



Coverholder Auditors Conference

Wednesday 10th February 2016

Agenda

- ▶ 9.00 Welcome
- ▶ 9.10 Lloyd's update
- ▶ 9.20 DARA (Delegated Authority Reviewers' Association) update
- ▶ 9.50 CAG (Coverholder Audit Group) update
- ▶ 10.20 Coffee break
- ▶ 10.40 Audit scoping and frequency
- ▶ 11.10 Scope workshop
- ▶ 13.15 Lunch and networking



Agenda

- ▶ 14.15 Scope workshop playback
- ▶ 14.45 Conduct risk
- ▶ 15.15 Coffee break
- ▶ 15.35 IT security panel
- ▶ 16.15 Audit coordination update
- ▶ 17.00 Close





Welcome
Peter Montanaro, Lloyd's



What have we done differently?

Update from last year's conference

Lindsey Davies, Lloyd's

Objective

- ▶ Objective – get everyone collaborating and thinking about audit coordination processes, creating initial “buy in” and commitment from all stakeholders, whilst seeing others point of view
 - Scheduling
 - Pre audit process
 - Post audit process
 - Scope



Feedback and outcomes

► Feedback

- Scheduling was too late in October
- Timelines needed to be transparent
- Brokers were missing from the processes
- Schedules changed and needed updating regularly
- Coordinated recommendation follow up was key to success
- Lloyd's and the market need a system to manage all of this!
- Communication with stakeholders needed to improve and regular reporting to be provided
- Fees – good news story on Xchanging being able to process fees



Feedback and outcomes

- ▶ What has changed?
 - Scheduling was brought forward to July
 - Timelines were added, however there are still challenges
 - Brokers were added to the processes
 - Schedules changed and needed updating regularly
 - Recommendation follow up was key to success
 - Lloyd's and the market need a system to manage all of this!
 - Communication with stakeholders needed to improve and regular reporting to be provided
 - Fees – Xchanging is now used for fee payments by many



Feedback and outcomes

- ▶ 2016 challenges. We still need your feedback!
 - We still need a system
 - Brokers are involved more, but this could be better
 - Challenges with data
 - Recommendations process needs to improve
 - Scoping of audits need to improve
 - Quality of audits need to improve
 - Fees – Xchanging need to enhance their service proposition and Lloyd's can help
 - Your feedback is acted upon. We cannot do this alone, we need you to continually feedback, and we commit to act upon it





DARA (Delegated Authority Reviewers' Association) update

DARA

Delegated Authority Reviewers' Association

WHAT IS DARA

- DARA a membership organisation of firms and individuals providing delegated underwriting and claims review and audit services worldwide - to both the Lloyd's and company markets.
- DARA founded in November 2014.
- Our aims are to be a voice for members, liaising with Lloyd's and related bodies, and other relevant regulators, and raising and discussing matters of concern to our members; to help maintain and raise standards amongst members, including by the provision of occasional training courses; to distribute information to members; and to be a forum of exchange of views amongst members.
- The current DARA Board consists of volunteers, and the officers have been elected by the Board

DARA SERVICES

- Acting as a voice for members, liaising with Lloyd's and related bodies, and other relevant regulators and raising and discussing matters of concern to our members.
 - Maintaining and raising standards amongst members, including by the provision of occasional training courses, and by publication of a Code of Conduct for members (to be agreed by the Board).
 - Distribution of news and information to members.
 - Providing a forum for exchange of views amongst members, including via e-mail, this website, Twitter and Linked-In.
 - Arrangement of networking meetings and other events of interest to members.
-

OBJECTS OF ASSOCIATION

- To raise professional standards amongst auditors and reviewers of coverholders, third party administrators and associated service providers.
- To liaise with Lloyd's and other regulatory and market bodies on audit and review related issues.
- To distribute information and updates of interest from the market and elsewhere to members.
- To provide support to members as needed.

BOARD MEMBERS

- Giles Anderson. Chairman – Director GPA Consulting Limited.
- Phillippa Rowe. Deputy Chairman and Secretary - Senior Partner
Phillppa Ross & Co
- Andrea Nardelli. C&N Insurance Services Srl, Milan – Treasurer
- Philip Cooper. Managing Director Cranmore (UK) Limited.
- William Few. Few & Co
- Simon Medwin. Technical Director, Insurance Compliance Services
Limited
- Grahame Pipe. Grahame Pipe Advisory Services

SO FAR

- Constitution and bank account; volunteer board
 - Website, Twitter account (Linked-In coming)
 - Access to Atlas
 - X-Changing direct fee settlements
 - Regular liaison with Lloyd's
 - Liaison with CAG re new scope
 -
-

CONTACT



<http://delauth.com/>

director@delauth.com



CAG (Coverholder Audit Group) update

Stakeholder Feedback

- ▶ Due-diligence 90%/Audit testing 10%
- ▶ Limits expression of auditor opinion
- ▶ Explanation rather than validation of process
- ▶ Disjointed running order
- ▶ General dissatisfaction of:
 - Coverholder
 - Managing agent
 - Lloyd's/regulators



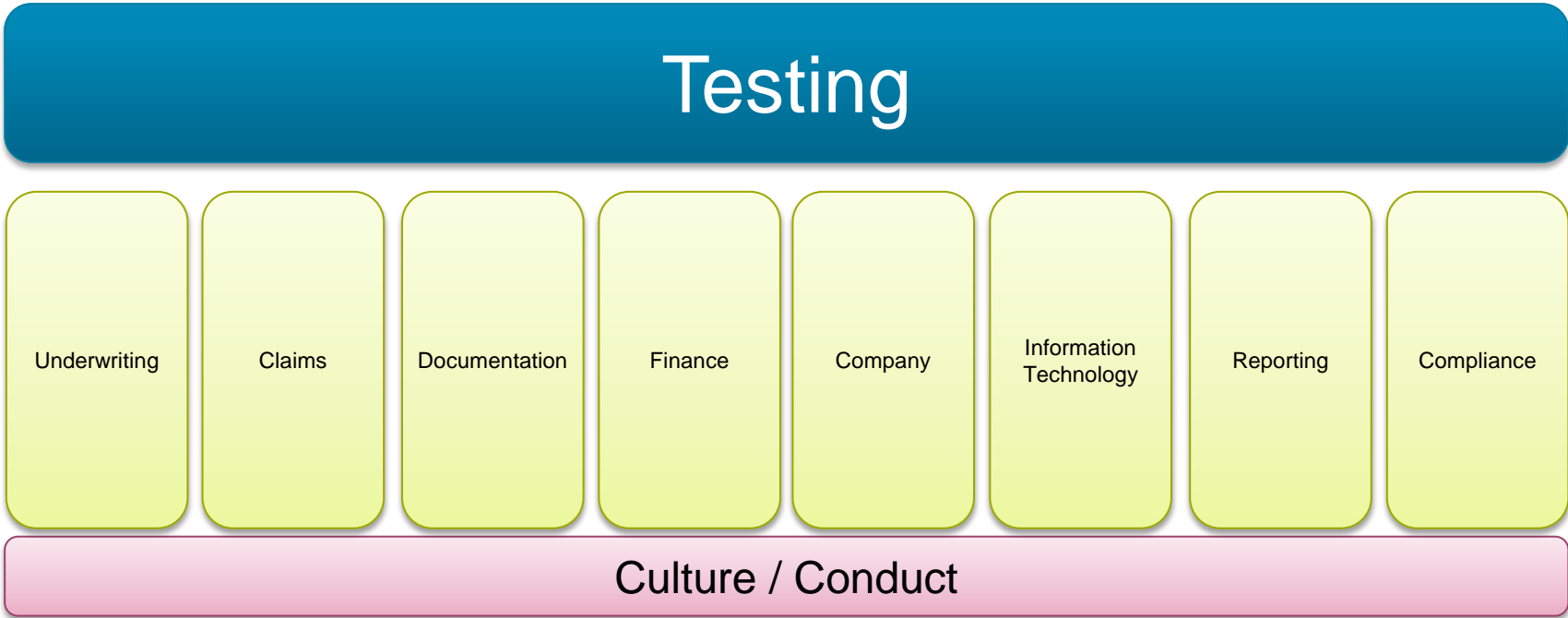
The objective of a coverholder audit:

“Utilising a **risk based** and proportionate approach, deliver an evidence based **opinion** providing reasonable assurance that the underwriting, claims, operational and financial **controls of a coverholder** comply with the terms of the Binding Authority Agreement, the applicable governing laws, regulatory requirements and relevant minimum standards”



New approach

Utilising comprehensive testing to provide opinion on the effectiveness of coverholder controls



Example 1

“Calculation of gross premium”

Risk

Inaccurate premium calculation or application of terms could result in financial impairment.

Statement of controls

Description of the coverholders Control Framework that may include:

- Utilising a secure rating tool
- Internal peer review
- Staff training

Opinion

Based on the results of the transactional testing, were the controls evident and effective?

Example 2

“Complaints”

Risk

Inaccurate recognition and reporting of complaints could lead to unfair customer outcomes

Statement of controls

Description of the coverholders Control Framework that may include:

- Policy and procedure
- Internal monitoring, reporting and root cause analysis
- Staff training

Opinion

Based on discussions with staff, reviews of training material and transactional testing, are the controls evident, effective and supporting positive customer outcomes

Next steps

- ▶ Conclude Drafting
- ▶ Independent Assessment (Integrity of Framework)
- ▶ Draft Circulation
- ▶ Final Adjustment
- ▶ Testing
- ▶ Communicate / Implement



What COULD good look like?

- ▶ System to support “living” statement of controls
- ▶ Real-time view of a coverholders Control Framework
 - Result:
 - Better use of information (lead/follow)
 - Less duplication
 - Less onerous for coverholder
 - Better use of auditor time
 - **SMARTER Governance Model**





Audit Coordination

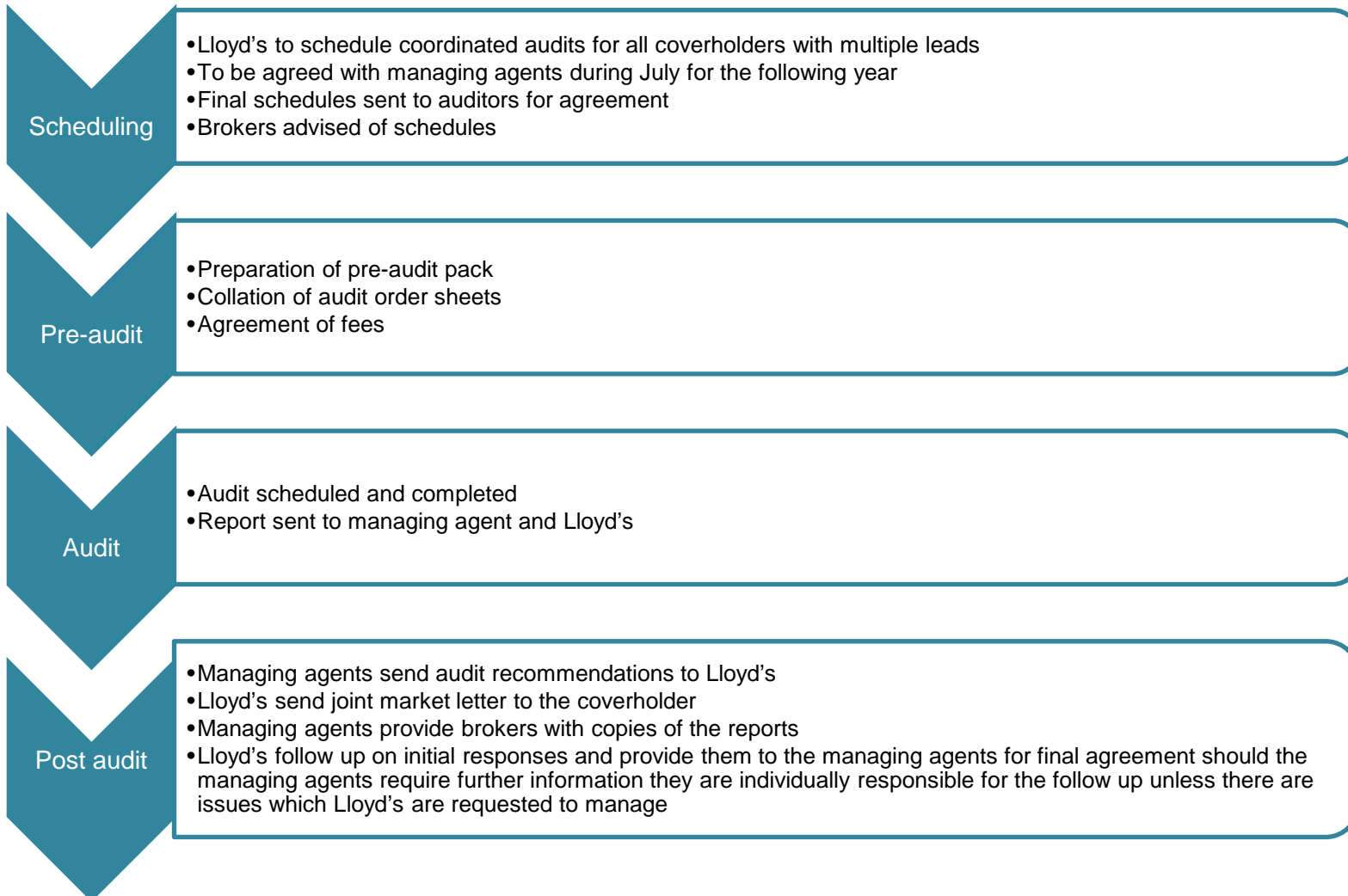
Leena Ekman, Lloyd's

Objective

- ▶ Objective – design and deliver an operational plan for centralised coordinated audits to:
 - Improve coverholder and market experience
 - Reduce the administrative burden for managing agents and coverholders
 - Ensure efficient and effective application of a common audit scope and follow up of recommendations
 - Improve the quality of audits

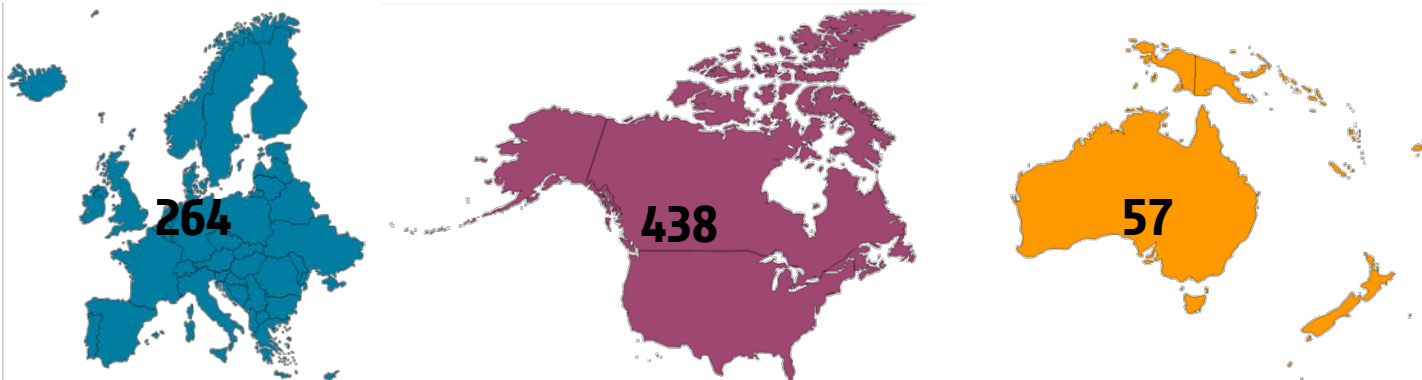


Outline of the process



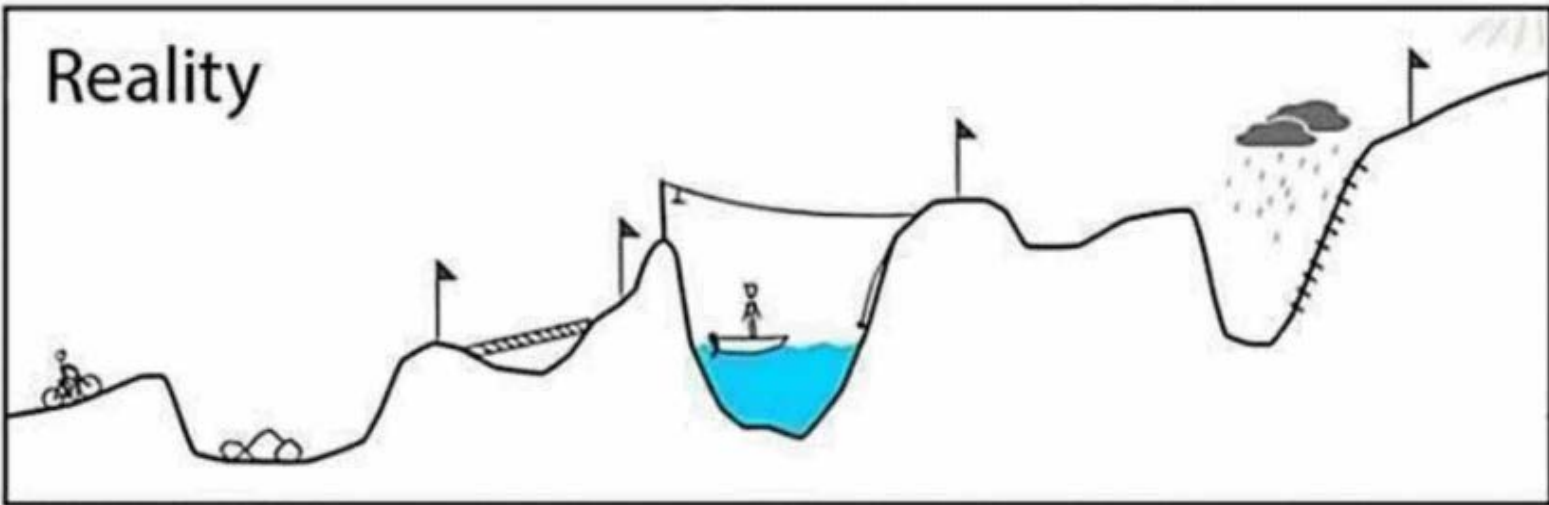
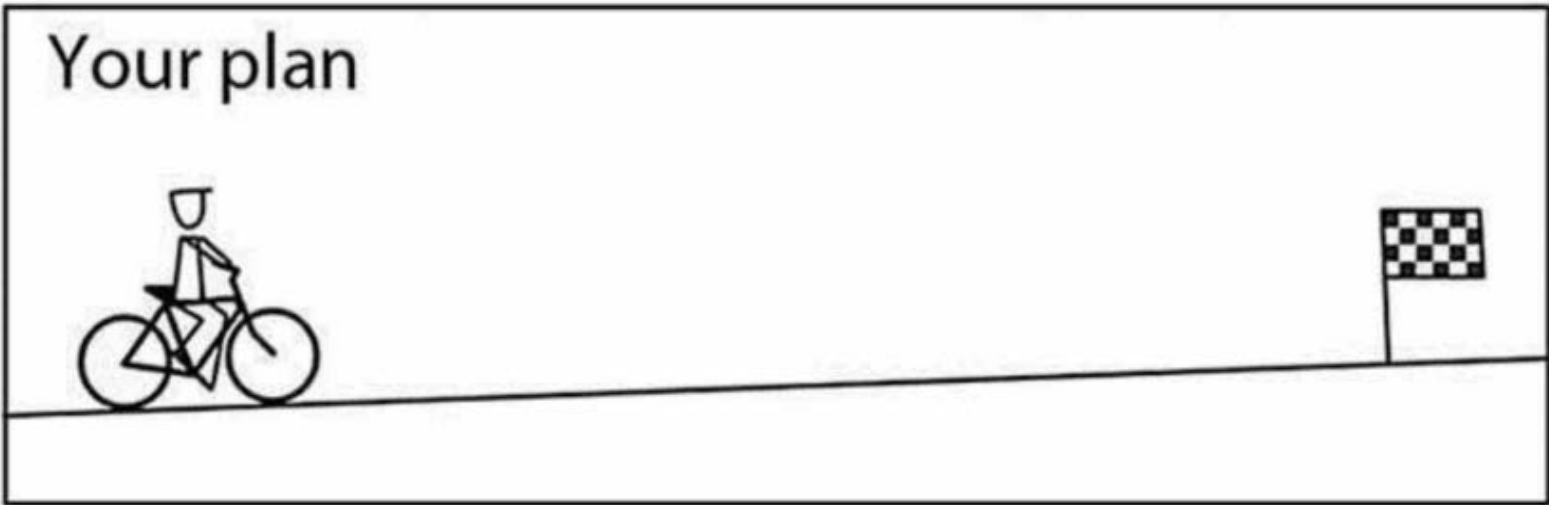
2015 Coordinated audits

- ▶ 763 coordinated audits completed covering 1870 relationships
- ▶ 40 auditors, 54 managing agents and 110 brokers involved in the process



- ▶ 100 coordinated recommendation letters to coverholders where 5 or more managing agents participate representing 40% of the relationships within the coordination





Challenges

- ▶ Resource
- ▶ Lack of fully integrated IT system
- ▶ Post scheduling changes in audit requirements
- ▶ Timely follow up of recommendations
- ▶ Approach to larger scale coordinated audits
- ▶ Clarity of roles and responsibilities
- ▶ Timely payment of fees



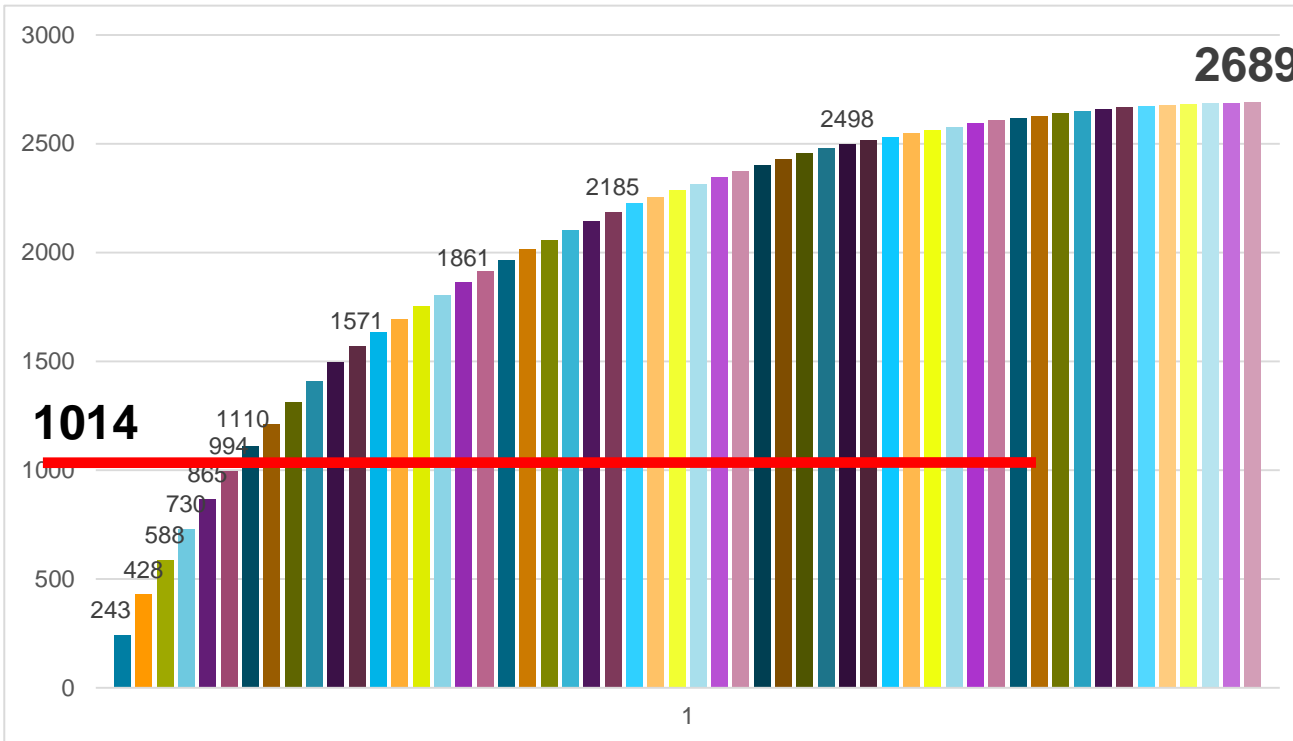
Benefits

- ▶ Reduced disruption and improved coverholder experience
- ▶ Principle of one audit one follow up well received
- ▶ United approach to resolution of recommendations
- ▶ Improved communication resulting in greater consistency
- ▶ Saving of time and cost on generic sections of scope



Scheduling 2016

- ▶ Input from 57 managing agents
- ▶ In scope 1250 coverholders covering 5160 relationships
- ▶ 1014 coordinated audits covering 2689 relationships
- ▶ 42 auditors and 110 brokers involved in the process



Priorities for 2016

- ▶ IT System
 - RFP and system choice to be made in 2016
 - Increased use of present system to enable follow up and production of MI
- ▶ Ensure efficient and effective application of a common audit scope and follow up of recommendations
 - Appropriate scoping based on risk assessment rather than broad brush audits
 - Centralised scoping for larger audits
- ▶ Agree standard terms of reference for coordinated audits
- ▶ Assess the quality of audits
 - Qualitative as well as quantitative analysis
 - Identify opportunities for auditor training



