

Code of Practice – Delegated Authority

15 September 2017

Code of Practice – Delegated Authority

This Code applies with effect from September 2017 and updates and replaces the Code issued in March 2015.

The Code provides an introduction to delegated underwriting in the Lloyd's market and sets out Lloyd's expectations of Managing Agents when delegating underwriting authority to a Coverholder (under a binding authority agreement) or another Managing Agent (under a line slip or consortium arrangement). Practical guidance is included which is intended to assist Managing Agents in meeting Lloyd's expectations and requirements, highlighting the key points for consideration. Guidance is also provided on the Coverholder approval process, delegated claims handling and Coverholder run-off procedures.

Where applicable, the Code highlights the relevant Lloyd's requirements relating to delegated underwriting authority. It is important that, in addition to this Code, Managing Agents continue to refer to these requirements which can primarily be found in the Intermediaries Byelaw, Chapter 2 of the Underwriting Requirements (Requirements made under the Intermediaries Byelaw) and in the Minimum Standards for Underwriting Management (Delegated Authority).*

In addition to ensuring compliance with Lloyd's requirements for delegated authority it remains the responsibility of Managing Agents to ensure that they remain compliant with any other applicable laws and regulations in the relevant jurisdiction. This includes having regard to the relevant FCA / PRA requirements and guidance for outsourcing, including the provisions at SYSC 3.2, SYSC 8 and SYSC 13.

Note on references to Lloyd's Brokers:

Please note that the Code refers in a number of places to "Lloyd's Brokers". For the purposes of this Code, all such references are taken to mean both registered Lloyd's Brokers and any other broker that meets the criteria for placing business with Managing Agents (as set out in Paragraph 27 of the Underwriting Byelaw). The term Lloyd's Broker is used for convenience only.

Note on references to Managing Agents:

Where the Code refers to a Managing Agent's responsibilities for delegated authority business, Lloyd's expects the same standards to be adopted by any Service Company of a Managing Agent.

Where reference is made to the Board, Managing Agents should read this as referring to the Managing Agent's Board or the appropriately authorised committee.

The Code is made pursuant to Paragraph 31 of the Underwriting Byelaw.

***All Lloyd's requirements are available on Lloyd's website.**

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Part 1 - Introduction to Delegated Authority

1.1 Introduction

What is Delegated Authority?

Delegated authority refers to an arrangement whereby a Managing Agent delegates its authority to enter into contracts of insurance to a third party.

The most common method of delegated authority is to a Coverholder under the term of a binding authority agreement. However, other forms of delegation are also addressed in this Code. Paragraph 1 of the Intermediaries Byelaw lists the ways that a Managing Agent is permitted to delegate its authority to enter into contracts of insurance.

1.2 Binding Authorities and Coverholders

What is a Binding Authority?

A binding authority is an agreement between a Managing Agent and a Coverholder, under which the Managing Agent delegates its authority to enter into contracts of insurance to be underwritten by the members of a syndicate managed by it to the Coverholder, in accordance with the terms of the agreement.

A binding authority agreement can also be used to give a Coverholder the authority to issue insurance documentation on behalf of Lloyd's syndicates. Insurance documentation includes certificates of insurance, temporary cover notes and other documents acting as evidence of contracts of insurance. Note that paragraph 2 of the Intermediaries Byelaw lists the persons to whom authority can be given to issue documents evidencing contracts of insurance. Issuing insurance documentation for these purposes means the authority to create or amend documents; it does not include the delivery of documents on behalf of Lloyd's syndicates.

The binding authority agreement will also set out the Coverholder's other responsibilities, such as handling insurance monies or agreeing claims.

What is a Coverholder?

A Coverholder is a company or partnership authorised by a Managing Agent to enter into contracts of insurance to be underwritten by the members of a syndicate managed by it, in accordance with the terms of a binding authority.

All Coverholders must be approved by Lloyd's in accordance with the Intermediaries Byelaw (No. 3 of 2007) ("Approved Coverholders"). Approved Coverholders that are wholly owned subsidiaries of a Managing Agent or its holding company may also be classified as a Service Company Coverholder.

Approved Coverholders

An Approved Coverholder:

- May be domiciled (i.e. permanently based) in any country where local regulations permit; and
- May be authorised to enter into contracts of insurance and to issue insurance documentation under a registered binding authority. That binding authority must be registered on Lloyd's Binding Authority Registration ("BAR") website.

In order for the Managing Agent to register the binding authority on BAR without the service of a Lloyd's Broker, the following are required:

- A direct deal Managing Agent (“DDMA”) relationship with the Coverholder, which is requested through Atlas; and
- A central settlement number (“CSN”) which is effectively a broker code held by a Managing Agent, which is arranged in conjunction with Lloyd’s Delegated Authority Team (“DAT”) and Xchanging

The following levels of underwriting authority may be granted to an approved Coverholder:

Full Authority

The Coverholder has full authority to set rates, or is given minimum rates and the discretion to increase rates without restriction or referral.

Pre-determined Rates

The Coverholder is given underwriting authority via a rating matrix or range within which the rates can be established. The Coverholder has authority to exercise limited underwriting discretion within agreed parameters.

No Discretion

The Coverholder is given underwriting authority via a comprehensive rating matrix. These arrangements do not give the Coverholder discretion in calculating premium or making adjustments to it, other than minimal rounding up, or to amend any terms or conditions.

Prior Submit

The Coverholder must refer each and every risk to the lead underwriter for agreement before binding, including renewals.

The maximum level of underwriting authority that a Coverholder has been approved for is recorded on Atlas, a secure web-based electronic filing and online application system for Coverholders. A Coverholder must not be given a binding authority with a higher level of underwriting authority than it has been approved for by Lloyd’s.

Service Company Coverholders

A Service Company Coverholder (“Service Company”) is an Approved Coverholder which is a wholly-owned subsidiary of a Managing Agent or its holding company. A Service Company is initially only authorised to enter into contracts of (re)insurance for its associated syndicate and / or associated insurance companies.

The Managing Agent should note that a Service Company will be held to the same minimum standards as its associated syndicate. The Managing Agent must ensure that the Service Company is writing in accordance with its Atlas permissions and Lloyd’s licences and that its underwriting staff are suitably qualified. The Service Company must be fully aligned with the Syndicate Business Forecast (“SBF”) and the Managing Agent’s oversight of a Service Company’s operations should be no less effective than that of the syndicate. As the Managing Agent has less direct underwriting control over a Service Company than over the business it writes itself for its syndicate, it is important to ensure that Lloyd’s Minimum Underwriting Standards are applied and monitored (i.e. through peer and independent review, and actuarial review of pricing models).

The advantage of being classified as a Service Company is the ability for the Managing Agent to use the LMA Service Company Underwriting Agreement, which allows the Service Company to sub-delegate its authority to other Approved Coverholders. Ultimately it is a matter for the Managing Agent whether they wish to use that wording and permit sub-delegation by the Service Company.

Service Company binding authorities must be registered on BAR. Access to BAR is available to all Managing Agents through their Devolved Administrator¹.

¹ A Devolved Administrator is a nominated individual at a Managing Agent or broker who can give access to both Atlas and BAR to others within their company. They should be the first point of contact for all access issues.

Where a Service Company is permitted to sub-delegate to other Approved Coverholders, those binding authorities should be registered on the same binding authority registration as the Service Company. The route to underwriter on BAR should be noted as via the Service Company. It should be noted that the only Coverholders who may be permitted to sub-delegate are Service Companies.

A DDMA relationship with the Service Company and a CSN is required for the Managing Agent to register a Service Company binding authority on BAR without the service of a Lloyd's Broker.

Service Companies writing 100% on behalf of their own syndicate are eligible to report regulatory and tax information directly to Lloyd's through Lloyd's Direct Reporting ("LDR"). Data is at a transactional level and it should be noted that this does not cater for the processing of premium but solely for reporting purposes. Conventional subscription business cannot be reported through LDR. Further information on LDR can be found on Lloyd's website.

A Service Company may apply for authority to underwrite on behalf of other syndicates. Where a Service Company writes business on behalf of other syndicates the Service Company is not permitted to sub-delegate its authority. Accordingly, the LMA Service Company Underwriting Agreement will not be suitable. Instead the LMA model wordings for binding authorities should be used.

For further guidance on Service Company Coverholders see the **Service Company Code of Practice**.

Hub / Master Coverholders

Where an Approved Coverholder oversees other Coverholders, this is known as a 'hub' or 'master' arrangement. It should be noted that these arrangements have no formal status in Lloyd's requirements and are a matter of market practice. The specific role and authority of the master Coverholder should be specified within their binding authority agreement. All Coverholders involved must be approved by Lloyd's and each binding authority agreement must also be registered on BAR.

Other than for Service Companies, where it is permitted, it is important in such arrangements to ensure that there is no sub-delegation of authority to bind risks or issue policy documentation. Managing Agents must have a direct contractual relationship with each Coverholder to which they grant a binding authority.

This direct contractual relationship will typically be achieved either by:

- Using a 'sub-agreement' to the master binding authority for each sub-Coverholder. Each binding authority 'sub-agreement' must comply with the Intermediaries Byelaw and be prepared on a binding authority Market Reform Contract ("MRC") slip with a relevant wording. Under such an arrangement, underwriters enter directly into the contract of delegation with the sub-Coverholders; or
- Creating a single tri-partite agreement between Underwriters, the master Coverholder and the sub-Coverholder that sets out the role and responsibilities of each party. Lloyd's recommends that a bespoke binding authority wording is created for such arrangements as the LMA model wordings are designed for use in single Coverholder arrangements only.

The MRC requirements for binding authorities apply to the master contract itself. They should also be followed wherever possible in relation to all binding authorities issued under the master binding authority.

1.3 Line Slips

What is a Line Slip?

A line slip is an agreement by which a Managing Agent delegates its authority to enter into contracts of insurance to be underwritten by the members of a syndicate managed by it to another Managing Agent or authorised insurance company in respect of business introduced by a Lloyd's Broker named in the agreement². The

² Definitions Byelaw

requirements outlined in this document for line slips do not apply where there is no delegation of authority from one Managing Agent to another, and where the line slip is written 100% by a Managing Agent.

The Managing Agent should carefully consider any additional fees, charges or commissions payable to the Broker which, under a line slip, acts as the agent of its client (the insured). Further guidance on Broker remuneration can be found on Lloyd's website and in **Market Bulletin Y4864**.

Managing Agents and insurance companies do not need approval from Lloyd's to operate under a line slip.

A line slip usually applies to specified types of business, typically via a single Broker. Once the Managing Agent or insurance company acting as the line slip lead underwriter has entered into a contract of insurance with the insured, the evidence of insurance will normally be issued by means of a MRC (Open Market) contract or via a certificate / policy. The format of the insurer authorised documentation will be determined within the line slip agreement. The line slip may also allow the lead Managing Agent or insurance company to agree claims on behalf of the following underwriters, in accordance with the Lloyd's Claims Schemes.

Types of Line Slip

Line slips are typically either bulking or non-bulking. The distinction between the two categories relates to the way in which risks are processed. In both instances, every risk must be bound by the agreement parties named in the line slip and the insurance documents issued by the nominated Managing Agent or insurance company. In both instances, the principle should be that followers on line slips should receive sufficient data on a timely basis to satisfy the Underwriting Minimum Standards. Further details on the processing of line slips can be found under **Part 6.5**.

The key features of bulking and non-bulking line slips are outlined as follows:

Bulking Line Slips

- Risks are grouped and processed via Xchanging as bulk transactions;
- The Broker prepares a risk bordereau in accordance with the line slip terms and conditions and which provides the participating Underwriters with sufficient data to adhere to the Underwriting Minimum Standards;
- Premium bordereaux are produced at the intervals specified in the line slip; and
- Insurer contract documentation may either be a copy of the MRC slip or an insurance policy.

Non-Bulking Line Slips

- Individual risks are processed separately by the broker, as if they were open market;
- No risk bordereau is normally produced; and
- Premium payment terms are specified for each declaration.

For both bulking and non-bulking line slips, declarations attaching to the line slips should follow the MRC (Open Market) guidelines. Further guidance can be found within the MRC (Line Slip Implementation Guide on the London Market Group ("LMG") website.

1.4 Consortium Arrangements

What is a Consortium Arrangement?

A consortium is a contractual arrangement under which one or more Managing Agents delegate(s) authority to another Lloyd's Managing Agent ("the Consortium Leader") to enter into contracts of insurance on their behalf. A consortium will underwrite and bind specified classes of business produced from more than one Lloyd's Broker (which is the main difference to a line slip). This form of delegation is permitted in accordance with paragraph 1(c) of the Intermediaries Byelaw.

Where a Managing Agent delegates authority to manage the business being written to a company or partnership other than to a Managing Agent, that company or partnership will need to be approved as a Coverholder by Lloyd's and the binding authority must be registered on BAR. The agreement should not be referred to as a consortium.

General Procedure for Establishing a Consortium

This section sets out general information relevant to establishing a consortium. However, before proceeding, Managing Agents should contact Lloyd's DAT to provide the following information:

- A letter of support and a business plan detailing the classes of business and the expectations for performance;
- Confirmation of whether or not there will be Company markets participating on the consortium;
- Details of how the consortium relates to the current business written by the syndicate; and
- Details of how premium, tax and regulatory requirements will be met and processed where this is outside of the UK (i.e. by Service Companies on the Lloyd's Asia platform).

It is for individual Managing Agents to make the arrangements should they wish to establish a consortium. In setting up such an arrangement a written agreement should be drawn up between the participating Underwriters (the consortium agreement). This agreement will specify the terms under which the consortium will operate.

The LMA has published a model Consortium Agreement (LMA 3145) along with an associated guidance document, both of which are available on the LMA website. The Model Agreement has been designed for use in the Lloyd's market only, for consortium arrangements entered into by Lloyd's Managing Agents. It is not intended for use by Service Companies.

Each consortium should have an Underwriter (or Underwriters) authorised to accept business on behalf of the group.

Binding of a risk is normally evidenced by the Consortium Leader putting the consortium stamp, date and a signature on the MRC slip. Consortium arrangements typically use a processing number at Xchanging referred to as a 9000 number, which brings with it significant processing benefits. Note, however, that there are also restrictions relating to the functionality of the 9000 number. Other processing arrangements can be agreed between the parties if a 9000 series number is not suitable, or not available. Please contact Lloyd's DAT for further information.

For further information regarding consortium arrangement stamps / numbers please see **Part 6.4** as well as Performance Management – Supplemental Requirements and Guidance (available on Lloyd's website).

1.5 The Legal Position of the Parties Involved in a Delegated Authority Arrangement

It is important to understand all relevant parties' legal obligations in any arrangement to delegate a Managing Agent's authority. The following section provides a summary overview under English law. However, the relationship between the relevant parties will depend on the individual circumstances of the contract of delegation and the parties should ensure they seek their own legal advice where required.

For all Lloyd's business, risks are insured by Lloyd's members who provide the supporting underwriting capacity. Members can either be individuals (often known as 'Names') or corporate entities.

Members of Lloyd's underwrite insurance by forming groups of members known as syndicates. Syndicates operate as independent business units within the Lloyd's market and are managed by Managing Agents. Syndicates are formed for one year and are re-formed each year. Managing Agents have authority to accept risks on behalf of the members of the syndicate under their management and appoint the underwriting team. Each member of Lloyd's gives its authority to underwrite to the Managing Agent under a standard managing agent's agreement. The members of each syndicate write with several liability and syndicates do not have a separate legal personality.

If a Managing Agent delegates authority to a Coverholder, the general principle is that the Coverholder acts on behalf of the syndicate and is not the policyholder's agent for the purposes of arranging the insurance. The Coverholder is therefore contracting on behalf of the members of Lloyd's when binding risks and issuing contractual documents.

The Coverholder may also act as an agent to collect premiums or handle claims. The Coverholder's authority will be set out in the binding authority agreement entered into with the Managing Agent.

When a Lloyd's Broker also acts as a Coverholder there is a potential conflict of interest between the Lloyd's Broker's duties to the Managing Agent and to its clients (policyholders) in circumstances where the Lloyd's Broker has also been appointed by the policyholders to obtain insurance. In such circumstances, it is vital for the lead Managing Agent to make sure the Lloyd's Broker manages this conflict of interest properly. Further information on conflicts of interest is provided in **Part 8.4**.

Some countries prohibit brokers from being Coverholders. Please refer to Crystal for further information on this issue. Crystal is an online tool which provides Lloyd's market participants with quick and easy access to international regulatory and taxation requirements.

1.6 Other Arrangements Which Raise 'Delegated Authority' Issues

Other types of contract that a Managing Agent may enter into with third parties which have some of the features of delegated authority, but which are not treated as Coverholder arrangements by Lloyd's, are marine open cargo covers and master / group policies. Additionally, the sale of insurance policies over the internet may give rise to delegation and sub-delegation issues.

Marine Open Cargo Covers

A marine open cargo cover is an arrangement under which a Lloyd's syndicate (or syndicates) provides the insured with a general grant of marine cargo insurance relevant to their business activities (the Marine Insurance Act 1906 refers to the term "assured". However, the term "insured" is used throughout this section and has the same meaning.) That insurance covers the insured's own property, or property which the insured has had, or is expected to gain, an insurable interest in. An insurable interest is defined as an interest which, under the law of England and Wales, would exist if the insured were domiciled or present in England or Wales. Typically, the insured makes separate declarations under the marine open cargo cover during the year, using agreed rates, terms and conditions.

The term marine open cargo cover includes insurance contracts issued to freight forwarders, shipping agents, carriers or other parties acting on behalf of their principals or as bailees. A bailee is the party the insured has entrusted the goods to and has instructed to arrange marine cargo insurance.

If a Managing Agent grants a marine open cargo cover, it must ensure it complies with local licensing and regulatory requirements. The insured does not need separate approval from Lloyd's to operate a marine open cargo cover as defined above. To avoid any doubt, if the arrangement is not for the insured's own property, or property in which the insured has had, or is expected to gain, an insurable interest, Lloyd's views that arrangement as a binding authority.

Master Policies and Group Schemes

A master policy or group scheme is an insurance policy issued to a policyholder who purchases the insurance to provide the benefit of insurance coverage for others, usually individuals ("the covered parties") belonging to a group or association. The covered parties, however, are not parties to the insurance contract itself.

Although the terms master policy and group scheme are used by different parts of the market, for present purposes these terms are interchangeable.

Where the master policy or group scheme permits the policyholder to declare additional covered parties to the policy post-inception, which underwriters are bound to accept, then Lloyd's is satisfied that this type of arrangement does not require Coverholder approval provided the conditions outlined in **Appendix 1** are met.

Nevertheless, a master / group policy arrangement does have some similarities to delegated underwriting. Lloyd's therefore expects Managing Agents to manage the associated risks and comply with the requirements set out in Appendix 1.

Where the Managing Agent is unable to comply with the requirements set out in Appendix 1, the arrangement must not be written as a master policy or group scheme without the agreement of Lloyd's DAT. In these cases, it may be appropriate to write the scheme under a binding authority agreement through an Approved Coverholder.

It is important that Managing Agents do not use master policies or group schemes inappropriately as a mechanism for avoiding Lloyd's delegated authority requirements. Accordingly, the use of master policies or group schemes by Managing Agents will be kept under review by Lloyd's.

Master policies or group schemes can also raise difficult regulatory and licensing issues in some jurisdictions (in particular the USA and Australia). Where these arise it is important that they are properly addressed. Appendix 1 provides relevant guidance and further information is also available on Crystal or by contacting Lloyd's International Trading Assistance ("LITA") Lloyd's Desk, Ground Floor, Lloyd's Underwriting Room, on +44 (0)20 7327 6677 or LITA@lloyds.com.

Managing Agents should note that while master policies or group schemes are common arrangements, the legal principles which apply to them in the United Kingdom and in other countries remain uncertain and under-developed. The correct legal analysis of such arrangements may also differ in different jurisdictions and suitable local legal advice may be required. Managing Agents should consult Crystal for advice on any local regulatory requirements.

Managing Agents should ensure that a record of all master policies is maintained in accordance with Lloyd's expectations as outlined in Appendix 1.

Electronic Trading

It is common practice for insurance policies to be sold over the internet direct to policyholders. These risks will often be bound online and the policy may either be issued directly from the website on placement or will be sent after the risk has been bound. There are also electronic trading systems which allow brokers and underwriters to trade in a virtual environment.

Lloyd's fully supports the use of electronic trading. However, as third party providers are often involved in providing the electronic trading facility and the insurance contracts may be bound online, issues of delegation and sub-delegation can arise. Managing Agents planning to sell insurance via the internet therefore need to consider the requirements set out in this section of the Code, which also provides guidance on Lloyd's approach to instances that may occur.

Issues of delegation typically arise where the Managing Agent appoints a third party internet-based business to sell policies online. Where the third party can bind the insurance online or is authorised to issue the certificates on behalf of the Managing Agent, the third party company must be approved by Lloyd's as a Coverholder. For these purposes it is irrelevant whether the third party provider has any underwriting discretion, or that the process of selling policies and issuing certificates is wholly automated, or that the Managing Agent has the ability to log on to the provider's systems to change or stop the underwriting. Provided that policies can be bound through the online facility, or certificates can be issued on the systems of the third party provider, Lloyd's considers this to be a delegation of authority and compliance with the Coverholder approval process is therefore required.

Where the business is already being written through an approved Coverholder and the Coverholder wishes to sell policies through a third party website in a similar manner to that described above, issues of sub-delegation can arise, which is not permitted by Lloyd's. In these cases a tri-partite Coverholder arrangement may be appropriate and the Managing Agent should contact Lloyd's DAT to discuss the available options.

Note that in general no issues of delegation arise in the case of 'aggregator' sites. Generally these sites allow prospective policyholders to input basic placing information and the site then provides a list of relevant policies that can be obtained. The aggregator site, however, will not itself bind the risk but will 'bounce' visitors to the website of the selected insurer for binding. In this case the policy is bound on the Managing Agent's or Coverholder's own site, therefore the aggregator site is not carrying out any delegated authority. However, if the

aggregator site binds the policy or issues certificates, even if it uses rates and terms provided by the Managing Agent, there is delegation of authority and Coverholder approval is therefore required.

More difficult cases can arise where the third party site is merely providing an interface (perhaps for branding purposes) or an IT outsource solution for the operating of the Managing Agent's or Coverholder's online binding facility. Generally, Lloyd's will consider which party has physical control of the IT system that is responsible for binding the risk. If the third party is merely providing a branded front for the Managing Agent's or Coverholder's own systems, which are under the control of the Managing Agent or Coverholder, then it will not be necessary to have Coverholder approval. However, where the third party has control over the system, Coverholder approval may be required.

Certain providers also now operate systems which act as trading platforms between underwriters and brokers. On these systems the third party merely acts as an IT 'utility' for the parties which see themselves as dealing with their counterpart insurer / broker rather than with the third party provider. The arrangement in this case is similar to where the parties deal by telephone or email, which is merely a facility for the brokers and underwriters to communicate. In these cases, no Coverholder approval is required. Managing Agents should, however, speak to Lloyd's DAT before trading through these systems.

For further information on internet trading, please see **Part 8.1 – Internet Security**.

Part 2 - Coverholder Approval Process

2.1 The Coverholder Application

Applications for Lloyd's Coverholder approvals are made via Atlas, an online system accessible by Managing Agents, Lloyd's Brokers, Coverholders and Lloyd's. The system allows users to complete:

- New Coverholder applications;
- Annual compliance questionnaire; and
- Changes to company information and permissions.

Atlas does not make any binding authority information available to users and cannot be used directly to enter into binding authorities. Binding authority specific information can be accessed through BAR, which is also where binding authorities must be registered.

The Lloyd's Broker, if one is involved, will usually co-ordinate the applicant's access to Atlas (a password is required from Lloyd's) and the completion of application details and supporting documentation.

The sponsoring Lloyd's Broker should ensure that details are complete and correct, then submit the application via Atlas to the sponsoring Managing Agent, which carries out its due diligence assessment of the applicant Coverholder.

For DDMA relationships, it is the Managing Agent's responsibility to perform the Broker's role in arranging access to Atlas and ensuring that the details are complete and correct before submission.

Managing Agents should have specific procedures in place for the due diligence assessment of prospective Coverholders (see **Part 5 – Minimum Standard – Due Diligence of Coverholders**). Once this has been signed off in accordance with the Managing Agent's internal procedures, the application is then submitted to Lloyd's DAT for review.

2.2 Information to Support the Lloyd's Application

Along with the Coverholder application details on Atlas, a detailed decision paper and key supporting documents (collated as part of the Managing Agent's due diligence assessment) must be submitted in order to expedite the Lloyd's review process. Any documents that cannot be uploaded to Atlas should be submitted to Lloyd's DAT by email. Mandatory requirements are specified in the 'Help' screens of Atlas and the Application & Processes guidance notes on Lloyd's website.

Full Coverholder Application Decision Paper

The Full Coverholder Application Decision Paper ("the decision paper") is designed to ensure that Lloyd's receives sufficient information to assess a Coverholder application. A template is produced by Lloyd's which includes guidance on the information to be provided in each section (see **Appendix 2**). The decision paper must be completed by the sponsoring Managing Agent, fully detailing the due diligence undertaken on each section and how they have satisfied themselves on each point. The more detailed the information provided in the decision paper, the quicker the application is likely to be processed.

The decision paper covers the following areas:

- Overview of application;
- Company information including legal name and structure;
- Underwriting and claims authority levels;
- Business strategy and distribution channel;
- Ownership;
- Principal staff and reputation;

- Professional Indemnity (“PI”) coverage;
- Financials;
- Bank accounts;
- Systems and controls;
- Licences;
- Class of business; and
- Regions.

Managing Agent Rationale

Managing Agents should carefully consider the risk profile of the applicant Coverholder, with thought given to factors such as its domicile or the territories in which it transacts business, the classes of business to be bound, and the size / complexity of the company. Managing Agents should detail the Coverholder’s risk profile and provide a rationale within the decision paper.

The overview of application section of the decision paper is in two parts; Lloyd’s expects the information requested within the first part to be provided by the **Sponsoring Underwriter**, with the second part to be completed by a person **independent** of the Sponsoring Underwriter, such as a Compliance Officer or Head of Delegated Authorities.

Supporting Documentation

Managing Agents may adopt a risk-based approach to the documentation required to support the application. The documentation submitted should reflect the risk profile of the applicant Coverholder. Documentation / information submitted by the Managing Agent to support the application may include, but is not limited to, the following:

- Mandatory attachments to the decision paper;
- Applicant’s business plan;
- Where the authority to be granted is ‘pre-determined rates’, the rating proposals / limits to be issued to the Coverholder;
- Prior years’ underwriting results and projected loss ratios;
- Details of the Managing Agent’s financial analysis;
- For High Product Risk (HPR”) applications, the Consumer Product Binding Authority Questionnaire (“CPBQ”) or other evidence of conduct risk due diligence (unless Lloyd’s have confirmed that this is not required);
- If a pre-bind audit has been conducted, details of any relevant recommendations; and
- Systems and Controls documents, such as:
 - Financial Crime policies and procedures including Anti-Money Laundering, Anti-Bribery and Corruption and Sanctions (if applicable);
 - Business Continuity Plan (“BCP”) / Disaster Recovery Procedure (“DRP”);
 - Complaints handling process (if applicable);
 - Policy and procedure for handling any actual or perceived conflicts of interest (if applicable);
 - Data Protection / Data Privacy policy (where required);
 - IT Security policy / procedure (where required);
 - Conduct Risk policy (if applicable); and
 - Succession planning arrangements.

2.3 The Lloyd's Review Process

New Applications

Upon submission of a new Coverholder application, Lloyd's DAT will assess the information provided to determine whether the applicant meets the suitability criteria set out in **Part 5.3 – Matters to Consider When Assessing a New Coverholder**.

Once a review has commenced, Lloyd's will inform the Lloyd's Broker (if applicable) and Managing Agent of any issues requiring clarification or of any significant concerns that may impact on the suitability of the proposal. In certain circumstances, an application may be returned to the Lloyd's Broker and Managing Agent for further information to be added. It is therefore important that Managing Agents check all applications for completeness and clarity before submission to Lloyd's.

Lloyd's aims to complete the review process within 20 working days for an application with a decision paper. **However, this applies from the date that a fully completed application is received on Atlas, including full supporting documentation.** Lloyd's DAT will return applications if relevant information is omitted, so it is important that the applicant Coverholder, Managing Agent and Lloyd's Broker (if applicable) ensure that effective systems are in place to deliver complete applications to Lloyd's in the first instance.

Once approved, the Coverholder's name and address will be added to the public register of Lloyd's Approved Coverholders on Lloyd's website.

Ongoing Compliance Oversight

As part of its Coverholder oversight role, Lloyd's DAT will centrally collate and perform a limited review of the Coverholder's core entity level compliance information, including financial statements, PI details and certain entity level procedure documentation. Lloyd's DAT will also ensure that this information is updated on Atlas. This process is designed to ensure that the Coverholder information reviewed at the application stage is kept up-to-date and continues to meet the suitability criteria. Managing Agents shall not therefore need to re-request that core compliance information. However, this does not remove or replace the Managing Agent's responsibility to perform its own contract level due diligence assessment relative to the authorities granted (see **Part 5 – Minimum Standard – Due Diligence of Coverholders**). The information that Lloyd's will request and review is listed in **Appendix 3**.

Lloyd's DAT will maintain a Compliance Risk Register Profile for each Coverholder which records the documentation received, as well as key Coverholder and Lloyd's Broker details. Coverholders will be required to complete an annual attestation to confirm that the information provided is up-to-date and remains relevant.

2.4 The Role of Lloyd's International Representatives

Lloyd's ability to trade globally through our international licences is supported by a network of representatives around the world. These representatives provide a valuable resource and can offer guidance on regulatory requirements and other issues in their territories, although it may be necessary for Managing Agents to seek independent legal advice in certain situations. All applications for Coverholder approval are referred by Lloyd's DAT to the appropriate representative for their feedback. However, Lloyd's Brokers, Managing Agents and Coverholders themselves are free to approach them for advice or information; establishing contact early in the application process is recommended.

For details of Lloyd's international representatives by territory, please see the 'Lloyd's global offices' page of Lloyd's website.

Information on international trading can also be obtained from LITA, Lloyd's Desk, Ground Floor, Lloyd's Underwriting Room, on +44 (0)20 7327 6677 or LITA@lloyds.com.

Additionally, Crystal provides quick and easy access to international regulatory and taxation requirements. Lloyd's Brokers and Managing Agents are encouraged to check Crystal to ensure that proposed

binding authority agreements meet local regulatory requirements. Coverholders are also strongly encouraged to use Crystal.

2.5 Regional Approval

Coverholders are approved by Lloyd's for the territory in which they are domiciled. A Coverholder proposing to do business outside of its own domicile must first obtain the relevant permissions from Lloyd's. These permissions should not be confused with Lloyd's ability to write business in a given territory and Crystal should be consulted for any specific guidance.

When extending a Coverholder's approval, Lloyd's considers the country required as part of a region which, once approved, will permit the relevant Managing Agents to grant the Coverholder authority to enter into contracts of insurance for any or all countries in that region, subject to Lloyd's licensing as noted on Crystal.

Specific information is required by Lloyd's and its local offices in order to consider an extension for certain territories. Consideration should be given to these requirements before submitting a new Coverholder application to Lloyd's which involves these regions. Details of the Lloyd's regions and those requiring referral are specified on Lloyd's website.

For further information please refer to Crystal or the relevant Lloyd's Representative.

2.6 Branch Locations

Lloyd's maintains a register of all approved Coverholder offices, therefore a branch application should be made where a Coverholder wishes to operate from multiple locations. The branch location should be part of the same legal entity as the existing Coverholder and, as such, will have the same legal name and the same registered address.

This does not include subsidiaries or 'sister' companies within the same group, each of which must submit a full Coverholder application.

Once a branch office is registered, risks can be bound and documents issued from that location. The address can also be used on business documentation, websites and advertising. This is different to the requirements for a remote address, as set out in **Part 2.7**, which cannot be featured on documentation and from which documents cannot be signed or issued.

Lloyd's DAT operates a two-tiered approach to the approval of branches, with the following service standards applicable:

1. Branch Registration – 24 hours; or
2. Branch Application – five working days from date of submission to Lloyd's.

Branch Registration

It is the Managing Agent's responsibility to review the criteria set out below for the branch registration process and to confirm on Atlas whether they are met:

- The business is to be written under an existing binding authority;
- The branch is in the same territory / domicile as the previously approved office;
- The branch office operates off the same systems that link into the already approved office;
- The management policies, processes, procedures and oversight regime are the same as the already approved office;
- The existing bank accounts are being used;
- The branch is writing under the same (or lower) underwriting or claims authority as the previously approved office;

- The branch is writing business in the same regions as the previously approved office (please note that any additional regions may require regional extensions and would not meet the criteria for this registration process – further guidance is available on Lloyd’s website); and
- The PI policy for the previously approved office covers this branch office.

If a branch office meets the above then the following branch registration process will apply:

- The branch application must be submitted via Atlas;
- Lloyd’s will not require a decision paper from the Managing Agent; and
- Lloyd’s DAT will notify the relevant international representative and then register the branch within 24 hours of submission.

If the branch is domiciled in Canada then the Coverholder Branch Questionnaire Canada (available on Lloyd’s website) is required. These applications cannot be dealt with using the branch registration process due to the need to comply with local requirements.

Branch Application

If the branch office does not fit all of the criteria for the branch registration process then a Branch Coverholder Application Decision Paper (attached as **Appendix 4**) must be submitted along with the standard Atlas branch application.

To enable Lloyd’s DAT to meet to the five working day service standard, Managing Agents should liaise with the relevant Lloyd’s international representative to discuss the branch application prior to submission. If the international representative is not notified of the branch application prior to submission then Lloyd’s DAT cannot guarantee the service standard will be met.

2.7 Coverholder Employees Working Away From an Approved Location

With the increase in flexible working processes, like any other business, Coverholders are increasingly operating with staff members who work from remote locations via the use of laptops and remote internet connections. This may be from a home address or another unapproved location.

This activity falls within the Lloyd’s approval status of the Coverholder, subject to certain criteria being satisfied:

- The unapproved address is not advertised as a business workplace and it does not feature on any business correspondence or website;
- The remote worker is and remains an employee of the Coverholder;
- The IT systems being used are the same as and are linked to the approved office systems;
- Compliance with the terms of the binding authority;
- Insurance documents do not feature the remote address;
- The remote worker is permitted to carry on their activities for the approved Coverholder in accordance with Lloyd’s licences if they are located in a different territory (i.e. state, province or country); and
- No premiums are paid to the remote address.

Issues may arise where a worker is based away from an approved Coverholder location and is formally carrying out Coverholder activities with the agreement of their employer. The risks that could arise include:

- Lack of supervision;
- Use of unauthorised IT systems;
- Issuing incorrect documents;
- Lack of appropriate licence if resident in a different state or province;
- Not included in PI coverage;
- Non-compliance with reporting requirements including bordereaux; and

- Policyholders sending premiums to the unapproved address.

In addition, care needs to be given as to whether the location of the remote worker could be considered as an establishment for tax or regulatory purposes.

Managing Agents are expected to assess these risks before agreeing to authorise remote workers and satisfy themselves that the address does not require branch approval (see **Part 2.6**).

Authorised Remote Workers

If an employee works from a remote unapproved address, rather than an approved Coverholder location, that employee should be recorded by the Managing Agent as an Authorised Remote Worker. An Authorised Remote Worker Declaration (see **Appendix 5**) must be signed by a Director or suitable senior employee of the Coverholder (such as the person designated in the binding authority as being responsible for the overall operation and control of the agreement) and the Managing Agent and uploaded to Atlas. The term 'Authorised Remote Worker' should be used in binding authority agreements to describe the employee concerned.

Where an Authorised Remote Worker Declaration has been completed previously and is available on Atlas, any Managing Agent delegating its authority to this employee should review the information on Atlas and satisfy themselves that the answers provided meet their own requirements and accurately reflect the activities the employee will be performing under the binding authority.

No Coverholder activity should be permitted unless:

- The IT system accessed is the same as and directly linked to the approved Coverholder location, to enable supervision of activities such as quoting and binding; and
- If the remote address is located in a different state / province / country to the Coverholder's approved location, the Managing Agent has satisfied itself that there are no issues as far as the requisite licences are concerned on the part of either the Coverholder's local regulator or the regulator in the state / province / country of the remote address.

In addition, the Managing Agent must be satisfied that:

- They have considered whether there are any regulatory or taxation implications as a result of agreeing to the remote worker – in certain cases the Managing Agent may need to seek external independent advice;
- The individual has clear, agreed and understood levels of authority;
- The Coverholder / employer has carried out a risk assessment and has implemented appropriate controls;
- There is evidence of effective controls in place;
- There is a clearly stated peer review process for the activities of all Authorised Remote Workers;
- The address is not an office which should be approved (see **Part 2.6**);
- The Coverholder's PI insurance will cover the employee's work at the remote address;
- The arrangement is examined and tested as part of the Coverholder's internal audit programme; and
- The Managing Agent's own audit programme will cover this aspect.

There are key questions that should be considered before the arrangement is deemed acceptable by the Managing Agent. If the answer to any of these questions is "no" then Lloyd's should be consulted before the arrangement is confirmed as appropriate:

- Is the individual an employee?
- Can you confirm that the employee does not undertake any roles from the remote location for which individual authority has not been given?
- Can you confirm that the employee is logging onto the same office system(s) as the Approved Coverholder?
- Can you confirm that the employee does not handle or account for insurer monies from the remote location?
- Is the individual located in the same territory?

Where a Coverholder has multiple employees with remote working arrangements in place, it may be possible to complete a single Authorised Remote Worker Declaration rather than one per person. If you wish to do this, please speak to Lloyd's DAT first. In general this will be appropriate where all remote workers have the same remote working arrangements in place with the Coverholder. Where it is agreed that one form may be used it will be necessary to amend the form to cover all remote workers rather than an individual but, other than that, the form should remain the same.

Both the Coverholder and Managing Agent will still need to sign the form and the declarations made by each will be considered to apply in respect of each and every employee covered by the arrangement. It is important that the Managing Agent can access a list of all employees covered by the Authorised Remote Worker Declaration at any time and is satisfied that appropriate processes are in place to ensure their declaration in regard to those employees remains current and correct at all times.

Atlas and Contract Actions

The procedures to be followed are:

- Proposed new remote working arrangement or new Coverholder application – the Authorised Remote Worker Declaration should be completed and signed by the Coverholder and the Managing Agent and uploaded to Atlas, with the Authorised Remote Worker designation noted in the binding authority contract; and
- Changes to existing Authorised Remote Worker details or address – this should be endorsed at the time, if deemed appropriate and agreed by the Managing Agent, and the details updated on Atlas. A new Authorised Remote Worker Declaration may be required showing the new address.

Part 3 - Delegated Authority Minimum Standards (MS1.3)

3.1 Lloyd's Minimum Standards

All Delegated Authority Arrangements

Lloyd's has issued Minimum Standards for Delegated Authority, which form part of the Minimum Standards for Underwriting Management. The Principle applied in the Minimum Standards for Delegated Authority is that Managing Agents will have "effective systems and controls wherever underwriting authority has been delegated to another entity". Key features of effective systems and controls include the following:

- Clearly documented strategy and procedures for writing and managing delegated authority business;
- Thorough due diligence of Coverholders to which a Managing Agent proposes to delegate authority;
- Contracts for delegated authority in place with each third party to which a Managing Agent delegates authority; and
- Proactive management of delegated authority contracts once incepted.

This Code provides guidance for Managing Agents which enables them to meet the Delegated Authority Minimum Standards. Managing Agents may, however, adopt alternative procedures where they meet the requirements of the Minimum Standards.

Please also note that Lloyd's Claims Management Principles and Minimum Standards require disciplined procurement and proactive management procedures in the selection and use of third parties to whom claims handling authority is delegated.

Although all participating Managing Agents must ensure the Minimum Standards for Delegated Authority are met, it is expected that the Managing Agent of the lead syndicate will take the leading role in ensuring compliance. In particular, it is likely that the Managing Agent of the lead syndicate will have the main responsibility for assessing the Coverholder (where there is delegation under a binding authority), setting up the contract of delegation and having in place appropriate monitoring arrangements.

The delegation of authority from one Managing Agent to another Managing Agent or an insurance company, either under a line slip or consortium arrangement, requires different competencies and areas of focus from those required for binding authority arrangements. Managing Agents, including those of following syndicates, must, in particular, ensure that they receive enough information to allow them to meet the Underwriting Minimum Standards. The Managing Agent of the lead syndicate is responsible for ensuring that the arrangement allows for following Managing Agents to be provided with sufficient information in order to enable them to meet such Minimum Standards.

In all cases ensuring they meet the Minimum Standards, all Managing Agents are expected to adopt a risk-based approach to their management of Delegated Authorities in line with their own strategy and procedures as well as the guidance found within this Code.

More detail relating to each Delegated Authority Minimum Standard is provided in the following sections of the Code. The accompanying requirements for these Minimum Standards can be found on Lloyd's website.

Part 4 - Minimum Standard UW 1.3.1 – Strategy and Procedures for Delegated Authority Business

4.1 Introduction

All Delegated Authority Arrangements

Lloyd's expects Managing Agents to have a clearly defined strategy and documented procedures, agreed at Board level, for managing all of its delegated authority arrangements, including binding authorities, line slips and consortium arrangements. The ultimate responsibility for the delegated authority strategy and procedures rests with the Board and its approval of such should be formally documented. It is, however, accepted that it is common for the Managing Agent Board to provide authority to a nominated committee or individual for the design, review and agreement of specific elements of the strategy and the procedures. In such circumstances the scope of the authority provided to committees and / or any individual should be clearly documented.

Delegation of authority to a Coverholder under a binding authority requires a Managing Agent to consider different risks to those where there is delegation to another Managing Agent or an insurance company via line slips and consortium arrangements. While Managing Agents are not expected to perform the same level of due diligence assessment as they would on a Coverholder (see **Part 5**), consideration should be given to the quality and experience of the lead Managing Agent or insurance company lead before delegating authority under a line slip or consortium arrangement.

Managing Agents will need to satisfy themselves that they have the necessary controls and resources (both systems and individuals with suitable experience and skills) to enter into and manage delegated authority arrangements effectively.

The strategy needs to take account of the impact of delegating authority to Coverholders, other Managing Agents or insurance companies on the Managing Agent's business, with regard to the reporting and monitoring arrangements to be implemented. While this information may not necessarily be recorded in a single strategy document, Lloyd's expects Managing Agents to be able to articulate their risk appetite and approach to delegating authority, particularly to Coverholders under binding authority arrangements, including how this fits with their wider business strategy.

The following guidance is intended to provide Managing Agents with a suggested template for producing a written strategy and procedural document:

Executive Summary

An overview of the Managing Agent's current position on writing binding authorities, line slips and consortium arrangements, together with an outline of the objectives for the year ahead.

Business rationale

An explanation as to why the Managing Agent wishes to delegate its authority. This may include an analysis of:

- The expected gain from delegating authority;
- Current and projected market conditions;
- Methods of distribution;
- Consumer product exposure;
- Territorial considerations;
- Consistency with the Syndicate Business Forecast ("SBF"); and
- How such arrangements would fit with the Managing Agent's organisation and reporting structure, business strategy, overall risk profile and ability to meet its regulatory obligations.

Roadmap

This may include information on:

- Resourcing (both systems and individuals);
- How suitable Coverholders will be identified;
- The extent of delegation;
- How claims will be handled;
- Pre-approval due diligence;
- An overall process framework specifying the procedures for ensuring effective due diligence is carried out and evidenced at inception and renewal of contracts, as well as ongoing monitoring; and
- Details of how to ensure that sufficient information and reporting is received in order to meet the Minimum Standards (such as through requesting this in the delegated authority contract).

Underwriting Plan

This section may include an analysis of:

- Projected underwriting results from delegated authorities for the next three to five years, including a split by:
 - classes of business to be written; and
 - geographical distribution.
- The overall number of contracts which the Syndicate writes, split by lead and follow (including line slips and consortia);
- The number of Coverholders that the Managing Agent has binding authority agreements with;
- The level of catastrophe exposure; and
- Ongoing management.

In summary, the underwriting plan should reflect the strategy to be adopted when leading or following contracts of delegation.

Part 5 - Minimum Standard UW 1.3.2 – Due Diligence of Coverholders

5.1 Introduction

For prospective Coverholders requiring Lloyd's approval, the sponsoring lead Managing Agent will need to take into account the information required to be provided in the Lloyd's Coverholder application form when conducting its own due diligence assessment. In all cases the Managing Agent should have regard to the suitability requirements that Lloyd's applies which are set out in this part of the Code. Managing Agents must be able to provide evidence of their due diligence assessments.

An appropriate level of due diligence is important not only at inception but also at renewal of a binding authority. To avoid an undue burden on the parties at the time of renewal, it is recommended that, where appropriate, the due diligence process is maintained on an ongoing basis throughout the period of the agreement.

Managing Agents wishing to lead a new binding authority with an existing Lloyd's Approved Coverholder are expected to undertake their own due diligence of that Coverholder. Managing Agents cannot rely on Lloyd's approval of a Coverholder, or an audit, as a substitute for conducting a proper due diligence assessment.

5.2 The Internal Assessment Process

Managing Agents should identify which personnel are authorised to take the final decision with regard to entering into a new Coverholder relationship or binding authority, following assessment of the financial, compliance and underwriting capabilities of the Coverholder. The decision to proceed with a new Coverholder relationship or binding authority arrangement should be taken by authorised individuals or a formal meeting of a delegated authority committee. In either instance this should include at least one person who is independent of the person responsible for introducing the Coverholder to the Managing Agent (usually an authorised Underwriter). The formal signoff should either be cross-functional, or contain evidence that cross-functional due diligence has been carried out.

The Managing Agent's internal assessment process will involve individuals with distinct duties to perform, and it should be clear who is responsible for each. Managing Agents should clearly identify:

- The individuals responsible for introducing / identifying the Coverholder and providing the business rationale for granting a binding authority; and
- The individuals responsible for initiating and controlling the due diligence process in preparation for internal approval and subsequent submission to Lloyd's via Atlas, including the preparation of a supporting decision paper (see **Part 2.2 – Information to support the Lloyd's application**). This would normally be the Delegated Authority team or the Compliance Officer.

5.3 Matters to Consider When Assessing a New Coverholder Relationship

Suitability Criteria

The internal review process performed by each lead Managing Agent should aim to cover, as a minimum, the suitability criteria that Lloyd's applies when determining whether to approve a Coverholder. These are set out at **Chapter 2, Paragraph 6 of the Underwriting Requirements**.

Particular attention should be paid to the following areas:

The Quality and Adequacy of the Underwriting Function

Including factors such as:

- The extent of the Coverholder's knowledge and experience in each type and class of business for which they will be given authority to enter into contracts of insurance and issue insurance documents;
- The quality and adequacy of the Coverholder's controls over underwriting, particularly if a number of people are authorised to enter into contracts of insurance or issue insurance documents; and
- The limits of the Coverholder's authority. If a new Coverholder is given full underwriting authority, their activities will need to be closely monitored because they may have responsibility not only for accepting risks, but also for setting premiums. Even when a Coverholder uses pre-determined rates, terms and conditions, close attention will still need to be paid to the risks the Coverholder accepts

The Coverholder's Ability to Operate a Binding Authority

Including factors such as:

- The Coverholder's prior experience, if any, of writing business under a binding authority;
- How competent the Coverholder's management is and how they propose to manage the binding authority. This will include their ability to monitor premium income and aggregate exposure limits (where appropriate);
- Whether the Coverholder's IT and accounting systems can record and process insurance transactions and produce necessary reports and documents, including reports to local regulators. Consideration should be given to how Managing Agents are able to meet the Reporting Standards. For further detail on the Reporting Standards see **Part 7.6**;
- Relevant qualifications and experience of the Coverholder's staff;
- The strength of the Coverholder's financial management, including credit control;
- The Coverholder's other business activities and the extent to which they might divert the Coverholder's attention from the binding authority; and
- The Coverholder's understanding of Lloyd's and the Lloyd's market.

The Quality and Adequacy of the Claims Handling Function

The Coverholder's claims capabilities and procedures should be appropriate for the size and complexity of its business operation, the nature and extent of any claims authority granted, the nature of the business written and the jurisdiction in question, amongst other factors.

Managing Agents may wish to consider whether the Coverholder has appropriate:

- Management and other controls relating to claims funds, where applicable;
- Staffing levels to cope with anticipated claims activity, including average case load per handler;
- Management and other controls to monitor claims staff workload;
- Experience levels and qualifications for the personnel involved in claims handling, copies of relevant licences / certificates or regulatory authorisation and appropriate personnel management;
- Procedures for the handling of claims in compliance with any applicable laws and regulations, and in accordance with the Managing Agent's expectations;
- Management and other controls relating to claims agreement authority levels and reporting where applicable;
- Conflict management procedures;
- Maintenance and retention of records;
- Procedures for the handling and reporting of complaints;
- Litigation management procedures and controls;
- Procedures for the timely settlement of valid claims;
- Procedures for the timely establishment and reporting of accurate claim reserves;
- Management of third party experts, including adjusters, defence counsel etc.;

- Communication within the Coverholder and with the Managing Agent relating to claims issues, complaints, etc.;
- Catastrophe claims handling plan in place, where appropriate; and
- Adequate PI / Fidelity insurance where applicable.

Managing Agents should be mindful of their obligations under the Lloyd's Claims Principles and Minimum Standards and the Lloyd's Intermediaries Byelaw when assessing the adequacy of delegated claims handling authority.

Managing Agents intending to appoint a third party administrator ("TPA") to deal with claims should ensure that it considers the appropriate suitability criteria established by Lloyd's (see **Part 9 – Delegated Claims Management**).

The Coverholder's Business Plan

A new Coverholder will need to prepare a business / underwriting plan for the proposed binding authority, which will be agreed with the lead Managing Agent. The content of the plan should provide a detailed description of the Coverholder's proposals specific to the business to be written under the binding authority.

The Coverholder's plan should be reviewed as part of the internal due diligence process. It should also be reflected in the decision paper provided to Lloyd's by the Managing Agent. The following aspects should be included:

- An explanation of where the business comes from, where it is currently written and why it is moving to Lloyd's (including possible declinature to renew by previous carrier);
- Target and historic profitability statistics;
- Details of any other contracts of delegation they manage;
- An analysis of the marketplace (including opportunities for and threats to successful underwriting);
- The basis for selecting risks;
- The basis for pricing (where appropriate); and
- Details of how the binding authority fits with the Coverholder's other areas of business.

The Coverholder's Reputation and Standing

The main points to consider when assessing whether or not a Coverholder has an appropriate reputation and standing include the following:

- Regulatory status and current licences;
- Membership of recognised professional bodies;
- Standing in the insurance industry;
- Association with any problems or disputes (e.g. with other Lloyd's Managing Agents, other insurers or regulators);
- Other types and classes of business they handle;
- Binding authorities they have with other insurers;
- Details of current owners or shareholders; and
- Any potential conflicts of interest they may have.

The Coverholder's Financial Standing

The lead Managing Agent must conduct a thorough financial analysis of any prospective Coverholder. This must include a review of banking arrangements, including the status of segregated accounts for insurance and, where applicable, claims monies.

Lloyd's expects Managing Agents to perform the financial due diligence on an overall financial standing basis as well as a simple credit control basis.

If the Coverholder is a start-up operation then Lloyd's will expect to be provided with either a forecast Profit and Loss account covering at least the next three years or an opening balance sheet for review. The Managing Agent should be satisfied that there is adequate provision for cash flow to maintain the start-up.

The Managing Agent's findings of their financial due diligence analysis should be documented and provided to Lloyd's in support of the application.

Note that where Lloyd's is not satisfied that the Coverholder has adequate financial resources, it may require that the Coverholder obtains additional capital which must be held for an agreed period of time.

Financial Crime

The Coverholder needs to demonstrate adequate processes to manage the risk of financial crime, including procedures on anti-money laundering, anti-bribery and sanctions (either the Coverholder's own procedures or the Managing Agent's procedures which may extend to the Coverholder). For more information see **Appendix 6** and **Part 8.2**. Lloyd's expects Managing Agents' due diligence around such procedures to be proportionate to the financial crime risk posed by the prospective binding authority.

The Coverholder's Regulatory or Licensed Status

Any failure by a Coverholder to comply with local regulatory, licensing or tax requirements in a jurisdiction may well have adverse consequences for the wider Lloyd's market in that territory. It is therefore essential that particular attention is paid to licensing requirements when delegating authority to a Coverholder. Managing Agents must therefore obtain confirmation from the Coverholder that it holds all necessary licences (see **Market Bulletin Y4947**).

A lead Managing Agent must take reasonable steps to make sure that it and the Coverholder are aware of and implement all relevant insurance, financial and taxation laws and regulations in the jurisdiction where the Coverholder is domiciled, trades, provides services or does business under the binding authority. If Lloyd's has a local representative in the relevant territory, the Managing Agent or the Lloyd's Broker should discuss the proposed binding authority with them as early as possible in the process. The local representative has an important part to play in the final decision made by Lloyd's regarding the approval of a new Coverholder (see **Part 2.4**).

Lloyd's approval is needed for a proposed Coverholder, even where it is an Appointed Representative of a Lloyd's Managing Agent, Lloyd's Broker or an existing Approved Coverholder.

Furthermore a Managing Agent should not assume that because a Coverholder is either a regulated firm or is associated with the Managing Agent (i.e. as its Appointed Representative), that a binding authority with such a Coverholder implies a reduction in operational risk.

Adequacy of the Coverholder's PI Coverage

The Requirements made under the Intermediaries Byelaw, paragraph 6(e) (Chapter 2 of the Underwriting Requirements) state that the Coverholder should have "adequate professional indemnity insurance". The question of what is "adequate" relates to (a) the scope of the policy, (b) the limits provided and (c) the security of the provider.

In terms of scope of cover, Lloyd's requires evidence that the policy is in force at the time approval is granted and that it specifically includes activity as a Lloyd's Coverholder (or refers to "underwriting" or "MGA" etc.). Lloyd's DAT may request a copy of the full policy wording and any endorsements to ensure this is the case and that no exclusions apply or request confirmation of the same from the carrier. At the same time, it is the role of the sponsoring Managing Agent to satisfy itself that this is the case before an application is submitted to Lloyd's (and that coverage is renewed on a satisfactory basis). There should be documented evidence on file of how adequacy is determined.

Managing Agents should develop their own risk based approach to the assessment of coverage adequacy, taking into account several factors including, but not necessarily limited to:

- Size of the Coverholder's operations;
- Historic claims experience;
- Any assessments produced in recent audit reports;
- Competence and experience of key personnel; and
- Limits of liability being offered under the binding authority.

As a rule, Lloyd's would expect minimum coverage of GBP1m (or equivalent) per event. Please be aware that in certain territories, including the EEA, there may be specific requirements regarding minimum limits.

Lloyd's expect the due diligence of applicants with high PI deductibles to include research into the reason for this, with an assessment of its ability to cover the monetary amount out of cash reserves or realisable assets. When adding an additional class of business, Managing Agents should satisfy themselves that the PI limit remains adequate for the increased binding authority limit.

5.4 Due Diligence at Renewal

Due diligence is not an exercise to be carried out only once, at the time that the Coverholder is initially approved or when a new binding authority is entered into.

Due diligence at renewal should focus on changes in the Coverholder's circumstances, or any anticipated changes to the binding authority or the way in which the Coverholder operates the binding authority. Managing Agents should ensure that this review is documented and that they are able to evidence the matters considered. The documentation and evidencing of renewal due diligence should be proportionate to the materiality of the risk being mitigated and relative to the benefit delivered.

5.5 Ongoing Due Diligence

Managing Agents should ensure that appropriate due diligence and ongoing monitoring is maintained over their Coverholders, specifically having regard to their binding authorities.

The ongoing due diligence at Coverholder entity level should include the key areas that would be considered as part of the initial assessment (see **Part 5.3**). In addition, Managing Agents will have access to the core entity level compliance information centrally collated by Lloyd's on Atlas (as part of Lloyd's Ongoing Compliance Oversight) and should therefore have regard to that information. Managing Agents should advise Lloyd's if they become aware of any material changes in the Coverholder's circumstances that may affect its risk profile, so that Lloyd's can ensure that the correct checks are carried out on the appropriate documentation at entity level.

Separately, Managing Agents need to maintain suitable levels of ongoing due diligence and monitoring over their specific binding authority arrangements. This will include ongoing due diligence over:

- Sanctions checking;
- Endorsements;
- Product governance – specifically HPR management information and KPIs;
- Coverholders' Atlas permissions cross-referenced with the binding authority; and
- Any additional local or Lloyd's requirements.

Where Managing Agents establish robust arrangements for on-going due diligence then that should facilitate and streamline the need for renewal compliance checks.

Where changes are made to the authorised persons named in Section 3 of the binding authority agreement, the process for agreeing to that change (e.g. the endorsement) should include appropriate due diligence. There should not be a need for a separate due diligence process to take place post the changes being agreed.

5.6 Following Managing Agents

Managing Agents considering a following role on either a new binding authority or with a new Coverholder need to be satisfied that effective due diligence has been undertaken and must make their decision as to the suitability of the Coverholder. As part of this, following Managing Agents should always refer to the information held on Atlas.

Where followers determine that they should conduct their own due diligence assessment, Lloyd's would expect them to:

- Determine and articulate within their Delegated Authority procedures a policy regarding the extent of due diligence that they will carry out themselves in respect of follow business; and
- Evidence that this due diligence has been carried out, and signed off appropriately, for audit trail purposes.

Managing Agents should ensure this approach is risk-based and takes into account factors others than just the binding authority's estimated premium income. The following is a guide to the factors that Lloyd's would expect the Managing Agent to consider as part of this assessment:

- Experience of the Leader (while noting that this may not necessarily be formally documented);
- Class of business;
- Territories;
- Extent of delegation of underwriting and claims authority
- Conduct Risk rating
- Financial Crime rating; and
- Control Framework rating.

5.7 Use of a Lloyd's Broker

Managing Agents should ensure that where the binding authority is arranged by a Lloyd's Broker, they are satisfied that the Lloyd's Broker has the necessary resources to administer and service the binding authority effectively. Consideration should be given to the following:

- Experience of operating and administering binding authorities;
- Knowledge and experience in the jurisdictions where the Coverholder will operate;
- Ability to administer and service the binding authority; and
- Previous issues which may have arisen.

While Lloyd's notes that Managing Agents may choose to not formally document this assessment, any matters of material concern relating to the Lloyd's Broker and its ability to service binding authority business should be appropriately escalated internally and, where applicable, to Lloyd's in line with the guidance found in **Part 7.5 – Problem Case Monitoring**.

5.8 Direct Deal Arrangements

Where a binding authority is not arranged through a Lloyd's Broker then Managing Agents require prior Lloyd's approval to 'deal direct'. Managing Agents should ensure that they have the necessary controls and resources to carry out all aspects of administering a binding authority that would normally be handled by the Lloyd's Broker, including:

- Document production; and

- Premium and claims handling (including payment of local taxes).

More detailed guidance is provided in **Appendix 7**.

Part 6 – Minimum Standard UW 1.3.3 – Delegated Authority Contracts

6.1 Introduction

All Delegated Authority Arrangements

Managing Agents should ensure that there is a contract certain delegated authority contract in place with each party to which it delegates authority, prior to inception of the arrangement. In order to achieve this, Managing Agents should consult and comply with the relevant provisions included in **Chapter 2 of the Underwriting Requirements made under the Intermediaries Byelaw** (“the Underwriting Requirements”).

Further, as far as possible, Managing Agents should also seek to apply the principles set out in the **Contract Certainty Code of Practice (October 2012)**, published by the LMG.

Lead Managing Agents should ensure that contracts have been agreed, signed and dated by all parties including, for binding authorities, the Coverholder to whom authority is delegated, prior to inception of the arrangement.

Where appropriate, Managing Agents should consider the guidance contained in:

- Crystal;
- The binding authority Quality Assurance Tool (“QA Tool”);
- Lloyd’s and LMA model binding authority and consortium agreement wordings and associated guidance; and
- MRC (Line Slip) Implementation Guide.

Binding Authorities

Managing Agents of lead syndicates should ensure that the agreement meets the requirements for Pre-Bind Quality Assurance (“PBQA”).

Managing Agents should ensure that where there is a series of wholesale or retail producers in the chain who will bind insurances and / or issue documents, they have a direct contract with each party in the chain in accordance with the Intermediaries Byelaw (see **Part 1.2**).

Managing Agents should have appropriate controls in place to monitor and verify that insurance documents have been issued by Coverholders within required timescales. All certificates issued under binding authorities should also satisfy all other requirements for Contract Certainty, the requirements of the Intermediaries Byelaw and the scope of authority delegated.

Managing Agents should ensure they only enter into binding authorities which are within the permissions granted to the relevant Coverholder on Atlas. The binding authority must also be 100% subscribed by insurers and must be registered with Lloyd’s by the Lloyd’s Broker or the lead Managing Agent on BAR.

Line Slips and Consortium Arrangements

Managing Agents should ensure that line slips are written on the MRC standard for line slips as published by the LMG and meet the requirements set out in **Chapter 2 of the Underwriting Requirements - Requirements made under the Intermediaries Byelaw Paragraph 12A**.

Managing Agents should also have careful regard to the lead and follow protocols, the format and content of documents issued under the line slip or consortium arrangement and the information provided to the followers during the operation of the agreement. The Managing Agents of the following syndicates must, in particular, ensure that the terms of the agreement will allow compliance with all of the Minimum Standards.

For line slips and consortium arrangements, the leader accepts responsibility for timeliness of document issuance and thought should be given to meeting document issuance timelines for consumer business where applicable.

6.2 Lloyd's Requirements for the Content of Contracts of Delegation

Binding Authorities

Every binding authority agreement shall contain the information, provisions and terms and comply with the conditions and requirements set out in **Paragraph 10 of Chapter 2 of the Underwriting Requirements**. All binding authority agreements should contain the names of the Coverholder's directors, partners or employees who will have authority to enter into contracts of insurance, issue documents or agree claims under the binding authority. While Lloyd's DAT no longer checks details of key staff to be authorised on Atlas, Managing Agents may use Atlas as a repository for key staff information.

Where a group of individuals on the Coverholder's staff will be given authority to bind risks, e.g. call centre arrangements, it is permissible to identify the Underwriting Director / Call Centre Manager / Chief Underwriting Officer or another member of staff with the appropriate level of seniority.

In such a case, the binding authority should state that the named individuals have overall responsibility and control of underwriting and document issuance and may delegate authority to other employees in accordance with the Coverholder's internal guidelines agreed with the Managing Agent. This must be agreed in writing by the Underwriters in advance, with the authorities made available to Underwriters upon request.

Where an agreement provides for the delegation of authority to the slip leader to agree amendments to the agreement this should be subject to clearly defined limits. Unlimited or excessive levels of delegation to a slip leader are unacceptable and pose a prudential risk to the following Underwriters. Managing Agents must accordingly ensure that any clause delegating authority to the slip leader to agree amendments to the agreement clearly sets out the scope and limits of the slip leader's authority. In general, delegation of authority should be limited to agreeing non-material amendments. As set out in **Market Bulletin Y4836**, Lloyd's would not expect such a clause to permit the slip leader to agree:

- Any increase in limit of liability in excess of 10% over that permitted by the binding authority;
- Any extension in the period of cover given under certificates issued for more than 30 days over that permitted by the binding authority;
- Any increase in the gross aggregate premium limit;
- Any material variation in ratings, terms and conditions or exclusions;
- Any class of business or any territorial extension;
- Any material amendment to vary profit commissions or fees; or
- Any other material amendments especially which may affect the risk profile of the binding authority.

Binding Authorities with Delegated Claims Authority

Any agreement where the Managing Agent has delegated authority to determine claims arising under contracts of insurance to a Coverholder or TPA shall contain the information, provisions and terms and comply with the conditions and requirements set out at **Chapter 2 of the Underwriting Requirements - Requirements made under the Intermediaries Byelaw Paragraph 17B**.

6.3 Preparation of the Contract and Processing – Sources of Information and Assistance

The LMG Template and Guidance

In preparing the contract of delegation, Managing Agents should take into account the guidance issued by the LMG. Practical assistance can also be obtained from other sources as detailed below.

The LMG has issued a set of placing standards known as MRCs. Lloyd's has mandated that these standards must be followed when drafting binding authority and line slip agreements.

The current guidelines and templates can be found on the LMG website.

LMA Model Binding Authority and Consortium Wordings

The LMA has issued model binding authority wordings and guidance notes that are intended to make it easier to prepare agreements and which support compliance with Lloyd's requirements for binding authority agreements. The most recent versions of those wordings were issued in 2013 and are outlined as follows:

- LMA 3113 (Worldwide excluding USA and Canada);
- LMA 3114 (USA); and
- LMA 3115 (Canada).

The LMA has also issued model wordings for Consortia and multi-year binding authorities (LMA 3113M, LMA 3114M and LMA 3115M). For further guidance on the requirements for multi-year binding authorities please see **Market Bulletin Y4931**.

The current MRC slip template for binding authority agreements is compatible with the latest model wordings. For further information on wordings please refer to the LMA website or see the LMA binding authority model agreements page in the Delegated Authorities section of Lloyd's website.

There is no requirement for Managing Agents to use the LMA model wordings. However, if a Managing Agent does use its own bespoke wording then:

- It must be compliant with the **Intermediaries Byelaw, Part E** (including the Requirements made under the Intermediaries Byelaw); and
- The full wording will need to be submitted to Xchanging to ensure that it is compliant.

Pre-Bind Quality Assurance

The QA Tool was launched in December 2004 to enhance the effectiveness and transparency of contract checking processes within the Lloyd's market. It is a statement of Lloyd's contract quality requirements for binding authority agreements.

The QA Tool has been developed to cover binding authority business and is intended to provide experienced personnel with information to assess slips and wordings. A series of checks are in place which, when followed, will assist market participants in identifying Lloyd's contract requirements.

Lloyd's expects lead Managing Agents to take proactive steps to ensure that all delegated authority agreements are accurate and compliant from a contract certainty and quality assurance perspective. The roles, responsibilities and experience of the Underwriter and the Lloyd's Broker are vital in achieving this. Managing agents should also consider engaging the services of a wordings specialist, whether this is an internal resource or an external service provider.

Registering Binding Authorities and Consortium Arrangements

All binding authorities must be registered on BAR prior to inception. While this is often completed by the Lloyd's Broker, it remains the Managing Agent's responsibility to ensure all their binding authorities are fully registered with correct information prior to inception.

All consortium arrangements are required to be notified to Lloyd's by the Consortium Leader at both inception and renewal of the agreement and will be added to the Lloyd's Consortia Register, which will be made available to the Lloyd's market. In order to register a Consortium please contact Consortia@lloyds.com.

6.4 Important Areas to Consider

All Contracts of Delegated Authority

Limits on Premium Incomes

The agreement must specify a limit on the annual gross premium income to be written under the contract. This is an important control and, used effectively, assists Managing Agents to manage their capacity. It is essential that the Managing Agent and the Coverholder or line slip holder agree on a realistic limit. In some cases it may also be appropriate for the Managing Agent to specify a premium income limit by a sub-class of business or, for a binding authority, by Coverholder (e.g. for multi-class or multi-Coverholder contracts with significant premium income limits).

The Managing Agent should also make sure that the agreement includes a requirement for them to be notified once the overall written premium income exceeds a set percentage of the overall gross annual premium limit stated in the agreement (e.g. 75% of the agreed gross premium limit). This gives an early warning of any potential overwriting on the contract.

If the agreement contains a provision to allow a portfolio transfer at the end of the period, the Managing Agent should consider the premium income limit and aggregate exposures in the event that the transfer does not take place.

Financial Crime

The contract should include a clear clause setting out the Coverholder's or, for consortia, agreement parties' obligations to avoid the risk of financial crime or breaching any applicable international sanctions or anti-money laundering requirements. All agreement parties (lead and follow) must be able to satisfy themselves that appropriate and effective systems and controls are in place for managing the risk of financial crime.

The LMA model binding authority wordings and Consortium Agreement contain appropriate financial crime clauses.

Termination Provisions

The Managing Agent must carefully consider the provisions for terminating the contract of delegation. It will rely on these provisions if it needs to cancel the contract, to make sure the Coverholder or agreement parties do not abuse the contract after notice of termination has been given and so that existing business can be run-off in a sound and prudent manner.

The termination provisions should allow:

- The contract to be terminated immediately in the case of fraud or dishonesty, or if Lloyd's has directed that it must be cancelled;
- The Managing Agent to terminate the contract if the ability of the Coverholder or agreement parties to carry out their obligations under the contract are materially impaired;
- The Managing Agent to terminate the contract, for any reason, after giving the agreed period of notice (Lloyd's would generally not expect this to be more than 60 days and in any case no more than 180 days);
- Extra controls to be placed over the Coverholder or agreement parties during the notice period (e.g. the contract of delegation may revert to a more restricted form of delegation, such as where the Managing Agent of the lead syndicate has to agree each risk to be accepted); and
- Takeover and ownership of files and data in connection with a binding authority.

Careful consideration should be given to setting the applicable notice period that the Coverholder or agreement parties can give to terminate the agreement. It is important that any notice period the Coverholder or agreement parties can give is long enough to allow the Managing Agent to find an alternative arrangement, if required.

The contract terms should also set out the duties of the Coverholder or agreement parties once termination notice has been given (e.g. returning insurance documents and providing access to underwriting and claims records).

A 'suspension' provision may also be included in the contract of delegation. This provision will allow the Managing Agent to stop the Coverholder or agreement parties from entering into contracts of insurance, issuing insurance documents or paying claims. Such provision is likely to be important if serious irregularities are brought to the attention of the Managing Agent, to allow time for the matter to be investigated.

Jurisdiction and Choice of Law

The agreement should include a clear statement of the applicable law and jurisdiction.

Contracts with Multiple Sections with Different Leads

It is acceptable to enter into agreements with multiple sections, each with a different lead. When writing a contract such as this, it is important that the authority granted under each section (and the parties to whom authority is granted) is clearly set out. Any other particulars relevant to that section should also be clearly stated.

Binding Authorities

Premium Settlement

The Coverholder is usually responsible for collecting premiums on behalf of the Managing Agent. The binding authority agreement must clearly set out the Coverholder's responsibilities in terms of bordereaux format, reporting and settlement frequency.

Insurance Monies

It is essential that the Coverholder understands that insurance monies are held on behalf of Underwriters. Coverholders must hold that money in a separate insurance monies account. In many jurisdictions, that separate account must be a trust account. Even where this is not required, the use of trust accounts is strongly recommended. This is important to protect Underwriters' funds if the Coverholder becomes insolvent.

In addition, Managing Agents should endeavour to secure a 'no set-off' letter from the bank at which the Coverholder's premium account is held. Lloyd's has worked with the LMA and LIIBA to produce a model letter wording for use by non-FCA regulated Coverholders. FCA-regulated Coverholders already have a set of industry model bank letters (see **Market Bulletin Y4332**).

Internet Selling

If a Coverholder is to be permitted to bind contracts online then that must be clearly stated in the binding authority agreement. Section 4.2 of the LMA model wordings states that Underwriters must agree in advance to any internet trading carried out by a Coverholder. In this situation, the Managing Agent should approve the relevant aspects of the Coverholder's website before the Coverholder offers the insurance on their behalf. Relevant considerations include:

- Approval of the arrangements in place for data privacy and security;
- Approval of site developers;
- Up-to-date service level agreements in place between the developer and the Coverholder; and
- Regular site maintenance.

For further requirements in relation to internet selling see also **Parts 1.6 and 8.1**.

Using Lloyd's Name

The binding authority agreement must make it clear that when the Coverholder refers to Lloyd's in any publicity, letterheads, directories or advertising material they must follow the Lloyd's brand guidelines (available on the Lloyd's website).

Hold Harmless Clauses

Lloyd's does not expect to see hold harmless and / or indemnity clauses for the benefit of the Coverholder to be included in binding authorities. These clauses would require the Underwriters to indemnify and hold harmless the

Coverholder in respect of any claims that may be brought by third parties arising from the Coverholder's negligent operation of the binding authority. They also prevent Underwriters from seeking any legal redress against the Coverholder for breaching the terms of the binding authority other than in very limited circumstances.

Lloyd's recognises that as part of the commercial negotiation of a binding authority agreement, parties may wish to negotiate limitations of liability. The level of any limitations will depend upon a number of factors including the nature and scope of the delegation of authority, the class of business that may be bound and the risk appetite of the Managing Agent.

However, Lloyd's is of the view that agreement to a hold harmless and / or indemnity clause:

- Is inconsistent with the fiduciary nature of the duties owed by an agent to its principal;
- Is inconsistent with regulatory expectations for outsourcing agreements (see SYSC 13.9 by way of guidance);
- Risks making the terms of the binding authority agreement in practice unenforceable; and
- May represent an unmitigated operational risk for Underwriters.

Line Slips and Consortium Arrangements

Leadership and Rating Transparency

Within the agreement, the manner or basis for the calculation of premiums, discounts, commissions, brokerages, fees, charges and expenses must be specified. Lloyd's would expect the slip leader to outline within the agreement any preferential terms which may be agreed by the slip leader (e.g. leader's fees, differential premiums or commissions). In this regard, any 'slip leader only' side-agreements should be disclosed to following Underwriters. Slip leaders would not be expected to bind risks below terms which they have agreed through other placements without full disclosure to Following Underwriters.

Operation of the Agreement

Where there are more complicated agreements, including the use of 'drop-down leaders', the operation of those agreements must be carefully considered. The purpose of 'drop-down leaders' should be clearly articulated and documented in the agreement in a way that is transparent to all participating Underwriters. Lloyd's would expect the provision of a 'drop-down leader' to only be triggered where the overall slip leader is unable to write the risk (e.g. having already committed its maximum line to the risk through another placement).

Following Underwriters should ensure that they are comfortable with the number of 'drop-down leaders' and their capabilities. Following Underwriters should consider what potential there is for adverse selection prior to agreeing to the Agreement.

Authorised Classes of Business

The agreement should clearly specify the nature or types of risks which the slip leader will be authorised to write under the agreement. Consideration should be made as to when certain risks may require following Underwriters' review or acceptance, particularly where the scope of the agreement has been set quite broadly.

Limits and Aggregates

Consideration should be given to the limits being accepted under the agreement and the management of aggregation where applicable, including the potential referral of risks to following Underwriters for acceptance within a specified timeframe. For agreements with multiple sections, Managing Agents should have particular regard to any cross-class aggregation that may arise.

Broker Remuneration and Deductions

Under the terms of a line slip the Lloyd's Broker is acting as agent of the insured and, as such, the payment of commissions to the broker should be carefully considered before being agreed by the Managing Agent. Particular regard should be had to the payment of any volume-based commissions or profit commissions.

Before proceeding, Managing Agents should ensure they have taken into account the detailed guidance previously issued by Lloyd's, which is now contained in **Performance Management – Supplemental Requirements and Guidance** (available on Lloyd's website).

Hold Cover

Under a line slip, authority is sometimes given to the Lloyd's Broker to 'hold cover' on behalf of Underwriters. This is where the agreement parties have quoted a premium for a specific risk and have finalised all contractual terms and conditions for that risk, or where the agreement parties have quoted a premium for a specific risk and have finalised all contractual terms and conditions for that risk and have required the Broker to resolve a list of pre-conditions prior to cover being provided.

In such a case, the Lloyd's Broker may be permitted to confirm cover to the policyholder upon confirmation that the pre-conditions have been met. The Lloyd's Broker must not be permitted to vary the premium or contractual terms and conditions quoted by the agreement parties and / or the pre-conditions. Any authority delegated to the Lloyd's Broker to amend the above (beyond extending the time period for the pre-conditions by a permitted and reasonable amount of time) will constitute a delegation of authority that would require the Lloyd's Broker to be approved as a Coverholder³.

Further guidance on areas which require particular attention when writing line slips can be found in **Market Bulletin Y4991**.

6.5 Processing Delegated Authority Contracts

Binding Authorities

Where processing via central settlement and / or the recording of reporting information is required, the binding authority agreement should then be submitted to Xchanging. It is normally submitted by the Lloyd's Broker or Service Company. Xchanging will not process a binding authority agreement unless there is clear evidence that the Managing Agent and Coverholder have both agreed the binding authority agreement prior to inception.

The MRC (Binding Authority), including the schedule to the main wording, and syndicate numbers and signed lines will be required by Xchanging to enable them to carry out their post-bind quality assurance check and allocate a 'for declaration only' ("FDO") signing number.

For contracts which incorporate one of the model wordings, there is no requirement for the text of the wording to be provided to Xchanging. However if the Managing Agent (or the Lloyd's Broker) specifically wishes to have the full binding authority signed and embossed, then the full number of copies and the model wording will need to be submitted.

At a high level, Xchanging process binding authorities in a similar way to other types of business transacted at Lloyd's. An initial London Premium Advice Note ("LPAN") is completed with all relevant details by the broker for the FDO signing of the binding authority itself, and subsequent LPAN / Lloyd's Claims Collection Form ("LCCF") presentations are then made in the form of bulked submissions on a monthly, quarterly, or as agreed basis in accordance with the binding authority. Xchanging will carry out checks with respect to premium and claims processing information (e.g. Risk Code) and necessary closing information (e.g. LPAN / LCCF).

Consortium Arrangements and Binding Authorities

Consortium arrangements are traditionally processed using a 9000 number, which is used by Xchanging to allocate premiums and claims on a pre-determined basis. Consortium arrangements not wishing to process premium and claims through a 9000 number should notify Lloyd's and consult the requirements for establishing a consortium under **Part 1.4**. If a consortium arrangement is set up without a 9000 number and the processing is to take place outside of Xchanging, the lead Managing Agent should contact Lloyd's DAT in advance to confirm that the Consortium Manager / Leader has the ability to process and report risk and premium information to the other participants.

³ Market Reform Contract (Lineslip) Implementation Guide Version 1.4 October 2011

Coverholders can also use 9000 numbers. Please note, however, that a Coverholder processing under a 9000 number is not a Consortium and any Coverholder processing under this number should review the guidance in **Part 1.4** and also on Lloyd's website. Any further questions should be directed to Consortia@lloyds.com.

When first formed, Xchanging will provide the Consortium or Coverholder with one or more 9000 numbers which is used to identify the Consortium or Coverholder to the market. A new 9000 number will need to be allocated if the syndicate participation changes in any way, either mid-term or from one calendar year to the next. Otherwise the number may be reused at renewal.

For any Consortium or Coverholder using a 9000 number the contract, or the accounting period within a multi-year contract must expire no later than 31 December annually – it must not span more than one year of account. Premiums are processed by Xchanging using the stamp and 9000 number reference, with premiums allocated on a pre-determined basis for each risk bound. The security used and the lines committed cannot vary during the period of the agreement; a 9000 number should not therefore be considered if Managing Agents wish to vary the line they take on individual risks presented. For further details on 9000 numbers please consult **Xchanging Market Communication Reference: 2014/001 and Performance Management – Supplemental Requirements and Guidance**.

Line Slips

Bulking and non-bulking line slips are processed differently at Xchanging. Key points to be aware of are outlined as follows:

Bulking Line Slips

- An original signing number and date (“OSND”) is allocated to the line slip and the FDO signed;
- All declaration premiums are signed as additional premiums against the line slip OSND; and
- Risks are typically grouped within a premium bordereaux and processed via Xchanging on an agreed basis (e.g. monthly or quarterly).

Non-Bulking Line Slips

- A Year of Account scheme OSND FDO is allocated to the line slip.
- Individual declarations are processed separately by the broker as if they were open market risks;
- The Unique Market Reference (“UMR”) and LPSO OSND for the line slip must be clearly shown on the declarations attaching to the line slip; and
- The declarations attaching to the line slip should not contain open market lines unless expressly permitted within the line slip agreement.

6.6 Insurance Documents

Binding Authorities

The Managing Agent must ensure that it has reviewed and agreed the format and content of the insurance documents which the Coverholder will issue. All participating Managing Agents should hold copies of the agreed format on file.

Managing Agents must ensure that every insurance document issued to a policyholder contains an appropriate several liability clause. This applies whether or not the agreement is entered into by one or more syndicates and whether or not there is any non-Lloyd's security on the agreement. The LMG has produced a **Decision Chart (November 2012)** for identifying the appropriate several liability clause to be used for both binding authority agreements and insurance documents issued to policyholders.

Content of Insurance Documentation – Binding Authority Agreements

Insurance documentation evidencing contracts of insurance issued by a Coverholder must include the following information, provisions and terms:

- Binding authority UMR (see **Market Bulletin Y4569**);
- Name and address of the Coverholder;
- All relevant terms and conditions that relate to the contract of insurance entered into by the Coverholder including:
 - Relevant wordings, exclusions and limitations;
 - The maximum period of cover;
 - The limits of liability (other than where inclusion of such a limit would be contrary to any applicable law); and
 - any applicable excess or deductible,
- The amount of the premium and any other information relating to the cost of the contract of insurance that is required by applicable laws or requirements to be disclosed;
- Information about the procedures for handling claims arising under the contract of insurance and for the resolution of complaints;
- A unique contract number;
- Provisions that explain the several liability of the members of the syndicate underwriting the contract of insurance;
- Other information as the policyholder may properly require;
- The law and jurisdiction applicable to the contract of insurance; and
- Any other provisions required under the laws or requirements of the jurisdiction in which the contract was concluded, where the insured is domiciled or of any other relevant jurisdiction and any other provisions as required by the relevant representative or agent of the Society.⁴

Combined or Joint Certificates – Binding Authority Agreements

Managing Agents may wish to permit their Coverholders to issue combined certificates to policyholders (i.e. a single certificate that evidences a contract of insurance in which a proportion of the security is to be provided by insurers other than members of Lloyd's). These are also often referred to as joint certificates.

Managing Agents should only permit combined certificates to be issued where they believe it to be appropriate and prudent so to do. Lloyd's has established rules regarding the use of such certificates to manage the associated risks, as follows:

An Approved Coverholder under a registered binding authority may only issue insurance documentation evidencing contracts of insurance in which a proportion of the risk is to be accepted by insurers other than members (a "joint certificate") provided that:

- Each Managing Agent that is a party to the binding authority has agreed to the issue of joint certificates;
- The joint certificate includes all the details that are required to be included in insurance documentation evidencing contracts of insurance that are issued by an Approved Coverholder under a registered binding authority;
- The proportion or amount of risk accepted by Lloyd's underwriters is expressly stated on the joint certificate and is specified separately from the proportion or amount of risk accepted by other insurers;
- The joint certificate contains the following appropriate several liability statement in accordance with **Market Bulletin Y4133** (Binding Authorities US and non-US Combined ("joint") certificates issued by Coverholders) dated 11 March 2008; and
- The issuance of joint certificates has been confirmed as an acceptable practice by the general representative in the country in which their issuance is required or, in the absence of such a general

⁴ Requirements made under the Intermediaries Byelaw, Paragraph 15

representative, by the Franchise Board, save that nothing in this paragraph shall permit a joint certificate to be issued in circumstances where that would contravene any relevant territorial general cover condition or would contravene any requirements of the jurisdiction in which the Coverholder is domiciled, or any other jurisdiction in which the Coverholder trades, provides services or does business.⁵

To assist Managing Agents in managing the associated risks and meeting Lloyd's requirements, Lloyd's issued **Market Bulletin Y4133**. This sets out the procedures to be followed for all combined certificates including, for the avoidance of doubt, where the certificate relates to US business. Critically, this bulletin sets out the relevant several liability clause to be used on combined certificates (which has also been issued by the LMA as LMA 5096).

⁵ Requirements made under the Intermediaries Byelaw, Paragraph 16

Part 7 – Minimum Standard UW 1.3.4 – Management and Monitoring of Delegated Authorities

7.1 Introduction

Managing Agents, lead or follow, should monitor the performance of all Coverholders to whom they have delegated authority as well as monitoring the delegation of authority to another Managing Agent or insurance company under either a line slip or a consortium arrangement. To monitor performance, Managing Agents should specify the information the Coverholder or agreement parties are required to provide, and its frequency, within the delegated authority contract.

7.2 Internal Resources

A Managing Agent must retain the necessary expertise to supervise delegated authority contracts effectively and manage the risks associated with these. Therefore the Managing Agent must demonstrate that it has the necessary internal resources to monitor the contracts of delegation, for example through an appropriately skilled individual or an in-house delegated authority team. This individual or team will have:

- Skills and experience suitable for managing the delegated authority portfolio;
- A clear set of policies and procedures, defining roles and responsibilities; and
- A clear structure for management reporting

Resources should include an IT system capable of supporting the record keeping and contract monitoring process, appropriate for the number and complexity of delegated authority arrangements written, particularly the number of lead contracts.

Effective monitoring can be achieved through:

- Written procedures detailing the processes, areas of responsibility and systems to be used in monitoring and renewing contracts;
- Procedures describing requirements and responsibilities for credit control monitoring;
- A suite of exception reports to enable senior management to address key issues;
- An effective annual Coverholder audit programme and systematic follow up of report recommendations; and
- Establishing a formal committee which has responsibility to the Managing Agent's Board for the oversight of delegated authority issues.

7.3 Management Oversight and Key Performance Indicators

Managing Agents are expected to be able to demonstrate their oversight of delegated authority arrangements including reporting to the Managing Agent's Board on a regular basis. In order to do so, Managing Agents should have Key Performance Indicators ("KPIs") in place which allow them to monitor their controls and processes for delegated authority. The KPIs should be regularly reviewed by either a formal sub-committee of the Board charged with oversight of delegated authorities or by management. In either instance, there should be appropriate escalation of core KPIs to the Board, including those pertaining to new Coverholders, key exceptions or issues which arise.

Managing Agents may adopt a risk-based approach to the KPIs they produce, based on their delegated authority portfolio. Lloyd's has outlined several suggested KPIs in **Appendix 8**, although it is for individual Managing Agents to determine the key metrics for monitoring compliance with the Minimum Standards and an appropriate mechanism for reporting through their governance framework.

7.4 Efficient Record Keeping

All Delegated Authority Arrangements

Managing Agents are expected to keep adequate records of all delegated authority contracts they lead. While the requirements for binding authorities will differ from those for line slips and consortia, key records that the Managing Agents should maintain or have access to may include the following:

- A copy of the Lloyd's Coverholder Application Form;
- Relevant, up-to-date information relating to the:
 - Lloyd's Broker (if any);
 - Business proposed (for example, the underwriting plan); and
 - Coverholder.
- Information relating to the contract of delegation, such as:
 - Any rating basis, schedule or guide;
 - Details of certificate wording and extra clauses;
 - The format of insurance documents;
 - Proposal and claim forms; and
 - Copy slips and any endorsements.
- A copy of the current agreed contract of delegation, signed by all parties, including any endorsements;
- A copy of the agreement with any TPA;
- Copies of relevant statistics, premiums and claims reports and any other relevant underwriting information;
- Details of any complaints, potential litigation or other potential problems;
- Copies of any Coverholder review specialist's reports;
- Copies of all audit / visit reports.

Managing Agents of following syndicates should at least keep copies of the Coverholder signed slip and any other information appropriate to them (e.g. aggregate exposure reports).

7.5 Problem Case Monitoring

Binding Authorities and Coverholders

Managing Agents must have a procedure in place for identifying and monitoring problem cases. Problem cases can arise where there are serious irregularities such as fraud or dishonesty, or where it becomes apparent that the Coverholder is suffering financial difficulties which may impact its performance.

Managing Agents are required to notify Lloyd's of any serious concern or issue that arises in their dealings with Coverholders and these will also need to be reported to the Board of the Managing Agent as soon as possible.

A serious concern or issue would be one which, if substantiated and uncorrected, would:

- Result in the Managing Agent deciding to cancel the contract or commence legal action against the Coverholder; or
- Otherwise indicate that the Coverholder may no longer be suitable to be approved.

Lloyd's expects to be informed of situations where the Coverholder has:

- Become insolvent / bankrupt;
- Committed (or may have committed) a criminal offence or acted fraudulently (this includes any principal officers);
- Materially breached the contract terms and conditions and / or operated outside its authority;
- Failed to pass on funds received from policyholders;
- Behaved in a way that risks damaging Lloyd's licences, the Central Fund or Lloyd's reputation;

- Incorrect or inappropriate use of the Lloyd's brand (please refer to the brand guidelines on Lloyd's website); and
- Systems that may not be 'fit for purpose' (i.e. not sufficiently robust to efficiently administer or report on the business bound).

This list is not exhaustive and, if in doubt, the Managing Agent should notify Lloyd's DAT of its concern. Managing Agents should also notify Lloyd's if any of the above issues arise in relation to a Lloyd's Broker.

Other issues can arise with Coverholders, such as delays in bordereaux reporting or premium settlement, or a delay in implementing audit recommendations. These should be identified via exception reports and escalated internally to an appropriate forum for resolution and monitoring. Managing Agents should ensure that these issues are closely monitored, as they can often serve as early indicators of more serious issues.

7.6 Reporting Risks, Premium and Claims

Binding Authorities and Coverholders

Coverholders must report regularly to Managing Agents on risks they have written, premium payments and claims. In some territories there is also a requirement for the Coverholder to report to the local Lloyd's office.

Coverholder Reporting Standards

Lloyd's has agreed a set of Coverholder Reporting Standards ("the Standards") with the market, which include core regulatory, tax, premium and claims information. The Standards apply to all Coverholders and to TPAs with delegated claims authority. The Standards have been mandatory for all new Coverholders since April 2011 and are intended to provide:

- A clear statement of the information Coverholders and TPAs need to provide for the whole of the Lloyd's market;
- The freedom and flexibility for Coverholders and TPAs to use their own systems and technologies;
- A reduction in re-keying information and the need for manual intervention;
- More informed decision making;
- Standard information flows; and
- A consistent list of requirements around which processes and systems can be designed.

The Standards state the minimum information that Coverholders and TPAs are required to report to Managing Agents. They are intended for use for all classes of business in all territories. The Standards include a series of mandatory fields which must always be reported and also set out a series of conditional fields which will be required in some circumstances (e.g. for certain classes and territories). Lloyd's Brokers and Managing Agents are expected to help ensure that new Coverholders adopt the Standards.

Version 5 of the Standards was released in July 2016 and includes a number of changes from the previous version; the data requirements included in Version 5 are mandatory for all binding authorities incepting from 1 July 2017 (see **Market Bulletin Y5015**).

It is not a requirement of the Standards that the information be reported in a particular format or manner; however, Lloyd's has provided spreadsheet templates which can be used for reporting. Lloyd's has also worked with ACORD to create eXtensible Markup Language ("XML") which can be used to meet these requirements.

Full details of the Standards, including a user guide, local office reporting requirements, spreadsheet templates and links to ACORD XML are available on Lloyd's website.

Monitoring Compliance with the Binding Authority

Effective and regular reporting by the Coverholder is key to enabling the Managing Agent to monitor compliance with the binding authority agreement. The following list is not exhaustive but, where appropriate, Managing Agents should consider monitoring:

- Premium income against the GPI limit on the binding authority;
- Aggregate exposure reports, providing information to monitor the risks in a particular territory or zone;
- Compliance with limits and conditions;
- Ensuring the Coverholder is only writing business in the territories for which it is approved;
- The Coverholder or TPA's handling of claims, which might include:
 - Accuracy of reserve recommendations;
 - Pursuit of recoveries (where appropriate);
 - Timeliness of reporting, reserving, investigations and settlement of claims;
 - Frequency of claim review;
 - Selection, monitoring and management of third party experts;
 - Coverage analysis;
 - Quality of customer (i.e. policyholder) service;
 - Breaches of terms of delegation contract;
- Rating adequacy;
- Claims fund reports, providing details of all payments made to and from the claims fund; and
- Other reports to show the Coverholder is keeping to your required service standards.

Issues flagged during ongoing monitoring should be logged and reviewed on a regular basis, to ensure that the points can be identified and prioritised. Managing Agents should resolve serious or repeated breaches as a matter of urgency and escalate them to a senior level.

Credit Control

The Managing Agent will need to monitor the performance of the Coverholder with respect to meeting terms of trade and collection of premiums. This may take the form of:

- Reviewing aged debt reports on a regular basis;
- Exception reporting showing cases where terms of trade were exceeded and by how much, per risk written, class of business and territory;
- Reviewing unallocated cash reports on a regular basis; and
- Reviewing reinsurance recoveries (where appropriate).

Underwriting Performance Reviews

Underwriting performance reviews should encompass the above guidance in relation to the monitoring of compliance with the binding authority and credit control and should:

- Be conducted at binding authority, Coverholder and class of business levels;
- Include a review of 'earned to incurred' reports, providing details of the Coverholder's profitability;
- Include a review of reserves, reinsurance purchased and IBNR;
- Provide any analysis as conducted by the actuarial teams, usually at Managing Agent level; and
- Include an analysis of Broker commissions (Lloyd's and local).

The ultimate aim is to monitor the Coverholder's underwriting performance and assess performance of the binding authority against plan. The outcome of such performance monitoring should be reported to the Managing Agent's underwriting committee and Board on a regular basis.

7.7 Reporting to Following Underwriters

Line Slips and Consortium Arrangements

The slip leader is responsible for ensuring that the arrangement provides for sufficiently detailed information relating to the business bound to either be provided or made available to the following market, in order to allow the following Underwriters to meet the Lloyd's Minimum Standards.

For bulking line slips and consortia, information relating to declarations bound is usually provided to the following Underwriters by bordereau, which should provide sufficient risk data to enable following Underwriters to adequately monitor the performance of the delegated authority.

The information should be made available to following Underwriters in accordance with the frequency specified in the line slip or consortium agreement. Once this information has been received, following Underwriters are expected to monitor, measure and assess the business written on their behalf accurately and on a timely basis.

7.8 Audits of Coverholders

Audit policy

Managing Agents should develop, document and implement a policy which governs their approach to the use of independent (internal or external) audit of entities to which they delegate authority. It is not expected that Managing Agents will perform audits on other Managing Agents for line slips or consortium arrangements; however, Lloyd's would expect a Managing Agent's internal audit processes and internal performance reporting to include monitoring of line slip and consortium business.

The policy for internal or external audits of Coverholders will normally address:

- Frequency of audits based on the Managing Agent's risk assessment of the entity;
- Scope for review to be included in the terms of reference for the auditors;
- Identification of appropriately skilled auditors able to fulfil the terms of reference; and
- Agreement, implementation and tracking of recommendations resulting from the audits.

During the first year of a new Coverholder relationship, the Managing Agent must monitor the Coverholder more closely. The first year usually presents a higher risk because it will take time for the Managing Agent and the Coverholder to develop their working relationship. For this reason, Lloyd's strongly recommends that the Managing Agent visits the Coverholder within the first year of a new relationship and, if practical, that an independent audit is also conducted.

Risk Indicators for Developing the Coverholder Audit Policy

Each Managing Agent will have a set of key risk indicators to consider when developing their audit policy which may include, but is not limited to, the following:

- Coverholder estimated premium income in that particular reporting period;
- Level of authority granted under the binding authority;
- Coverholder change in circumstances such as change of ownership, management, territory;
- The number of binding authority agreements that the Coverholder manages;
- Classes of business written under binding authority agreements;
- Territories the Coverholder is conducting business in;
- Value of outstanding claims;
- Loss ratios;
- Level of complaints received;
- Type of customer (i.e. Consumer, micro-enterprise, commercial); and
- Insurance products being sold.

An assessment of the risk indicators will enable the Managing Agent to ascertain the frequency with which the Coverholder should be audited.

Auditors

Coverholder audits will normally be conducted by review specialists. Whether these specialists are employed by the Managing Agent or are third parties, retained on a case by case basis, the same standards of conduct apply.

The Managing Agent's audit policy should include a selection process for auditors based on:

- Auditor's experience (including a consideration of local market and Lloyd's knowledge);
- Market standards;
- Auditor availability in the territory concerned;
- Whether the auditor's skills and experience match the audit scope; and
- Cost.

Whether audits are conducted by internal or external staff there should be a clear rotation policy in place, ensuring the same individual does not audit a Coverholder too many times in succession; ideally no more than three consecutive audits should be conducted by the same individual.

Audit Scope

An appropriate audit scope will be determined by the Managing Agent for each Coverholder audit they arrange, which will be communicated to the auditor in advance of the audit as part of the terms of reference. Lloyd's strongly recommends that the Lloyd's Standard Audit Scope be used as a basis for the audit, although individual circumstances may require a bespoke scope to be prepared.

While it is not expected that Managing Agents will require the full scope to be used every time a Coverholder is audited, consideration should be given to the areas to be covered, such as:

- Underwriting;
- Claims (if authority has been delegated);
- Aggregate, risk and premium bordereaux analysis;
- Documentation;
- Conduct Risk;
- Accounting and general finance;
- Accounting transactions;
- Compliance and governance;
- IT and data security;
- Management oversight; and
- Review of previous recommendations.

When scoping the audit, the Managing Agent should review the risk profile of the Coverholder and due diligence information held on the Coverholder; the audit should be used to test the Coverholder's processes and controls, not for information gathering. Managing Agents should consider those areas which have been tested previously or that represent a higher risk in order for the audit to address the requested areas in sufficient detail.

Report and Follow-up Process

Upon completion of the audit, the auditor should document their findings and any recommendations in a formal report to the Managing Agent. The report should be reviewed by appropriate personnel at the Managing Agent and the recommendations agreed before they are communicated to the Coverholder.

When a recommendation made by an auditor is not considered necessary by the Managing Agent, a note confirming the decision not to follow up on the recommendation should be kept on file.

An effective tracking and follow-up process should be in place to ensure that recommendations made as a result of the audit are recorded and implemented to the Managing Agent's satisfaction. This should include a clear process for escalation when a recommendation is contentious or the resolution of audit recommendations is problematic.

Following Market

For Coverholders with a binding authority written by more than one Managing Agent, it is the lead's responsibility to arrange audits. However, the cost of these audits is usually shared across all participants on a pro-rata basis. As such, the audit report should be made available to the following market; usually via the Lloyd's Broker. Following Managing Agents should also be kept informed of steps being taken to address issues identified during audits.

Coverholder audit reports may be uploaded to the relevant Atlas record and viewed by parties with a registered interest in the Coverholder.

Audit Coordination

Single audits should be arranged with the Lloyd's Broker and the Coverholder. For Coverholders with binding authorities on behalf of two or more Managing Agents, Lloyd's DAT is able to coordinate the audit process in order to minimise disruption to Coverholders. Audit coordination is managed via the Audit Information Management System ("AiMS"), a secure web-based system available for market participants to use via the Lloyd's website. Managing Agents may choose to operate outside of the audit coordination process at their discretion; however, use of the centralised audit coordination function is strongly recommended.

On an annual basis, Managing Agents electing to participate in the coordination process will be asked which of their Coverholders they require to be audited in the forthcoming year, in which quarter and by which auditor. This information is collated by Lloyd's to produce a schedule of audits, agreed by all Managing Agent participants, which is shared with the relevant auditors and Lloyd's Brokers.

The rotation policy which Lloyd's has taken for coordinated audits is to ensure that the same firm does not audit a Coverholder too many times in succession; ideally no more than three consecutive audits should be conducted by the same firm.

The full audit process will be managed through AiMS and Lloyd's will monitor the progress of these audits against agreed Service Level Agreements.

Further details of the coordinated audit process are available on Lloyd's website or by emailing covaudit@lloyds.com.

7.9 Non-Renewal and Termination of Binding Authorities

Managing Agents are expected to deal with non-renewal or termination of a binding authority contract in an appropriate manner. When deciding whether or not to renew a binding authority, the Managing Agent should consider the following (in addition to underwriting assessments of the contract):

- Relevant licences, permits, and PI insurance held by the Coverholder;
- The Coverholder's financial standing;
- How the Coverholder has administered and operated the binding authority (including keeping to the agreed service standards);

- Significant changes to the Coverholder's circumstances; and
- Other problems or potential issues (i.e. arising from an audit or underwriting visit, complaints or potential litigation or regulatory issues).

If a binding authority is not renewed, it is essential that its run-off is closely monitored paying due regard to the interests of policyholders.

Practical Implications of Non-Renewal of a Binding Authority

Some jurisdictions regulate an insurer's processes for renewing or not renewing an insurance contract. These regulations are particularly common for insurance bought by individual consumers rather than businesses. In such cases, an insurer proposing not to renew a contract of insurance may need to provide notice of non-renewal in a particular form, giving a specified period of notice before the insurance will end. Failure to do so can mean the contract of insurance automatically renews on its previous terms and conditions.

The Coverholder must handle the non-renewal of such contracts of insurance in accordance with local law and requirements. The Managing Agent must also consider the effect of such provisions if it has decided not to renew the binding authority. It is important that the Lloyd's Broker and Coverholder are given sufficient notice of any decision not to renew the binding authority. This will give them a reasonable opportunity to handle the non-renewal of individual contracts of insurance correctly. If reasonable notice is not given, or it is not ensured that the Coverholder handles non-renewal of contracts of insurance correctly, the syndicate underwriting the binding authority may be committed to renewing individual contracts of insurance that it did not intend to renew.

In most binding authorities, the Coverholder is responsible for collecting premiums on behalf of the Managing Agent. It is essential that the Coverholder's responsibilities and appropriate service standards are clearly set out in relation to collecting premiums throughout the duration of the run-off.

Termination of a Binding Authority

The termination of a current binding authority is a significant event. A binding authority is usually only terminated mid-term if there are serious problems with the Coverholder, such as not meeting licensing or regulatory requirements, issuing insurance documents without insurance cover or where there is fraud or dishonesty.

It is essential that the termination is handled effectively to avoid disproportionate amounts of management time being invested in resolving issues, such as operational and reputational risks for the Managing Agent involved and Lloyd's. If the Managing Agent does terminate a binding authority, it must follow the notice requirements and any other relevant limitations or conditions specified in the agreement.

Giving Notice

The main considerations to bear in mind before giving notice of termination or non-renewal include the following:

- Identifying which parties need to be informed and when. This may include:
 - The Lloyd's Broker;
 - Managing Agents of following syndicates;
 - Lloyd's DAT;
 - Lloyd's local representative;
 - Coverholder audit specialists; and
 - Appointed TPAs.
- Identifying how the notice should be delivered to the Coverholder;
- Preparing the notice, setting out precisely what the Coverholder is expected to do during the period of notice and once the notice has ended. Particular attention is needed to make sure the Coverholder is clear about how amendments to existing contracts of insurance and new contracts of insurance will be treated;
- Identifying potential substitute run-off providers at an early stage in case it is necessary to transfer the responsibility for run-off away from the Coverholder;

- Identifying potential TUPE obligations;
- Considering whether it is necessary for a representative of the Managing Agent to supervise the Coverholder during the notice period;
- Identifying who to speak to at the Coverholder's offices to explain the reasons for the cancellation and what will be happening. Wherever possible, the Managing Agent will want to keep a good working relationship with the Coverholder;
- Removal of any access rights the Coverholder may have been granted to the Managing Agent's systems to prevent them logging on and continuing to bind risks;
- If the Coverholder prints certificates, the Managing Agent should formally instruct the Coverholder not to print any further certificates; and
- Establish who will carry out the handling of claims after the termination of the contract, having carried out all necessary due diligence and prepared the necessary contractual and process documentation if a new TPA is to be appointed.

When giving notice, Managing agents should also give careful consideration to the impact on policyholders and the Managing Agent should have arrangements in place to ensure that any disruption to policyholders is minimised.

Under the terms of the LMA model binding authority wordings, notice must be given in writing and delivered to the Coverholder with a copy provided to the Lloyd's Broker (if applicable). The Managing Agent must notify Lloyd's if the termination raises any issues of significant concern.

After the notice has been given, the Managing Agent should:

- Closely monitor the contracts of insurance which the Coverholder enters into during the notice period and make sure the Coverholder does not enter into any contracts of insurance after the notice period ends;
- Consider whether it is necessary to visit the Coverholder or appoint audit specialists to assist in ensuring an orderly run-off;
- Request appropriate reports from the Coverholder in order to monitor the handling of the run-off (paying particular attention to claims handling and reporting of any difficulties or complaints);
- Ensure the Coverholder has sufficient funds to pay claims (if applicable);
- Satisfy itself that the Coverholder's financial position remains adequate;
- Satisfy itself that the Coverholder has adequate human and system resources to handle the run-off; and
- Ensure the Managing Agent has access to all key documents relevant to the run-off (e.g. policyholder details and claims files).

In some circumstances where a binding authority has been terminated or not renewed, it may not be possible or appropriate for the Coverholder to handle the run-off. This may be for a variety of reasons, but will often be connected to deterioration in the financial standing of the Coverholder.

If these problems cannot be resolved quickly, the lead Managing Agent (usually with the Managing Agents of following syndicates and the Lloyd's Broker) will need to take steps to transfer the run-off responsibilities to another party.

If the run-off responsibilities are transferred to another party, the Managing Agent will need to ensure that:

- All relevant insurance and claims documents are transferred;
- A suitably experienced party is appointed to handle the run-off and has clearly defined responsibilities and service standards; and
- The reputations of the Managing Agent and Lloyd's are protected and any Lloyd's representative or local regulator is properly informed of the transfer.

Part 8 – Guidance on Regulatory Requirements

8.1 Internet Security

There are inherent risks when using the internet and therefore Managing Agents should fully inform themselves of these. As a precursor to trading over the internet, the Managing Agent should have a documented information security policy, reflecting industry good practice. It is the Managing Agent's responsibility to ensure that any online services the Managing Agent or its Coverholders operate or use to transact business are adequately secured, particularly with regard to confidentiality, integrity and availability. In doing so, all local legal and regulatory requirements must be complied with, noting that these can vary from country to country.

Regular system back-ups should be taken and effective business continuity and disaster recovery arrangements documented, implemented and tested. These should include provision for alternative methods of trading should internet connectivity and / or the website fail.

8.2 Financial Crime

Binding Authorities and Coverholders

Managing Agents have a responsibility to check compliance by Coverholders in respect of anti-money laundering legislation, international sanctions and the Bribery Act 2010. This, however, does not remove Coverholders' own individual responsibilities under relevant legislation (both international and local).

Specific questions relating to these issues should be included as part of the Coverholder due diligence assessment, with verification of the controls tested during the independent audit process. At a minimum, Coverholders should be able to demonstrate procedures covering the following:

- Recognition and reporting of suspicious transactions / sanctions issues;
- Staff training and awareness; and
- Record keeping.

For further information on financial crime and Coverholders please see **Appendix 6**.

8.3 Complaints

Binding Authorities and Coverholders

Managing Agents have a responsibility to monitor and report on complaints from Lloyd's customers and to ensure that all complaints are handled properly and fairly. It is therefore important that Managing Agents provide their Coverholders with sufficient information as to the Managing Agent's expectations and requirements for handling complaints. Where Coverholders are given authority to handle complaints, Managing Agents must have confidence that the Coverholder has the necessary capabilities to recognise and report complaints to them on an ongoing basis.

Coverholders should be required to report any complaints to the Managing Agent in a timely manner and in accordance with any requirements issued by Lloyd's Complaints Team. Managing Agents should also ensure that Coverholders' processes for dealing with complaints are compliant with all local regulatory rules and guidelines. The Managing Agent's expectations for the handling and reporting of complaints should be set out in the binding authority agreement.

Lloyd's has set out detailed requirements for complaints handling which differ for UK and international complaints, including the USA. Further information on complaints handling and reporting at Lloyd's can be found on Lloyd's website.

8.4 Conflicts of Interest

Coverholders write business on behalf of Lloyd's Underwriters in a significant number of overseas territories where Lloyd's has licences. They must therefore comply with any applicable local laws or regulatory requirements, including any that relate to conflicts of interest. Nothing in this Code is intended in any way to alter the effect of any local law or regulations that apply to conflicts of interest.

All Coverholders should be aware of the implications of conflicts of interest and, in particular, should ensure that they are aware of any laws or regulations that apply to them regarding conflicts of interest. This may include the laws and regulations of its 'home' jurisdiction and also the laws and regulations in any other country the Coverholder does business.

Coverholders also sign the Coverholder's undertaking to Lloyd's by which they undertake that they "will manage any conflicts of interest, between ourselves, our customers and Lloyd's Managing Agents in a fair and open way." Managing Agents may therefore wish to consider whether, given the particular risk profile of a Coverholder, they need to provide any further guidance to the Coverholder on managing potential conflicts of interest beyond that required by applicable local laws.

The principal party responsible for monitoring compliance with any conflicts requirements is the relevant lead Lloyd's Managing Agent. The Managing Agent should consider providing additional guidance if it is aware of actual conflicts of interest or circumstances that could give rise to potential conflicts of interest.

8.5 Conduct Risk in Delegated Authority

What is Conduct Risk?

Conduct risk is the risk that a Managing Agent (or its agents) will fail to pay due regard to the interests of Lloyd's customers or will fail to treat them fairly at all times.

It is expected that all Managing Agents will identify, assess and manage conduct risk to ensure fair outcomes are achieved for all Lloyd's customers. This applies to all forms of delegated authority as well as open market business.

The standards Managing Agents are expected to meet in relation to managing conduct risk are set out in **Lloyd's Minimum Standard 11 – Conduct Risk (MS11)** which are available on Lloyd's website.

Procedures

It is expected that Managing Agents will have procedures in place to address the conduct risk posed by delegated authority. These procedures should include at a minimum:

- How conduct risk should be assessed;
- Conduct related due diligence requirements and how this should be evidenced; and
- Ongoing monitoring requirements for conduct risk.

These procedures may form part of a Managing Agent's delegated authority procedures or their overarching conduct procedures as appropriate, provided conduct risk in delegated authority is appropriately addressed.

Conduct Risk Assessment of Binding Authorities

It is a Managing Agent's responsibility to complete a conduct risk assessment of all products, including those sold through binding authorities, and Lloyd's Conduct Risk Minimum Standards provide guidance on how to do so. All binding authorities should therefore be assigned a conduct risk rating (either HPR, medium or low).

The following is a non-exhaustive list of products which will generally be classified as HPR:

- Motor;
- Household;
- Accident and Health;
- Legal Expenses;
- Payment Protection Insurance (“PPI”);
- Extended Warranty;
- Mobile Phone or Gadget insurance;
- Travel insurance;
- Pet insurance;
- Add-on products;
- Home Emergency Cover; and
- Guaranteed Asset Protection (“GAP”).

Due Diligence

Lloyd’s expects appropriate conduct due diligence to be undertaken and documented for all binding authorities in line with Lloyd’s Conduct Risk Minimum Standards. In some instances Lloyd’s DAT will expect to see evidence of this. Lloyd’s will therefore request confirmation of the conduct risk rating assigned to the binding authority for all new applications, class of business requests and permitted lead requests submitted on Atlas.

For HPR binding authorities Managing Agents should also submit evidence of their conduct due diligence. This may be a completed CPBQ (see **Appendix 9**) or a Managing Agent’s own equivalent document, provided it covers all the same areas of due diligence as the CPBQ.

The CPBQ is a document designed by Lloyd’s to assist Managing Agents to evidence their binding authority conduct due diligence. It covers the key considerations relevant to conduct risk in delegated authority business.

Where a binding authority has been rated medium or low risk, a Managing Agent should confirm whether products will be sold to individuals or micro-enterprises. If this is the case, a copy of the conduct risk assessment for the binding authority should be provided or an explanation of why the binding authority is not HPR. Lloyd’s DAT will request further evidence of conduct due diligence where it is deemed necessary.

Additional information is required where products will be sold to individuals or micro-enterprises because they are considered less sophisticated customers and are therefore likely to create the greatest conduct risk.

Lloyd’s may request further evidence of conduct due diligence in any other instance where it considers it prudent to do so.

Where a Managing Agent has been advised that CPBQs are no longer required, evidence of conduct due diligence in addition to the risk assessment need only be provided if specifically requested by Lloyd’s.

Although Lloyd’s DAT will only be reviewing conduct due diligence in line with the guidelines above, it is expected that Managing Agents will maintain appropriate conduct due diligence for all binding authorities proportionate to their conduct risk. This may be tested during Minimum Standards reviews when Managing Agents will be required to evidence that conduct issues are assessed, monitored and managed across a delegated authority book. It is not expected that any work will need to be done in addition to work carried out to meet MS 11; rather it will form part of a Managing Agent’s overall conduct procedures.

Conduct Management Information

In order to monitor conduct risk in delegated authority business, Managing Agents are expected to collect and analyse relevant data. It is important that this analysis is recorded and escalated to appropriate levels of management. Where the data analysis indicates an issue, the Managing Agent should be able to demonstrate the steps taken to remedy the issue.

For further information on conduct management information please see **Minimum Standard CR 13: Conduct Management Information** of MS11 and **Market Bulletin Y4847**. The delegated authority requirement for

conduct management information is aligned with CR 13 of MS 11 and it should not require any additional work above that carried out to meet CR 13.

Part 9 – Delegated Claims Management

9.1 Introduction

Managing Agents may opt to delegate claims handling authority to an external third party service provider, such as a Coverholder or a TPA. Prior to delegating such claims authority, Managing Agents should consider the class of business being delegated, the likely complexity of claims and the anticipated claims volumes under the agreement.

Managing Agents should be mindful of their obligations under the Lloyd's Claims Principles and Minimum Standards and the Lloyd's Intermediaries Byelaw when assessing the adequacy and capabilities of the third party being proposed for delegated claims handling authority.

Managing Agents intending to appoint a Coverholder to deal with claims should ensure that they consider the appropriate suitability criteria established by Lloyd's (see **Part 5.3 – Due Diligence of Coverholders: The Quality and Adequacy of the Claims Handling Function**).

9.2 Due Diligence of TPAs

Managing Agents considering the outsourcing of claims handling services to a TPA are responsible for determining that the authorised third party has the requisite capabilities, is competent to perform its responsibilities and that the terms of the claims handling contracts are consistent with the binding authorities to be attached.

When appointing a TPA to handle claims, the Managing Agent must assess the proposed TPA against the minimum suitability criteria contained within the **Intermediaries Byelaw paragraph 36A(h)** and the **Requirements made under the Intermediaries Byelaw, Paragraph 17A**. This criterion has been incorporated within the market guidance established with the LMA for the assessment of new TPAs.

The granting of delegated claims handling authority to third parties should be approved by a senior representative of the Managing Agent's claims team or another suitably knowledgeable individual. In either case, the Managing Agent should be able to demonstrate that the decision has been appropriately considered and signed off with the involvement of the claims team.

Managing Agents must notify Lloyd's of the identity of TPAs they intend to appoint prior to their appointment, so that a central register of TPAs can be maintained as required under **Paragraph 36D of the Intermediaries Byelaw**. Subsequent notifications of the delegation of claims handling authority – by binding authority – can be conducted electronically via the BAR system. The Managing Agent should ensure that the BAR registration identifies any TPA to be used under the binding authority.

Lloyd's recognises that responsibility for assessing and approving a TPA rests with the relevant Managing Agent. Accordingly, on receiving notification of a TPA, Lloyd's will proceed on the assumption that the Managing Agent has assessed each TPA notified to Lloyd's and that the Managing Agent is satisfied the TPA meets the criteria as set out within the Intermediaries Byelaw.

9.3 Terms of the Delegated Claims Agreement

Managing Agents are required to set out clear, comprehensive and suitable written agreements delegating claims handling authority to their third parties whether they be Coverholders or TPAs (see the **Intermediaries Byelaw, paragraph 36H** and the **Requirements made under the Intermediaries Byelaw, Paragraph 17B**). This requirements can be incorporated within the terms of a binding authority (for a Coverholder) or in a separate claims agreement (for a TPA).

The level of detail required under a contractual agreement for the delegation of claims handling authority may vary depending on the nature and extent of the claims authority granted, the class of the business written and the jurisdiction in question.

Managing Agents should provide for the following (in addition to any other relevant considerations):

- Clarity as to which claims are within the scope of the delegation of authority;
- Clarity as to those claims or claims matters that are referred to the Managing Agent for decision for any reason;
- A description of the responsibilities of the TPA / Coverholder as regards those claims that are within the scope of its authority including:
 - the investigation of claims;
 - coverage review;
 - defence of the insured (where applicable);
 - timely and accurate reserving;
 - the appointment and management of appropriate experts where required;
 - timely and proper claim payments (where applicable);
 - responding to enquiries and complaints, investigating potential recoveries and reporting to the Managing Agent;
- Assurances that the TPA / Coverholder will comply with all applicable laws and regulations;
- Records management systems and controls, and ownership of, and access to, claims records;
- Provisions relating to the establishment, management and administration of loss funds (where applicable) and associated reporting;
- Provisions for audits and inspections of records by the Managing Agent or a regulator;
- A description of the fee and expenses structure (where applicable);
- PI / Fidelity insurance limits (where applicable);
- Provisions dealing with matters such as non-assignment and sub-contracting;
- Termination provisions and provisions dealing with the orderly run-off of business post termination; and
- Law, jurisdiction and dispute resolution provisions.

Model wordings such as the LMA 9008A (TPA Agreement) may assist Managing Agents in drafting appropriate documents for the delegation of claims authority.

9.4 Managing Agent Oversight of External Service Providers

All Managing Agents delegating claims authority are required to demonstrate adherence to Lloyd's Claims Management Principles and Minimum Standards. In particular, Principle 6 requires that "disciplined procurement and pro-active management procedures should be employed in the selection and use of third parties."

Managing Agents should have both a process and control for ensuring compliance with the Lloyd's Claims Management Principles and Minimum Standards (MS2 – Claims Management) among all third parties which they delegate claims authority to. It is recognised that not all of MS2 will be applicable to the third parties; however, as a minimum Lloyd's expects processes and controls to address the points set out in the following parts of MS2:

- CLM 3.1 Resource Planning;
- CLM 3.2 Resource Management;
- CLM 4.1 Claims Management Processes;
- CLM 4.3 File Review;
- CLM 5.2 Reserving Practice;
- CLM 6.2 Appointment of External Experts; and
- CLM 6.3 Management of External Experts

Managing Agents should ensure that effective processes and governance controls are in place at pre-placement, during the active life and the run-off of contracts as follows:

Pre-Placement and Renewal Due Diligence

Managing Agents should have procedures in place for documenting the assessment and decision making process undertaken for establishing or continuing the delegation of claims authority at the outset or renewal of a delegated authority agreement. This should include evidence of claims due diligence prior to contractual engagement.

Claims Reporting and Claims Management

Managing Agents should clearly agree the scope, nature and timeliness of relevant bordereaux and or performance management information reporting, procedures for the notification of claims outside of authority and outline the level of claims service expected on all claims (expectations and requirements) including those falling with the third parties authority.

Monitoring Performance of the Contracts

Managing Agents should have appropriate and sufficient processes, key performance indicators and controls in place to evaluate and report on the performance of the contracts where their claims authority has been assigned to a third party. Managing Agents should monitor such third parties' performance through service levels, where appropriate.

Auditing

Managing Agents should have an audit framework in place to ensure sufficient oversight of entities with delegated claims authority. Managing Agents should adopt an approach whereby the frequency of audit reflects an assessment of the risk that variance from expected standards and service levels may have to the syndicate or to policyholders. A complete register of all delegated claims authority arrangements will be required, which should include both live and lapsed agreements so that all can be monitored and audited. The rationale for the frequency of audits must be documented.

Paragraph 36E of the Intermediaries Byelaw requires Managing Agents to inform Lloyd's if they believe that an existing TPA is no longer fit and proper, or poses a reputational risk to Lloyd's.

Appendix 1: Requirements for the Writing of Master Policies

Managing Agents should only write insurance schemes as master policies where the arrangement is compliant with the following requirements. These requirements set out what Lloyd's considers to be an appropriate approach to the use of master policies. Where a scheme does not meet these requirements a different arrangement should be used for the distribution of the product such as a binding authority.

These requirements should be read in conjunction with the Lloyd's Thematic Review Report on Master Policies dated June 2018. The Report provides additional guidance and best practice.

Throughout this document we refer to both master and group policies as master policies and the term customer refers to the end customer that has the benefit of the cover under the master policy.

This guidance is not applicable to employer schemes where the employer has the benefit of the insurance and any related obligations to the employees are independent of the insurance purchased. That is, where the operation of the insurance policy will not impact on the experience of the employees and any claim will be made by the employer.

1. The customers must belong to a clearly identifiable and genuine group, for example by virtue of common employment, association, occupation or activity and that connection must exist other than by reason of having the benefit of the master policy. Customers whose only connection is that they purchased the same product from a vendor will not satisfy this requirement unless there is a genuine ongoing customer relationship (through the continuing provision of a non-insurance service) arising from that group of customers purchasing the product such that a clearly defined group can be identified.

Examples which would be considered a group:

- (a) An employer holding a master policy to provide coverage for its employees;
- (b) A sports club or other social club where members come together for an activity unrelated to insurance (e.g. rugby clubs, horse riding association);
- (c) A bank or other investment service with an ongoing, long term relationship with its customers for the provision of a service other than insurance e.g. a bank account, an investment product; or
- (d) A professional association which predominantly provides services to its members (such as training, publications, events) which are not related to insurance e.g. an association for local architects.

Examples which would not be considered a group:

- (a) Individuals who have booked a holiday through the same travel agent;
- (b) An association that exists only to provide special offers and insurance products to customers (e.g. a supermarket association) where the members do not otherwise have a common interest and common reason for membership;
- (c) Individuals who have purchased a product or service from the same company where there is no ongoing relationship (e.g. extended warranty sold by a household appliance retailer, personal accident cover sold alongside the purchase of a concert ticket);
- (d) An airline or hotel loyalty scheme;
- (e) An association where the predominant purpose or activity is to provide access to insurance products and other services are ancillary; or
- (f) An insurance entity wishing to offer an add-on to customers purchasing a primary insurance product.

2. The master policyholder must have a legitimate interest in providing cover for the defined group of members. Lloyd's would not regard the ability of the master policyholder to generate a fee, commission or other payment for providing cover to the members as being, a sufficient "legitimate interest" for these purposes. The master policyholder should not have as its principal purpose or as a core part of its business the procurement of insurance for its members. Implicit in this requirement is that the policyholder provides substantial non-insurance benefits to its members.

3. Master policyholders may receive some form of remuneration for administering the master policy. Ordinarily this should be limited to a sum to cover the reasonable costs of administering the policy. A master policy should not be used as a vehicle for the master policyholder to generate profit.

Careful consideration should be given to appropriate remuneration and managing agents should document the rationale for the remuneration arrangements taking into account the policyholder's actual costs in administering the policy. We would generally expect to see remuneration by way of either:

- A percentage commission commensurate with the work performed; or
- A fixed administration fee commensurate with the work performed.

Master policyholders should not be given profit commissions.

Where the master policyholder's remuneration does go beyond meeting expenses managing agents should clearly document why this is appropriate. Consideration should also be given to the potential conflict of interest for the master policyholder and this must be addressed appropriately, for example through a full declaration of such benefits to the customers under the master policy.

Note that in some jurisdictions master policyholders may require approval to carry out regulated activities before they are able to receive remuneration. For more information please see the international section below.

4. The master policyholder or other administrator of the master policy should have no discretion as to who can be declared to the policy or as to the premium charged or terms of coverage, nor should they provide any advice regarding the insurance coverage. This, however, does not prevent master policies providing different options to members of the group. For example, a group health scheme may offer different options for family and individual cover with the rates varied according to the package adopted or a travel policy may offer different options for European and worldwide travel.

Premium should be calculated in the same way for all customers and rating tables with multiple factors should not be used. The only exception to this is health and life policies where it is acceptable to have different premiums for different age bands.

In general all members of the group should be eligible to receive the coverage offered under the master policy. There must not be any discretion in determining eligibility. For life and health coverage it is acceptable for the customer to be required to sign a declaration of health as a prerequisite of cover.

5. The master policyholder should not produce insurance documentation on behalf of underwriters. However, appropriate confirmation or details of the cover that has been purchased must be provided to the customers. Subject to any local licensing requirements, these details may be provided by the master policyholder or an alternative administrator. It is good practice for the customer documentation to set out all the terms and conditions relevant to the coverage so the customer has everything they need to understand the cover they are receiving. Where the customer is opting in to the cover details of the coverage should be provided at an

appropriate time for the customer to make an informed decision. The documentation must refer to the master policy as the insuring document and customers must be able to access the full master policy wording on request.

In the case of corporate travel policies purchased by employers it is not necessary for all staff to be provided with evidence of cover. However, the employers should be obligated to provide employees with access to the policy wording. For the avoidance of doubt this does not include personal travel policies distributed via employers e.g. as part of flexible benefits, which remain subject to the requirements above.

6. The master policy wording should satisfy all contract certainty requirements as for any other insurance contract. Particular attention should be given to ensuring the following are clearly set out:

- (a) The roles and responsibilities of each party (managing agent, master policyholder and any broker, coverholder or other administrator) including in relation to:
 - Issuance of documentation
 - Calculation and collection of premium
 - Claims handling
 - Complaints handling
 - Production of bordereaux or other data
- (b) The terms and conditions of coverage. This may be in an Appendix.
- (c) The remuneration agreement

7. Master policies must not be subject to shared aggregate limits or deductibles.

This requirement does not apply to corporate travel policies purchased by employers. For the avoidance of doubt this does not include personal travel policies distributed via employers e.g. as part of flexible benefits which remain subject to the requirement.

8. Master policyholders must not have claims handling authority but they may be responsible for receiving claims notifications for onward transmission to underwriters. Any responsibility in this regard should be clearly stipulated in the Master Policy. Customer documentation must clearly set out how the customer can make a claim and should include an option to submit claims directly to the managing agent (or its coverholder or third party administrator).

9. Master Policyholders must not have complaints handling authority. It may be that master policyholders receive complaints initially and the master policy should therefore set out expectations with regard to recognising complaints along with instructions for referral. Customer documentation must clearly set out how the customer can make a complaint directly to the managing agent (or its coverholder or third party administrator).

10. Managing agents must ensure they are able to obtain appropriate data from master policyholders or other administrators to enable them to monitor the business. At a minimum this should be customer numbers. In determining the appropriate level of data to collect managing agents should have regard to the importance of claims handlers being able to determine whether a claimant has coverage in a timely way.

11. Master policies should be subject to annual review including a review of performance, value, regulatory compliance, conduct risk factors and due diligence. Value to the customer should be monitored taking into account gross premium, acquisition costs, loss ratios, claims frequency, claims denials and any other relevant data.

12. Where a coverholder has authority to write master policies the extent of the authority should be clearly articulated in the binding authority. It is the managing agent's responsibility to implement procedures to ensure the coverholder only writes master policies in line with its authority and that are compliant with all Lloyd's and local rules.

Procedures

In order to manage the writing of master policies managing agents are expected to have appropriate procedures in place. Such procedures should be designed to ensure compliance with the rules above and should at a minimum provide for:

- All master policies to be subject to a Conduct Risk Assessment (in line with all other business). Customer risk should be assessed in relation to the customer, not the master policyholder. An assessment of the value of the product to the customer and other conduct considerations should be recorded.
- Documentation of the reasons for writing the business as a master policy and how the managing agent has satisfied itself that all the requirements of a master policy are met.
- Appropriate due diligence to be conducted and recorded to determine that the master policyholder and any other administrator is capable of performing their responsibilities under the contract.
- Appropriate internal sign off of master policies. For HPR master policies it is good practice that they go through the Product Oversight Group (POG).
- A record of all master policies to be maintained.
- The regular review of master policies.
- A proportionate approach to be taken where a managing agent follows on a master policy.

International Regulatory and Tax Matters

The rules above apply to all master policies written at Lloyd's. Managing agents should be aware that, in addition, different territories have their own rules and regulations. It is the managing agent's responsibility to ensure these are complied with at all times. We recommend that legal advice is obtained.

Some areas to consider include:

- The type of cover provided must be permitted to be written under relevant local regulations. Managing Agents should have regard to the location of the master policyholder and customers as a relevant factor to consider in ensuring compliance. Where customers come from different jurisdictions more difficult questions can arise and where appropriate suitable legal advice should be obtained.
- Local tax requirements must be satisfied. Managing agents should refer to Crystal, or seek professional advice, to determine the relevant local tax requirements. Consideration should be given to the location(s) of the customers as well as the location of the master policyholder.
- The master policy must comply with local conduct of business requirements. Such requirements could include filing of wordings, approval of sales literature, provision of policy information in the local language and complaints handling. Consideration should be given to the location of the master policyholder as well as the location(s) of the customers.

- Managing agents must take particular care as to whether the activities of the master policyholder in administering the master policy constitute regulated intermediary activity in the relevant territories. If the activities of the master policyholder could constitute a regulated activity, the managing agent should ensure that the master policyholder has the necessary regulatory authorisations. Whether the master policyholder is carrying on regulated activities will depend on the rules of the local territory and the activities that the master policyholder will be required to perform to administer the master policy.
- Managing agents should take steps to ensure that any business underwritten or arranged by or under the master policy does not result in coverage being arranged or any claim paid or benefit provided to or for any party that would expose the managing agent or underwriters to any sanction, prohibition or restriction under any applicable international trade or economic sanctions, laws or regulations.
- Where the tax or regulatory rules of more than one jurisdiction may apply it is important that the managing agent ensures that risks are coded appropriately to ensure there is compliance with Lloyd's reporting and statutory tax requirements.

In two territories, particular attention needs to be given to the requirements that apply to the underwriting of master policy programmes. These are:

1. **The United States** – The rules that govern master policies in the US are particularly detailed and differ between States. Particular restrictions apply to the writing of master policies in New York, Indiana and Tennessee. It is expected that managing agents writing master policies in the US are familiar with the relevant requirements and where external legal advice is not sought that they can demonstrate an appropriate level of expertise. The obligation to ensure that the master policy complies with relevant US requirements resides with the managing agent and responsibility should not be delegated to the broker.

Insurance underwritten to US Risk Purchasing Groups (RPG) is permitted and these arrangements are governed by the US *Federal Liability Risk Retention Act (1986)*. Guidance should be sought from a law firm with appropriate expertise where an RPG is being established. While some of the principles set out in this guidance may be applicable to RPGs managing agents will be expected to comply with the specific requirements set out in the federal legislation to the extent it conflicts with these principles.

Lloyd's underwriters are admitted in Kentucky and Illinois and there may be special requirements as to customers that reside in those states that are covered by master policies. Additional information may be obtained from Lloyd's Kentucky, Inc. or Lloyd's Illinois, Inc.

Further information regarding master policies in the US can be found on Crystal.

Australia - Master policies cannot be written in Australia without approval from Lloyd's Australia. This is to ensure that Australian master policies are constructed and issued in such a manner to be in compliance with all Australian regulatory obligations. Underwriters should ensure that when placing their lines on such contracts that they have had sight of the approval from Lloyd's Australia confirming that the contract of insurance is in order. Further information and details of the information required by Lloyd's Australia can be found on Crystal.

Appendix 2: Full Coverholder Application Decision Paper

FULL COVERHOLDER APPLICATION DECISION PAPER**LLOYD'S**

Version 2 – August 2017

Coverholder Name	Enter coverholder legal name		
PIN	Enter PIN		
Domicile	Enter domicile of coverholder		
Date application submitted to Lloyd's	Enter date application submitted to Lloyd's		
Broker	Enter full broker name. If no broker, enter N/A	Syndicate	Enter syndicate no
Managing agent	Enter full managing agent name	Lead line size (%)	Enter % lead line size
Classes and Risk code Enter generic classes being requested and risk codes		Currency & EPI	Enter the gross EPI to Lloyd's
		Commission (%)	Enter the maximum commission payable under this coverholder.
		Loss ratio (%)	Enter % gross incurred loss ratio
Level of underwriting authority	Enter the level of authority being requested		
Coverholder Contact for Annual Attestation	Enter the name, email address and telephone number of the individual we should contact at the coverholder for their Annual attestation		

Lloyd's Assistant/Executive	LLOYD'S USE ONLY		
CRS checks & Email to Reg Liaison	LLOYD'S USE ONLY		
Reps report sent	LLOYD'S USE ONLY		
Undertaking received & filed in G:drive	LLOYD'S USE ONLY		
MED Apps tab filled in	LLOYD'S USE ONLY		
Claims Handling	LLOYD'S USE ONLY		
Complaints Handling	LLOYD'S USE ONLY		
Stage 1 complete	LLOYD'S USE ONLY		
UP referral required (Y/N) & reason	LLOYD'S USE ONLY		
Conduct referral (Y/N)	LLOYD'S USE ONLY		
Date to COB/SUP	LLOYD'S USE ONLY	Date COB/SUP approved	LLOYD'S USE ONLY
Stage 2 complete	LLOYD'S USE ONLY		

This document is intended to be from the managing agent's perspective, a wrap up of your views on how this prospective coverholder fits into your business plan and portfolio. It should be treated as a confidential document between managing agent and Lloyd's.

Overview of Application - summary

We expect this section to contain the following information and to be completed by the sponsoring Underwriter:

- A summary of the applicant including any material information that you think is relevant to the application
- Reason for your relationship with this coverholder and why you wish to pursue sponsorship.
- Any previous personal experience and history that has been associated with this coverholder.
- Details on the classes of business, including a description of the type of risks to be written, in what territories, the risk codes split out with the corresponding EPI.
- A description of current market conditions.
- Details on the distribution chain including whether or not this will be wholesale or retail business.
- Acquisition costs if known for this proposal (broking fee, coverholder commission)
- Any visits that have been conducted by yourself or your underwriting team.
- Risk limits/sub Limits/aggregated limits per class, three year historical loss ratios if applicable or projected loss ratios falling in line with SBF proposal for the correct YOA.
- Expected volume of business and number of policy holders being issued under the binding authority.
- Information on pricing of risks.
- GWPI/NEPI per year and how this book is expected to grow
- Final proposed line size.

Please detail the risk profile of the Coverholder, with thought given to factors such as the classes of business to be bound, territories and the size / complexity of the company.

We expect this section to contain the following information and to be completed by someone independent of the sponsoring Underwriter:

- Confirmation on whether there has been a pre-inception audit of the entity. This is not a pre-requisite for approval. However, if an audit has taken place please provide details of any relevant recommendations.
- Whether the proposed insurance documents and bordereaux and any marketing/website material have been vetted/approved by yourselves and are in line with Lloyd's expectations
- Please confirm the glossary tool had been utilised to determine the data set and that you as the MA are able to meet Lloyd's reporting standards.
- Please provide confirmation that following your own internal due diligence of this applicant, you have no concerns about their suitability to be a Lloyd's coverholder.

Outstanding issues & review of underwriter's summary

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<p>Application Review – Stage 2</p> <p>This section is to provide your statements that you, as the managing agent, have reviewed all the points raised and give your evidence of this. Your response should replace the guidance.</p>	<p>Outcome</p>
<p>Company Information</p> <p>Legal name Confirm that the legal name is exactly the same as shown on the licenses and undertaking. The legal name should not include ‘doing business as’ or trading as’ or ‘dba’ – confirm this is not the case. These ‘dba’ names should be shown separately under the trading name section. If the legal name does include these phrases, we require proof in the form of company name registration certificates. Website or PI Cert cannot be accepted as proof.</p> <p>Legal Structure If the applicant is domiciled in the UK, state here that you have checked Companies House register; all incorporated companies are listed here, and confirm they are registered. Also state whether the applicant is a partnership or a sole trader. If a sole trader they are unable to be a coverholder and will need to either become incorporated or form a partnership.</p> <p>Are you satisfied that this is the only legal entity that is applying for Lloyd’s approval (i.e. ensure that you are certain that there is only one legal entity that you wish to delegate to).</p> <p>Trading Name(s): Detail any trading names here. If a different trading name has been entered state that this name is not for a separate legal entity. If the trading name is incorporated as a company or a partnership in their own right (for example; Ltd, Plc, Inc). Please provide entity licenses showing both legal names at this location on one license. If this is a UK entity, provide proof from Companies House or FCA showing both names under one entity. If it is determined that the trading name is in fact a separate legal entity, state which entity will be binding and/or issuing as this is the entity which requires coverholder approval. If both entities will be binding and/or issuing they both require coverholder approval and a separate application for the second entity should be completed</p> <p>Address Details: Detail the location of the applicant here (country and city) Do the registered and trading addresses differ? If so, state here that the applicant will only be binding and/or issuing from the trading address. If both addresses are binding and/or issuing, both locations need approval.</p>	<p>LLOYD’S USE ONLY</p>

<p>If the applicant is UK domiciled, state here you have checked they are registered with the FCA and provide their FCA number to ensure that the legal entity is FCA approved.</p> <p>Online checks: State here you have checked the applicant's website address is not already using the Lloyd's brand, the trading/postal address is listed and that the website is of a suitable standard.</p>	
<p>Underwriting and Claims</p>	<p>LLOYD'S USE ONLY</p>
<p>State level of underwriting authority here. If full authority is being requested we expect a detailed rationale to be provided as to why you are happy to give full authority.</p> <p>Claims handling State here who will be handling claims</p> <ul style="list-style-type: none"> • If the applicant is not applying for claims handling authority, state how claims will be handled – state if you will be using a TPA, if so confirm if you have a separate TPA agreement in place? • Please confirm if the TPA is new to you as the Managing Agent. If so, please contact claims@lloyds.com to register a relationship on our systems. <p>If the applicant is applying for claims handling authority, please confirm the following in order to show that you have carried out your due diligence (this must be completed if claims are being handled by a TPA / coverholder):</p> <ul style="list-style-type: none"> • Level of authority that the applicant/TPA will have. If there is a limit, who will be handling claims after this limit? • Process and system capabilities are satisfactory • A sufficient quality control/peer review programme exists • Please confirm a claims assessment has been carried out and you (the managing agent) are satisfied with the applicant's/TPA's claims handling process. • Please provide confirmation that following your own internal due diligence of this applicant/TPA, you (the managing agent) have no concerns about their abilities or resources to handle claims on our behalf. Or if you do have concerns, state how you have mitigated them. <p>Please also confirm:</p> <ul style="list-style-type: none"> • If you are aware of the applicant ever having claims authority under a binder cancelled by underwriters. • The level of claims service expected on all claims (expectations and requirements) will be set out in a formal way in an appendix or in the BAA • How regular monitoring of performance against claims service expectations will be achieved. 	

<p>Business Strategy</p> <p>State here whether the applicant will allow third parties to (1) accept risks on their behalf; (2) Issue documents on their behalf; or (3) access their underwriting systems. If so detail how these functions will be managed and what arrangements are in place.</p> <p>Please provide a copy of the applicant's Business Plan on ATLAS. This should include but not be limited to:</p> <ul style="list-style-type: none"> • Company profile • Where your business comes from • The rationale for choosing Lloyd's • Your target and past/historical profitability, explaining how the target profitability ratios will be achieved • Any reasons for previous insurer declining to renew • Territories and distribution channels • Details of other contracts of delegation you manage • An analysis of the market (including opportunities for, and threats to, successful underwriting and key competitors). • Coverholders basis for choosing risks • Your/Coverholders basis for setting prices (where appropriate) • Information about your performance against monthly targets • Details of how the binding authority will fit with your other areas of business • Claims handling arrangements <p>State here if the applicant will be trading on-line. If so, please provide confirmation that following your own internal due diligence of this applicant, you are satisfied that:</p> <ul style="list-style-type: none"> • It meets with relevant local regulations • There are sufficient arrangements in place to protect data and provide security • SLAs with the service provider are up to date • There is regular site maintenance • It is clear who has overall control of the system • It is clear who sets the rates and who can change these in the system? • It is clear who has the ability to turn the system off? 	LLOYD'S USE ONLY
<p>Ownership</p> <p>State here who owns this applicant and the percentage of shares they hold.</p> <p>For individuals owning a share:</p> <ul style="list-style-type: none"> • Detail the individuals with more than 10% share. If this does not total 100% please confirm why and who holds the outstanding shares. 	LLOYD'S USE ONLY

<p>For Companies owning a share:</p> <ul style="list-style-type: none"> If this doesn't total 100%, explain who holds the rest of the shares. Please provided an organisational chart to show where this entity sits, if within a group organisation? 	
<p>Principal Staff & Reputation</p>	<p>LLOYD'S USE ONLY</p>
<p>List each Director and confirm the following:</p> <p>The four roles listed in Atlas reflect the roles that can be delegated under section 3 of standard Lloyd's binding authority wordings.</p> <ul style="list-style-type: none"> Confirm that appropriate checks have been carried out on each member of staff carrying out each role. Is the coverholder requesting claims authority? If the applicant is not applying for claims authority, they should not have any individuals ticked as having responsibility for claims – confirm this is correctly shown on Atlas. State here if any of the key staff are remote workers. If so, please ensure that remote worker declaration forms signed accordingly and uploaded to Atlas for subscription markets to view. <p>If only one key staff member is provided, please explain how these roles would be fulfilled in the event this person is suddenly unable to work.</p> <p>Employment:</p> <ul style="list-style-type: none"> State whether the individuals listed are employed directly by the applicant. If they are not, state who they are employed by. Please note this could cause concerns around sub-delegation between the applicant and the employer, so full clarification is required – please see the following points: If the individual(s) are employed by a parent or group company, then this can usually be easily resolved by the implementation of a secondment agreement between the two entities clearly stating what responsibilities the individual(s) in question will have for the applicant. If the individual(s) is/are a Director of the applicant they are not required to be an employee (as per Section 1 (Part A item 2) of the Intermediaries byelaw). If the individual(s) is/are not directly employed by the applicant or a group company then an employment contract from the applicant is required. Please confirm there are no conflicts of interest between the two employers, i.e. which classes do both parties write? If the same, explain how this works in practice <p>CVs:</p> <ul style="list-style-type: none"> State that all current CVs or bios have been attached and are not restricted on Atlas. Provide a rationale if any CVs are restricted. Please note Lloyd's do not usually suggest CVs to be restricted as no follow market will be 	

<p>able to view these.</p> <p>State here whether you are content with the individuals having relevant insurance experience for the roles they fulfil. If they do not have the relevant experience, detail how you will be mitigating the risk.</p> <p>Reputation & Standing:</p> <ul style="list-style-type: none"> • State your awareness of any declarations under the 'Reputation & Standing' section. If any declarations made, please provide details around these, including the rationale why the Managing agent is happy with this issue. If none state "No reputational self disclosure". • State here if the applicant has ever applied to be a Lloyd's coverholder previously. • State whether the applicant has any Lloyd's or company market binder experience. It is not a requirement for an applicant to have such experience but this helps when forming an understanding of the applicant's experience • State whether the applicant has ever had a binding authority non-renewed or terminated with cause. If so please give your understanding of why this happened. 	
<p>Professional Indemnity</p> <p>The professional indemnity certificate and wording should be provided under the 'Professional Indemnity' section.</p> <p>Please state the following:</p> <ul style="list-style-type: none"> • The PI policy is current and give expiry date of policy • The PI carrier is A rated or above. This is not a minimum Lloyd's requirement, but is preferred. • The applicant is a named insured • Do they have any PI claims in the last 5 years? If so, provide details around these claims. • Confirmation that following your own internal due diligence, you are satisfied that the PI cover purchased by the applicant is appropriate to cover their activities as Lloyd's Coverholders <p>We would expect the PI document to be unrestricted on Atlas. State here you have checked this is the case.</p> <p>Coverholder activities</p> <p>We expect a statement here that you have reviewed the PI policy and highlight where in the policy it states that this covers binding authority/coverholder activity. If the policy does not state that binding authority / coverholder activity is covered, please provide an email from the carrier to confirm it is not excluded from the policy.</p> <p>We have a number of applications submitted where the policy will not cover coverholder activities until approval from us is given. Please state here if this is the case.</p>	<p>LLOYD'S USE ONLY</p>

<p>If so we will continue to review the application; however, once satisfied with everything we would give approval in principle and this will be given via an email. Full approval will not be given until the PI policy is extended and evidence of this is provided.</p> <p>If the PI policy is not in English then please provide Lloyd's with the translation of the Schedule and the page which shows it covers Coverholder activity in line with above requirement for subscription business. If you are unable to obtain PI then please contact Lloyd's for further assistance.</p> <p>If broker documentation is provided on the application we would expect a statement here from you that you have reviewed the full policy documentation and are happy it covers binding authority activities. If you cannot give this statement, please provide evidence from the carrier that these activities are covered.</p> <p>Also quotes for PI will not be acceptable. Please state here if the PI provided is just a quote. We will not approve the application fully until a full PI policy is in place, covering coverholder activities.</p>	
<p>Financials</p> <p>Financial statements for the last two accounting years should be attached to the 'Financials' section.</p> <p>State the following:</p> <ul style="list-style-type: none"> • Is the applicant is a start-up? If so, we expect to see opening balance sheet and 3 year forecast profit and loss statements • If applicant is not a start-up state which financials did you review and which ones have been provided on Atlas • Are the financials management or audited accounts? Please provide a rationale if they are management accounts. • If any concerns raised, please detail and confirm the steps taken to address/mitigate the risks. • Please provide confirmation that following your own internal financial due diligence, you have no concerns about the financial viability of the prospective coverholder. <p>If you are unable to obtain financials then please contact Lloyd's for further assistance.</p>	LLOYD'S USE ONLY
<p>Bank Accounts</p> <p>State the bank account details here</p> <ul style="list-style-type: none"> • It is a Lloyd's requirement for coverholders to hold insurance monies in a separate account to non-insurance monies. State here if the coverholder holds this type of account. • Confirm whether claims monies are held in a separate account to 	LLOYD'S USE ONLY

<p>insurance monies and if so provide the details. It is not a Lloyd's requirement for coverholders to hold claims monies separate to insurance monies, unless the coverholder is given a claims fund.</p> <ul style="list-style-type: none"> • State whether the account(s) for insurance monies are trust account(s). • If not trust account(s), state here if they are sweep accounts <p>For applicants domiciled in South Africa, please refer to Crystal for bank account guidance prior to submitting the application.</p> <p>Please note - It is unacceptable for the account(s) to be a sweep account, as the monies will be transferred into another account on a regular basis and this account may not be recognised or segregated for insurance monies. It is preferred that the account(s) are trust accounts (or the equivalent if located in a territory where trust accounts are not recognised), as it is then acknowledged that the money in this account is held on behalf of underwriters and does not belong to the coverholder, which provides a level of security should the coverholder come into financial trouble.</p> <p>As per the market bulletin Y4332 some market participants request a 'no set-off' letter from the applicant's bank where the account for insurance and or claims monies are held. This provides additional security but is not mandated by Lloyd's.</p> <p>Account signatories: State the individuals who are the account signatories for all bank accounts Lloyd's require a minimum of two account signatories on any account for insurance or claims monies.</p>	
<p>Systems and Controls</p> <p>State the name of the underwriting system the applicant will use and the name of the system provider.</p> <p>State the following with reference to systems:</p> <ul style="list-style-type: none"> • Is this an Excel based system? • Describe how the data flows through each touch point • Is their system already in place? If not please provide rationale – is this coming into force soon? Have underwriters reviewed the system? Are they happy with the system? • Does the applicant host the data on the system? If not, please state who hosts the data and where it is hosted. • State that the applicant's system marks 'yes' to all questions listed on Atlas. If 'no' has been checked, explain how these requirements will be met. <p>For the additional questions under the 'Systems & Controls' section, please provide further clarification if answers are lacking in detail on Atlas.</p> <p>State the following with reference to controls:</p>	<p>LLOYD'S USE ONLY</p>

Provide an assessment and outline of the risk profile of the applicant giving detail around what policies and procedures are relevant to the business risks covering the following criteria:

- Financial Crime - covering how the coverholder deals with money laundering, sanctions and details of what training coverholder has in place for their staff on financial crime, including bribery.
If the applicant doesn't currently have any training solutions in place for these, please confirm the coverholder has completed the online e-learning modules as per Market Bulletin MB Y4727.

- Business continuity/succession planning arrangements

and if applicable:

- TCF / Conduct risk
- Conflicts of interest
- Data protection and security
- Distribution chain
- Credit risk
- Complaints handling delegation
- Outsourced activities

Please provide copies of the following documents on ATLAS:

Mandatory:

- Business continuity plan/disaster recovery plan. This should include technical support and arrangements in place for replacement premises/remote working capability
- Anti-Money Laundering

Optional (where applicable to the applicant):

- Succession plan- this plan does not necessarily have to be a formal document if this is not appropriate
- TCF
- Conflict of Interest policies
- Data privacy/data protection policy
- Financial Crime Procedures (this must include procedures on anti-bribery, corruption, whistleblowing and compliance with international sanctions)

For coverholders outside the UK please confirm that you have reviewed the coverholder's complaints handling procedures and are satisfied that they meet Lloyd's international complaints handling requirements as well as all local legal and regulatory requirements.

Different territories will have different requirements and it is the managing agent's responsibility to check that the coverholder's procedures meet the requirements for the relevant territory. At a minimum they should include the following (where a coverholder has delegated complaints handling authority):

- An appropriate definition of the term complaint
- Appropriate timescales for acknowledging and responding to

<p>complaints</p> <ul style="list-style-type: none"> • Appropriate rules regarding provision of information to customers regarding the availability of external dispute resolution facilities; and • Appropriate procedures regarding notification and reporting of complaints to Lloyd's. <p>Where the managing agent is not delegating complaints handling authority the managing agent should ensure its referral expectations are clearly set out in the coverholder's procedures and that the managing agent itself is able to handle complaints in a way that meets Lloyd's international complaints handling requirements as well as all local legal and regulatory requirements for the relevant territory.</p> <p>For further information on Lloyd's international complaints handling requirements please see the complaints pages on Lloyd's.com, information on Crystal and relevant market bulletins.</p> <p>Please state that you have reviewed the above documents and are satisfied that they comply with all local requirements.</p> <p>Please confirm that the bordereau format (ACORD etc.) is in line with Lloyd's expectations.</p>	
<p>Licenses</p>	<p>LLOYD'S USE ONLY</p>
<p>State here if you have spoken directly to the Lloyd's rep on this application?</p> <p>Lloyd's DAT will request a rep report, which will include a visit or telephone interview with the applicant.</p> <ul style="list-style-type: none"> • Please confirm that the applicant has all necessary licenses, permits and other authorisations in all jurisdictions where they are domiciled, trade in, provide services or do business under the binding authority. • Please confirm you have checked Crystal with regards to licensing and any regulatory issues for writing business in another territory 	
<p>Class of business</p>	<p>LLOYD'S USE ONLY</p>
<p>State the classes here</p> <p>Please detail the risk codes and corresponding EPI</p> <p>State you have checked the risk code mapping document and the correct classes have been requested on Atlas. If classes differ please explain the reasons behind this.</p> <p>Lloyd's DAT will assess whether the application requires referral to Syndicate Underwriting Performance and will follow up on any queries they</p>	

<p>have.</p> <p>Please state the conduct risk rating applicable to this binder. If it is rated High Product Risk please provide a copy of the completed Consumer Product Binder Questionnaire or equivalent unless you have been told this is not required.</p> <p>If the binder is rated medium or low risk please confirm if it will be sold to individuals or micro-enterprises. If it will be please attach the conduct risk assessment or provide an explanation for why it is not High Product Risk</p> <p>Give a statement here to say that you have satisfied yourselves that the Coverholder is aware of all the regulatory and tax obligations it has for the territories in which it is doing business. List any specifics for each territory and how these have been addressed.</p> <p>This includes reporting or wordings specific obligations for each territory. i.e. if Italy state that they will issue in Italian and use MOCHA etc.</p> <p>State you have checked on Crystal for any regulatory issues with writing this/these classes in the territory(ies) proposed</p> <p>Please provide confirmation that all policy wordings to be issued by this coverholder on your behalf have been reviewed and agreed by yourselves.</p>	
<p>Regions</p>	<p>LLOYD'S USE ONLY</p>
<p>State here if any regional extensions are being requested.</p> <p>Any EEA domiciled coverholder, writing business in other EEA countries, who are an Authorised Representative will require their own passporting approval on the FCA register.</p> <p>For a number of regions, we request that additional information be provided before approval.</p> <p>Please check this link for any regional specific requirements: http://www.lloyds.com/the-market/i-am-a/delegated-authority/applications-and-processes/post-approval-changes/regions</p>	

<p>Date to Panel:</p>
<p>Comments from Panel</p>
<p>LLOYD'S USE ONLY</p>

Approval:	
MA Sign-Off	
<i>Name and Position:</i>	<i>Signature & Date:</i>
Lloyd's Sign-Off	
<i>Name and Position:</i>	<i>Signature & Date:</i>
Lloyd's Peer Review Sign Off	
<i>Name and Position:</i>	<i>Signature & Date:</i>
Lloyd's Manager Sign Off	
<i>Name and Position:</i>	<i>Signature & Date:</i>

Please ensure you send a pdf version with the Managing agent sign off and also a word version to coverholders@lloyds.com

Appendix 3: Criteria Guide for Checking Compliance Documentation

Mandatory Documents

Financials

Ensure latest financial document is obtained – showing the Profit and Loss Sheet as well as a Balance Sheet. Audited Accounts are preferable although Management Accounts are acceptable.

Solvency – Total Assets / Total liabilities (e.g. long term debts).

Current Ratio – calculated as Current Assets / Current Liabilities

Professional Indemnity

Update Atlas with the details including inception/expiry dates, limits, deductibles and the name and security rating of the insurer(s).

Lloyd's will review the wording to ensure binder activities are covered and that the Coverholder is included as an insured under the policy.

Business Continuity

Emergency contact list of staff and key brokers/suppliers (accepting redacted versions due to data privacy)

Telephone or other suitable method to cascade to all staff

Alternative office accommodation arrangements (or working from home, if applicable)

Data back-up

Systems reinstatement

Information on how long to reinstate to BAU

Details on frequency of the testing of the plan

Anti-Money Laundering (stand alone policy)

What it is and what they need to do to comply with regulations

Written procedures covering the recognition and reporting of suspicious transactions, including the appointment of a designated person to receive, consider and report any suspicions identified by staff

That this covers training for staff on AML

That this covers how the Coverholder promotes awareness and manage record keeping

We will identify the individuals at the Coverholder who have completed the 3 Financial Crime training modules on lloyds.com (Lloyd's will upload this information to Atlas on an annual basis)

Optional Documents (where applicable)

Succession Plan

Controls are in place to cover for the loss of key personnel

The impact the loss of key personnel will have on the Coverholders ability to operate the binding authority

The experience levels of those people named in the succession plan

Financial Crime (consolidated policies) – can include AML, Anti - bribery & Corruption, Sanctions

Who the designated financial crime officer is

Should have written procedures covering the recognition and reporting of suspicious transactions, including the appointment of a designated person to receive, consider and report any suspicions identified by staff, as well as conduct staff training, promote awareness and manage record keeping

That it covers training for staff on financial crime

Covers International sanctions – what it is, what checks are expected to be made and when

Covers Anti-bribery and details of the gifts and entertainment policy.

How records are kept and how long for

Conflicts of Interest Policy

What a conflict is

What's the process in settling conflicts of interest

Outline of the segregation of duties

Complaints Handling

A definition that meets local or Lloyd's requirements (refer to Crystal for country specific requirements).

If they write business in various countries they will need to have several definitions

Timeframes for responses, that meet local or Lloyd's requirements

Reference to the person responsible for dealing with complaints

An internal escalation process including MI – what does the Coverholder do with the data?

Reference to reporting complaints to the Managing Agent and Lloyd's

Any templates letters used

Training/awareness for staff

For the UK, refer to the Lloyd's document 'Creating a Procedure for UK Complaints' to ensure that the Coverholder has incorporated everything

Whistleblowing

Policy in place

Nominated whistleblowing champion

Referral criteria to Principals (Managing Agents) where relevant issue has been identified via whistleblowing

TCF

Definition and outline of company approach to customer detriment

Outline of governance and ownership of the policy

Outline TCF MI that the board will review and frequency

Escalation process when customer detriment is identified

Data Privacy

"Detail on how the Coverholder complies with relevant data protection laws in its territory and for the UK.

Comments Including:-

- The steps undertaken to ensure that all data is kept securely.
- The controls in place"

Data retention and general information security procedures outside of personal data, for example confidential information

If there are branch offices, details provided of how data is transferred between offices and how it is secured

Details provided of the processes for home workers/branch offices and those with remote access

Details provided of any policies governing the management of passwords including password length, format, expiry, use of unique user IDs and user lockout

IT Security

"Details provided of any systems which the Coverholder has which are hosted in the Cloud or by a third party.

Include comments on:-

- Any Service Level Agreements (SLAs) in place
- Any security in place"

Details provided of the Coverholder's anti-virus and anti-spam protection that is in place for the network including servers and workstations. Include comments on any changes made in the last twelve months

Details provided of the Coverholder's policies on the use of own devices (staff private devices such as tablets or smart-phones) and the security policy in place for these

Outsourcing Policy

Details provided of the Coverholder's outsourcing arrangements and any activities which are insourced, that is provided by a different company or division within the same group of companies, for example.

Details provided of any call centre arrangements including how they are controlled. Include comments on:-

- Whether the calls are scripted
- Whether the calls are advised or non-advised
- Details of the training that employees receive
- Which staff receive training
- Whether the Coverholder provides on-going training
- How the Coverholder monitors calls
- Whether call audits are carried out, the frequency of these and how the calls to be reviewed are selected
- What the Coverholder does with the results, and whether these are reported to management on a regular basis

- Details of the actions that a Coverholder takes if a call is not satisfactory.

Details provided of how the Coverholder manages their external producers. Include comments on:-

- How the Coverholder monitors external producers
- Details of any regular vetting or monitoring
- Any processes to check that due diligence has been done
- Validate that the correct licences are in place for their producer agreements
- The process to end relationships with external producers including details of any documentation such as TOBAs
- Where the Coverholder has a network of producers bringing business in on a non-inclusive arrangement, validate that there is a document of the arrangement such as a TOBA

Appendix 4: Branch Coverholder Application Decision Paper

BRANCH COVERHOLDER APPLICATION**LLOYD'S****DECISION PAPER**

Version 2 – August 2017

Coverholder Name	Enter coverholder legal name		
PIN	Enter PIN		
Domicile	Enter domicile of coverholder		
Date application submitted to Lloyd's	Enter date application submitted to Lloyd's		
Broker	Enter full broker name. If no broker, enter N/A	Syndicate	Enter syndicate no
Managing agent	Enter full managing agent name	Lead line size (%)	Enter % lead line size
Classes and Risk code Enter generic classes being requested and risk codes		Currency & EPI	Enter the gross EPI to Lloyd's
		Commission (%)	Enter the maximum commission payable under this coverholder.
		Loss ratio (%)	Enter % gross incurred loss ratio
Level of underwriting authority	Enter the level of authority being requested		
Coverholder Contact for Annual Attestation	Enter the name, email address and telephone number of the individual we should contact at the coverholder for their Annual attestation		

Lloyd's Assistant/Executive	LLOYD'S USE ONLY		
CRS checks & Email to Reg Liaison	LLOYD'S USE ONLY		
Reps report sent	LLOYD'S USE ONLY		
Undertaking received & filed in G:drive	LLOYD'S USE ONLY		
MED Apps tab filled in	LLOYD'S USE ONLY		
Claims Handling	LLOYD'S USE ONLY		
Complaints Handling	LLOYD'S USE ONLY		
Stage 1 complete	LLOYD'S USE ONLY		
UP referral required (Y/N) & reason	LLOYD'S USE ONLY		
Conduct referral (Y/N)	LLOYD'S USE ONLY		
Date to COB/SUP	LLOYD'S USE ONLY	Date COB/SUP approved	LLOYD'S USE ONLY
Stage 2 complete	LLOYD'S USE ONLY		

This document is intended to be from the managing agent's perspective, a wrap up of your views on how this prospective coverholder fits into your business plan and portfolio. It should be treated as a confidential document between managing agent and Lloyd's.

Overview of Application - summary

We expect this section to contain the following information and to be completed by the sponsoring Underwriter:

- A summary of the applicant including any material information that you think is relevant to the application
- Reason for your relationship with this coverholder and why you wish to pursue sponsorship.

If this is not existing business then please provide the following:

- Any previous personal experience and history that has been associated with this coverholder.
- Details on the classes of business, including a description of the type of risks to be written, in what territories, the risk codes split out with the corresponding EPI.
- A description of current market conditions.
- Details on the distribution chain including whether or not this will be wholesale or retail business.
- Acquisition costs if known for this proposal (broking fee, coverholder commission)
- Any visits that have been conducted by yourself or your underwriting team.
- Risk limits/sub Limits/aggregated limits per class, three year historical loss ratios if applicable or projected loss ratios falling in line with SBF proposal for the correct YOA.
- Expected volume of business and number of policy holders being issued under the binding authority.
- Information on pricing of risks.
- GWPI/NEPI per year and how this book is expected to grow
- Final proposed line size.

Please detail the risk profile of the Coverholder, with thought given to factors such as the classes of business to be bound, territories and the size / complexity of the company.

We expect this section to contain the following information and to be completed by someone independent of the sponsoring Underwriter:

- Please confirm the glossary tool had been utilised to determine the data set and that you as the MA are able to meet Lloyd's reporting standards.
- Please provide confirmation that following your own internal due diligence of this applicant, you have no concerns about their suitability to be a Lloyd's coverholder.

If this is not existing business then please also provide the following:

- Whether the proposed insurance documents and bordereaux and any marketing/website material have been vetted/approved by yourselves and are in line with Lloyd's expectations

Outstanding issues & review of underwriter's summary

LLOYD'S USE ONLY

<p>Application Review – Stage 2</p> <p>This section is to provide your statements that you, as the managing agent, have reviewed all the points raised and give your evidence of this. Your response should replace the guidance.</p>	<p>Outcome</p>
<p>Company Information</p> <p>Confirm where this BRANCH IS LOCATED Confirm what approved coverholder PIN this is a branch of</p> <p>Please confirm that you have engaged with the Country Manager (if a rep is located in this territory)</p> <p>Is this branch in the same country/state/province as the head office?</p> <p>If NO please confirm the applicant has all the necessary licences, permits and other authorisations in all jurisdictions where they are domiciled, trade in, provide services or do business under the binding authority.</p>	<p>LLOYD'S USE ONLY</p>
<p>Underwriting and Claims</p> <p>State here if the branch will have the same underwriting authority level?</p> <p>If No and the underwriting authority is different from the already approved office, please provide a rationale for this.</p> <p>Claims handling State here if the branch will have the same claims handling arrangements as the already approved office?</p> <p>If No, please state who will be handling claims and provide the following details: If this will be a TPA, please confirm if the TPA is new to you as the Managing Agent. If so, please contact claims@lloyds.com to register a relationship on our systems.</p> <p>If answered no and the branch location is applying for claims handling authority, please confirm the following in order to show that you have carried out your due diligence (this must be completed if claims are being handled by a TPA / coverholder):</p> <ul style="list-style-type: none"> • Level of authority that the applicant/TPA will have. If there is a limit, who will be handling claims after this limit? • Process and system capabilities are satisfactory • A sufficient quality control/peer review programme exists • Please confirm that a claims assessment has been carried out and you (the managing agent) are satisfied with the applicant's/TPA's claims handling process. • Please provide confirmation that following your own internal due 	<p>LLOYD'S USE ONLY</p>

<p>diligence of this applicant/TPA, you (the managing agent) have no concerns about their abilities or resources to handle claims on our behalf. Or if you do have concerns, state how you have mitigated them.</p> <p>If NO, please also confirm:</p> <ul style="list-style-type: none"> • If you are aware of the applicant ever having claims authority under a binder cancelled by underwriters. • The level of claims service expected on all claims (expectations and requirements) will be set out in a formal way in an appendix or in the BAA • How regular monitoring of performance against claims service expectations will be achieved. 	
<p>Principal Staff & Reputation</p>	<p>LLOYD'S USE ONLY</p>
<p>List each key staff and confirm the following:</p> <ul style="list-style-type: none"> • That appropriate checks have been carried out on each member of staff carrying out each role. • If any of the key individuals are the same from the already approved office(s)? • Is the coverholder requesting claims authority? If the applicant is not applying for claims authority, they should not have any individuals ticked as having responsibility for claims – confirm this is correctly shown on Atlas. • State here if any of the key staff are remote workers. If so, please ensure that remote worker declaration forms signed accordingly and uploaded to Atlas for subscription markets to view. • Are the individuals employed directly by the applicant? If no, please provide the details/secondment agreement • Confirm you have reviewed the CVs and comfortable with the individuals having the relevant insurance experience <p>If only one key staff member is provided, please explain how these roles would be fulfilled in the event this person is suddenly unable to work.</p> <p>Reputation & Standing:</p> <ul style="list-style-type: none"> • State your awareness of any declarations under the 'Reputation & Standing' section. If any declarations made, please provide details around these, including the rationale why the Managing agent is happy with this issue. If none state "No reputational self disclosure". • State whether the applicant has ever had a binding authority non-renewed or terminated with cause. If so please give your understanding of why this happened. 	
<p>Professional Indemnity</p>	<p>LLOYD'S USE ONLY</p>
<p>State here if the Professional Indemnity Policy for the already approved office covers this branch office?</p>	

<p>Please state the following:</p> <ul style="list-style-type: none"> • Is the current PI cert/policy uploaded to the head office on Atlas? • If not provide the updated policy and confirm when this will be uploaded to Atlas • Does it state it that includes binding authority activities in its coverage? <p>If NO, and the current PI policy doesn't cover this branch location, please provide the PI policy including details of where it confirms binding authority activities are covered.</p>	
<p>Systems/Controls and Bank Accounts</p>	<p>LLOYD'S USE ONLY</p>
<p>Systems</p> <p>Does the branch office operate off the same systems and link into the already approved office?</p> <p>If NO, please state the system used and name of the system provider. Please also provide the following details:</p> <ul style="list-style-type: none"> • Is this an Excel based system? • Describe how the data flows through each touch point • Is their system already in place? If not please provide rationale – is this coming into force soon? Have underwriters reviewed the system? Are they happy with the system? • Does the applicant host the data on the system? If not, please state who hosts the data and where it is hosted. • State that the applicant's system fulfils the system requirements. If it doesn't, please explain how these requirements will be met. <p>Are the management policies, processes, procedures and oversight regime the same as the already approved office? Including complaints and financial crime policies?</p> <p>If NO, please provide copies of the different procedures and provide your assessment of these documents</p> <p>Are existing bank accounts used?</p> <p>If NO, provide details, including two account signatories and assurances that they are not sweep accounts and meet Lloyd's standards.</p> <p>For applicants domiciled in South Africa, please refer to Crystal for bank account guidance prior to submitting the application.</p>	
<p>Class of business</p>	<p>LLOYD'S USE ONLY</p>
<p>State the classes here</p> <p>Please detail the risk codes and corresponding EPI</p>	

<p>Is this existing business to Lloyd's already written under a binder with the already approved office?</p> <p>If NO, confirm the following: Which classes are different and attach a business plan. State you have checked the risk code mapping document and the correct classes have been requested on Atlas. If classes differ please explain the reasons behind this. Lloyd's DAT will assess whether the application requires referral to Syndicate Underwriting Performance and will follow up on any queries they have.</p> <p>Please state the conduct risk rating applicable to this binder. If it is rated High Product Risk please provide a copy of the completed Consumer Product Binder Questionnaire or equivalent unless you have been told this is not required.</p> <p>If the binder is rated medium or low risk please confirm if it will be sold to individuals or micro-enterprises. If it will be, please attach the conduct risk assessment or provide an explanation for why it is not High Product Risk</p> <p>Give a statement to confirm you have satisfied yourselves that the Coverholder is aware of all the regulatory and tax obligations it has for the territories in which it is doing business. List any specifics for each territory and how these have been addressed.</p> <p>State you have checked on Crystal for any regulatory issues with writing this/these classes in the territory(ies) proposed.</p> <p>Please provide confirmation that all policy wordings to be issued by this coverholder on your behalf have been reviewed and agreed by yourselves.</p>	
<p>Regions</p>	<p>LLOYD'S USE ONLY</p>
<p>Does this branch cover the same regions as the already approved office?</p> <p>For some regions we request additional information, i.e. for Canada, we expect a signed copy of the Branch Canadian Questionnaire from the applicant to be submitted with the application. Please check this link for any regional specific requirements: http://www.lloyds.com/the-market/i-am-a/delegated-authority/applications-and-processes/post-approval-changes/regions</p>	

Approval:
MA Sign-Off

<i>Name and Position:</i>	<i>Signature & Date:</i>
Lloyd's Sign-Off	
<i>Name and Position:</i>	<i>Signature & Date:</i>
Lloyd's Peer Review Sign Off	
<i>Name and Position:</i>	<i>Signature & Date:</i>
Lloyd's Manager Sign Off	
<i>Name and Position:</i>	<i>Signature & Date:</i>

Please ensure you send a pdf version with the Managing agent sign off and also a word version to coverholders@lloyds.com

Appendix 5: Authorised Remote Worker Declaration

Delegated Authorities

AUTHORISED REMOTE WORKER DECLARATION

Name of Authorised Remote Worker:	
Approved Coverholder Name:	
Approved Coverholder PIN:	
Address line 1:	
Address line 2:	
Address line 3:	
City / Town:	
State/ Province:	
Country:	
Postcode / Zip code:	

Declaration by a Director of the Coverholder

I confirm that the individual named above is deemed to be an Authorised Remote Worker and that we comply with the following subjectivities.

1. A sample of risks written by the Authorised Remote Worker is reviewed on at least a monthly basis
2. There is an appropriate system backup (BCP) linked to the main offices to ensure data is not lost should an unforeseen event occur
3. Hardcopy files retained in the remote location also have a mirror copy held in the coverholder's office
4. Any work-related documents or files (whether electronic or hard copies) stored at the remote location are sufficiently secured and segregated from personal files to meet provincial/state/federal privacy legislation and any other relevant legislation
5. The Authorised Remote Worker uses corporate email accounts, rather than personal accounts at all times when acting in their capacity as an employee
6. The remote address is not advertised as a business workplace and does not feature on business correspondence.

We will notify Lloyd's immediately should this cease to be the case.

Name of Director:	
Date:	

Declaration by Managing Agent

We confirm that we have carried out appropriate due diligence in line with the guidance set out in the Delegated Authorities Code of Practice regarding the above named Authorised Remote Worker which includes consideration of any tax, regulatory and risk management issues. We also attach the necessary additional licence(s) for the remote worker or an explanation of why no additional licence(s) is required.

Managing Agent:	
Authorised by:	
Date:	

If an employee works from an unapproved address rather than an approved coverholder office the employee should be recorded by the managing agent and Lloyd's on Atlas as an "Authorised Remote Worker".

Appendix 6: Financial Crime

Managing Agents have a responsibility to ensure that Coverholders have proper and adequate systems and controls in place to ensure Anti-Money Laundering (AML) and international sanctions compliance and to ensure compliance by having specific questions relating to AML/international sanctions as part of the Coverholder audit process. For further information in respect of Financial Crime/Sanctions guidance for Coverholder business please see **Market Bulletin Y4727**.

Anti-Money Laundering

Definition of Money Laundering:

“The process used by criminals to disguise the origin and ownership of the proceeds of their criminal activities in order to avoid prosecution, conviction and confiscation”.

General Anti-Money Laundering Obligations

In the UK, legislation covers most financial sectors which include:

- Criminal offences around engaging in money laundering and/or assisting others to launder the proceeds of crime;
- Disclosure/reporting requirements in respect of suspicious activities or transactions; and
- Tipping off offences: ensuring that law enforcement is not hampered in its investigations by the subject of the suspicion becoming aware of the allegations.

Similar legislation with related requirements and offences will be in force within the jurisdiction that Coverholders operate in but the extent to which AML legislation applies to intermediaries varies.

Activities that might trigger suspicion are:

- Difficulty in obtaining information about, or doubts over the bona fide of, the policyholder or other parties involved;
- Transactions set up and then quickly cancelled for no identifiable reason;
- Transactions involving placements from, or the involvement of intermediaries, in different jurisdictions for no discernible purpose;
- Return premiums, overpayments or claim payments where a third party appears to benefit;
- Transactions where insurance does not appear to be the primary object or make no economic sense; and
- Over inflated values (e.g. on jewellery / fine art).

This is not an exhaustive list and the Managing Agent which has delegated authority to the Coverholder may have other relevant examples to consider.

Expected minimum standards

Coverholders should adopt written procedures to cover the following:

- Recognition and reporting of suspicious transactions;
- Staff training and awareness; and
- Record keeping.

In order to devise a suitable policy, Coverholders should identify and record their own business risks by assessing:

- The risks posed by the products they offer;
- The channels through which business is conducted; and
- The countries in which business is done – when relevant i.e. where the cover is multi-jurisdictional.

Coverholders should also review their internal money laundering procedures (as applicable) but particularly in relation to:

- The extent of operational changes and their money laundering impact, if any;
- Ensuring recommendations from any previous reviews are implemented; and
- Reviewing the level of understanding of, and compliance with, training issued to staff.

Reporting

The following procedures should be regarded as a minimum standard for Coverholders:

- The appointment of a designated person within the company to receive, consider and report to the appropriate authorities any suspicions identified by company employees;
- Report any suspicions to the designated person in your company or the Managing Agents MLRO in London for consideration (subject to compliance with your jurisdiction legislation);
- Document the fact that this has been done;
- Ensure procedures in place for suspicions to be reported to a designated person to consider whether reports need to be made to local authorities and instructions issued to staff; and
- Document any decisions made not to report suspicions.

International Sanctions

Background

Coverholders should be aware that for various reasons including the ongoing and increasing threat of terrorism, the scope of international sanctions is widening, with the consequent effect that the number of sanctions notices issued by governmental agencies in different jurisdictions in the last few years has increased dramatically.

Sanctions may, for example, be used to bring about a change in another country's or individual's activities or policies particularly if breaches of international law or human rights have occurred, or democracy is under threat. In the UK responsibility for the administration of sanctions falls to HM Treasury ("HMT") whilst other countries will have similar arrangements e.g. The Office of Foreign Assets Control ("OFAC") in the US.

There are different types of sanctions, which can be country specific and therefore include bans on financial transactions and trade or they can be targeted at specific entities and or individuals, otherwise known as SMART sanctions. Legal advice should be obtained on any transaction where there is a concern as to whether the transaction would breach sanctions.

All financial sanctions regimes regardless of jurisdiction have a criminal offence for making funds/financial services available to sanctions targets.

Who imposes sanctions?

There are a number of different bodies who impose sanctions, such as the United Nations ("UN") Security Council who decide and administers the sanctions regimes, which are binding on member states.

Countries that enforce UN sanctions can also impose their own unilateral sanctions which will be enforced by a specific body. For example OFAC, the US Department of Treasury administers and enforces financial and trade sanctions in the US. The US Treasury maintains jurisdiction over all US dollar transactions, and its aims are to ensure no sanctioned countries, entities or individuals engage improperly in US dollar denominated transactions.

OFAC is extremely proactive and diligent in enforcing US policy and Coverholders do need to consider very carefully the impact of any US sanctions on their business activities.

The countries and regimes, currently subject to US sanctions are listed on US Treasury's website under OFAC's section.

What are the types of sanctions?

Financial

Financial sanctions include freezing the funds and/or assets of governments, entities or individuals or may mean that all financial transactions are banned in a particular region. Likewise, export credits or investment transactions may be restricted or not permitted in a certain country.

Trade

Sanctions against trading with a particular country may have a general application such as export/import bans. Alternatively, dealing in particular commodities from certain countries such as oil, timber, diamonds or arms may be embargoed.

Smart Sanctions

Smart sanctions are restrictions against individuals or entities rather than against countries and include financial and/or travel ban measures.

Terrorism

There are specific sanctions in place aimed at preventing terrorism. A UN resolution in 2001 became binding on all states to prevent acts of terrorism worldwide. The resolution denounces terrorism and requires member states to deny financial support for those involved in or supporting terrorism. Additionally, the resolution enforces the sharing of information about terrorists between governments.

Al-Qa'ida and Taliban sanction regime

There is a separate Al-Qa'ida and Taliban sanction regime, where individuals, associated individuals and entities are subject to separate specific measures imposed by the UN resolutions.

Diplomatic Sanctions

Diplomatic sanctions may be applied by one country against another (i.e. unilateral sanctions) and could include the expulsion of diplomats from a country, severing of diplomatic ties, suspension of official visits and less frequently, the boycotting of sports and/or cultural events.

US narcotics regime

The US has imposed sanctions against targets thought to be involved in drug trafficking due to evidence that groups such as Al-Q'aida are using narcotic trafficking to fund terrorism. These sanctions prohibit US persons from dealing with them and list Specially Designated Nationals, i.e. individuals suspected of involvement in drug trafficking.

How do sanctions impact on insurance?

In general, sanctions (irrespective of jurisdiction) will impose inter alia the following duties/requirements:

Disclosure of knowledge or suspicion of a transaction

There are a number of statutory instruments (“SI”) which implement the relevant sanction. The specifics of the applicable offences are covered in each SI but in general terms “failure to disclose knowledge or suspicion” of a transaction involving a sanctioned person or entity constitutes an offence.

Coverholders must therefore be aware of their reporting obligations and ensure compliance.

Making funds available

Making funds available to a person or entity that is the target of international sanctions will also be an offence. The specifics of the offence are set out under your country’s relevant statutory instruments, but generally it is an offence to make funds, economic resources and financial services available, directly and indirectly, to any person listed under the sanctions regimes.

Commercial entities have a duty to ensure that they are not making funds available to those persons sanctioned. Claims payments and return premiums could be a potential source of foreign currency for sanctioned persons, and so controls and checks should be in place to ensure that monies are not paid to targets on sanctions lists, bearing in mind that policyholders can become targets after a policy has inception.

Coverholders must make themselves aware of their obligations and ensure compliance.

What are the penalties?

Penalties for breaching sanctions generally involve a fine or in the most serious cases, imprisonment.

What are the Coverholder responsibilities to ensure compliance with sanctions?

Coverholders are expected to be aware of their obligations in respect of international sanctions and have adequate systems and controls in place to ensure compliance. Coverholders should expect audits undertaken by Managing Agents to include some focus on international sanctions compliance.

Conclusion

Managing Agents have responsibility for ensuring correct compliance by Coverholders in respect of AML legislation and International Sanctions. However, this does not devolve Coverholders of their own individual responsibilities under relevant legislation (both international and local).

Managing Agents and Coverholders should therefore work together for their mutual benefit to ensure that adequate systems and controls are in place to fulfil the requisite compliance standards in respect of the class of business undertaken and the Coverholders exposure to the applicable legislation. Additional information on the application of due diligence, including guidance on sanctions and Coverholder relationships, can be found in the Sanctions Due Diligence Guidance available on Lloyd’s website and in **Market Bulletin Y4861**.

Bribery Act 2010

As Lloyd’s market participants will be aware, regulatory expectations of the UK insurance industry to ensure appropriate anti-financial crime systems and controls are increasing, together with regulatory penalties for non-compliance, as seen in recent high profile actions by the FSA.

Financial crime by connected third parties is a particular risk that Managing Agents need to manage appropriately and, as recommended by the UK’s Ministry of Justice’s (“MoJ”) Guidance under the UK Bribery Act, one way of doing so is the use of anti-financial crime terms and conditions, with appropriate termination provisions, in contracts with third parties. Due to their relationship with Managing Agents, Coverholders can

pose a potential financial crime risk as "associated persons" under the UK Bribery Act and therefore the recommendation by the MoJ has led to the development of a financial crime clause which is included in the 2013 model binding authority wordings LMA 3113, LMA 3114 and LMA 3115. A financial crime endorsement is also available for attachment to the model binding authority wordings, LMA 3018, 3019, LMA 3020, LMA 3021 and LMA 3024. It should be noted that due to the different paragraph numbering across the model binding authority wordings there are different versions of the endorsement for attachment to the non-marine and marine model binding authority wordings and "direct" versions for binding authority agreements where no broker is involved.

Financial Crime Training

Lloyd's expects Coverholders' key personnel to undertake suitable financial crime training covering the following areas:

- Proceeds of Crime (including money laundering);
- Sanctions; and
- Bribery.

If the Coverholder doesn't have internal training solutions in place then, as a minimum, relevant staff should complete the three online training modules available on Lloyd's website.

Appendix 7: Direct Deal Arrangements

Managing Agents may appoint a Coverholder, and arrange and administer a binding authority covering any class of business, without the involvement of a Lloyd's Broker.

Main Considerations

If a Managing Agent deals directly with a Coverholder without involving a Lloyd's Broker, it is important that the Managing Agent considers the following:

- Placing binding authorities with a following market;
- The documents that need to be produced;
- Who will be responsible for premiums and handling claims; and
- How adequate their written procedures are.

Placing Binding Authorities with a Following Market

If the members of a syndicate or syndicates the Managing Agent manages do not write all of the binding authority, the Managing Agent will be responsible for placing the remainder of the contract with a following market. In these circumstances, the Managing Agent will perform the role of a broker.

Managing Agents will need to be able to demonstrate that they are capable of addressing the following:

- Making sure all relevant information is given to the following market;
- Keeping a record of the information given to the following market when the binding authority was placed (and keeping evidence of its agreement, where necessary);
- Keeping records about the operation of the binding authority (for example, changes to the terms of cover); and
- Making sure any outstanding issues are fully resolved before the binding authority comes into force.

Managing Agents should also be aware that if a Lloyd's Broker is not involved, disputes or litigation could arise with the following market (for example, as a result of a mistake made by one of the Managing Agent's staff or due to a potential misrepresentation). Managing Agents may consider it appropriate to buy errors and omissions insurance to cover these risks.

Producing Documents

Managing Agents will be responsible for producing binding authority agreements and having them checked by Xchanging.

Managing Agents will also be responsible for making sure that satisfactory arrangements have been made for Coverholders to use Lloyd's certificates.

Responsibility for Premiums and Claims

Managing Agents will need to be satisfied that they will be able to perform the functions normally carried out by a Lloyd's Broker. In particular, Managing Agents need to have regard to the following:

- They will be responsible for making sure that premiums and claims are processed to the following market;
- If the following market includes insurers who are not Lloyd's syndicates, the Managing Agent will need to have set up appropriate procedures for processing and settling premiums and claims directly with those insurers;
- If the following market includes Lloyd's syndicates, the Managing Agent will be responsible for providing claims details to Xchanging;

- Premium and claim bordereaux (that is, reports on all premiums, paid claims, outstanding claims and expenses) must be provided to Xchanging at least every three months (except for motor or personal lines business not processed through Xchanging). This also applies where the Managing Agent's syndicate writes a binding authority 100% and does not use Xchanging to process the premiums and claims; and
- Premium and claims bordereaux must contain sufficient information to be reported to regulatory and tax authorities.

Managing Agents will require a CSN – often called a Broker Number – to process premiums and claims written direct.

In order to obtain this, the Managing Agent should contact Lloyd's DAT with details of the business and applicable controls:

- Rationale for writing the business direct;
- Classes of business involved and domicile of insureds;
- Premium volumes per class / region; and
- Systems and resources (including expertise) responsible for managing this business.

Lloyd's DAT will review this information, and where appropriate may recommend that the Managing Agent's personnel receive training from Xchanging before approval is given (note that there is a fee payable to Xchanging for this training).

The Managing Agent and Xchanging normally liaise regarding the CSN to be used and Xchanging will confirm this to Lloyd's DAT so that it can be used in premium processing transactions.

Appendix 8: Key Performance Indicators

The following are suggested Key Performance Indicators (“KPIs”) which Managing Agents may consider using to assist in monitoring their controls and processes for delegated authority business:

Category	KPI	Description
Strategy and Procedures	Number of Contracts	The number of delegated authority contracts which the Managing Agent writes, split by method of placement (e.g. binding authority including the number of Coverholders, line slips and consortium arrangements).
	Lead/Follow	The number of lead delegated authority contracts the Managing Agent writes versus the number of follow delegated authority contracts. Dependent on whether the contract is written on a lead or follow basis, the Managing Agent will be expected to conduct different levels of due diligence and has different responsibilities such as auditing the Coverholder etc.
	Renewed / Non-Renewed / Terminated	The number of delegated authority contracts which have been written as new, renewed, non-renewed or terminated since the last reporting period. This report helps the Managing Agent to monitor the number of contracts which they are managing as well as identifying any trends which may require additional resource or workload (such as the management of terminated contracts).
	Extent of Underwriting Authority	This helps the Managing Agent to monitor the extent of underwriting authority being delegated.
	Extent of Claims Authority	This helps the Managing Agent monitor the extent of claims authority being delegated.
	Premium by method of placement	The overall premium written split by each method of placement (i.e. binding authorities, line slips and or consortia).
	Direct Deals	The number of direct deal binding authorities that a Managing Agent has in place. Direct deal relationships require additional administrative tasks and this may impact any resourcing requirements.

Due Diligence	Sufficiency of Due Diligence	The Managing Agent should be able to produce reporting demonstrating that each binding authority has been through the appropriate due diligence process, with exceptions escalated appropriately internally.
	Subjectivities	Whilst ensuring that full and complete due diligence is completed prior to inception, Managing Agents may place subjectivities for the resolution of minor issues (such as procedural updates by the Coverholder) and any instances where subjectivities have been placed should be monitored by the Managing Agent with overdue items escalated appropriately internally.
Contracts	Binding authorities stamped post inception by the Underwriters	The number of binding authorities which have not been stamped by Underwriters prior to inception. The Managing Agent should be able to report on any instances where the Underwriter has not stamped the binding authority prior to inception and escalate these appropriately.
	Binding authorities signed post inception by the Coverholder	The number of binding authorities which have not been signed prior to inception. The Managing Agent should be able to report on any instances where the Coverholder has not signed the binding authority prior to inception and escalate these appropriately.
	Master Coverholders	The Managing Agent should be able to report on the number of Master Coverholders and Sub-Coverholders currently written through each of its managed syndicates.
	Pre-Bind Quality Assurance ("PBQA")	The lead Managing Agent should have a process in place to identify any breaches of process where a PBQA check has not taken place on the binding authority. Exceptions to this process should be reported on internally as appropriate.
	Document Issuance reporting	The Managing Agent should be able to report on the number of Coverholders where they can demonstrate receipt or monitoring of document issuance compliance by the Coverholder.
	Binding authorities registered post-inception	The Managing Agent should be able to report on any instances where the binding authority has not been registered on BAR prior to inception.
Managing and Monitoring	Audit Plan Monitoring	The Managing Agent should be able to report on the number of audits planned and completed in order to demonstrate adherence to the Coverholder Audit Plan.

	Recommendations by Category / Rating	The number of recommendations split by rating as to whether they are High / Medium / Low. Managing Agents should also consider reporting on the recommendations arising from audits by category to help identify trends emerging.
	Overdue Audit Recommendations	The number of Coverholder audit recommendations which are overdue from the date agreed with the Coverholder to resolve the recommendation.
	Bordereaux Tracking	The tracking of the bordereaux to ensure that the Coverholders are submitting it in the correct format and in a timely manner.
	Risk Bordereaux Validations and Escalations	The Managing Agent should produce reporting to show any instances where the Coverholder has bound outside of their authority. This should be reported on and escalated internally as appropriate.
	Receipt of Premium	The Managing Agent should produce reporting to evidence the monitoring of premium written versus premium signed and any material instances where premium is overdue.
	Estimated Premium Income ("EPI") Monitoring	The monitoring of the premium written by the Coverholder versus the EPI to identify any material differences at either a binding authority or class of business level.

Appendix 9: Consumer Product Binding Authority Questionnaire

Satisfactory completion of the Consumer Product Binding Authority (“CPB”) Questionnaire is the responsibility of a Managing Agent. Should you require further guidance on assessing the definition and requirements of a CPB please refer to Lloyd’s DAT.

Lloyd’s requires this form, or an equivalent document, to be completed for all new Coverholder applications and new class of business applications submitted to Lloyd’s for approval that relate to CPBs. The completed questionnaire must be attached to the Atlas application or submitted as an attachment to the Managing Agent letter of support.

For a new CPB where an application to Lloyd’s is not required or for renewals of a CPB, Lloyd’s recommends Managing Agents utilise the form to ensure they maintain the appropriate oversight of consumer products. This is not mandatory. However in the absence of the form Lloyd’s expects Managing Agents to be able to demonstrate that they have in place equivalent arrangements to assess and manage the relevant risk areas.

Coverholder Name:			
PIN:			
Syndicate:		Broker:	
Lloyd’s Class(es) of Business:			

1. Product Design and Suitability
<p>a. How have you satisfied yourself that the product offers suitable value and cover for the intended consumer?</p> <ul style="list-style-type: none"> • Please provide at least one metric in support of your response. • Please provide details of all acquisition costs (include the total sum paid by the consumer, the amount received by the syndicate and how the balance is accounted for).
<p>b. Where a new product is proposed, how have you satisfied yourself that:</p> <ul style="list-style-type: none"> • You know and record which stakeholder is responsible for the initial product design • The product has been appropriately screened to determine whether it offers suitable value for the intended customer • The likelihood of a claim under the proposed product and the likely frequency has been assessed and this analysis been considered and reflected in initial pricing • Where a product is intended to be offered as a package or add-on it is reasonable to expect the customer to know the cover exists and to remember this at the point a possible claim could arise.

2. Financial Promotions	
a. Will any financial promotions be launched for the product(s) written under this binding authority?	Y / N
<i>If 'No' go to question 3</i>	
b. If yes, how have you satisfied yourself that: <ul style="list-style-type: none"> • Financial promotions are clear, fair and not misleading and target the right customer • Benefits are accurately reflected and relevant risks are sufficiently highlighted • Queries and complaints arising from financial promotions are monitored and action taken where necessary. 	

3. Product Distribution and Information	
a. How have you satisfied yourself that the product distribution channel is suitable, having given consideration to: <ul style="list-style-type: none"> • Which stakeholders are marketing and selling to the customer and their level of understanding of the product • What is done to ensure the customer fully understands the product and that such discussions and communications are recorded appropriately • How sales are monitored to ensure the product is sold to the intended customers • The intended volume of customers and that the relevant stakeholders have appropriate resources • Staff incentives and reward schemes that could conflict with the interest of the customer 	
b. How have you satisfied yourself that information provided to the customer is clear, fair and not misleading, having given consideration to: <ul style="list-style-type: none"> • Whether the customer receives any advice and if so the competence of those giving advice and the appropriateness of the advice itself • The content and frequency of information given to the customer throughout the duration of the relationship • Technical terminology and whether such terminology is clearly explained • The process for providing information in a timely and efficient manner should it be sought by the customer 	

4. Barriers
<p>a. How have you satisfied yourself that the customer is not at risk of facing barriers should they wish to cease, amend or switch products, having given consideration to:</p> <ul style="list-style-type: none"> • Whether there are any high or disproportionate penalties for such actions • Whether there are any excessive complications or administration • Whether any conditions apply with negative consequences for the customer, such as long exclusion periods during which a claim cannot be made
5. Claims
<p>a. Which stakeholder will be responsible for handling claims under this binding authority?</p>
<p>b. Where a stakeholder other than yourself will be responsible for claims handling, how have you satisfied yourself that service issues and claims are processed, responded to and settled in a timely and fair manner giving consideration to:</p> <ul style="list-style-type: none"> • Whether reasonable guidance is given to the customer with regards to how to make a claim • Whether the stakeholder has authority to reject a claim and if so, how you ensure rejections are reasonable and that the reason for rejection is appropriately recorded • Whether claims are settled promptly and how this is monitored
<p>c. How have you satisfied yourself that claims will be handled in accordance with Lloyd's requirements?</p>

6. Complaints
<p>a. Which stakeholder will be responsible for handling complaints under this binding authority?</p>
<p>b. Where a stakeholder other than yourself is responsible for handling complaints, how have you satisfied yourself that complaints are dealt with in a reasonable and prompt way giving consideration to:</p> <ul style="list-style-type: none"> • The process for logging and handling complaints (including acknowledging complaints) • The Coverholders/stakeholders understanding of what constitutes a complaint • What information is captured and its reporting to Underwriters in a timely manner

- In handling complaints any recurring or systemic problems are identified and remedied.

- c. How have you satisfied yourself that complaints will be handled in accordance with Lloyd's requirements?

7. Fair Treatment of Customers

- a. How have you satisfied yourself that the Coverholder is complying with their obligations to ensure the fair treatment of their customers, giving consideration to:
- How the Coverholder engages, motivates and trains staff on the fair treatment of customers and how they monitor staff understanding
 - How issues are recorded and managed.

8. Reporting requirements

- a. How have you satisfied yourself that you have access to the data required in order to appropriately monitor that the product continues to be suitable for the intended customer and that this data will be adequate for relevant regulatory reporting requirements?

9. Compliance with international conduct requirements (where applicable)

- a. Where the binding authority will provide cover to consumers in territories outside the United Kingdom, how have you satisfied yourself that the Coverholder is aware of local conduct requirements and has appropriate controls in place to ensure compliance with these having given consideration to:
- Whether the Coverholder has appropriate infrastructure in place to deal with volumes of enquiries/servicing requests or complaints in respect of the cover issued to overseas consumers

- Whether the Coverholder is able to meet any local language requirements, where applicable.