

CENTRAL SETTLEMENT NUMBERS

PROCEDURE FOR ALLOCATING CENTRAL SETTLEMENT NUMBERS

INTRODUCTION

This document explains how to apply for a Central Settlement Number (“CSN”), which enables an entity to transact via Lloyd’s Central Settlements facility (“Central Settlement”).

WHO MAY APPLY?

Originally, Central Settlement was only used by brokers and syndicates, who obtain a CSN through the broker accreditation and syndicate approval process.

More recently, Central Settlement has been extended to include:

- managing agents dealing directly with coverholders (including service companies) (Appendix 2) and reinsurers (Appendix 3); and
- consortium leaders and/or experts for the collection of consortium fees and/or expert fees (Appendix 1).

These entities may apply to Lloyd’s to be considered for a CSN, as explained below.

HOW DO I APPLY?

You will need to make a written application to Lloyd’s Claims, explaining and/or confirming:

- why you want a CSN and what alternatives exist;
- the anticipated frequency and volume of transactions (number and financial value);
- the steps you have taken to ensure competence to present transactions to Xchanging (see Appendix 4);
- that the board is satisfied that the entity has sufficient knowledge and resources to deal directly and that systems are in place to address the key risks .

You will also need to attach, if you are not a managing agent:

- an undertaking to comply with the Central Accounting Byelaw (Appendix 1 Part A); and
- evidence of managing agent sponsorship (Appendix 1, Part B)

If your application is successful, Lloyd's will notify you and pass the application to Xchanging. Any approval granted will be for the purpose stated on the application and be given only after Xchanging has confirmed to Lloyd's that you are competent to process transactions (Appendix 4).

ADHERENCE TO LLOYD'S CENTRAL ACCOUNTING BYELAW

Central Settlement works by money being transferred on the basis of pre-agreed mandates. In order to protect the market and its participants such a system requires its users to sign-up to rules of conduct ("the rules"), as set out in the Central Accounting Byelaw (No 20 of 1998).

Managing Agents, Accredited Brokers and approved run-off companies agreed to abide by the rules when they were approved or accredited. Other entities wishing to use Central Settlement must sign the attached undertaking to comply with the rules (attachment A to this form) and return it to the Lloyd's Claims Team (claims@lloyds.com) before a CSN will be authorised.

SPONSORSHIP BY A MANAGING AGENT

If you are not a Lloyd's accredited broker (or equivalent), Lloyd's managing agent or part of the Corporation of Lloyd's your application must be sponsored by a Lloyd's Managing Agent.

In this case, you should complete your application as above and pass it to the sponsoring Lloyd's Managing Agent to be countersigned by a director of the agency (Appendix 1, Part B).

COMPETENCE TO PROCESS TRANSACTIONS

All entities using Central Settlement must be competent to produce the relevant documentation and use the necessary systems to process transactions. For example, Lloyd's Brokers and run-off providers must demonstrate competence as part of the accreditation process to ensure that their transactions are correctly processed.

Managing Agents or their service companies must either use the services of brokers or, where they wish to deal direct, must satisfy Xchanging that they are competent to produce the relevant documentation and process transactions. Please contact the Xchanging CSN Applications Team to make the necessary arrangements (Appendix 4). Xchanging will notify Lloyd's when the entity is competent to transact with the CSN.

USE OF THE CSN

A CSN is provided for accounting and settlement purposes only. It is important to note that it does not in any way indicate that the entity is an accredited Lloyd's broker.

It is vital that the CSN is shown accurately on every document submitted to Xchanging. Failure to do this will result in amounts being accounted or settled to the wrong account or rejected outright.

Lloyd's reviews the use of CSN on a regular basis and may, at its absolute discretion, lapse any CSN which has not been used for a period of more than 12 months. A new application is then required to re-activate a lapsed CSN.

CONFLICT OF INTEREST

Where a Managing Agent finds itself in a situation which might give rise to a conflict of interest, they should notify the Lloyd's Claims Team. A decision as to how to deal with the conflict of interest will be taken on a case-by-case basis.

IN SUMMARY

1. Apply to Lloyd's Claims (Appendix 2 or 3)
2. Enclose a signed undertaking (Appendix 1 Part A – if appropriate)
3. Enclose evidence of managing agent sponsorship (Appendix 1 Part B - if appropriate)
4. Satisfy Xchanging of competence to transact (Appendix 4)

If successful: - CSN approval will be granted

APPENDIX 1**PART A****UNDERTAKING TO BE PROVIDED TO LLOYD'S BY THIRD PARTY CONSORTIUM MANAGERS AND/OR EXPERTS**

This undertaking must be given by the applicant. Words and terms in bold type in this undertaking have the meanings given in the Definitions Byelaw.

- A. In consideration of Lloyd's assessing our application we, the applicant, confirm that after conducting reasonable enquiries, the information in this application form is accurate and complete to the best of our knowledge and belief. We acknowledge that, if we have provided any false or misleading information in connection with this application, it may lead to the rejection of the application; and
- B. If Lloyd's grants us a Central Settlement Number (CSN), then in consideration of receiving that number, we undertake and confirm to Lloyd's that –

General

- a. We will deal with Lloyd's in good faith and in an open and co-operative way.
- b. We will comply with and act in accordance with, the rules and requirements Lloyd's makes from time to time in relation to central accounting, in particular the Central Accounting Byelaw (No. 20 of 1998), and any direction given to us by Lloyd's (the "rules").
- c. We will conduct our business with integrity and with due care and skill. We also take all reasonable steps to avoid harming the name, reputation and standing of Lloyd's.

Specific

- d. We will ensure that all transactions submitted in connection with the Central Settlement Number will be duly authorized, complete and accurate;
- e. We will review and take steps to correct any errors identified from Xchanging's Underwriter Signing Messages or Broker Signing Messages on a daily basis, and reconcile daily transaction control totals and monthly statements from Xchanging in connection with the Central Settlement Number;
- f. We will maintain up to date bank mandates and adequate cleared funds to support our transactions through Xchanging in connection with the Central Settlement Number;
- g. We will comply with Xchanging processing requirements when transacting with the Central Settlement Number.

Administrative arrangements

- h. We will take reasonable care to organize and control our systems of accounting responsibly and effectively.

Lloyd's powers

- i. When requested by Lloyd's (or its representative or agent) we will do the following:
 - i answer any questions and provide any information, documents, books, records and other materials which, in the opinion of Lloyd's (or its representative or agent) relates or purports to relate to the conduct of our business with Lloyd's in respect of central accounting; and
 - ii give Lloyd's (or its representative or agent) all reasonable facilities in our premises in order to examine such materials.

Miscellaneous

- j. We will immediately notify the **Lloyd's managing agent** and **Lloyd's** as appropriate of any material changes to the information provided in this application form and of any other matters which relate to us and of which the **Lloyd's managing agent** or **Lloyd's** would reasonably expect notice.
- k. We acknowledge that any failure by us to comply with the terms of the **rules** or this undertaking may affect our continuing suitability to hold a Central Settlement Number.

Third party contract rights

- l. None of the provisions of this undertaking nor all matters relating to our application for a [Central Settlement Number] shall be enforceable by any third party pursuant to the Contracts (Rights of Third Parties) Act 1999, or any other law which may be applicable in other jurisdictions, which would otherwise give a person who is not a party to a contract the right to enforce any of the provisions under this undertaking.

Governing law

- m. We irrevocably agree that this undertaking and all matters relating to our application for a Central Settlement Number shall be subject to the laws of England and irrevocably agree that the courts of England shall have exclusive jurisdiction to settle any dispute and/or controversy (of whatever nature) arising out of or relating to this undertaking or our application for approval. Accordingly, any suit, action or proceedings arising out of or relating to this undertaking or our application shall be brought in such courts. The foregoing shall apply unless Lloyd's, in its absolute discretion, elects that the governing law/applicable courts shall be those of the jurisdiction in which we are domiciled or do business.

APPLICANT

Your signature:

Name (in BLOCK CAPITALS)

Position (must be a director or senior employee authorised by your board):

Date (day/month/year)

For and on behalf of: (Company's name)

Company's address:

PART B

SPONSORING MANAGING AGENT

Our managing agency is pleased to sponsor [*entity*] in the attached application dated [*day month year*] for a Central Settlement Number and statements made in its application to Lloyd's are accurate to the best of our knowledge and belief.

Your signature:

Name (in BLOCK CAPITALS):

Position (must be a director authorised by your board to sign):

Date (day/month/year):

For and on behalf of: (Managing Agent)

APPENDIX 2

MANAGING AGENTS DEALING DIRECTLY WITH COVERHOLDERS

The Lloyd's Brokers Byelaw (No.17 of 2000) includes the provision that managing agents will be able to appoint a coverholder, and arrange and administer a binding authority covering any class of business, without the involvement of a Lloyd's broker.

To do this you will need to obtain approval from Lloyd's Claims who will authorise Xchanging to allocate you a central settlement number.

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.
- 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 know the importance of 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).
- Making sure any outstanding issues are fully resolved before the binding authority comes into force.

Managing agents should also know 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 XIS.

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 know 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 XIS or Xchanging Claims Services (XCS), whichever is appropriate.
- Premium and claim bordereaux must be provided to XIS or XCS at least every three months (except for motor or personal lines business not processed through XIS or XCS). This also applies where the managing agent's syndicate writes a binding authority 100% and does not use XIS or XCS to process the premiums and claims.
- Premium and claim bordereaux must contain sufficient information to be reported to regulatory and tax authorities.

Managing agents wanting to have discussions with Xchanging should contact their relationship account manager.

ADEQUACY OF WRITTEN PROCEDURES

Managing agents will need to extend their written procedures for managing and controlling binding authorities to include provisions for dealing directly with coverholders.

APPENDIX 3

MANAGING AGENTS DEALING DIRECT WITH REINSURERS

The Lloyd's Brokers Byelaw (No.17 of 2000) includes the provision that managing agents will be able to place outward reinsurance contracts directly with reinsurers, without the involvement of a Lloyd's broker

To do this you will need to obtain approval from Lloyd's Claims who will authorise Xchanging to allocate you a central settlement number.

MAIN CONSIDERATIONS

If a managing agent places outward reinsurance without involving a Lloyd's broker, it is important that the managing agent considers the following.

- The competence of agency and syndicate staff who will be responsible
- The presentation and finalisation of the reinsurance arrangements
- The production of documentation
- The use of approved reinsurers
- The responsibility for reinsurance premiums and reinsurance recoveries
- The division of duties between reinsurance and finance staff
- The adequacy of written procedures

COMPETENCE

A broker has experience in the placement and administration of reinsurance and is able to provide syndicates with valuable advice in relation to the type and structure of reinsurance, reinsurance markets, reinsurance security and price. The managing agent should therefore be satisfied that the staff responsible for arranging outward reinsurance:

- have adequate experience in reinsurance and reinsurance markets;
- are able to handle all of the administration relating to the reinsurance efficiently; and
- have a good knowledge of the processing and settlement procedures of Xchanging and the London Processing Centre (LPC), as appropriate.

PRESENTATION AND FINALISATION OF THE REINSURANCE ARRANGEMENTS

Managing agents should be aware that there is the potential for a dispute or for litigation to arise with a reinsurer (for example, as a result of a mistake or an error made by one of the managing agent's staff, or due to a potential misrepresentation, either at placement or during the term of contract). Managing agents may consider it appropriate to buy errors and omissions insurance to cover these risks.

Managing agents should be aware of the importance of:

- ensuring that there is a fair presentation of all relevant information to reinsurers;
- documenting and retaining the information which was presented to reinsurers (and retaining evidence of reinsurers' agreement);
- maintaining adequate records relating to the reinsurance (e.g. correspondence, file notes of telephone conversations and meetings, specific disclosures made to reinsurers, changes to the terms of cover);
- ensuring that the reinsurance is fully placed and that TBA's are resolved before the inception of the reinsurance contract; and
- having fully agreed insurance documentation relating to the reinsurance (e.g. cover note and policy wording) before the inception of the reinsurance contract.

PRODUCING DOCUMENTS

Managing agents will be responsible for producing reinsurance documents and for obtaining reinsurers agreement. Managing agents should be satisfied that all reinsurance documents are signed by an authorised officer of the reinsurer.

Where Lloyd's syndicates participate in the reinsurance, documentation will need to be submitted to the Reinsurance Department of Xchanging.

APPROVED REINSURERS

Managing agents must ensure that syndicates only use reinsurers who are on the managing agent's approved security list.

RESPONSIBILITY FOR REINSURANCE PREMIUMS AND REINSURANCE RECOVERIES

Managing agents will be responsible for the administration of reinsurance premiums and reinsurance recoveries.

Where the selected reinsurer is a Lloyd's syndicate, the managing agent will be required to satisfy Xchanging that they will be able to perform the processing functions normally carried out by a Lloyd's brokers (Appendix 4).

Where the selected reinsurer is not a Lloyd's syndicate, the managing agent will be required to have established the appropriate methods of processing and settling premiums and claims directly to these entities. If the reinsurer is a member of the International Underwriters Association, the managing agent must be satisfied that its syndicate has sufficient knowledge of the processing requirements of the LPC.

More detailed information covering the procedures for processing can be found in bulletin Y2499 issued on 7 March 2001.

DIVISION OF DUTIES

There should be a clear division of duties between those individuals responsible for arranging the reinsurance and those individuals responsible for handing reinsurance monies (i.e. reinsurance premiums and reinsurance recoveries).

WRITTEN PROCEDURES

Managing agents should ensure that their written procedures covering the management and control of outward reinsurance arrangements are extended to include provisions for dealing directly with reinsurers and ensure that their syndicates are complying with these procedures.

APPENDIX 4

XCHANGING AGREEMENT THAT YOU ARE ABLE TO PROCESS TRANSACTIONS

Lloyd's examines all applications for the allocation of a CSN in a number of ways, one of these being the entity's competence to process documentation in the Lloyd's Market. As the processing service provider for risks placed with Lloyd's syndicates and managing agents this specific check is delegated to Xchanging.

Xchanging and Lloyd's will need to make an initial assessment of the applicant to assess their understanding of the London Market processing. Please contact the Xchanging CSN Applications Team (CSNApplications@xchanging.com or 020-3604-7653) to make the necessary arrangements for an initial meeting.

Note: If Xchanging do not consider the applicant has a reasonable understanding of London Market processing at this stage they will advise Lloyd's and the application will be stopped until a solution is found. The applicant will then need to decide whether they wish to find a different approach to processing transactions or undergo the necessary training to reach an appropriate standard themselves. Xchanging are among the service providers that can offer training but any associated costs will be the responsibility of the applicant and must be negotiated directly with Xchanging.