
Coverholder Auditors Conference

Thursday 9 February 2017

Conference Agenda

8.30 Registration and coffee

9.00 Welcome

Paul Brady

9.10 Lloyd's update

Lindsey Davies

9.20 Audit coordination update

Leena Ekman

9.50 AiMS demo

Lloyd's Audit team

10.35 DARA update

Lorraine Calway/Goldseal

10.50 Coffee break

Conference Agenda continued

11.10 Complaints

David Cory/Lloyd's

11.30 Conduct workshop

Lloyd's conduct team

13.00 Lunch and networking

14.00 New Audit Scope

Tom Hamill / LMA & CAG members

14.30 Audit documentation best practice

Alice Abdullah/Deloitte

15.00 Coffee break

15.20 Territory topics round tables

16.45 Wrap up

17.00 Close

Coordinated Audits

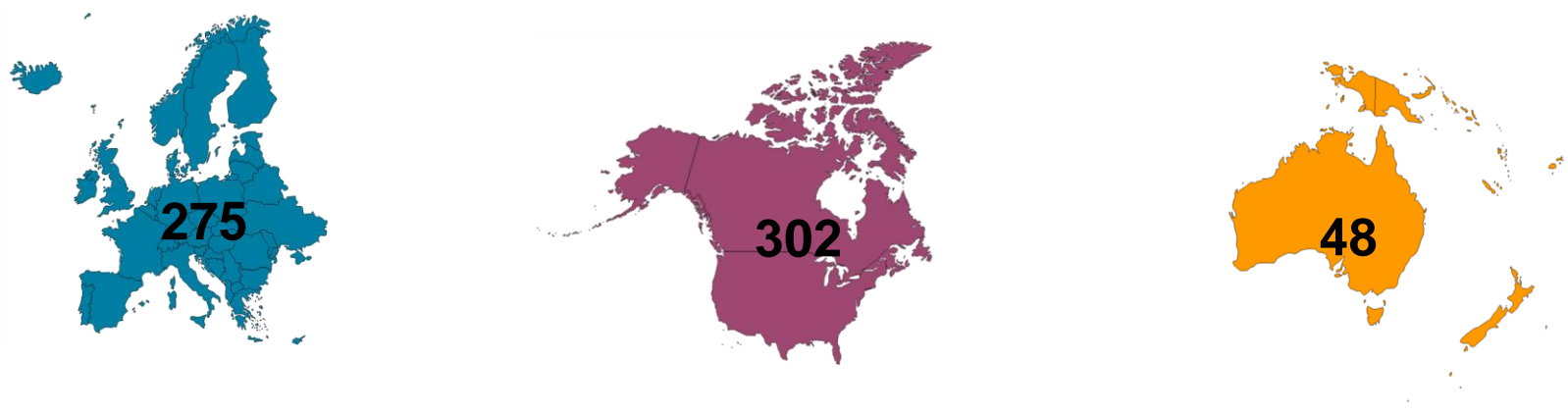
Leena Ekman, Lloyd's

Panel: Laura Pinto (Barbican), Guy Source (Liberty), Mark Taylor (Turnstone),
Marion Wells (Lloyd's)

Coordinated audits 2016

640 Coordinated Audits completed covering 2000 relationships

42 Auditors, 57 Managing Agents and 110 Brokers involved in the process



140 coordinated recommendation letters to Coverholders where 4 or more Managing Agents participate representing 48% of the relationships within the coordination

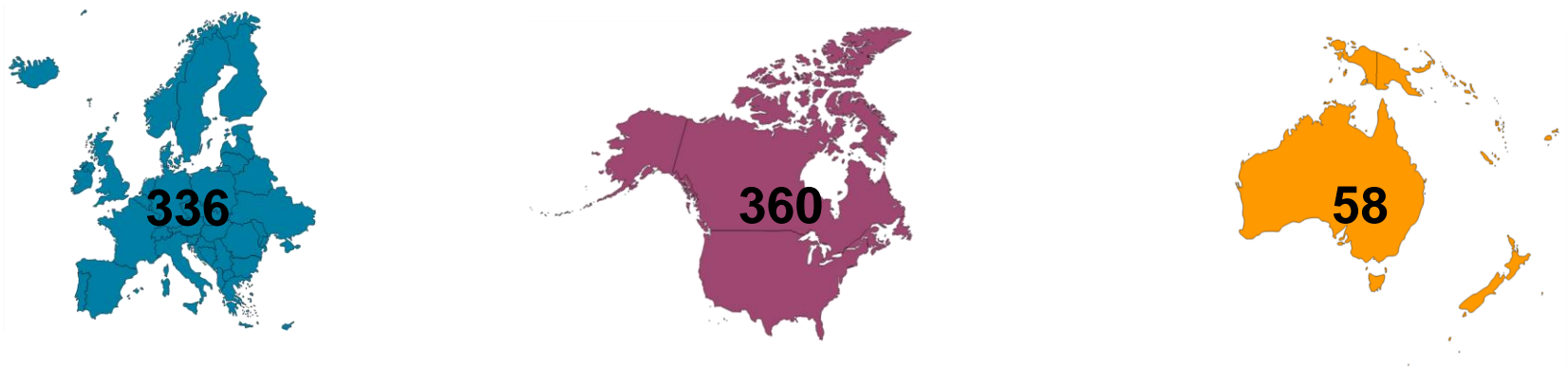
Scheduling 2017

Input from 58 Managing Agents

In scope 945 Coverholders covering 5252 relationships

774 coordinated audits covering 2929 relationships

38 Auditors and 120 Brokers involved in the process

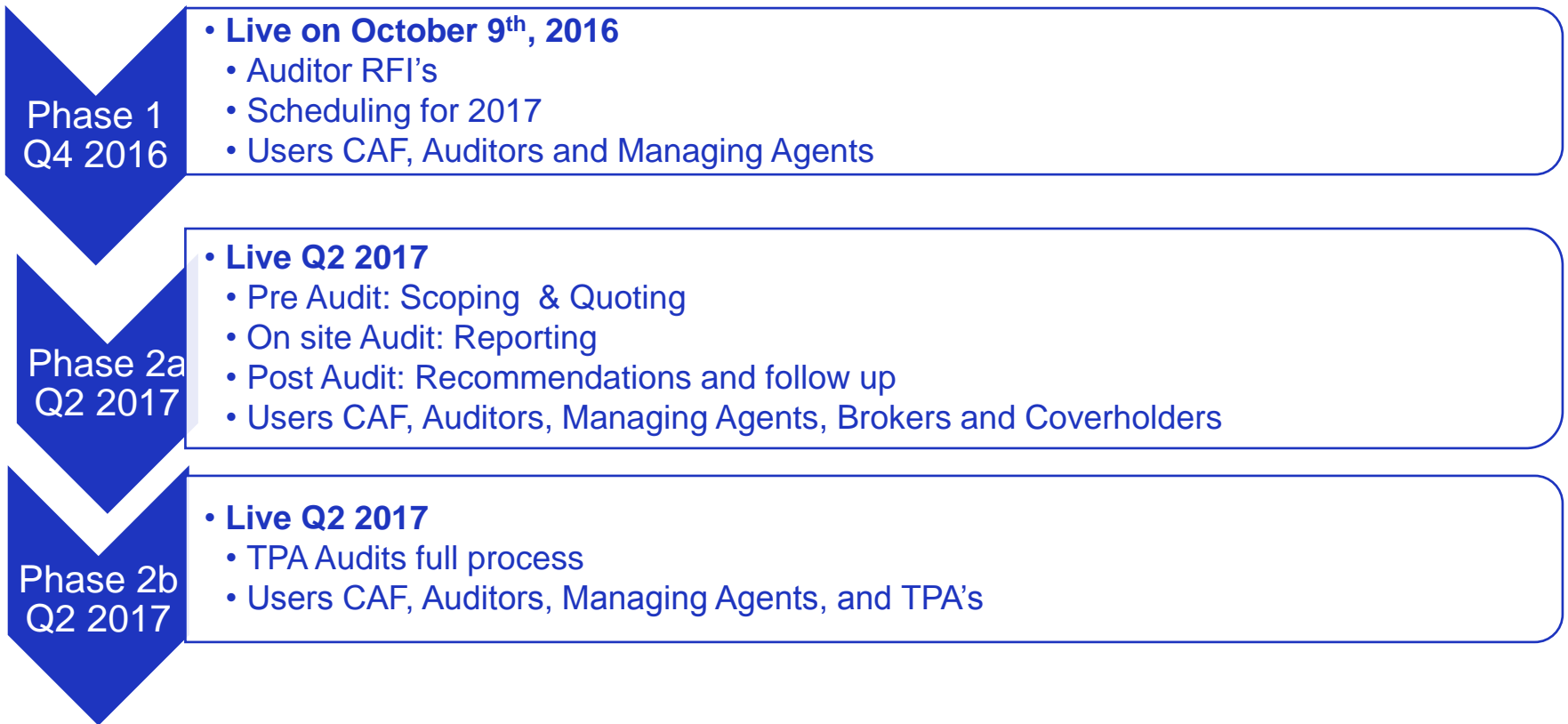


Key Priorities for 2017

- Full implementation and roll out of AiMS
- New Audit Scope
- Continue to monitor and improve response times throughout process
- Audit Coordination Committee to maintain and review Challenges Log

AiMS timeline

Dynamic Case Management system which delivers Automation, Data Accessibility & Availability, Global Scale, Flexibility and Security



AiMS - Co-ordinated Audits – High Level Activities



Annual

Annual

Quarterly

Quarterly

Quarterly

Stakeholder	RFI & Pre-scheduling	Scheduling	Scope & Quote	Audit Preparation	Manage Audit Findings, Recommendations & Actions	
 Auditors	1. Enter RFI 		9. Quote Audit 	11. Site Visit Prep 	12. Record Audit Findings & Recommendations 	
 Coverholders	2. Enter Unavailability Dates for Audit 				15. Respond to Actions 	
 Carriers	3. Update Auditor Panel 4. Update Audit Cycle 	5. Select CHs for co-ordinated audit. Propose auditor & Qtr. 	7. Align choices of Auditor / Qtr. Per Co-ordinated audit 	8. Scope Audit 10. Quote Review 	11. Site Visit Prep 	13. Review Auditor Findings & Recs. and enter & Actions 16. Review CH Actions & Close
 Brokers				11. Site Visit Prep 	15. Respond to 	
 Business Logic		6. Collate co-audit choice. Propose most popular Auditor & Qtr. per co-ordinated audit. If draw use EPI. 			14. Generate single Audit Actions letter to Coverholder across co-ordinated audit 	
 Central Audit Function (CAF)	0. Overall Management and Oversight of entire business process (multiple activities)					

Audit Coordination - Panel

- Understanding of the Coordinated Audit process
- The role of the Lloyd's Coordinated Audit Group
- Non compliance with agreed service levels
- Audit scoping and follow up
- Auditor unable to schedule an audit in the required quarter



DELEGATED AUTHORITY REVIEWERS' ASSOCIATION

Presentation to

Coverholder Auditors Conference 2017

Our aims

- Raise professional standards
- Liaise with Lloyd's and other regulatory and market bodies
- Distribute information
- Provide support to members

2016 highlights

- Regular communication with Lloyd's and other stakeholders
- Audit scope
- Audit coordination and AiMS
- Member meetings with remote access available

2017 plans

- Audit scope
- Audit coordination and AiMS
- Education/training for auditors
- Member services and communication

Benefits of membership

- Input and involvement in the future of auditing
- Support when needed and the ability to discuss current issues and concerns
- Keeping up to date with market developments



Website: delauth.com

Email: info@delegatedauditors.com

Coffee Break

Complaints

David Cory, Lloyd's

Lloyd's complaint handling requirements

UK Policyholders

- Handled in accordance with Code for Underwriting Agents :UK Personal Lines Claims & Complaints Handling

International Policyholders

- Agreed with FCA can be handled in accordance with local requirements
- 15 countries currently in scope
- Roll out to remaining EEA territories, Australia, Canada and South Africa during 2017
- All complaints regardless of location must be reported to FCA and so must be reported to Lloyd's

What a good audit should aim to achieve?

- Establish whether complaints are handled in a fair, transparent and open manner
- Provides insightful feedback to managing agents to facilitate effective oversight
- Establish whether there is a culture of learning and development
- It should help create an environment of effective change and improvement
- Demonstrates improvements implemented as a result of complaints

What a good audit should establish

- What processes are in place? Are these in use? Are they sufficient?
- Understanding of rules in different territories
- Have they handled the complaint appropriately and addressed all issues?
- Compliant with binding authority
- Consistent with managing agent's philosophy
- Reporting requirements – are these being met?

Future considerations

Focusing on the 'how' not just the 'what'

- What drives complaints?
- Effective root cause - learning from complaints and making changes
- Sharing knowledge – ensuring consistency
- 'Hands on' feedback
- Opinion based feedback – what do you think?

Further resources

www.lloyds.com/complaintshandling

Email : complaints-enquiries@lloyds.com

Helpline: 0207 327 5696

FCA Handbook – DISP

Model wordings and coverholder procedures

Conduct

Ella Barker & Rupert Findlay, Lloyd's

Agenda

- Why is conduct important?
- Product Risk Assessment
- Break Out Session 1
- Break Out Session 2
- Summary
- Questions

Why is conduct important?

- Paying due regard to the interests of customers and putting customers at the heart of how firms run their businesses is a key focus for regulators. In order to achieve this firms need to manage “**conduct risk**”
- In the context of Lloyd’s, “conduct risk” means 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
- Ultimately this matters because Lloyd’s is committed to protecting the interests of Lloyd’s customers

Elements of Product Risk Assessment

Product complexity

- Absolute and relative
- Novelty
- Familiarity
- Time

Customer Risk

- Consumer
- Small Businesses
- Micro enterprise.

Sales risk

- Number of policies
- Number of distributors
- Product controls
- Incentives
- Add-ons
- Call centres
- Price comparison sites

Service risk

- Claims capability
- Use of TPAs

BREAKOUT SESSION

Product Risk Assessment

Breakout session – scores

Samuel Godfrey (Mobility Scooter)

David Hodges (Headstone)

Jack Jones (Motor)

Mavis Williams (Med Negligence)

Rugby Club (A&H)

Arthur Smith (Premises)

Twilight Homes (Scooter Fleet)

Jones's Fine Food (BI)



Descending product risk

BREAKOUT SESSION

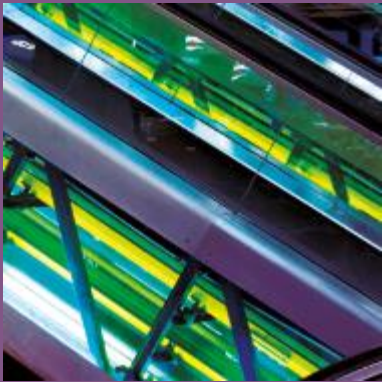
Product Controls

Summary

- Conduct risk assessment essential to understand exposure to conduct risk
- Underwriters should be implementing suitable controls to mitigate the specific conduct risks of a particular product
- Auditors should feedback to underwriters if controls are not being applied or if they see gaps in controls
- Common sense approach to assessing product, customer, sales and servicing risk
- “What controls would you like *your* personal insurance firm to have in place?”

Any Questions?

Lunch Break & Networking



New Coverholder Audit Scope & LMA Support

Tom Hamill



INSIGHT CONSENSUS INFLUENCE

The Story So Far:

2 previous versions of Common Audit Scope.

Current Version - Version 2 published Feb 2014

Coverholder Audit Group (CAG) worked through 2016 to draft a new audit scope.


1st stage consultation undertaken during December 2016.

Feedback received, collated and reviewed.

Updated Scope document being drafted.



Why change the scope?



Improving Audit Standards



Change of Emphasis



Improved Coverholder Experience



Timetable to Delivery:

Dec

1st Stage Consultation - Feedback session, email

Jan

Review of feedback, sub-group sessions

Feb

Sub-group sessions

Mar

2nd Stage Consultation & Review

Q2

Pilot



How is the approach different?

V2 Scope:

- 278 Questions plus testing;
- Overly prescriptive;
- Too much focus on collection of information.

New Scope:

- Broader, less prescriptive style;
- Structured around **risks** posed, **controls** in place to mitigate those risks and the auditors **opinion** on the effectiveness of those controls;
- Much greater focus on testing rather than initial gathering of information;



New Format: Example



Risk:

Control:

Opinion:



New Format: Example



Risk:

Inaccurate calculation of applicable taxes could result in adverse financial and regulatory exposures.

Control:

Detail the controls implemented to ensure tax is consistently calculated in accordance with regulatory requirements

Opinion:

Based on the results of the testing, are appropriate controls in place to ensure all applicable taxes are accurately calculated and applied at individual risk level?

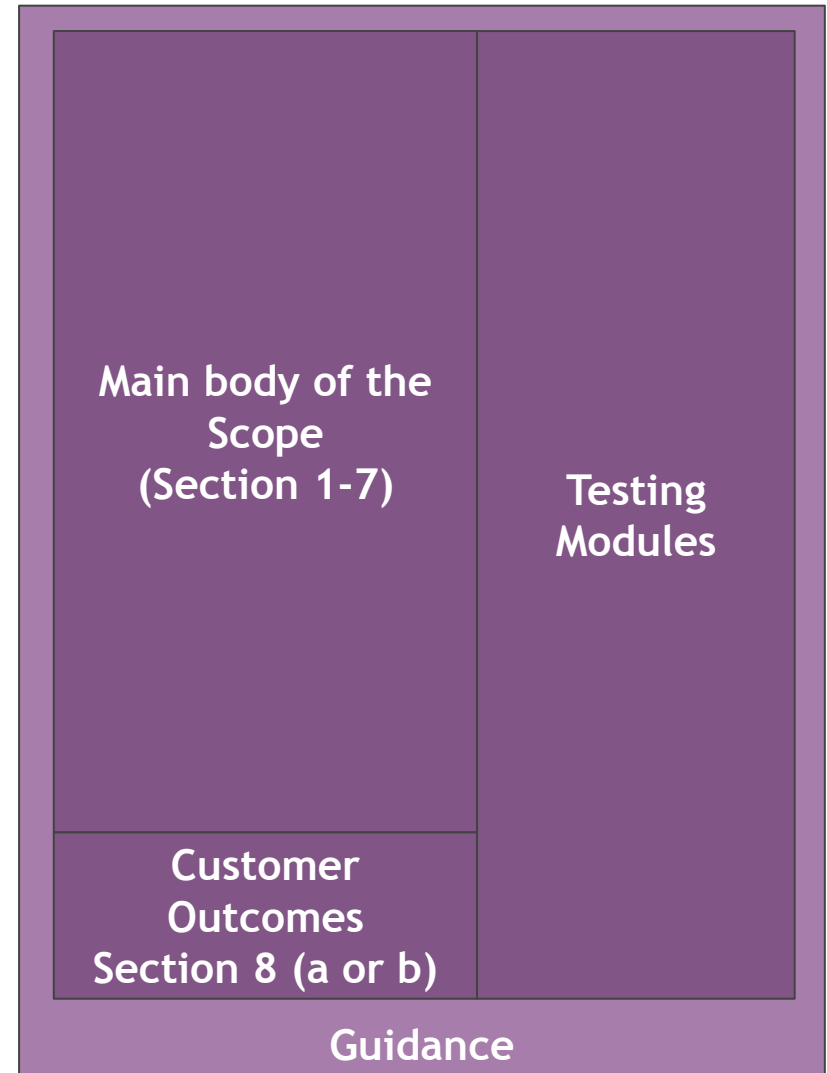
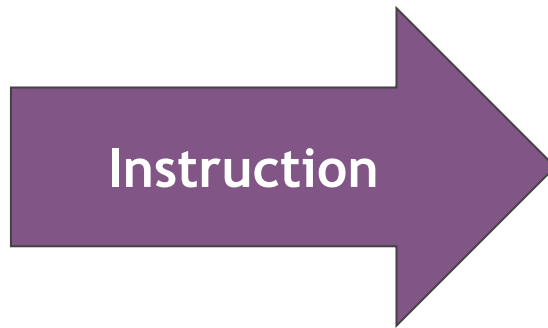


Scope Sections

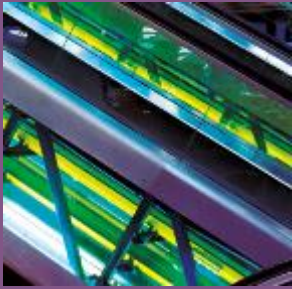
1. Underwriting Controls
2. Claims Controls
3. Policy Documentation
4. Accounting Controls
5. Reporting
6. Compliance
7. IT & Information Security
8. Customer Outcomes



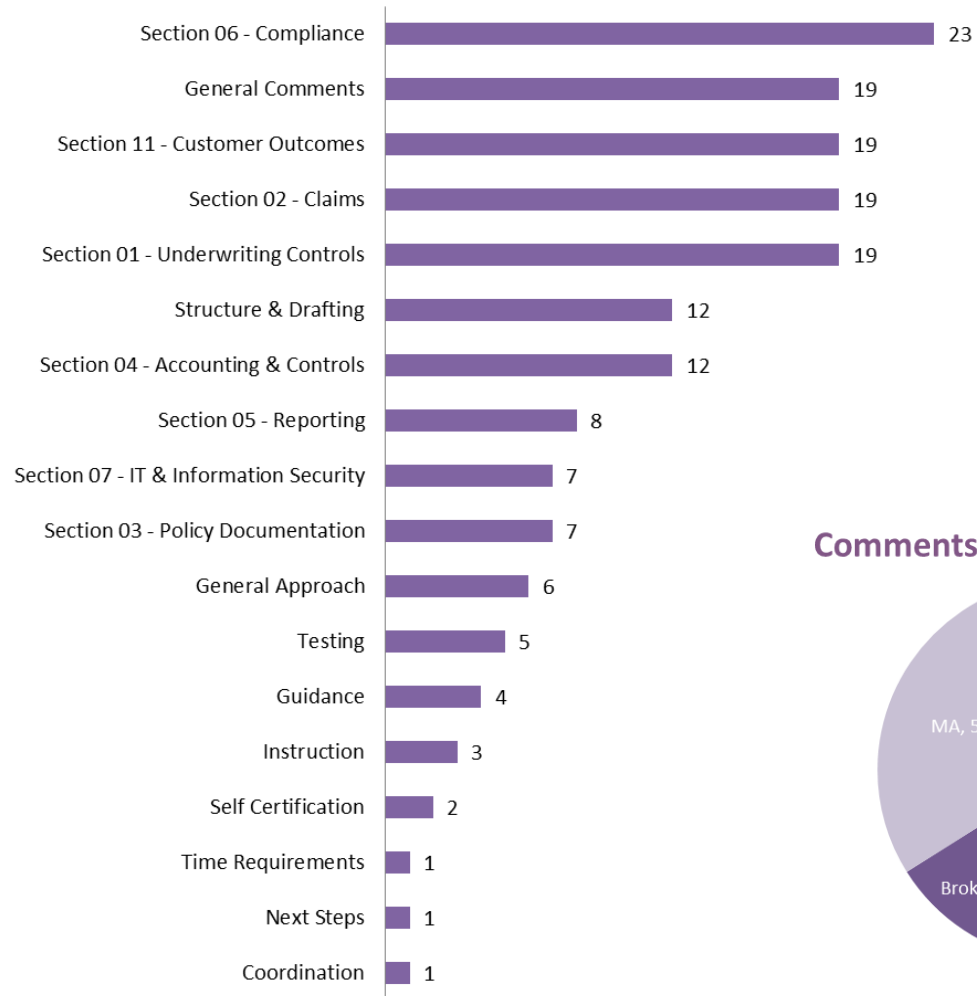
Scope Usage Going Forward



1st Stage Consultation Summary:

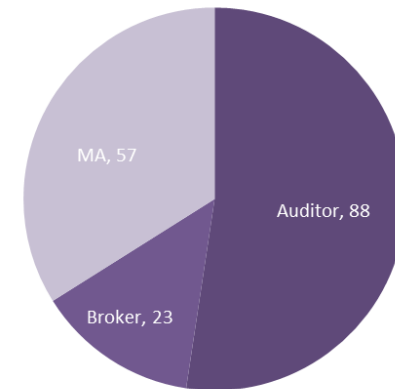


Feedback by Section



168
Comments

Comments by Stakeholder Group



1st Stage Consultation Summary

Key Themes

- Support for high level change in approach;
- Additional High Product Risk section;
- Greater clarity in information required of the Managing Agent on instruction;
- Clarity around testing to be undertaken;
- Queries as to localisation and distribution channel specific issues;
- Significant levels of feedback on specific points at a section level;
- Various points regarding the drafting of the document.



Consultation Response

Instruction Template

Content of Scope Updated

Testing Approach

HPR Section Added

Guidance Being Developed

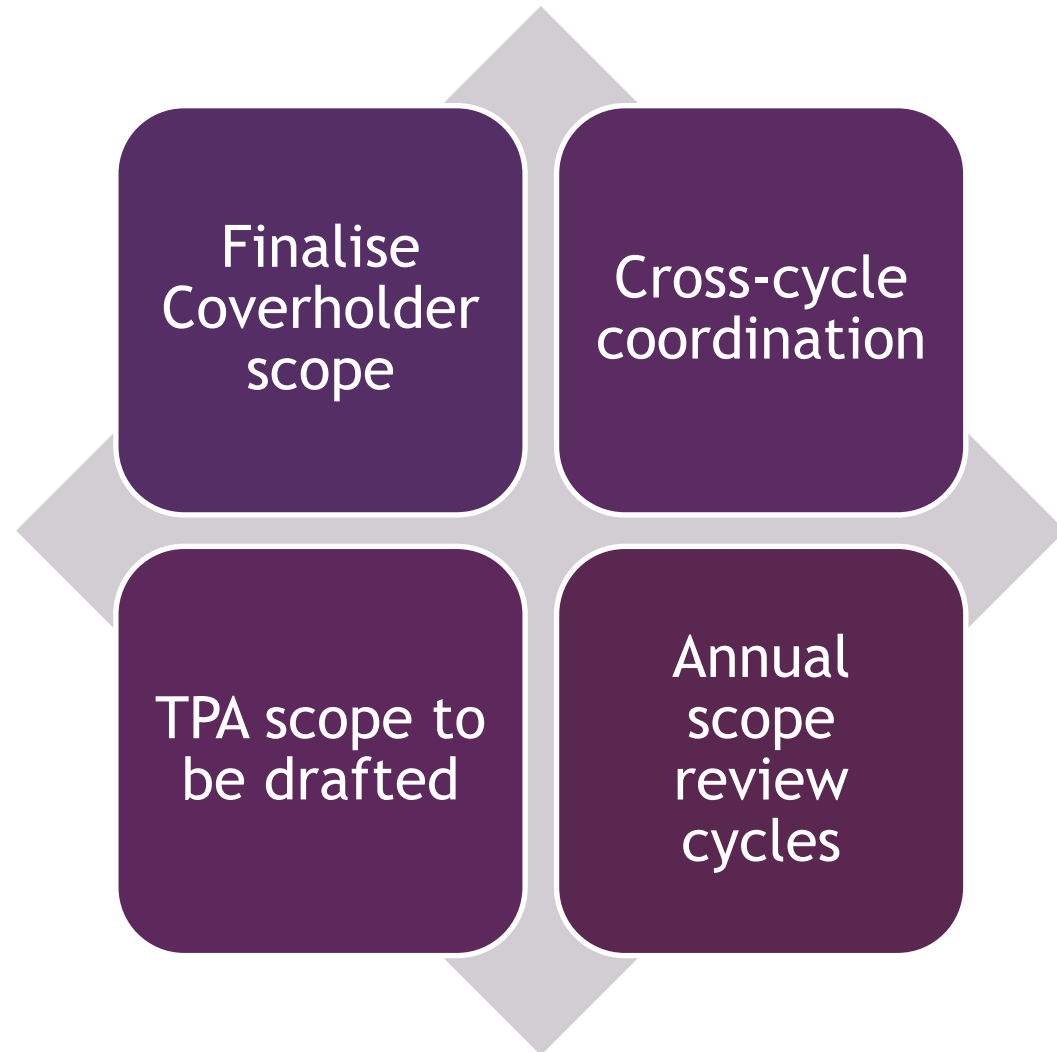


LMA Support

- Formal LMA Committee to be established to drive updates to the scope and audit processes.
- Will monitor usage of the scope through the pilot phase - feedback form to be developed and used consistently.
- LMA to take ownership of scope development going forwards.
- Much greater involvement in coordination process at a high level.



What Happens Next?





Questions?

Any questions or comments to: auditscope@lloyds.com or tom.hamill@lmalloyds.com



Coverholder Auditors Conference 2017
Providing an evidence-based opinion

Alice Abdullah

Providing an evidence-based opinion

Agenda

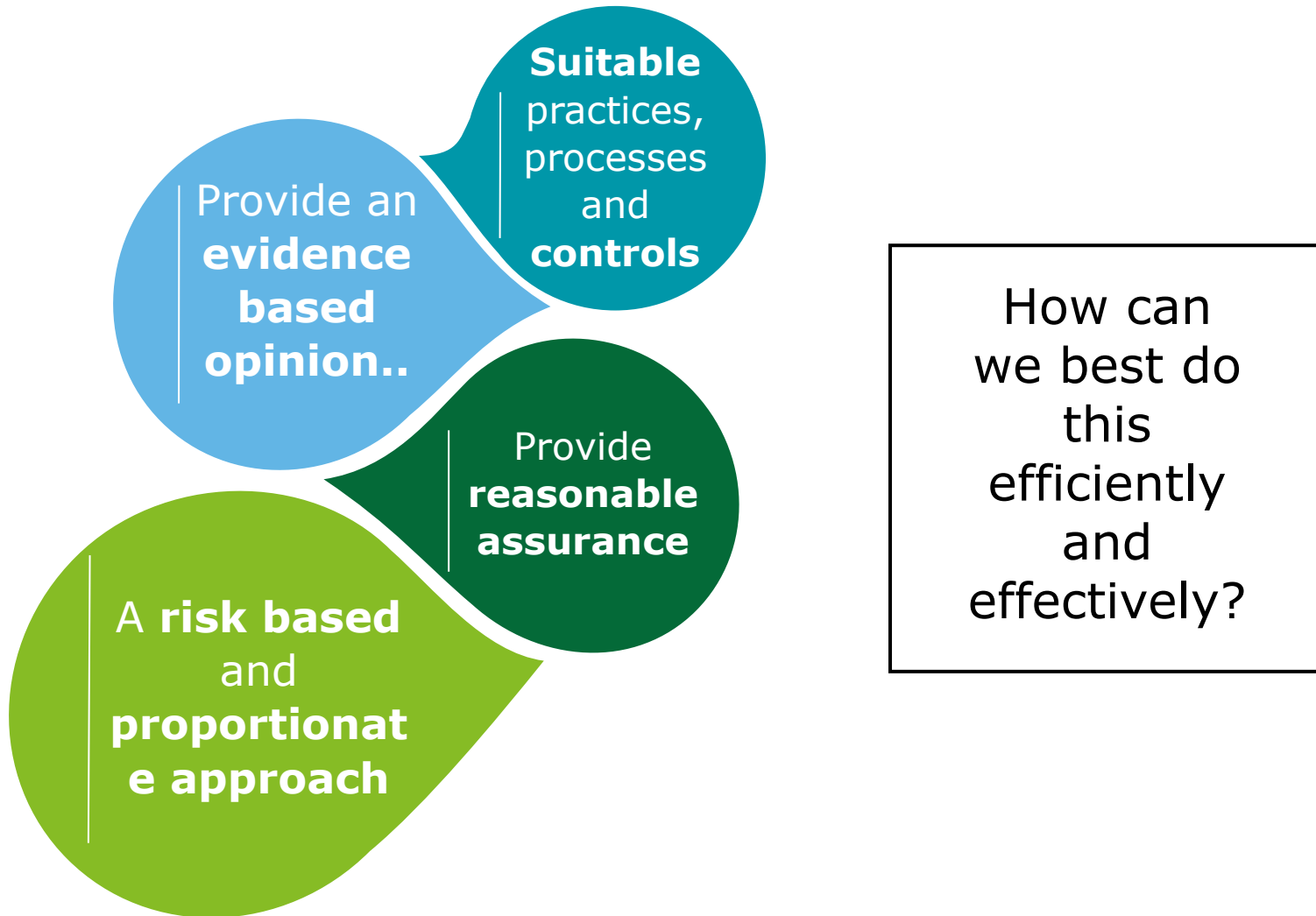
1. Introduction
2. Auditing using the new Coverholder Audit scope
3. Gathering the evidence
4. Examples
 - i. Financial Crime – Third Party Payments
 - ii. Conflicts of Interest
5. Closing – Recap and reminders



1. Introduction

2. Auditing using the new Coverholder Audit scope

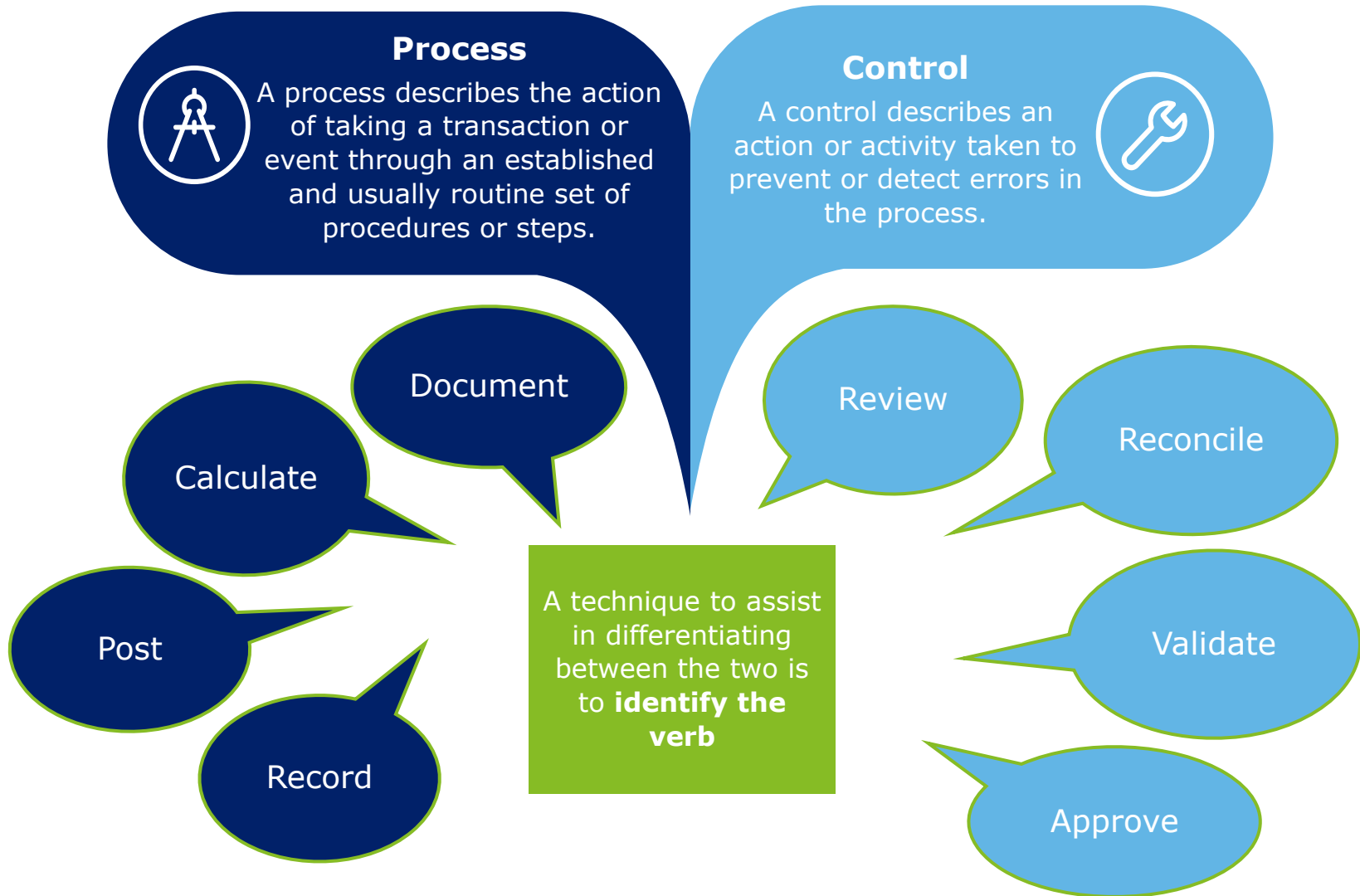
2. Auditing using the new Coverholder Audit scope Introduction



3. Gathering the evidence

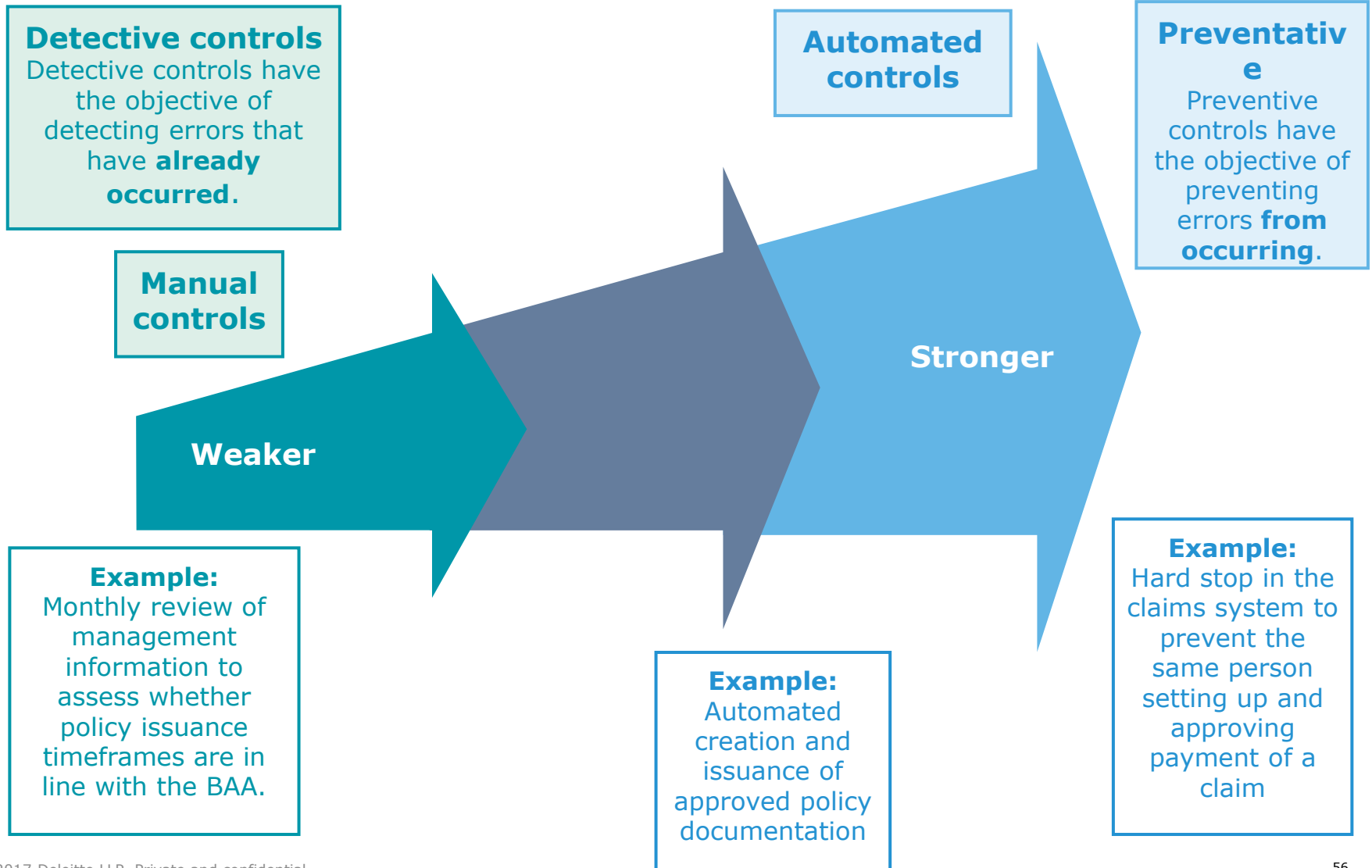
3. Gathering the evidence

Process vs Control



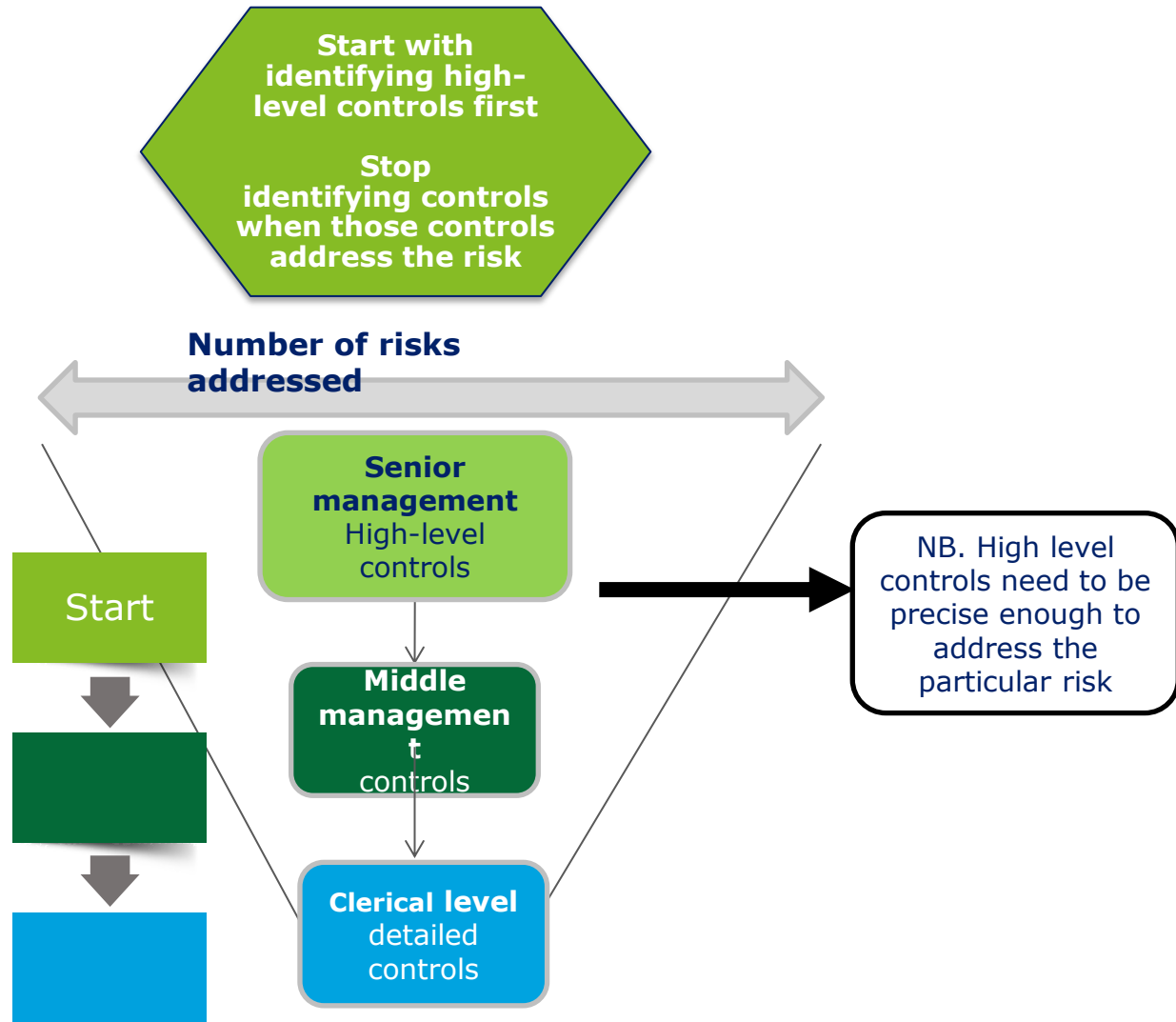
3. Gathering the evidence

Relative strength of controls



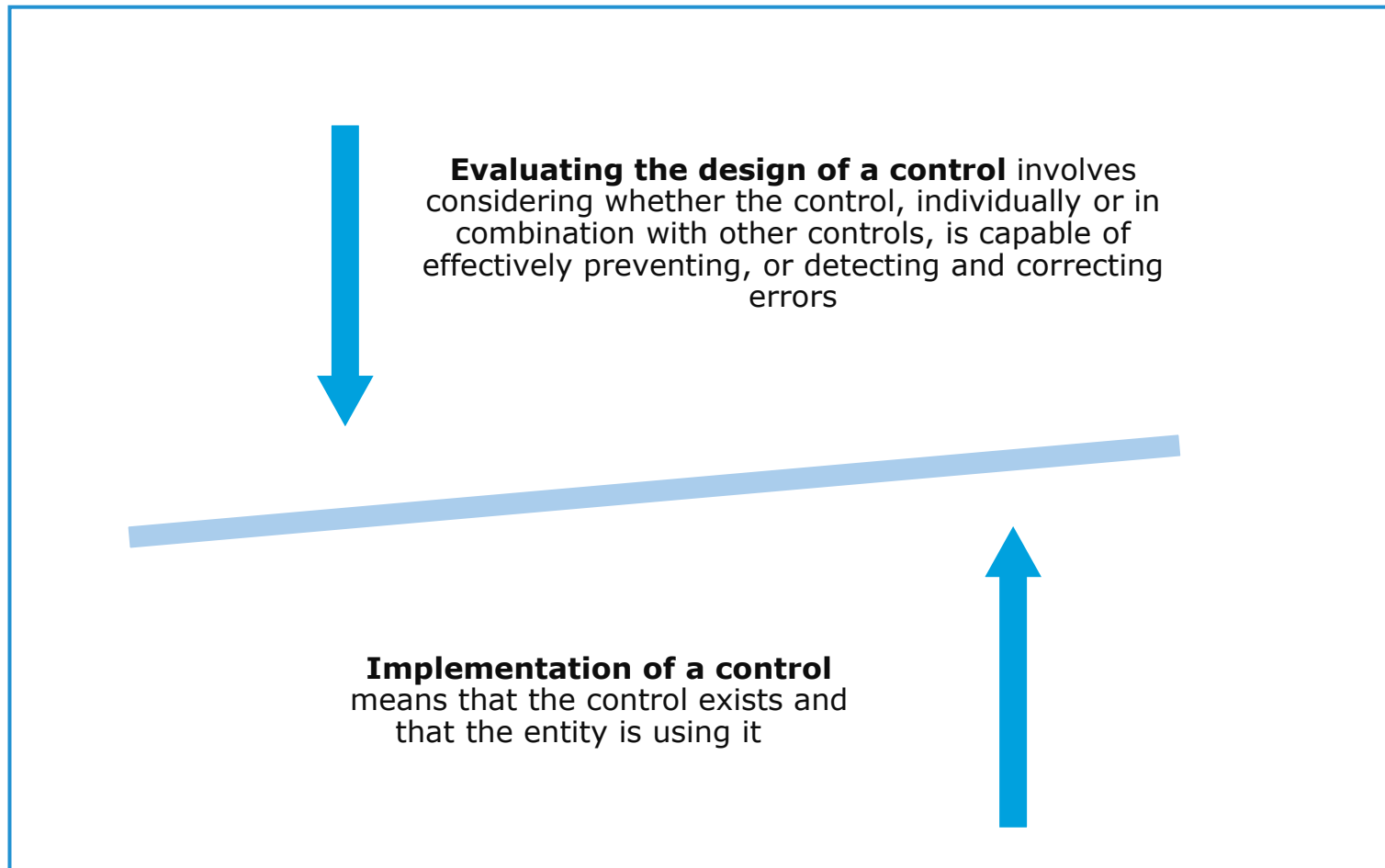
3. Gathering the evidence

The top down approach to identifying controls



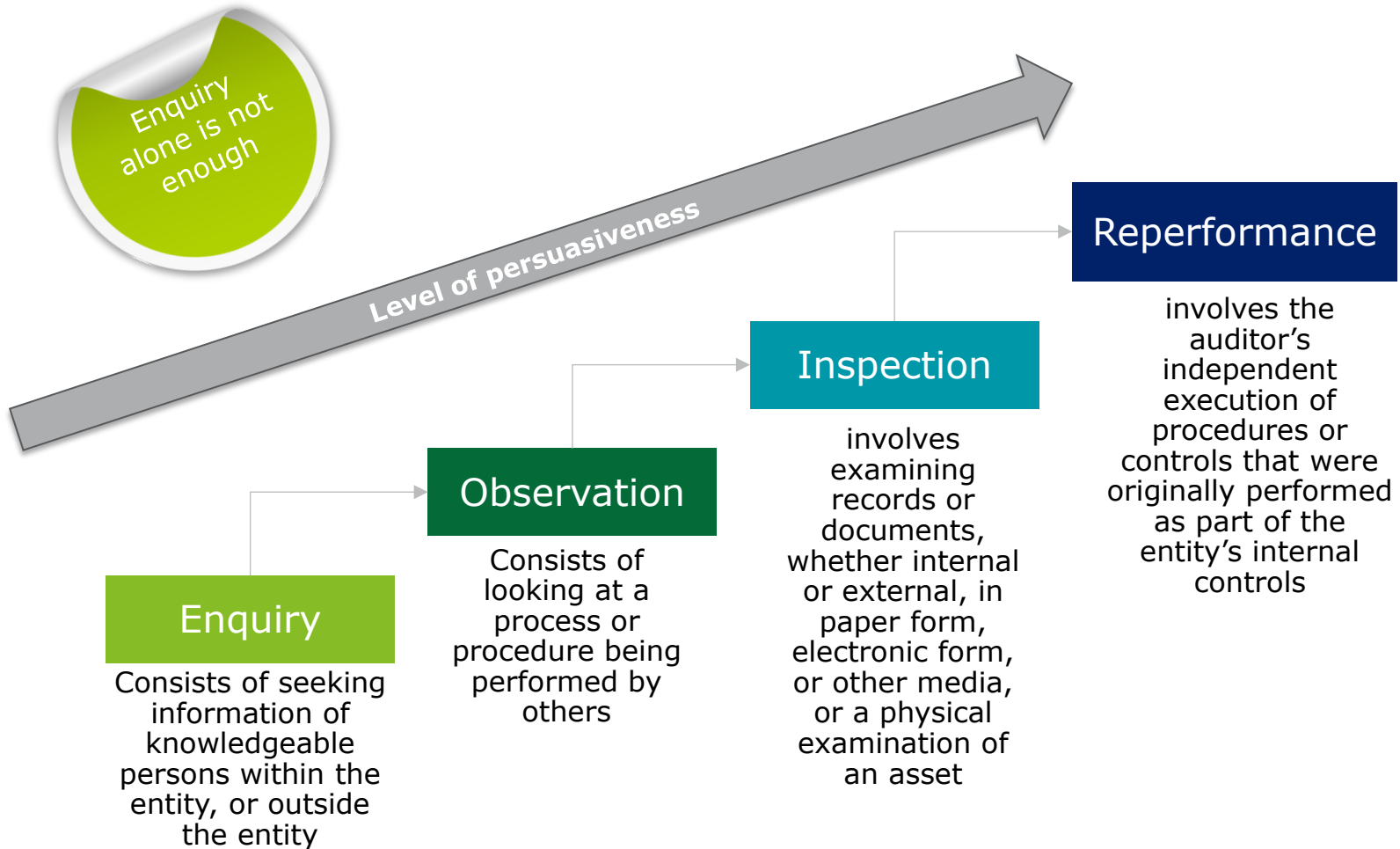
3. Gathering the evidence

Design and implementation



3. Gathering the evidence

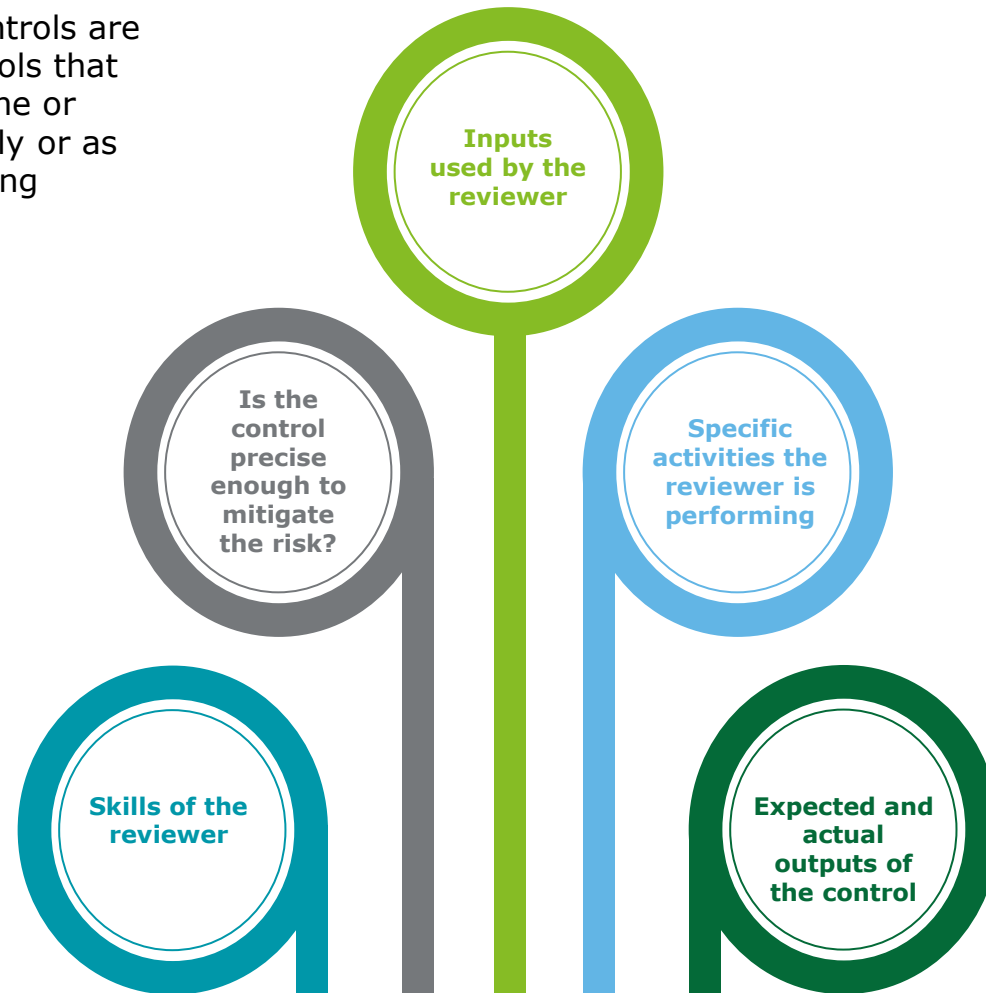
Operating effectiveness



3. Gathering the evidence

Management review controls – Auditor challenges

Management review controls are typically detective controls that may be performed by one or more persons individually or as a group (e.g. in a meeting environment).



4. Examples

4.a. Financial Crime

Financial Crime

An FCA priority for 2016/17

“We expect [firms] to have **effective, proportionate and risk-based systems and controls** in place to ensure their business cannot be used for financial crime” **FCA**

The FCA consider both **anti-money laundering** (including terrorist financing and sanctions) and **anti-bribery and corruption** (ABC) to be the prime areas of focus.

The control over **Third Parties** is a particular area of continued scrutiny from national and international regulators and legislators.



Financial Crime

Third Party Payments

Payments to be made:



Only by electronic bank transfer, only to the authorised bank account of the third party as verified as part of the take-on process



Only after approval has been provided, with approval requirements increasing with the risk attaching to the Third Party account



Only to authorised third parties after they have been approved by the full requirements of the mandated take-on process



Only once comparison is made back to the original business case to verify that the payment is in line with the nature of the approved relationship

We would also expect Management information to track the payments made to Third Parties (particularly Medium, High and Very High risk Third Parties) and compare this to anticipated commission and fee levels (articulated during the approval process) so that unusual variances and trends can be investigated.

Financial Crime

Coverholder audit case study

Risk	Control	Opinion
The Coverholder does not have adequate systems and procedures for identifying, reporting and controlling the risks associated with financial crime	Assess the effectiveness of the internal risk framework to ensure that it routinely assesses, captures and documents financial crime risks (e.g. gifts and hospitality register)	Based on the results of the testing and general discussions, is the Coverholder able to demonstrate an effective understanding of, and evidence the controls in place to mitigate the exposures to financial crime.

Example exceptions	
Procedures outlined in XXX's own sanctions policy are not followed in practice	Failure to adhere to the sanctions checking requirements in the BAA
No designated MLRO / Individual not aware they are designated MLRO	The Anti-Bribery Policy fails to define what constitutes bribery
Lack of Gift and Hospitality log specific to the capacity provider	<p>No AML log</p> <p>No entity specific financial crime training / training described not completed</p>

Example recommendations
<p>..in order for XXX to demonstrate it has adequate systems and controls in place to enable compliance with AML legislation, XXX should either have a XXX-specific AML policy in place and related procedures (e.g. a reporting process, training including Lloyd's and MA training, and escalation procedures to the MA) and be able to evidence them operating effectively, or evidence the implementation and operational effectiveness of the Group policy and procedures.</p>
<p>....adhere to BAA sanction screening requirements, i.e. checking against HM Treasury's list of targeted individuals and the MA's country watchlist.</p>

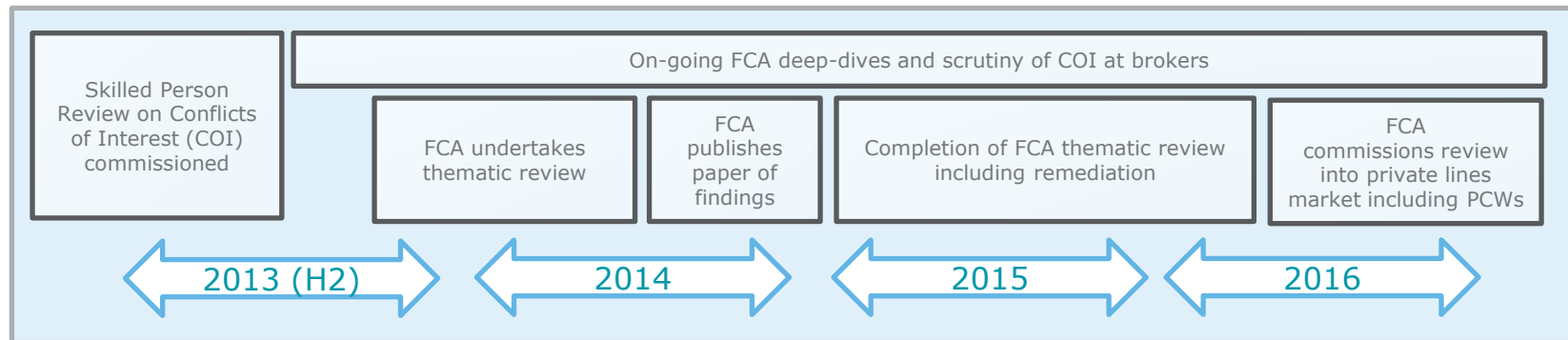
4.b. Conflicts of Interest

Conflicts of Interest

Evolving area of regulatory scrutiny

SME Commercial

Timeline showing FCA activity



Personal lines

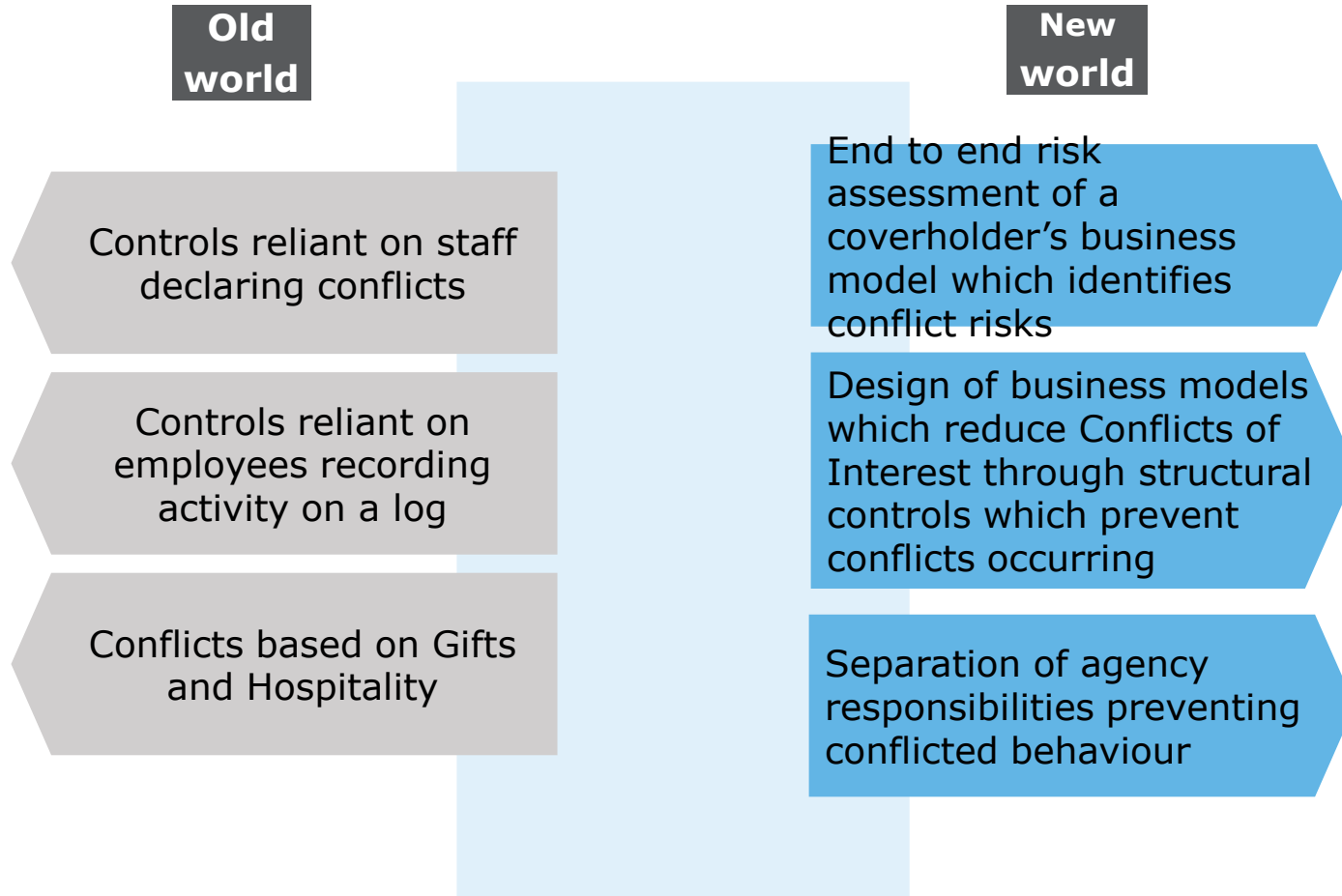
- Extension of scope to PCWs and insurers
- How might all parties in the distribution chain introduce conflicts for other parties to manage?
- The scope of COI engagements now also considers **market integrity** and **competition**.

“Insurance business models have changed radically over the last 20 years. Some brokers have shifted from being ‘vanilla’ product distributors to **product designers, underwriters and claims handlers** through delegated underwriting and claims authorities. An increasing number of agents now take on many of the **value chain functions historically performed by insurers**. This means conflicts of interest may have **mutated** into a **very different risk.**”

FCA announcing Thematic Review, 2014

Conflicts of Interest

'Mitigation by control' vs 'Mitigation by structure'



Conflicts of Interest

Coverholder audit case study

Risk	Control	Opinion
The Coverholder fails to recognise conflicts of interest within their business or distribution network which could result in imprudent decisions being made.	How does the Coverholder identify and control potential conflicts of interest within their organisation?	Did the Coverholder have an appropriate understanding of potential conflicts of interest and were there controls in place to mitigate this risk? Were any conflicts of interest identified?

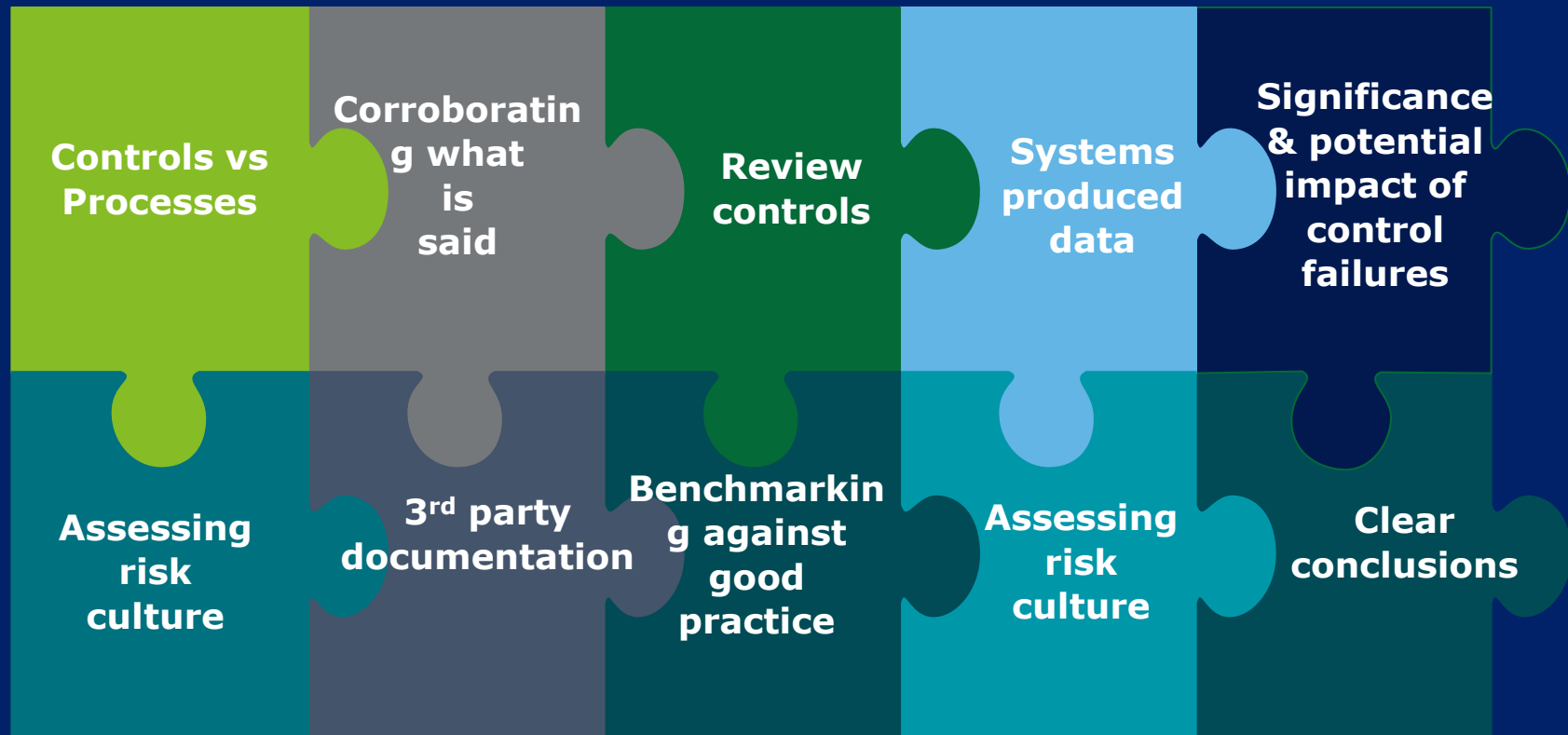
Example exceptions	
No conflicts of interest policy	Identified risks were old fashioned and did not take into account inherent conflicts in the business model
The conflicts of interest log only details two conflicts	No segregation of duties between individuals responsible for underwriting, claims and complaints
...the existing conflicts that are logged centrally through Group were not understood in their entirety	No documented procedure for staff to follow in relation to identifying and escalating conflicts of interest

Example recommendations
Complete a risk assessment that looks at inherent conflicts within your business model ... update its conflicts log...a comprehensive record of all conflicts along with the specific processes, controls and oversight to mitigate these conflicts. ...logs potential and crystallised conflictson a conflicts of interest register... ...document the procedure for identifying, escalating, managing and resolving of conflicts of interest ...update all of XXX's inherited Group policies to ensure that they are XXX specific and reflective of actual procedures

5. Closing – Recap and reminders

Recap and reminders

Top tips



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Coffee Break

Territory Topics

- Financial Crime
- Complaints
- Conduct
- Insured Domicile, Risk Location & Tax

LLOYD'S