and validation tool (QA tool baked in)	Right first time contracts & error rate reduced

How Lloyd's will help:
Our rules and frameworks need to change to deliver the vision



'A New Approach to Third Party Oversight' - Consultation

To consult on the changes we need to make to our requirements

Kevin Lazarus

Current requirements

Where are Lloyd's requirement for delegated authorities set out?

Lloyd's requirements for delegated authorities are found here:

- Intermediaries Byelaw
- Requirement made pursuant to the Intermediaries Byelaw
- Delegated Authorities - Code of Practice
- Minimum Standards

These need to be updated to allow us to implement the changes we want to make

At this stage we are only consulting on:

- Our proposed new framework
- Changes to the Intermediaries Byelaw and the Requirements

In due course we will publish the changes to the Code and Minimum Standards

Proposed requirement changes – Summary

There are five areas of proposed change

- **Changes to the regime for approving coverholders**
 - to reflect a risk-based oversight approach
 - to allow flexibility in the future without requiring further byelaw changes
 - **Creation of a new flexible category of non-coverholder permitted delegated underwriting**
 - To allow Lloyd's to permit delegation through pre-determined categories of delegated underwriting without prior Lloyd's approval of the entity - initially to 'distributors' only and to facilitate internet trading
 - General discretion to Lloyd's to permit on a case by case basis delegated underwriting
 - All relations will be registered with Lloyd's
 - **Creation of a new regime for approving claims TPAs**
 - Will mirror the approval process for new coverholders
 - Existing TPAs will be grandfathered in
 - **Prohibition of sub-delegation to be replaced with risk-based controls**
 - **Other changes**
 - **Consortia** - Create (1) new definition of 'consortium agreement' with prescribed requirements for consortium agreements and (2) regime for registration
 - **Binding authorities** – Only require person with principal authority for binding, document issuance, claim authority to be named in the binding authority
 - **Other** - Tidying up corrections to use of defined terms: 'approved coverholder' and 'binding authority'
-

Sub-delegation

Key areas of change

- Lloyd's will replace the strict prohibition against sub-delegation with a framework that allows risk-based controls
 - Byelaw will allow sub-delegation in all cases where delegation would be permitted
 - Conditions will be applied to restrict sub-delegation on a risk-based approach
- Managing agents will always be permitted to sub-delegate (under line slip/consortia arrangement)
 - Controls applied through Minimum Standards
- Service company coverholders, like managing agents, will have same full permission to sub-delegate
- Lloyd's will impose limits on sub-delegation by coverholders and in non-approved arrangements
 - Conditions imposed on approved coverholders to limit/prohibit sub-delegation
 - Requirements prohibiting sub-delegation in all cases for 'non-approved' delegated authority arrangements
- In all cases, Lloyd's will retain discretion as to whether to permit sub-delegation on a case by case basis
- Controls on how to sub-delegate, where permitted, will be prescribed and best-practice guidance given (eg requirements for appropriate electronic systems)

Process & Technology change

Lindsey Davies

What do you need to know

The rules and framework is changing

The CODE of practice will also be changing

Approval processes will change

Binding Authority contracts will be registered with more detail and be a key source of digital data

Minimum standards will not change further this year

Technology is changing which will support the framework changes

ATLAS and BAR are being replaced with Chorus – Summer of 2019 – PLEASE LOOK AT DATA IN ATLAS

There will be new functionality within both – there will be training and onboarding plan through TOM & Lloyd's

You will need to think about what you need to change internally to be ready for this.

There will be MORE COMMUNICATION AND CONSTANT COMMUNICATION THIS YEAR – Next event held by associations in February.

Chorus - A new platform developed by the LM TOM

Atlas Replacement

- A single system to **manage new coverholder approvals** and **ongoing relationships**
- Coverholders will **provide information once**, which can be **accessed by all relevant parties**
- The information requested will be **tailored to the coverholder**
- Relevant data flows directly into **BAR Replacement**
- Data can **feed directly into market firm systems**
- **Transparent** approval process
- Ongoing compliance is simpler with **attestation of centrally held data**



BAR Replacement

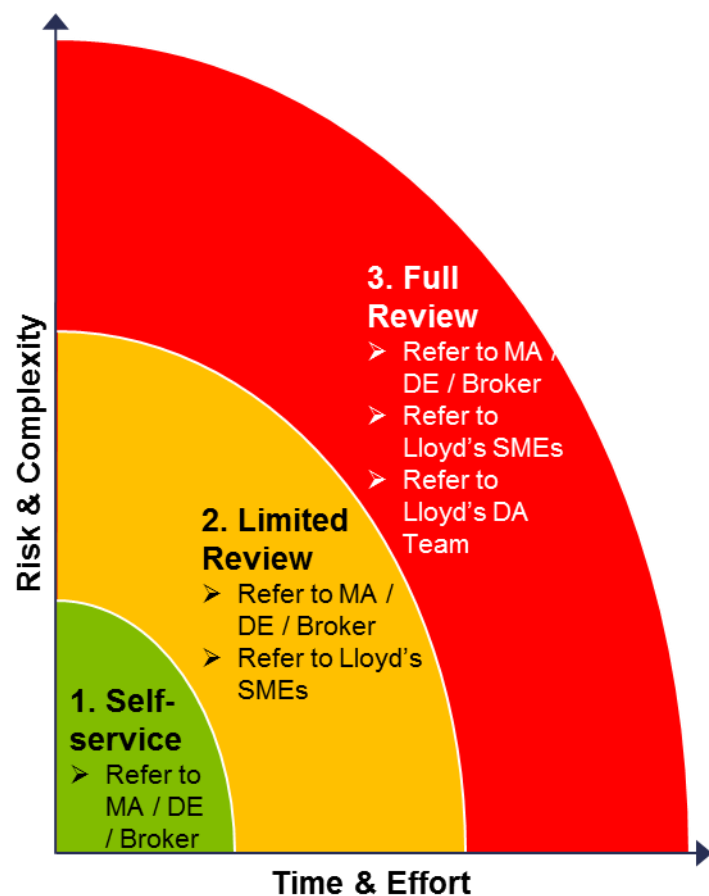
- A system for **registering binding authority contracts**
- Can accept binding authority contract data from **existing broker systems**
- **Feeds downstream systems**
- **Validates data** so there are fewer errors downstream
- Captures more granular data, including **section level contract data**

Contract Creator

- Lloyd's binding authority contracts can be **created, validated, stored, updated and registered** in one system

Changes to Coverholder approval – working in practice

Spending more time on the risky stuff -



Example high risk triggers:

High product risk

Sub-delegation

Poor performing classes

High risk or multiple territories

Complex arrangements

Poor performing MA

Consultation Document – Please read and feedback!

Outline of Content

- **Summary of Proposed Changes**
 - Risk-based oversight – some approvals will be on self serve basis
 - All intermediaries overseen in the same way – TPAs will now be approved
 - Concept of “distributors” introduced into rules
 - Sub-delegation to be permitted if properly controlled
 - Supported by new user friendly integrated system (Chorus)

- **How you can feedback – consultation launched end of January response required by mid April 2019**

- **Sent out to all stakeholders including Coverholders and TPA's**
 - **Webpage with Survey Monkey set up to take feedback in a structured format.**

QUESTIONS?

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