

Market Bulletin

Ref: Y5296

Title	Amendments to Intermediaries Byelaw – Coming into Force
Purpose	To provide details for the coming into force of the amended Intermediaries Byelaw from 30 September 2020
Type	Event
From	Paul Brady Head of Policyholder & Third Party Oversight Performance Management
Date	1 st July 2020
Deadline	30 September 2020
Related links	www.lloyds.com/a-new-approach-to-third-party-oversight

During last year we undertook a consultation on our proposed new approach to third party oversight, with the aim of adopting a more modern, risk-based framework that also remained robust and focussed on policyholder outcomes. This resulted in us making changes to the Intermediaries Byelaw and to related requirements, which we announced in [Market Bulletin Y5257](#).

Before bringing the rule changes into force, we needed to make changes to our processes and systems to allow the market to realise the full benefit of the byelaw revisions. This includes the development of a new integrated online compliance system to replace ATLAS, to be known as Delegated Oversight Manager.

Although Delegated Oversight Manager is still being developed, we have now made the necessary process changes to allow the byelaw to come into force. The replacement for ATLAS, when ready, will then enable greater efficiencies to be introduced for how the market operates.

The following sets out the key changes that will now come into force from 30 September 2020.

Approval of Delegated Claims Administrators

The proposal that was consulted on last year, and which has been reflected in the byelaw changes, was that we should oversee entities with delegated claims authority in a similar way to how we already oversee coverholders, who have delegated underwriting authority.

Accordingly, from 30 September 2020 managing agents will only be permitted to delegate authority to determine claims to those listed in the new paragraph 4A of the amended Intermediaries Byelaw. In practice, for most managing agents, the most significant change that this involves is a new requirement for delegated claims administrators (DCAs) (previously referred to in our requirements as third party administrators) to be approved by Lloyd's. This means that from 30 September 2020, all DCAs will be subject to a similar approval process as currently required for coverholder appointments. Upon approval a DCA will be entitled to describe itself as an 'Approved Lloyd's Delegated Claims Administrator'.

The process for Lloyd's approving DCAs is set out in a new document, 'Delegated Claims Administrator Approval – Guidance for Managing Agents and Delegated Claims Administrators', which we will be publishing shortly. Once issued, a copy of the guidance document will be available to download from: www.lloyds.com/a-new-approach-to-third-party-oversight.

As previously announced, DCAs already appointed by managing agents and notified to Lloyd's under paragraph 36D(a) of the current Intermediaries Byelaw or in accordance with [Market Bulletin Y4630](#) under the Claims Outsourcing Arrangement List requirements (COAL), will be 'grandfathered' in as approved firms. Only firms that are on our list of notified firms as at 30 September 2020 will be 'grandfathered' but for those firms that have been notified, no additional checks will be needed for them to be registered as a Lloyd's approved delegated claims administrator.

As with coverholders, all approved DCAs (whether new or grandfathered) will now be subject to an annual ongoing compliance oversight (OCO) check by Lloyd's to ensure that they continue to meet our requirements. For DCAs this process will commence from 2021.

Coverholders with claims handling authority do not require to be approved as a DCA in respect of the business bound or administered by them under a binding authority agreement. A coverholder's permission to handle claims will instead be considered as part of their coverholder approval.

This new approach to DCA approval will be a significant change that will improve oversight whilst also bringing efficiencies through a reduction in duplicative compliance checks. We will continue to liaise with the market associations to ensure managing agents and DCAs are prepared. To support adoption, we will also be organising an online town hall meeting to explain the changes which will be open to delegated authority and claims practitioners at managing agents. Details for how to join will be provided separately.

Delegation to firms not approved as coverholders

A key change of the amended Intermediaries Byelaw is the flexible discretion given to Lloyd's to permit firms to have delegated authority without that firm first being approved by Lloyd's. For delegated underwriting this will mean that in limited, appropriate cases delegation of authority to bind risks and issue contractual documentation can be permitted to firms without them being approved as coverholders.

We will publish more detailed guidance on the types of arrangements that we will agree. Initially, we only expect to give agreement where:

- The third party firm is given no discretion in the selection of risks, rating or setting of terms
- The underwriting system for the rating and quoting of risks used by the third party is fully automated with all terms on the system set by the managing agent. All contractual documentation must also be automatically generated from the system and the third party's role in producing contractual documentation will be limited to document issuance
- The managing agent is provided with or able to access up to date data of risks bound and the performance of the business written. Ideally, this should be real time or daily access through an online system
- The managing agent has suitable contractual arrangements in place to allow it to control the business being written

Managing agents wishing to delegate authority in this way should prepare a paper explaining the proposal and addressing the above points. The application should include details of the due diligence undertaken and the risk management controls in place. All applications should be sent to delegatedauthorities@lloyds.com. Note that, at this time, it will not be possible to consider applications in respect of business to be written through Lloyd's Brussels.

We will keep our approach under review to consider how this provision may be developed.

Sub-delegation

The changes to the Intermediaries Byelaw also gives Lloyd's flexible discretion to allow sub-delegation of authority. We have made clear that, in line with market feedback, our appetite for sub-delegation remains very low because of the known risks arising from extended distribution chains. We will, however, consider individual applications to permit coverholders to sub-delegate in appropriate limited circumstances, provided suitable, robust controls are in place. Generally, the points listed in the previous section will also be relevant in considering any request to permit sub-delegation. Again, at this time, it will not be possible to consider applications in respect of business to be written through Lloyd's Brussels.

Lloyd's vision for delegated authorities

The above changes will take effect with the coming into force of the amended Intermediaries Byelaw and related requirements on 30 September 2020. They form part of Lloyd's vision for delegated authorities: to create a seamless and well-managed ecosystem that enhances customer experience, making it easier, faster, and more cost-effective to do delegated authority business. The update to the Intermediaries Byelaw is a key step in Lloyd's roadmap that will enable greater efficiencies and sustainable market growth.

Enquiries relating to any of the matters dealt with in this bulletin should be emailed to delegatedauthorities@lloyds.com.

Full details of the changes being made are available at: www.lloyds.com/a-new-approach-to-third-party-oversight.