

# MULTI-YEAR FAQs

## **Changes to syndicate numbers/syndicate participation/leader/Coverholder:**

What happens where the syndicates participating on the binding authority change or the percentages change during the year?

The binding authority agreement should be endorsed to reflect that the participants on the binding authority have changed and, with effect from the date of change, the certificates of insurance should be updated to show the revised participating syndicates and the new participation shared (if varied).

What happens if the leader changes during the period of the multi-year binding authority?

In line with current market practice for binding authorities, the market on the binding authority will need to decide whether to cancel and replace the binding authority or to continue the binding authority with a new leader.

What happens if the Coverholder changes legal name during the binding authority period?

Where the Coverholder changes legal name during the period of the binding authority the binding authority will be required to be endorsed to reflect this in line with current market practice.

What happens if a syndicate ceases to underwrite all business or goes into run off for the following year of account?

In the unlikely event that a syndicate will cease to underwrite all business for a following year of account then the syndicate can give notice to terminate the binding authority in the usual way.

In some instances the syndicate may only decide to cease underwriting after it is too late to give notice in time for the next anniversary date of the binding authority. To allow for that scenario, clause 37A.4 permits short notice to be given to terminate the binding authority as at the next anniversary date of the binding authority, provided notice is given before 1 December.

As with any case where one syndicate terminates its participation, replacement capacity will need to be found if the binding authority is to continue. This may be done either by endorsing a new syndicate to the binding authority or by the other syndicates agreeing to increase their participation share (which will also require an endorsement).

## **Registering the binding authority on BAR:**

How do I register the binding authority on BAR? Do I need to re-enter the BAR form each year?

The binding authority will need to be registered **once** on the BAR system for the entire period. The Broker/Managing Agent will need to select on BARs that the binding authority is a multi-year binding authority as opposed to an annual binding authority.

If the syndicate numbers or participants have changed will I need to amend the BAR form each time?

Any changes to the syndicates participating on the binding authority or on the syndicate numbers will need to be amended on the BAR form as well, **however no syndicates should be removed from the BAR form until the binding authority has elapsed for the entire period.**

What happens if there is a Broker change?

Any changes to the Broker on the BAR form will follow the current process whereby the previous Broker cancels the current binding authority and the new Broker registers the binding authority under the same UMR from the date of inception of the binding authority **including all** syndicates who have participated and will participate on the binding authority.

### **The transfer endorsement:**

What happens if the transfer endorsement is not signed or presented to the Coverholder prior to the anniversary date? Will the transfer still take effect?

The transfer endorsement is to confirm to the Coverholder that the transfer to the following year of account has taken place and to obtain the references from the Underwriters. Failure to sign the transfer endorsement will not affect the transfer but it will be a breach of Lloyd's requirements.

Note that the legal transfer between years of account is provided for in the model binding authority wording (at Section 37A) and merely requires the participating syndicates for the new years of account to confirm, once formed, that they agree to the transfer taking place. This will be done once a year for all syndicates in November/December and the process will be administered by Lloyd's. Once all syndicates have agreed to the transfer, the transfer will happen automatically as at the anniversary date of each binding authority inception.

The underlying certificates need to show each individual syndicate's percentage for each risk. Who will be responsible for making sure that this is updated? Who will bear liability if this is not amended?

The lead Underwriter and/or the Broker will be required to notify the Coverholder of the changes to participation on the binding authority and the Coverholder will be responsible for updating the certificate of insurance to be issued in line with current market practice.

Is the transfer endorsement LMA5237 the trigger for XIS to sign the second and third year FDOs?

This endorsement would be used to obtain the references from the underwriters to use for the FDO's, this would be the trigger.

Would XIS carry on signing bordereaux to the year 1 FDO if the transfer endorsement is not presented for the FDO?

Yes if a new FDO is not signed then the premium will all go into the year FDO they do have. This would be a failure to meet Lloyd's requirements.

If there is a change in participation at anniversary date is this done before the transfer endorsement but effective the same date, or can the change in market be incorporated into the transfer endorsement?

You can do it all together as long as the time lines for changes allow.

**Processing:**

How will the declarations attach to the year of account and do I need to do anything with the bordereaux?

Whilst the administration of binding authorities is matter of commercial negotiation, it is suggested that where a broker was involved in the placing of the binding authority, that broker (or their successor if a mid-term broker change has occurred) should be responsible for placing the endorsement confirming transfer to new year of account and for its submission to Xchanging on the IMR.

Xchanging's systems are designed to follow the principles of **Lloyd's Inception Date Allocation**. In simple terms, this means that all adjustments, amendments, extensions, claims etc. for declarations within the scope of this market bulletin attract the year of account of the year of the binding authority in which the declaration incepts. For example, if a 36 month binding authority incepts 1 July 2016, a declaration incepting on 1 March 2017 would attract a 2016 year of account because it incepts within year 1 of the binding authority, and any additional or return premium, or claim, relating to the first year of that declaration would similarly attract 2016 year of account. If the same declaration is re-written incepting 1 March 2018, it would attract a 2017 year of account because it incepts within year 2 of the binding authority.

Where processing does not occur via Xchanging (for example under Lloyd's Direct Reporting), the above process should be replicated as far as applicable.

Why is it the same UMR?

By restricting these contracts to the same UMR there will be a clear audit trail on the IMR for the full years. When open market multi-year contracts are signed and different UMRs are allocated each year there tend to be problems with the renewals as the full terms are not always shown. The intention was that the IMR should include documentation for the full life of the contract which is why this has been stipulated in the guidance. It is better for underwriters and brokers that there is a full record of the total life of a contract under one single UMR.

The additional benefits would be that BARs and the contract terms would be able to be put in place for the full 3 year term. At the first and second anniversary all that would need to be agreed would be any **changes** to these plus any changes that were required to the market and noting any changes to Lloyd's regulatory/legislative requirements.

All of this we would expect to be more beneficial than have to register a new binder on BARs and agree a full binding authority agreement/market each year.

Can I have more than one year of account under the same UMR?

Yes, and in fact this already occurs with regards open market business. For binding authority business Xchanging generates the year of account on each FDO SNAD. A UMR can have multiple FDO SNAD. Under the

new process, each year new FDO(s) will be signed (how many depends on how many risk codes and/or reference splits apply) under the same UMR. The year of account will be output to managing agents as part of the USM. Over the course of a 36 month binding authority, managing agents will therefore receive at least three FDO SNAD each with the same UMR, but with sequential years of account. Provided the bordereaux are clear, it is straightforward for Xchanging to ensure that the correct premiums and claims attach to the correct FDO SNAD(s) and therefore attract the correct year of account all under the same UMR.

**The period:**

What happens at the end of year 3?

Once the period has elapsed, a new binding authority will be required for the Coverholder to continue writing business on behalf of the underwriters and a new UMR will need to be created. The process for the signing of this binding authority will fall in line with current market practice and will require re-submission to underwriters and processing.

Can the final period be extended to allow the Broker/Coverholder to find capacity for the following year?

The multi-year binding authority may only run for a maximum of 36 months including any termination period and a new binding authority will need to be in place for the Coverholder to continue writing business beyond this 36 month maximum period.

Can a single period within the 3-year contract run for less than or more than 12 months?

There is presently no scope for the parties to agree variations to the length of the periods allocated to the different participating years of account. The arrangements put in place by Lloyd's mean that all business written in the first 12 months will be allocated to the first year of account of the participating syndicates. The next 12 months of the binding authority will then be allocated to the second year of account, and so on.

Where the binding authority is bound for less than 36 months (but more than 24 months) or less than 24 months (but more than 12 months) then the odd time is allocated to the last year of account and the prior year(s) will be allocated 12 months of business each.

For example, if a syndicate agrees a binding authority for 20 months then the first 12 months must be allocated to the first year of account and 8 months should be allocated to the second year of account. Similarly, if a syndicate agrees a binding authority for 28 months then the 12 months of business should be allocated to each of the first two years of account and the last four months should be allocated to the third year of account.

**Impact on current practices:**

How do I terminate the binding authority for commercial reasons?

Terminating the binding authority for commercial reasons will not be affected by writing a multi-year binding authority and the same provisions and requirements as currently listed within the agreement and referenced within the schedule will apply.

How will profit commissions be calculated?

The calculation of profit commission will not be affected by the use of a multi-year binding authority and will be annually determined by each Underwriter for the respective binding authority where applicable.

Would it possible to convert an existing annual binding authority to a multi-year binding authority by endorsement?

No. The existing binding authority must either be ceased or run until expiry and then the binding authority re-written using the LMA Multi-Year Version Wordings.

Would multi-year binding authorities be available for direct deal binding authorities?

Yes. The multi-year binding authority can be written without the use of a Lloyd's Broker and the processes for this will fall in line with current market practice for direct deal binding authorities.

The schedule makes reference to annual periods for the Gross Premium Income Limit and the Aggregates; how will these be determined?

The multi-year binding authority may be bound for a period of up to 36 months with a maximum of 3 individual 12 month periods. The period for which the GPI and Aggregates limits apply should be set on the basis annual periods.

How will endorsements to different years of account be agreed? What happens where the syndicates participating on the binding authority have changed?

Each endorsement will need to be signed by the syndicates participating on the year of account in question and any endorsement will need to clearly reference the period for which the endorsement applies.

How will this impact on Canadian business is Lineage capable of dealing with Multi year?

We are investigating with Lineage to see if this has the right capabilities. Canadian business is not excluded but thought must be given to the reporting requirements before entering into Multi year contracts with all Coverholders.