

Title	A New Approach to Third Party Oversight – Byelaw Changes
Purpose	To announce changes made by Council to the Intermediaries Byelaw and related Requirements
Type	Event
From	Paul Brady Head of Policyholder & Third Party Oversight
Date	3 July 2019
Deadline	Early 2020 – Byelaw and Requirement changes come into force
Related links	www.lloyds.com/a-new-approach-to-third-party-oversight

Following consultation with the market, Lloyd's is announcing its new oversight framework for third parties.

The new framework, which is intended to align to the Future at Lloyd's vision, will lay the foundation for a modern, risk-based approach to oversight of the market's third parties, allowing us to focus on ensuring our oversight remains robust and focussed on policyholder outcomes. For the market it will mean that doing business at Lloyd's will be more flexible, efficient and cheaper.

The changes are due to come into force in early 2020 in coordination with the rollout of the replacement system to ATLAS and BAR, which will underpin the changes.

What changes are we making?

The changes we are making are intended to implement the proposals we published earlier this year in [Market Bulletin Y5233](#) and on which we invited market feedback. Following strong market support, we are proceeding with the changes we originally consulted on:

- 1 We will adopt a risk-based approach to approving delegated authority applications. This is consistent with the risk-based approach adopted throughout PMD and will have regard to the delegated authority oversight capability of the managing agent as well as the risk profile of the coverholder. This will be made possible by replacing the existing ATLAS and BAR systems with a new compliance platform, which allows applications to be triaged based on a number of specified risk factors.
- 2 Claims Third Party Administrators will be approved by Lloyd's and subject to Lloyd's ongoing oversight. In the light of market feedback, our requirements now refer to Third Party Administrators as Delegated Claims Administrators (DCA) and this is the terminology we will be using going forward. Existing DCAs, notified to Lloyd's under Lloyd's current requirements, will be 'grandfathered' in as approved firms.
- 3 Lloyd's will have a flexible discretion to allow firms to be given delegated authority without their having to obtain prior Lloyd's approval. In the first instance, managing agents will be able to appoint 'distributors' to bind simple risks that do not require individual underwriting. Typically, these will be firms for whom insurance is not their main business selling simple products alongside other non-insurance products. This rule change will also better facilitate binding through online platforms. We will set out more details on the rules that apply in the updated 'Code of Conduct - Delegated Authority', on which we will be engaging with the market associations.
- 4 Lloyd's will also have a flexible discretion to allow sub-delegation of authority. As our risk appetite for sub-delegation remains low (and this is consistent with the feedback we received), we initially will only allow sub-delegation of underwriting authority by coverholders in very limited circumstances, as will be specified in the updated 'Code of Conduct - Delegated Authority'. Lloyd's prior agreement to sub-delegation by coverholders (except by service company coverholders) will be required in all cases. Sub-delegation will not be permitted for Lloyd's Brussels coverholders.

The implementation of the new framework requires rule changes to the Intermediaries Byelaw and the related Requirements made under that Byelaw – those changes have been approved by Council. We have also made a number of consequential changes to other byelaws, primarily the Definitions Byelaw. A copy of the detailed byelaw and requirement changes can be found at www.lloyds.com/a-new-approach-to-third-party-oversight.

A new platform to support a new way of working

The changes will be underpinned by the launch of Chorus, a new platform that streamlines coverholder and delegated claims administrator approvals and facilitates the preparation of binding authorities. Chorus replaces the existing ATLAS and BAR systems as the mandated system of record for delegated authority business. The Lloyd's Policyholder & Third Party Oversight Team and LM TOM teams will work with the market to roll out the new system. Learn more [here](#).

What happens next?

The changes to the byelaws and related requirements will come into force in early 2020, giving market participants the opportunity to prepare for the changes. The commencement date will be coordinated with the rollout of the new compliance system and will be communicated to the market in due course.

In the period ahead of the new rules coming into force, Lloyd's will also begin consulting on the updates to the 'Code of Practice – Delegated Authority'. The code will set out additional detail on the new requirements.

What should you do to prepare for the changes?

Managing agents are encouraged to familiarise themselves with the changes we are making by reviewing the information available on our website. We will continue to add information as it becomes available.

During onboarding conversations, coverholders will be briefed on the changes, including letting them know that their information will be moved to Chorus. DCAs should also be informed that they will now be grandfathered in to become Lloyd's approved DCAs. Again, this will require that DCAs provide compliance information for uploading to Chorus.

Find details of the consultation feedback

A summary of the key themes that emerged in the feedback and our response can be found on our website – see the link below. In all, we received 78 responses from a broad spectrum of market participants. This was in addition to informal feedback received from our engagement with market associations and at market forums. On average, for each of our questions, 85% of formal responses either strongly agreed or agreed with our proposal with only 3% disagreeing or strongly disagreeing and that level of support was consistent across all constituencies.

Learn more and stay up to date

Visit www.lloyds.com/a-new-approach-to-third-party-oversight

Contact coverholders@lloyds.com