



Multi-Year Binding Authorities

Town hall

04 November 2015

We listened to feedback



**YOUR FEEDBACK
MATTERS**



We engaged with...



What the new arrangement offers...

- ▶ A simple to implement arrangement
- ▶ No additional burden for coverholder/broker
- ▶ Legally robust arrangement
 - Developed with the assistance of Leading Counsel (John Lockey QC)
 - Reviewed by US lawyers (Drinker Biddle)
- ▶ Can be used for 2016 year of account

But a few points to note...

- ▶ Must follow process prescribed by Lloyd's
 - No changes to model wordings without agreement
- ▶ Managing agents must have due diligence and compliance arrangements not tied to renewal
 - Lloyd's will be monitoring
- ▶ At the moment the following are out of scope:
 - Coverholder has authority to bind risks for periods of more than 18 months
 - Master binding authority arrangements
- ▶ Note the different processing arrangements required

Where do I look...?

- ▶ Market Bulletin Y4931
- ▶ LMA015-055-AG
 - LMA Guidance Note
 - LMA3113M,
LMA3114M,
LMA3115M
 - LMA5237 (Transfer
Endorsement)
- ▶ www.lloyds.com/coverholders

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MARKET BULLETIN

REF: Y4931

Title	Binding Authority Agreements – Multi-Year Contracts
Purpose	To notify changes to Lloyd's requirements to allow multi-year binding authority agreements of up to 36 months
Type	Event
From	Peter Montanaro, Head of Delegated Authorities Performance Management Directorate
Date	15 October 2015
Deadline	Immediate
Related links	www.lloyds.com/coverholders

Lloyd's is announcing that with effect from the 2016 year of account, managing agents may enter into binding authority agreements of up to 36 months ("multi-year binding authorities"). Presently, managing agents may only enter into binding authority agreements of up to 18 months and in most cases binding authorities are annual.

This bulletin explains the process managing agents must follow where they wish to enter into multi-year binding authorities. As Lloyd's syndicates are annual ventures, these arrangements are to ensure that business is allocated correctly across different years of account.

- New model wordings have been produced for multi-year binding authorities. These must be used and contain the necessary provisions to allow for the transfer of binding authorities between different years of account.
- Managing agents will be required to confirm annually, on the formation of the new syndicate years of account, that their syndicates agree to the transfer of the multi-year binding authorities.

The new arrangements are intended to support long term relationships with coverholders and to make it easier to do business at Lloyd's. The new arrangements ensure that no additional burden is placed on coverholders or their brokers.

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How does it work?

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What do I need to do...?

Enter into BAA: use new LMA
'multi-year' model BAA wording

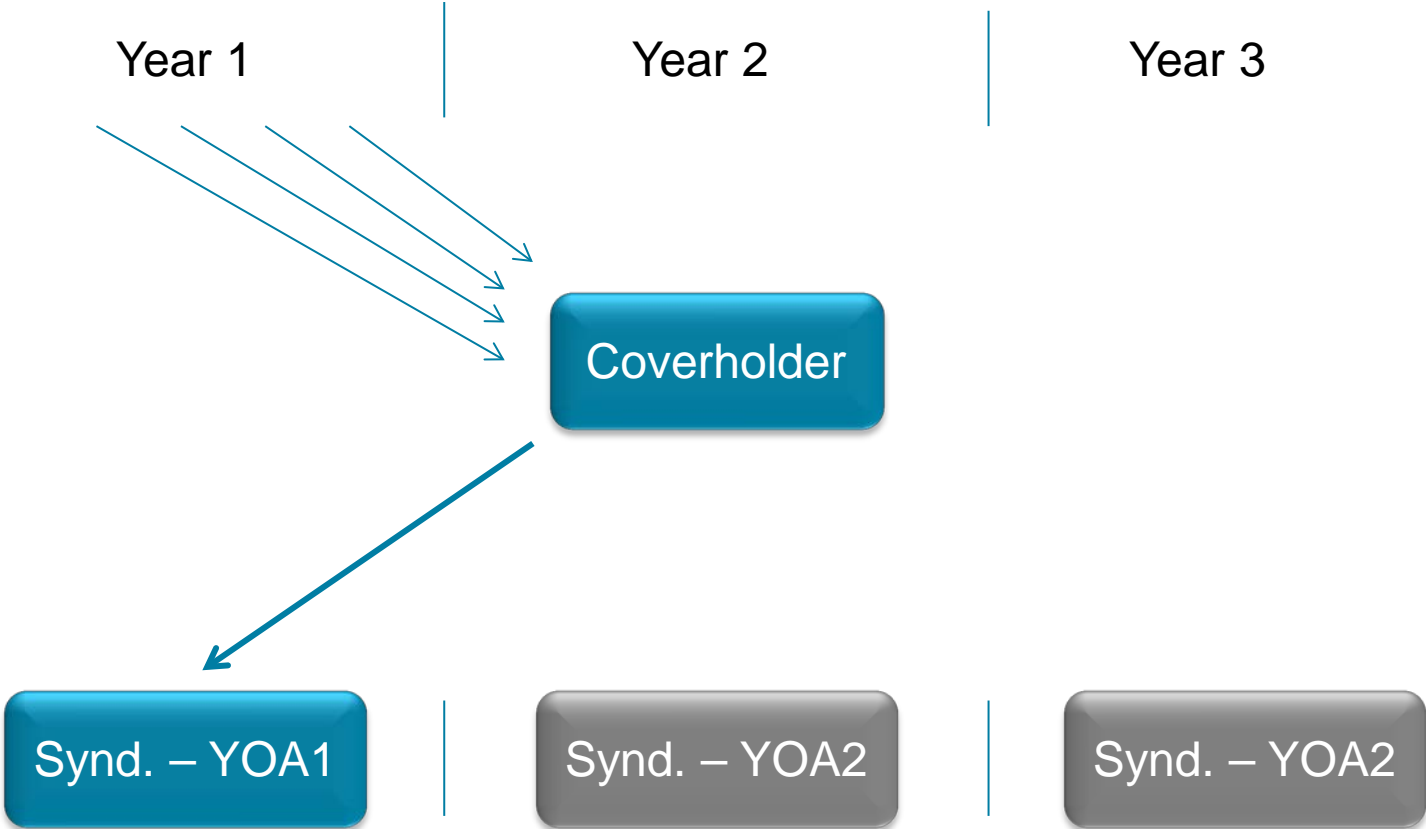


Confirm agreement to transfer:
Each year Lloyd's will ask
managing agents to sign a form.

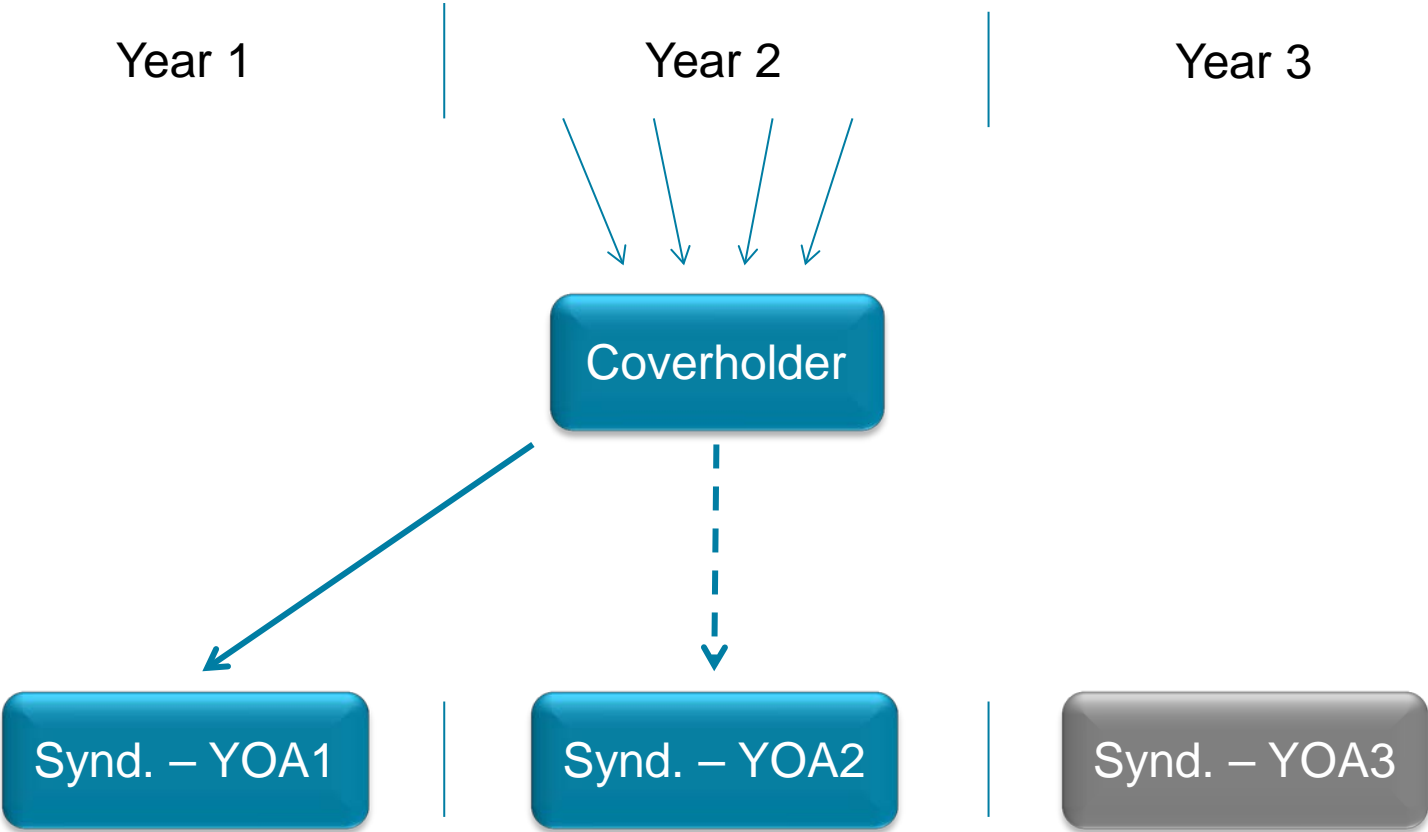


**Automatic transfer of BAA at
anniversary:** Confirm to
coverholder using LMA5237

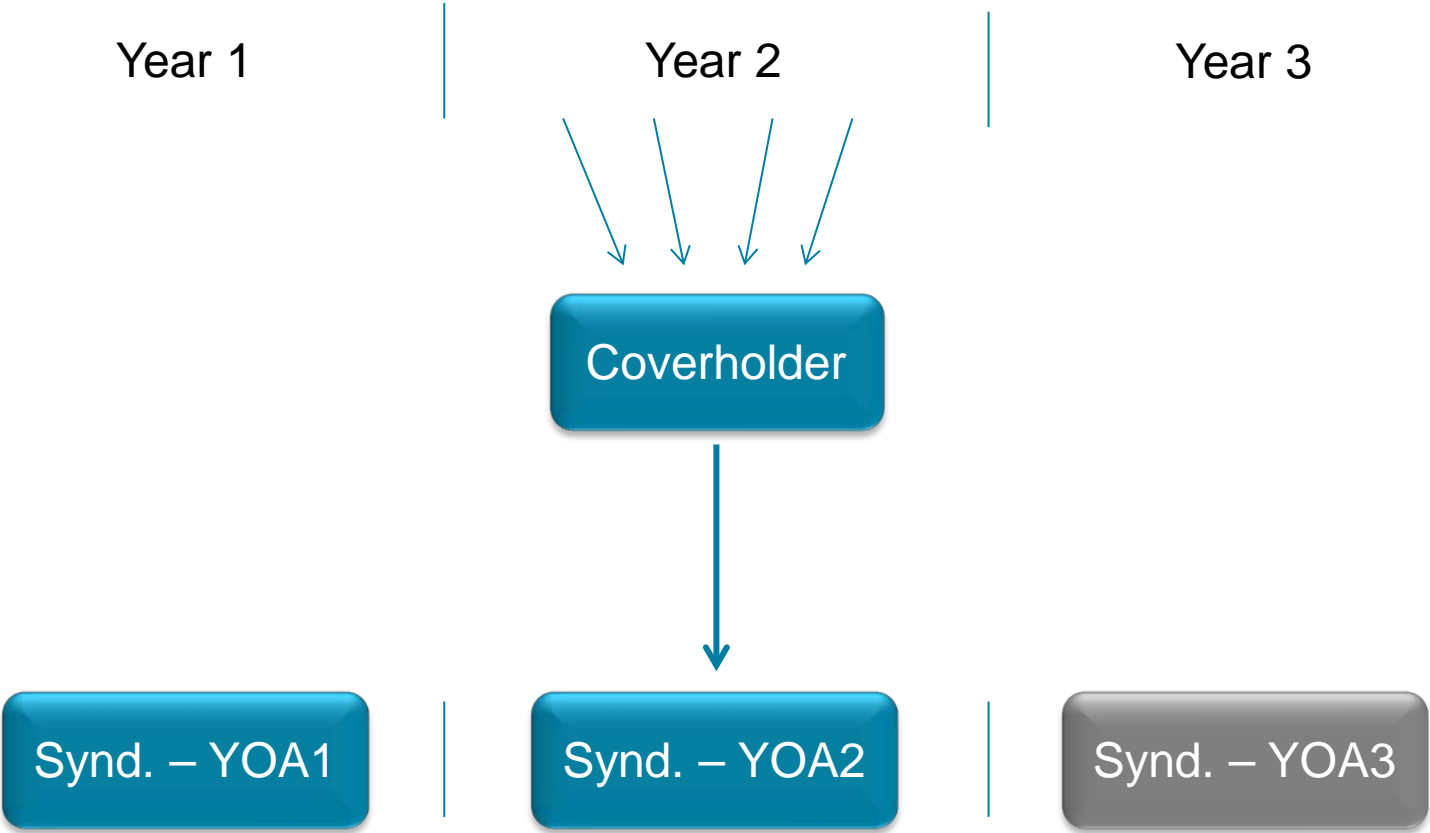
An explanation of the issues...



Without a transfer of the BAA all business will remain with YOA 1 of the syndicate ...



The new arrangement ensures the BAA is transferred to the right YOA...



The legal issues...

- ▶ Syndicates at Lloyd's operate as an annual venture
- ▶ Without appropriate arrangements in place, all business bound under a multi-year contract falls into the year of account that wrote the binding authority
- ▶ Leading Counsel (John Lockey QC) has confirmed that:
 - Managing agents cannot bind syndicates for future years of account before the members of the syndicate have been determined
- ▶ To find a solution to this...

The arrangements for multi-year BAAs

- ▶ Enter into a BAA with period of up to 36 months –use LMA3113M, LMA3114M or LMA3115M
 - The BAA (section 37A) provides that the participating syndicate can transfer the BAA to the following year of account
- ▶ Lloyd's will run an annual process in November/December where managing agents confirm new years of account will accept transfer
- ▶ Transfer of BAA happens automatically at anniversary date of inception
- ▶ Use LMA5237 to confirm transfer to coverholder and provide new reference numbers
 - But this does not affect the validity of the transfer.

Some points to note

- ▶ Must use LMA3113M, LMA3114M or LMA3115M for all BAA more than 18 months
 - Cannot vary section 37A without Lloyd's agreement
 - Gross Premium Income (section 12.1) and Maximum Total Aggregate Limits (section 23.2.3) require annual figures.
- ▶ For BAAs less than 18 months can continue to use annual BAA wordings
- ▶ Ensure business is allocated to correct year of account
- ▶ Termination arrangements remain same as for annual BAAs
- ▶ Mid-term changes in participation by endorsement

Processing Multi-Year binding authorities



How to process multi-year contracts: Xchanging

- ▶ Use a single UMR for all years of the multi-year BAA
- ▶ Separate FDO for each year of account
 - First FDO shows three year period but narrative field must state that SNAD applies only for first 12 months
 - Second FDO shows two year period with start date as first anniversary date. Narrative field must state SNAD only 12 months
 - Third FDO shows one year period with start data as second anniversary date. Narrative field must state SNAD only 12 months
- ▶ Process agreed with Xchanging

How to process multi-year contracts: BAR

- ▶ BAA must be correctly registered on BAR before inception
- ▶ Managing agents have primary responsibility but brokers often take on responsibility for completing BAR
 - Managing agents must ensure the brokers understand what is required

How to process multi-year contracts: Coverholder

- ▶ The broker has an important role in ensuring the coverholder understands how multi-year BAA work.
- ▶ It is important that the coverholder provides managing agents with the information necessary to correctly allocate the business written

Any Questions?

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