



Lloyd's Coverholder Auditors' Conference



Welcome
Tom Bolt – Lloyd's



Conference Objectives

Peter Montanaro – Lloyd's

Part 1 The Coverholder Audit Scope

- ▶ 09:30 - Conference Objectives
- ▶ 09:45 - Introduction to the new Coverholder Audit Scope
- ▶ 10:30 - Conduct risk
- ▶ 11:00 - Coffee break
- ▶ 11:30 - Complaints
- ▶ 12:00 - Tax and regulatory challenges
- ▶ 12:45 - Lunch
- ▶ 13:45 - Financial crime and sanctions
- ▶ 14:15 - Underwriting: review or audit?
- ▶ 14:45 - Coffee break
- ▶ 15:00 - Company information, IT, accounts, claims
- ▶ 15:30 - Practical experiences of the new scope



Part 2 Audit Co-ordination

- ▶ 16:00 - Audit co-ordination
- ▶ 16:45 - Q & A
- ▶ 17:15 - Close





Introduction to the New Coverholder Audit Scope

Sarah Thacker, Market Operations - Lloyd's
Charles Rowley - Catlin

Background

- ▶ Original audit scope produced March 2010
- ▶ Changes to regulatory environment, systems, processes and business requirements
- ▶ New scope introduced February 2014

The LMA Survey, March 2013

- ▶ All 56 managing agents were surveyed
- ▶ 22 managing agents responded
- ▶ 4 said they used the audit scope
- ▶ 12 said they used a variant
- ▶ Other feedback:
 - Split needed between general and contract specific questions
 - More focus on underwriting and claims management
 - Updates (financial crime, control framework etc.)
 - Core audit scope with specifics for classes and territories as required



Objectives

- ▶ Increase usage
- ▶ Split into 2 parts – core and contract specific
- ▶ Change of focus
- ▶ Updates and new materials
- ▶ Appropriate appendices

The Steering Group formed May 2013

Member	Organisation	Group	Role
Charles Rowley	Catlin	DUM	Chair, company and compliance expertise
Steve Hart	Ark	DUC	Underwriting expert
Patricia Beaton	Canopus	BACG	Claims expert
Dan Lott	Svalinn	BOLT	Broker, compliance expert
Ian Whitehead	Bell and Clements		Broker, company and technology expert
Sarah Thacker	Lloyd's		Project Manager, Lloyd's expert

DUM – Delegated Underwriting Managers

DUC – Delegated Underwriting Committee

BACG – Binding Authority Claims Group

BOLT – Binders Off-slips Line-slips Treaties Committee

Reviewing the old scope and drafting the new scope

- ▶ Steering group with members from the DUC, DUM, BOLT, BACG and Lloyd's undertook initial review of scope
- ▶ Working groups of subject matter experts from around the market met to review different sections
- ▶ Lloyd's local representatives consulted with local coverholders and auditors, comments received from auditors in Australia and Italy and from Lloyd's offices in Australia, Hong Kong, Italy and Spain
- ▶ UK MGAA and US AAMGA associations consulted



Working groups

Underwriting

Steve Hart, Ark
Paul Bromley, Beazley
Paul Fagg, Bowood
Holly Strettle, Kiln
David Green, Tysers
Sarah Thacker, Lloyd's

Claims

Patricia Beaton, Canopus
Binding Authority Claims Group –
Strategic Group
Kevin Moon, Lloyd's
Sarah Thacker, Lloyd's

Reporting

Dan Lott, Integro
Jane Hitchcocks, Kiln
Gavin Smith, Hiscox
Matthew Reynolds, Beazley
Steve Hart, Matt Saunders, Ark
Sarah Thacker, Lloyd's

Control Framework

Control Framework Breakfast
Group & Jaana Rouvari, Lloyd's

Company

Charles Rowley , Catlin
Chris Rees, Chaucer
Sarah Peppiat , Mitsui
Nicola Major, Beazley
Iain Pearson, Lloyd's
Sarah Thacker, Lloyd's

Compliance

Charles Rowley, Catlin
Chris Rees, Chaucer
Leena Ekman, Brit
Nicola Major, Beazley
Iain Pearson, Lloyd's
Sarah Thacker, Lloyd's

IT

Ian Whitehead, Bell and
Clements
Chris Rees, Chaucer
Jane Ester, Kiln
Julian Sawyer, Miller
Sarah Thacker, Lloyd's

Co-ordination

Nicola Major, Beazley
Leena Ekman, Brit
Joseph Fisher , Catlin
Paul Pampanella , QBE
Stephen Colbert, Talbot
Paul Jeffrey, Kiln
Andrew King, QBE
Lindsey Davies, Lloyd's
Peter Montanaro, Lloyd's

London Auditors

Andrew King, QBE
Paul Pampanella, QBE
John McGlynn, Sagikor
Sarah Thacker, Lloyd's

Drafting the new scope

- ▶ A draft document was circulated for review with over 1,000 resulting comments from auditors, managing agents, brokers, coverholders and Lloyd's international reps
- ▶ The FCA also provided comments
- ▶ A session was held with a small group of auditors to review the document



The reviewers

Jody Meadwell	A M Associates	Ron Pearce	Fitzgerald consulting	Paul Brady	Lloyd's, Legal
Bernie Heinz	AAMGA	Malcolm Hosken	Gemini Consulting	Peter Montanaro	Lloyd's, Delegated Authorities
Heather O'Sullivan	ACE	Richard Teff	Gemini Consulting	Rachael Penny	Lloyd's, Financial Crime
Jean-Paul Simeos	ACE	Lorraine Calway	Goldseal	Sam Stevenson	Lloyd's, Brand
Colin Passingham	Aegis	Giles Anderson	GPA Consulting	Sandra Sherlock	Lloyd's, LITA
Bob Drag	Altair	Graham Pipe	Graham Pipe Advisory Services	Sarah Thacker	Lloyd's, Delegated Authorities & Market Operations
Alistair Maurice	Amlin	Steve Paddison	Hardy	Sabrina A. Miesowitz	Lloyd's America
Simon Archer	AON	Philip Heitlinger	Heitlinger Consultants Ltd	Mary Arabian	Lloyd's Canada
Paul Glean	Apollo	Peter Henzy	Henzy and Associates	Sean Murphy	Lloyd's Canada
Steve Hart	Ark	James Chaplin	Hiscox	Gloria Rolland	Lloyd's France
Teresa Atherton	Atherton Audit	Russell Coward	Hiscox	Beatriz Ramirez	Lloyd's Iberia
Rachel Gurnitt	Atrium	Samantha Whiting	Hiscox	Eamonn Egan	Lloyd's Ireland
Peter Coates	Axiom Asia Pacific Pty Limited	Steve Burns	Hiscox	Iain Ferguson	Lloyd's Japan
Binding Authority Claims Group	BACG	Den Lott	Integro	Adrian Graham	LMA
Nicola Major	Beazley	Stephen Heath	John Heath and company	Jonathan P Brown	MGA Consulting
Penny Graham	Beazley	Mike Hooper		Jane Comerford	MGAA
Brokers Binders Offslips Lineslips and Treaties Committee	BOLT	Holly Strettle	Kiln	Julian Sawyer	Miller
Colin Loftus	Bowood	Paul Jeffrey	Kiln	Natacha Murphy	Navigators
Ian Rankin	Canopus	Stephen Leybourne		Ruth Roberts	Navigators
Patricia Beaton	Canopus	Nick Barnaby	Liberty	Richard Ives	Northshore
Charles Rowley	Catlin	Andrew Gurney	Lloyd's, International Regulatory Affairs	Andrew Kilvan	NRC
Elana Martin	Catlin	Erik Borjesson	Lloyd's	John E O'Connell	O'Connell Management Company
Tim Knott	Catlin	Gabriella Barker	Lloyd's, Consumer Business	Andrew Smith	Pro-Global
Chris Rees	Chaucer	Jaana Rouvari	Lloyd's, Control Framework	Andy King	QBE
Mike Palmer	Citadel Risks	Jenny Lavery	Lloyd's, Complaints	Paul Jeffrey	Kiln
Des Allen	Cranmore	Jessica Owen	Lloyd's, Direct Reporting	Paul Pampanella	QBE
John Harris	Decus	John Battersby	Lloyd's, Communications	Bernard Taylor	R & Q MGA Ltd
Adam Ely	Deloittes	Karen Oliver	Lloyd's, PAMA, Complaints	Richard Clark	R&Q
Andrew Downes	Deloittes	Kevin Moon	Lloyd's, Claims	John McGlynn	Sagicor
Chris Gagg	Deloittes	Lesley Kelly	Lloyd's, PMD	Simon Wilkinson	SPW Consulting
Delegated Underwriting Committee	DUC	Sally Pearce	Lloyd's, PMD	Catherine Nicoll	THB
Delegated Underwriting Managers Group	DUM	Lindsey Davies	Lloyd's, Delegated Authorities	Torquil McLusky	TML Risk
Mike O'Hagan	FCA	Mairanna Papadakis	Lloyd's, Cyprus and Greece	Elisa Bormida	Watkins
Tim Chandler	FCA	Nick Marman	Lloyd's, Tax		

Thank you



Objectives and the changes

- ▶ Increase usage 
- ▶ Split into 2 parts – core and contract specific 
- ▶ Change of focus 
- ▶ Updates and new materials 
- ▶ Appropriate appendices 

Reminder

- ▶ The managing agent is expected to select the appropriate questions and sections they would like asked from the list given in the questions document
- ▶ In some regions, and for some classes of business, there may be additional topics which need to be examined. It is expected that the auditor and managing agent will discuss and agree these in advance of the audit

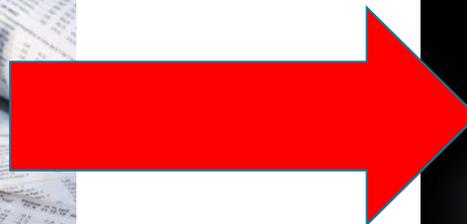
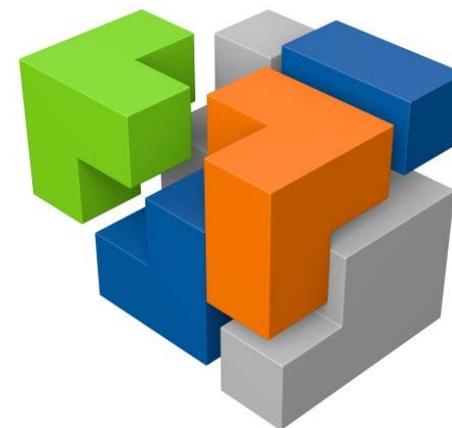
Key objectives



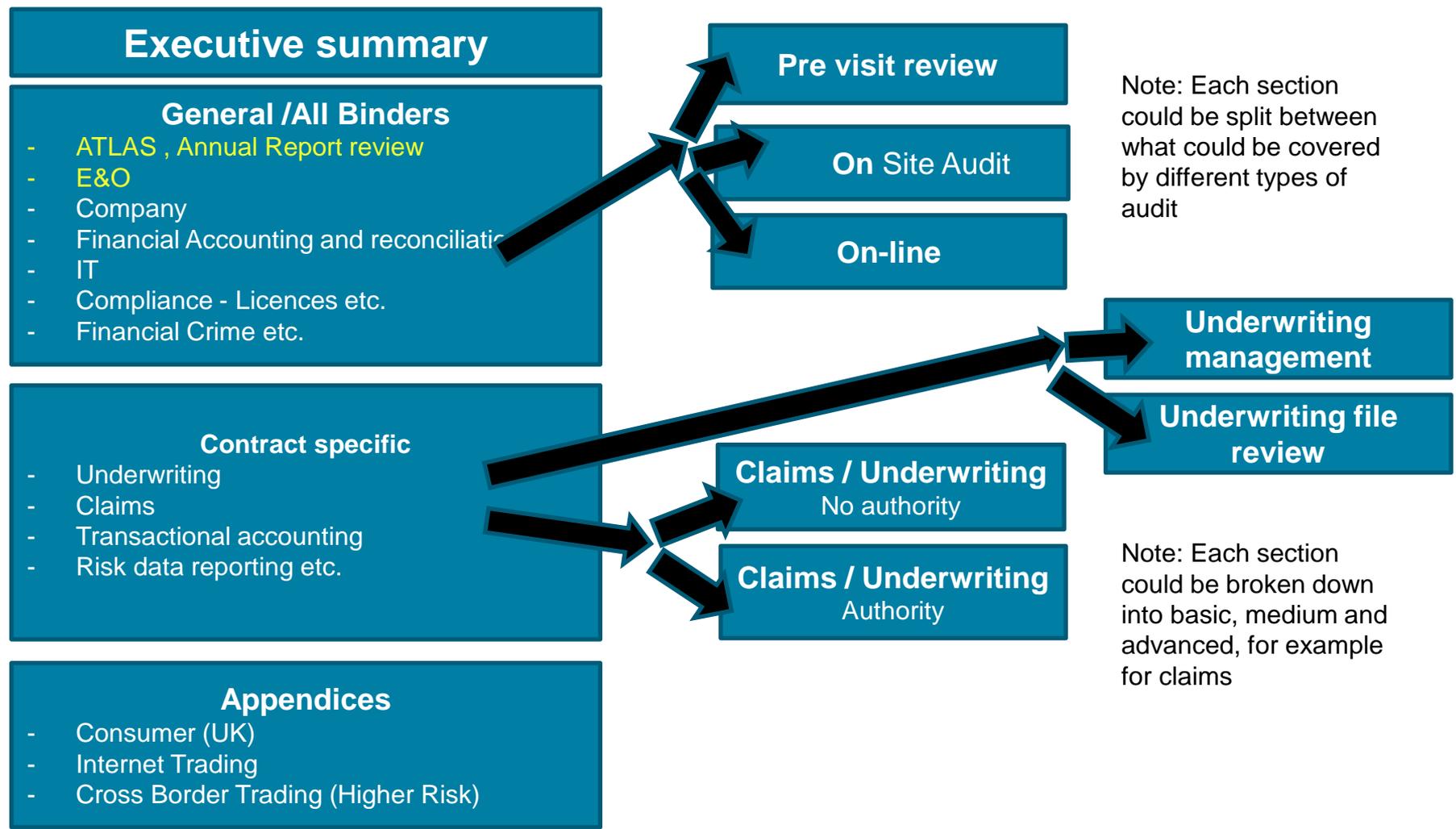
- ▶ 3 fundamental questions to answer in each audit:
 1. **Is the coverholder suitable to hold delegated authority?**
 2. **Is the facility being operated correctly?**
 3. **Are the audit modules selected suitable to address the key risks?**
- ▶ What we want to work with you on:
 - Focus on correct modules
 - Explain the change to coverholders
 - Work together on data
 - Work together to co-ordinate where required
 - UK consumer, remote worker and outsourcing are hot topics

2014 Risk based modular audit scope

- ▶ **Risk Based Modular Coverholder Audit Scope V2 February 2014**
- ▶ Audit modules selected are aligned with Risk Matrix. We need to work together to get the right modules
- ▶ **Not a tick box approach** - auditors should **use their experience, knowledge and initiative** to evaluate the relevant coverholder operations in the agreed modules



A modular risk focussed structure





Structure – examples A and B - selection

Simple Commercial 1 country

Executive summary

General/All Binders

- ATLAS , Annual Report review
- E&O
- Company update
- Financial Accounting and reconciliation
- IT
- Compliance - Licences etc.
- Financial crime etc.

Contract specific

- Underwriting
- Claims
- Transactional accounting
- Risk data reporting etc.

Appendices

- Consumer (UK)
- Internet Trading
- Cross Border Trading (High Risk) etc.

Complex Consumer UK and EEA

Executive summary

General/All Binders

- ATLAS, Annual Report review
- E&O
- Company update
- Financial accounting and reconciliation
- IT
- Compliance – Log's, etc.
- Financial crime etc.

Contract specific

- Underwriting
- Claims
- Transactional accounting
- Risk data reporting etc.

Appendices

- Consumer (UK)
- Internet Trading
- Cross Border Trading (High Risk) etc.

2014 Focus on data



- ▶ **Lloyd's Data Standards (aka Control Framework phase 2)**
 1. Risk Matrix created using cross-border trading, authority to bind risks, class of business, country etc.
 2. Matrix generates a high, medium and low rating (high risks were given priority status in the plan for 2014.)
 3. Lloyd's Audit Scope includes 2 levels of tax and regulatory specific questions were incorporated into the scope
 4. Data checklists and gap analysis of bordereaux data vs Standards to be done for each lead contract between managing agent and brokers
 5. We will request that where gaps exist that auditors complete any 'missing' (not reported to London) data checks on site and validate accuracy during the audit
 6. Data security becoming increasingly important

Working
together

More
communication



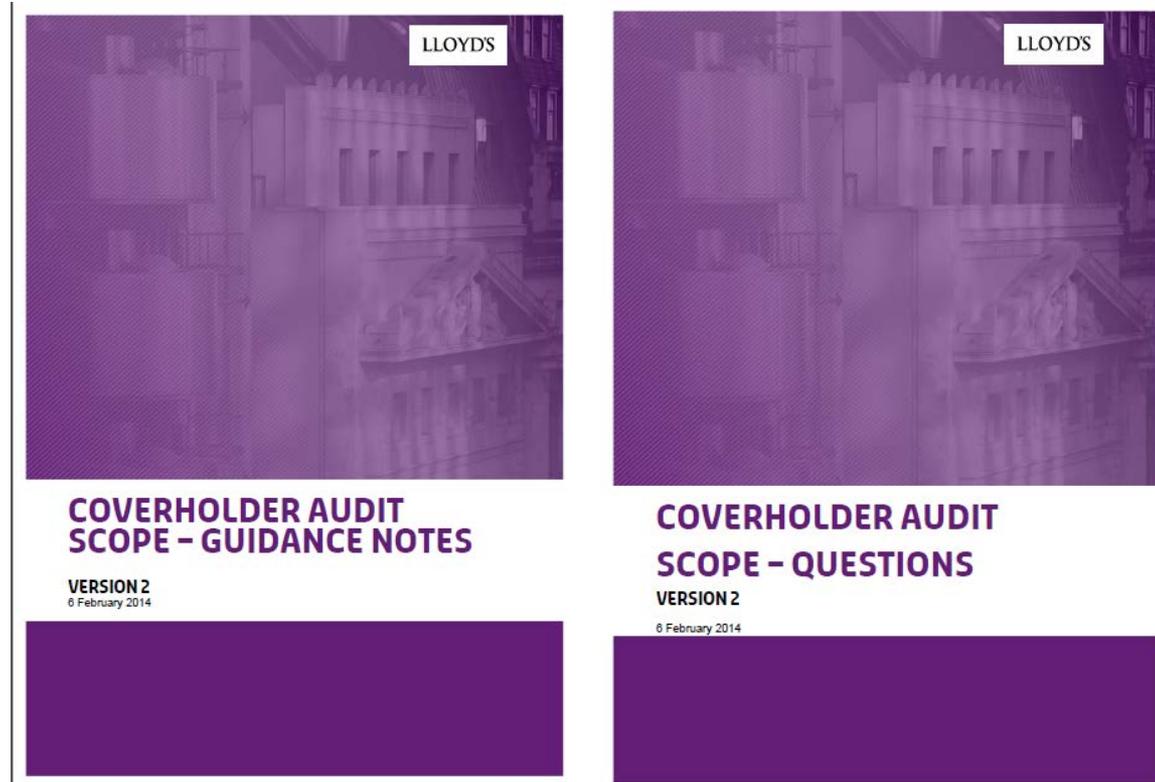
- ▶ Pre audit discussion – module selection, agree file numbers, share rating etc.
- ▶ Prep work - packs including data and assistance as required with **Atlas access**
- ▶ Auditors to consider module selection and discuss where necessary. Focus on risk areas
- ▶ **Test and evidence** key questions (FCA)
- ▶ Wrap up meetings essential
- ▶ Prompt advice to managing agents of high risk items and final report
- ▶ Post audit conference calls
- ▶ Timely invoice payment
- ▶ Underwriters may join the audit from time to time
- ▶ Obtain feedback and answer any questions from auditors, coverholders and brokers

Summary



- ▶ Communication and partnership - underpins the relationship and the quality of the overall efficiency and output
- ▶ Auditors to use common sense when completing the audit – “it’s not a one size fits all”
- ▶ Prompt reporting – a good level of service especially in identifying risks to our business and responding to coverholders are key
- ▶ Be very mindful of the Lloyd’s Data Standards we need to achieve in particular the correct application, calculation, recording and reporting of tax
- ▶ We will monitor auditor performance through report quality, feedback from the coverholder and the core standards we have set
- ▶ Provide suggestions for improvement to Coverholders@Lloyds.com
- ▶ Thank you very much for your help in this exciting and challenging change. We value your help and input to audits in 2014
- ▶ **OUR WORLDWIDE REOURCES ARE AT YOUR DISPOSAL – Please Ask!**

Where to find the scope



<http://www.lloyds.com/the-market/i-am-a/delegated-authority/compliance-obligations/audit-scope>



Conduct Risk

Ella Barker

Delegated Authorities – Lloyd's

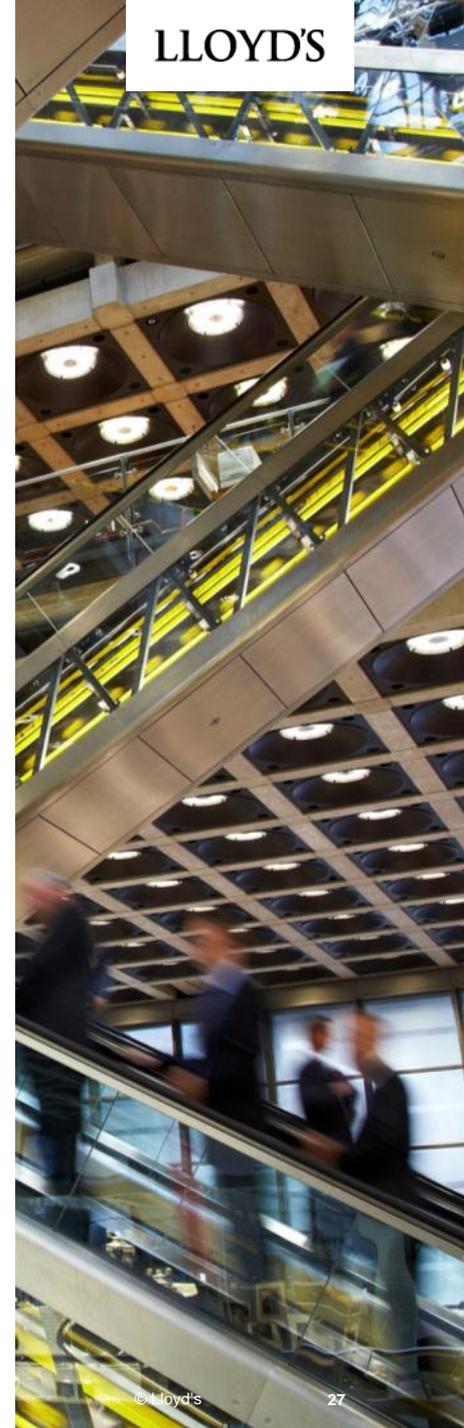
Conduct risk

What is conduct risk?

- ▶ 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

Why is it important?

- ▶ To achieve fair outcomes for policyholders
- ▶ Increasingly conduct focussed regulatory environment both in the UK and overseas



The DA conduct project

Objective: To improve the oversight and management of conduct risk in delegated underwriting

Actions:

- ▶ Remove the restricted coverholder category
- ▶ Introduce a new level of underwriting authority 'no discretion'
- ▶ Introduce enhanced due diligence for consumer product binding authorities
- ▶ Introduce a fifth minimum standard for delegated underwriting focussed on conduct risk



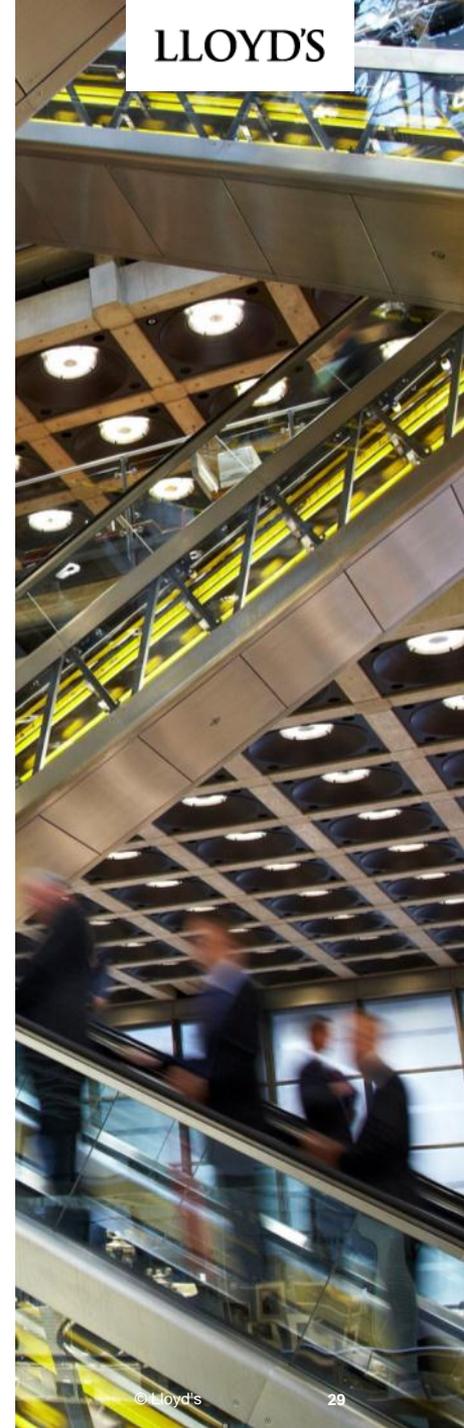
Restricted coverholders

The restricted coverholder category has been removed by amending the Intermediaries Byelaw

All existing restricted coverholders at the time of amendment are now approved coverholders on Atlas

Reasons:

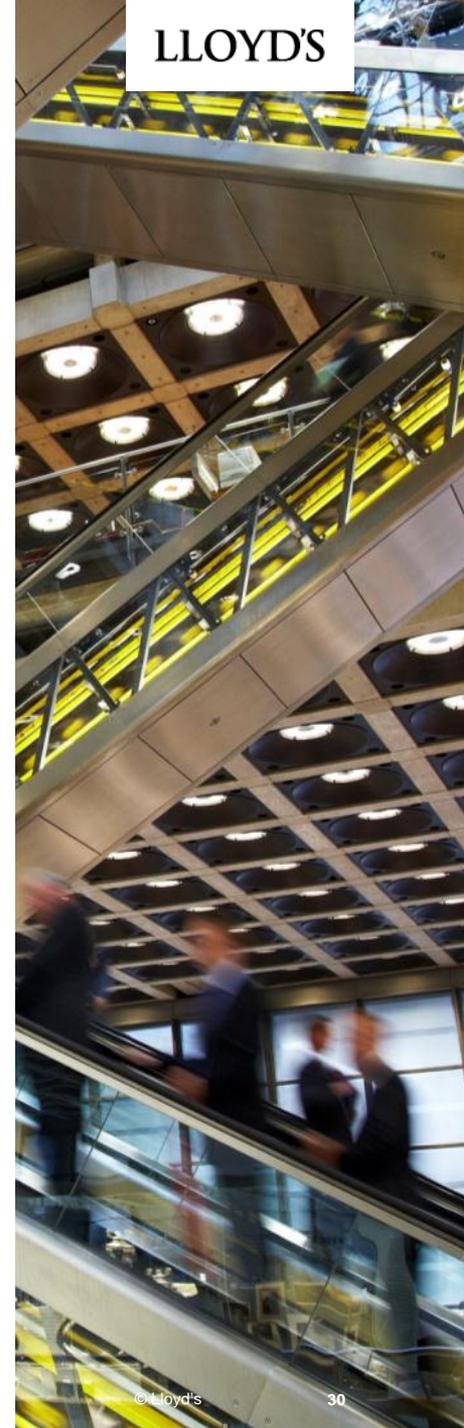
- ▶ Level of Lloyd's oversight needed to be increased in line with increased regulatory focus on conduct risk
- ▶ To ensure managing agents are managing their relationships with consumers to an appropriate standard



No discretion coverholders

The coverholder may only be given underwriting authority via a comprehensive rating matrix. These arrangements must not give the coverholder discretion in calculating the premium or making adjustments to it or with regard to terms and conditions

- ▶ Reflects the limits of authority that were allowed for restricted coverholders
- ▶ Will be available for all coverholder applicants going forward

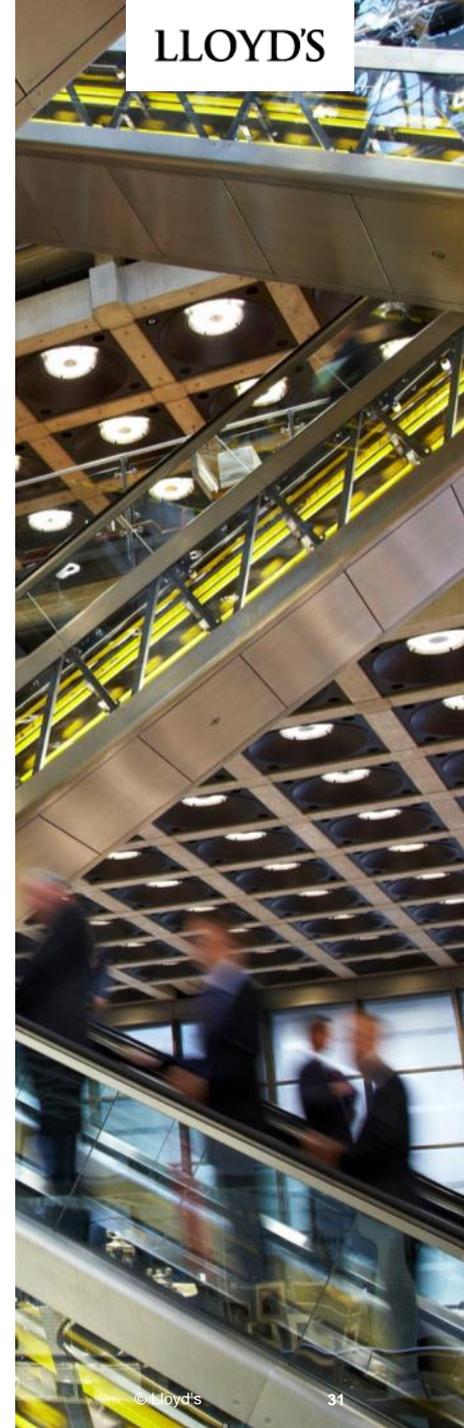


Consumer Product Binding Authorities (CPBs)

Any binding authority under which the end policyholder is a consumer

For the purposes of the CPB regime, Lloyd's considers the following to be consumers:

- ▶ Private individuals
- ▶ Small businesses, commonly referred to as micro-enterprises, or other small non-business organisations
- ▶ Any other entity that would be considered a consumer by the relevant regulatory authority in the local territory



CPBs continued

- ▶ Managing agents must identify all CPBs
- ▶ Identification means enhanced due diligence is required
- ▶ To assist, Lloyd's has produced a template CPB questionnaire
- ▶ However, this template is not mandatory and the managing agents own equivalent can be used
- ▶ Lloyd's will request evidence of conduct due diligence with new applications and class of business requests which relate to CPBs
- ▶ It will also be assessed as part of a minimum standards reviews in line with the new fifth minimum standard
- ▶ The most important thing is that consideration of conduct risk can be evidenced on an ongoing basis



Conduct risk and coverholder audits

It is for the managing agent to decide when to use the consumer business appendix and which questions to ask. Relevant factors would include:

- ▶ Who developed the product
- ▶ Location of the coverholder
- ▶ Authority level of the coverholder
- ▶ Activities of the coverholder

The managing agent may also provide advice on the level of detail required in answers to enable them to assess how effectively conduct risk is being managed



Appendix 5: consumer business

Marketing and promotional material

- ▶ Key risk: the distribution of unclear, unfair or misleading marketing material
- ▶ Designed to check that material is handled appropriately and that the coverholder understands the importance of the material being targeted at the correct audience

Product distribution, suitability and information

- ▶ Key risk: customers being provided inappropriate or poor advice or being treated unfairly
- ▶ Designed to check use of appropriate policy wordings and customer correspondence



Appendix 5: consumer business continued

Post sales access

- ▶ Key risk: a customer is unfairly impeded should they wish to make mid-term changes to their policy, including cancellation
- ▶ Designed to check procedures for amending and cancelling policies mid-term

Claims (where the coverholder has claims handling authority)

- ▶ Key risk: a customer is treated unfairly during the claims process
- ▶ Designed to check claims handling processes



Appendix 5: consumer business continued

Complaints

- ▶ Key risk: a customer is treated unfairly during the complaints process
- ▶ These questions should be asked in addition to 2.6.2
- ▶ Designed to check that complaints processes are being followed including identification and remediation of issues

Treating customers fairly (UK coverholders only)

- ▶ Key risk: a coverholder is not achieving the FCA's TCF outcomes and as such customers are at risk of receiving unfair outcomes
- ▶ Designed to check that the coverholder has a TCF focus embedded throughout the company and effective TCF management processes





Complaints

Mark Smith

Policy and Market Assistance Department –
Lloyd's

What is a complaint?

- ▶ FCA definition: any “expression of dissatisfaction”
- ▶ It is important that complaints are identified and treated as complaints:
 - By managing agents
 - By their coverholders
 - By their TPAs
- ▶ Complaints must be accepted verbally as well as in writing
- ▶ It may be a complaint even if the policyholder does not say he is complaining

Complaints handling code

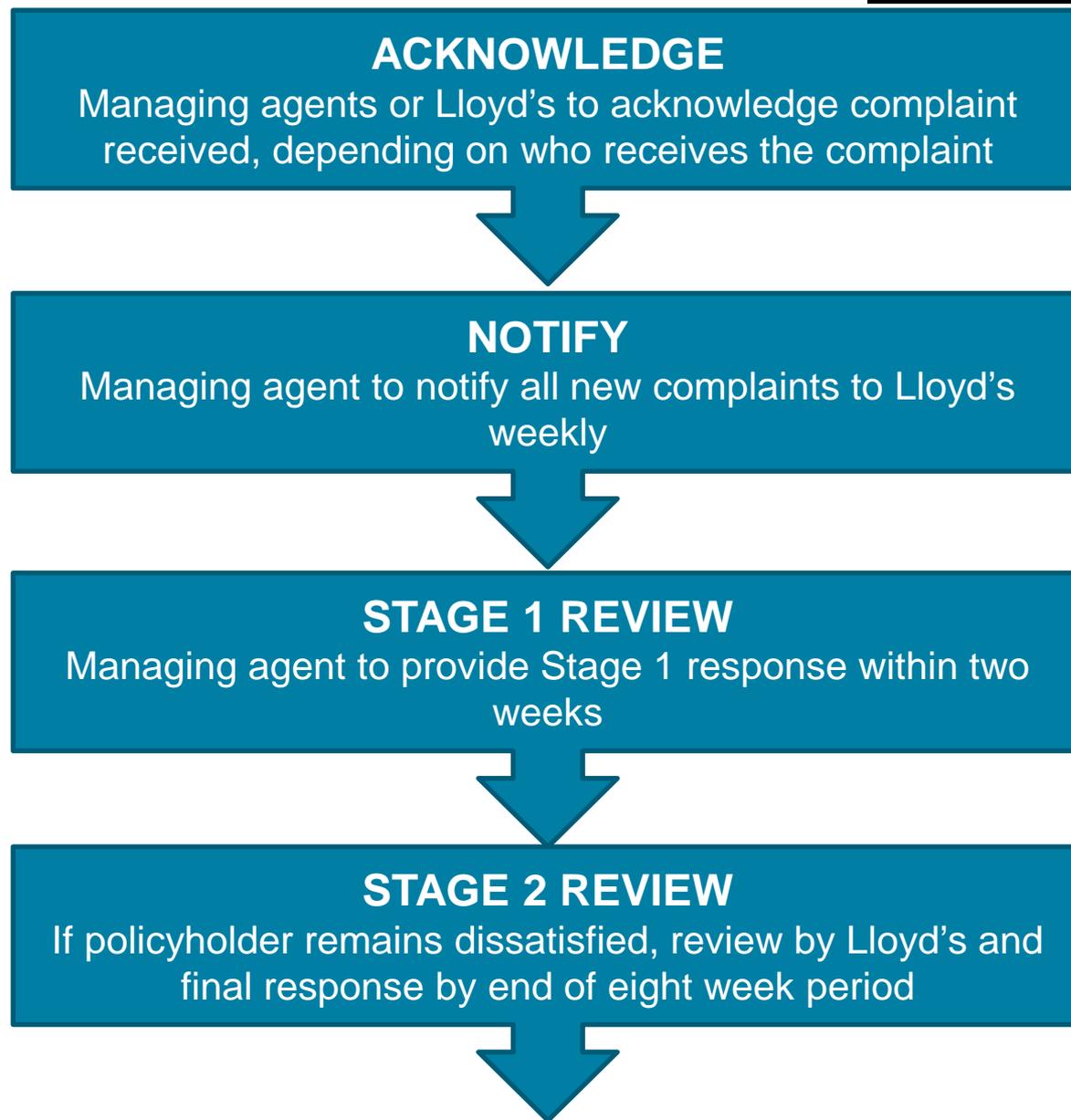
UK Complaints

- ▶ Revised UK Complaints Handling Code introduced with effect from 1 July 2013
- ▶ All complaints from “eligible complainants” must now be notified to Lloyd’s
- ▶ Coverholders must have procedures in place to ensure compliance with Lloyd’s requirements
 - Recognise a complaint
 - How to deal with a complaint

Overseas Complaints

- ▶ Currently under review by PAMA in conjunction with Legal & Compliance, the market and FCA

The process



The audit process

Lloyd's Audit Scope contains guidance in respect of complaints issues

- ▶ Awareness of Lloyd's and FCA requirements
 - Ability to identify a complaint
 - Knowledge of process
- ▶ Appropriate training provided
 - Written procedures
- ▶ Compliance with:
 - Lloyd's complaint handling requirements
 - Reporting requirements to managing agent/Lloyd's

Complaints reporting

- ▶ Half yearly complaints return to FCA for PAMA and overseas offices – published on Lloyds.com
- ▶ Data shared with
 - Executive Team
 - Franchise Board and Council
 - Syndicate Risk Committee
 - Delegated Authorities
 - Claims
 - Legal & Compliance
 - Managing Agents

Where do I look?

- ▶ www.lloyds.com/complaintshandling
- ▶ Code for Underwriting Agents: UK Personal Lines Claims and Complaints Handling
- ▶ Guidance Note
- ▶ Market Bulletin Y4683
- ▶ LMA Bulletin 13-008-SM - Model Letters
- ▶ FCA Handbook – DISP
- ▶ Helpline: 0207 327 5696



Tax & Regulatory Challenges

Andrew Gurney – International Licences, Lloyd's

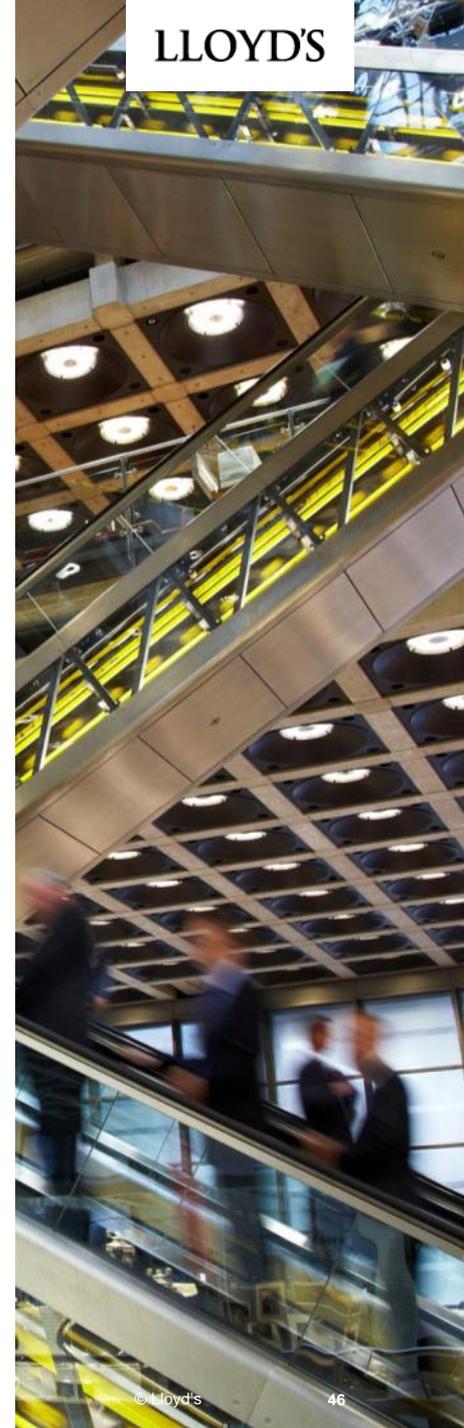
Nick Marman – Tax Department, Lloyd's

Giles Taylor – Lloyd's International Trading
Advice

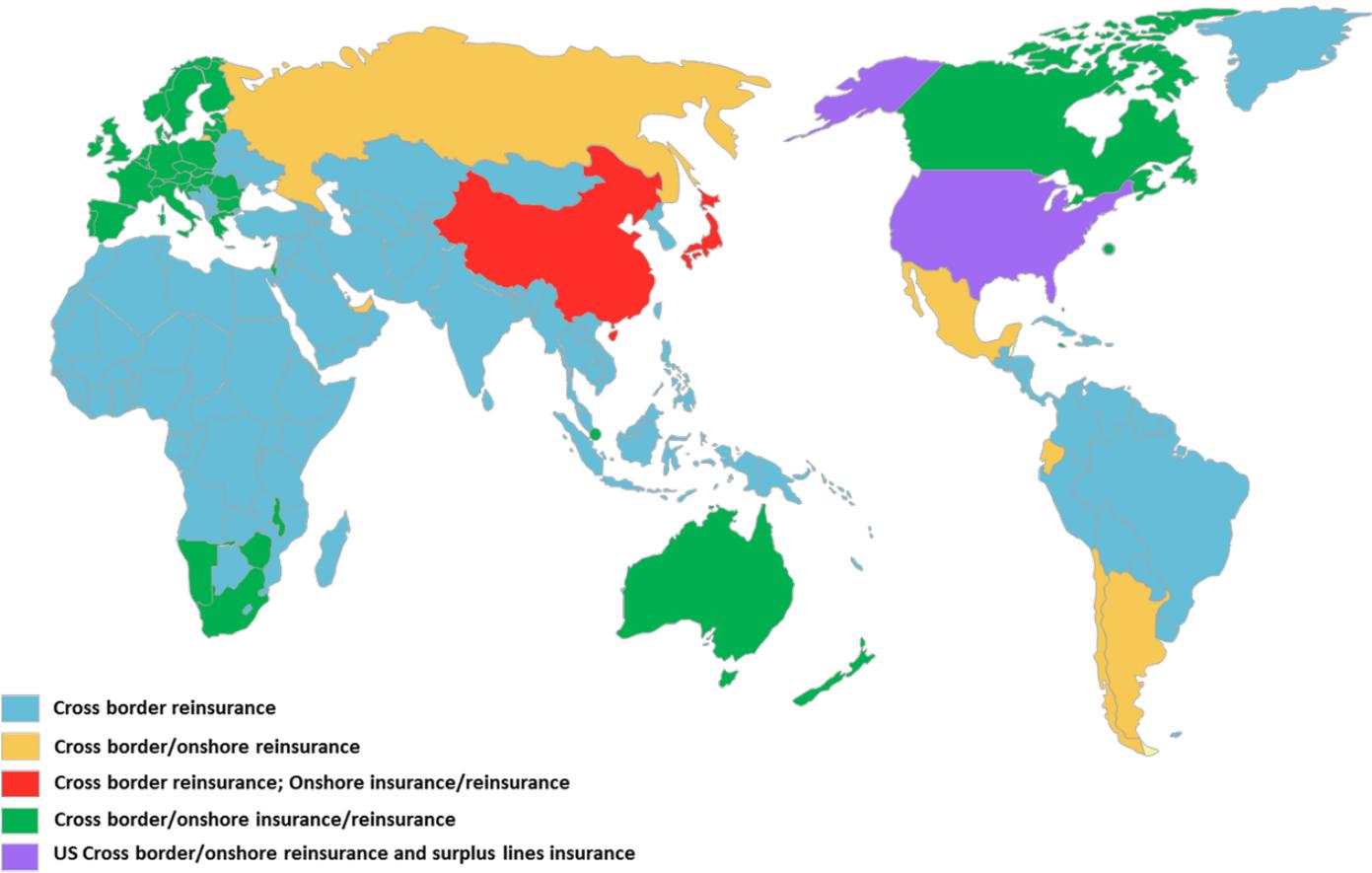
Agenda

- ▶ Tax & Regulatory Environment
- ▶ Protecting Lloyd's
- ▶ Getting it right

Tax & Regulatory Environment



Lloyd's licensing and trading rights



The global tax environment



Tax,

The global financial crisis has had a major effect on the attitudes of tax authorities...

...which are getting smarter and sharper, aided by greater international cooperation, and greater exchange of information...

Tax,



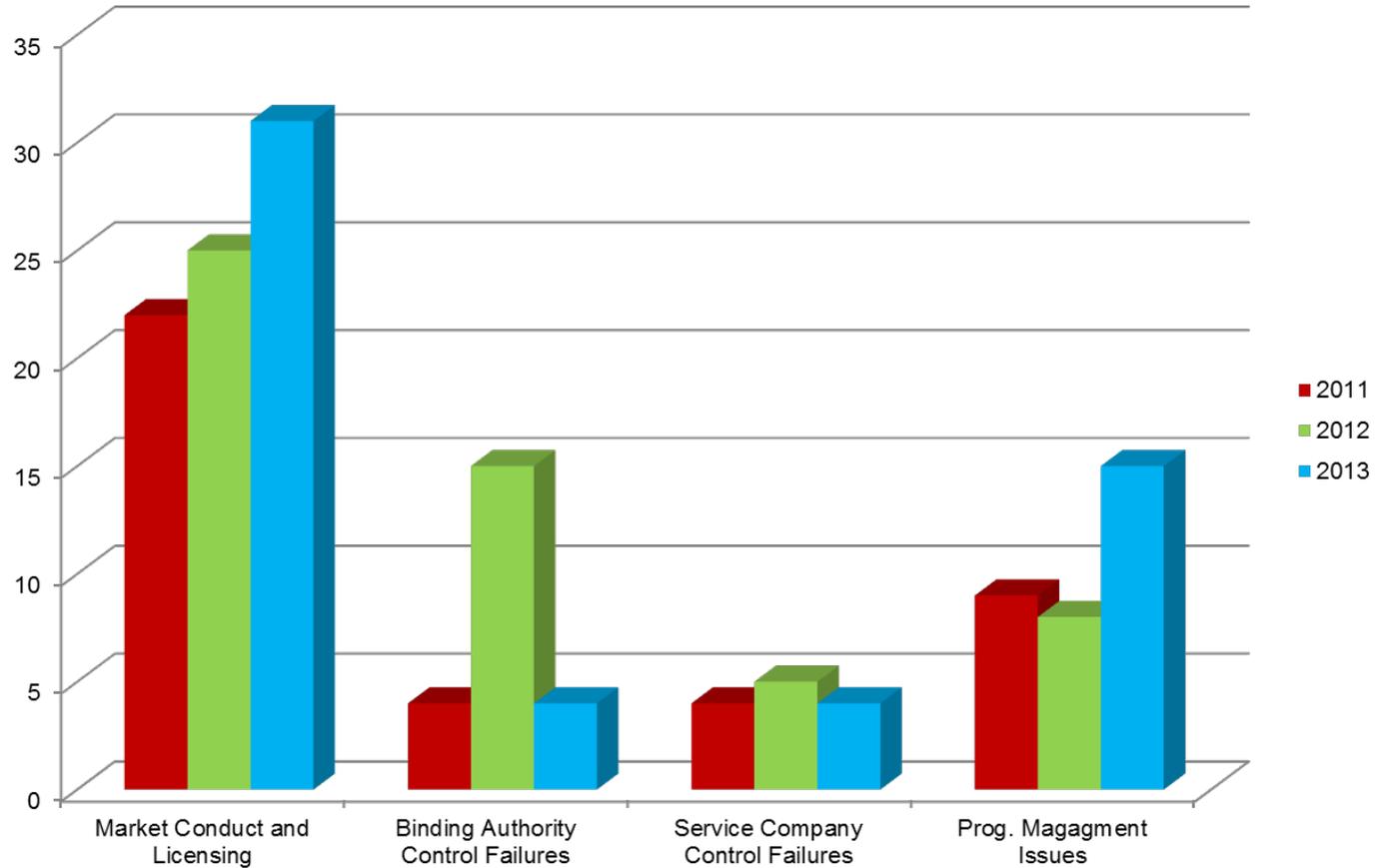
And more Tax...

...and which equal more active and more aggressive approaches from tax authorities...

The global regulatory environment



Market non-compliance risk trends



Protecting Lloyd's

LLOYD'S



Lloyd's aims

Meet its prudential and fiscal obligations

- ▶ Report and fund accurately and in a timely manner
- ▶ Report and pay tax liabilities accurately and in a timely manner
- ▶ Low risk appetite for both

Meet its market conduct requirements

- ▶ Conduct business in accordance with relevant market conduct requirements
- ▶ In all appropriate territories
- ▶ Understanding and meeting the different requirements that might apply

Maintain its trading rights and reputation

Location of risk plays a critical role in all of these – regulatory, tax and conduct

Location, location, location.

Location of risk plays a critical role in all of these – regulatory, tax and conduct

- ▶ Regulatory location can be dependent on multiple criteria, in various combinations, such as:
 - The type of business
 - The location of the insured, the risk, or the coverholder; or
 - The currency of the contract or premium
- ▶ Tax location is also dependent on multiple criteria, such as:
 - Distribution channel
 - Activities undertaken; or
 - Class of business
- ▶ Conduct location is driven by “doing business” rules:
 - These vary between jurisdictions; and
 - As with regulation and tax, multiple locations and requirements may apply

The Control Framework

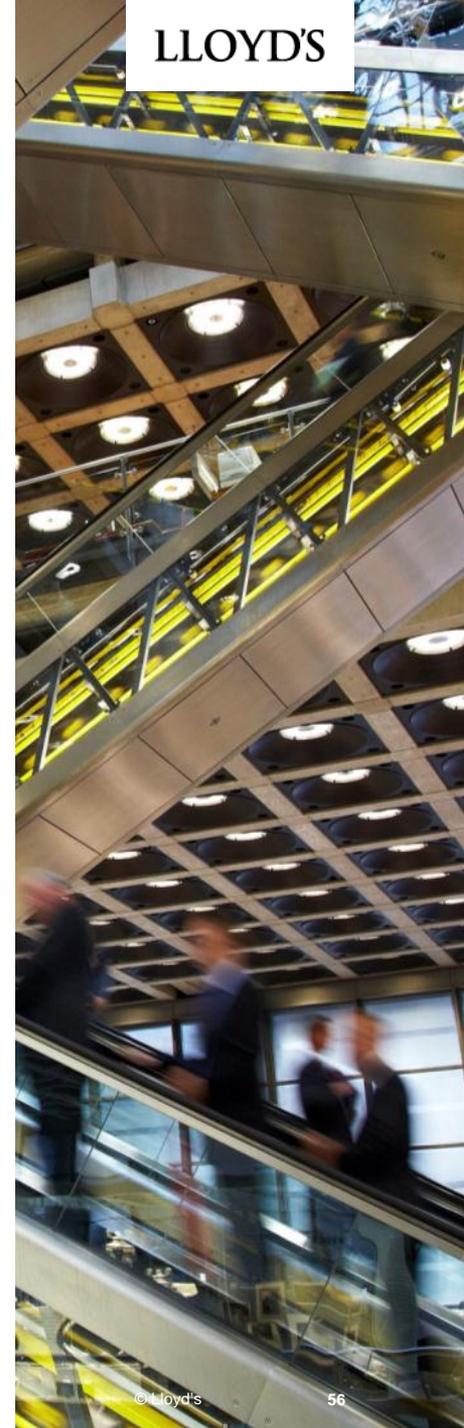
- ▶ A structured process for the application and testing of the controls in place to verify and evidence that tax and regulatory reporting information is of good quality, accurate and complete
- ▶ Will help to ensure Lloyd's can satisfy increasing requests for more granular tax and regulatory data, and evidence of controls from the relevant authorities
- ▶ The objectives are to:
 - Continue the focus on quality across the market
 - Protect against regulatory investigations and penalties for non-compliance
 - Maintain and enhance the Lloyd's brand and reputation
 - Minimise the risk to the overall Lloyd's licences; and
 - Protect and potentially improve the competitive position of the platform

The Audit Scope

- ▶ The audit is a critical part of the framework of controls to manage the risks
- ▶ Section 2.3.3, and appendices 2 & 3 deal specifically with tax and regulatory matters
- ▶ Section 2.6, and appendix 5 deal specifically with compliance (generally) and with consumer business (specifically)
- ▶ Location determination is critical to each, and the scope sets out the nature of the work expected to test controls and compliance in this area
- ▶ Accessing, capturing and maintaining appropriate information is critical to each, and the scope sets out the nature of the work expected to test controls and compliance in this area

Getting it right

LLOYD'S





THE MARKET

Tools & Resources

Tools (E-Services)

Crystal

- Business T timetable >
- Overseas Reporting Forms >
- Quality Assurance Tools >
- Crystal >**
- Establishing Risk Location >
- Lloyd's Wordings Repository >
- Atlas >
- Binding Authority Registration (BAR) >
- Restricted coverholders >
- Member Modelling Software >

International trading guidance & advice

CRYSTAL

Crystal provides Lloyd's market participants with quick and easy access to international regulatory and taxation requirements.



Risk locator

Risk locator provides guidance on how to identify the legal location of an insured risk. Specific guidance on the legal position in different jurisdictions is available in Crystal.

QA Tools

The QA Tools provide a reference to Lloyd's contract quality requirements for open market businesses and binding authority agreements

prior to being bound.

[Start searching Crystal](#)

GET MORE FROM CRYSTAL & RISK LOCATOR

Register for a free Crystal/Risk Locator account and benefit from:

- Access to premium content
- Risk location guidance
- Regular updates on regulatory and fiscal requirements via Lloyd's Regulatory Communications newsletter
- Access to **Crystal Assist**, an online tutorial that provides an introduction to Lloyd's licences and regulatory and fiscal requirements (CII CPD Accredited Event - 20pts)
- Ability to save your favourite searches

[Login/Register Now](#)

- For guidance on how to use Crystal access the **Crystal Demo**

TOOLS AND RESOURCES

TOOLS



RESOURCES

- > Regulatory Communications
- > Crystal Assist
- > Financial Crime & Sanctions
- > Crystal Demo
- > Lloyd's trading status worldwide
- > EU Legislation and the Lloyd's market

CRYSTAL WHAT'S NEW



CONTACT

Lloyd's International Trading Advice (LITA)
Lloyd's Desk.

Crystal content updates

Expanded information on consumer business and on conduct requirements

- ▶ **'Core' information** – all direct licence jurisdictions
 - Relevant legislation
 - Definition of consumer
 - Complaints procedures

- ▶ **Full consumer information** - key countries

Pre-contractual notification
and disclosure

Insurance documents

Cancellation and non-renewal

Tacit renewal

Claims handling

Definition of 'complaint'

Complaints handling

Australia

Canada

France

Germany

Italy

New Zealand

South Africa

Spain

US

Risk location





Risk Locator Tool

ENQUIRY

Home New Enquiry Enquiry History My Profile

FAQs Guide

Risk Locator Tax and Regulatory Guidance - Table Tax and Regulatory Guidance - List

Market Classification: Casualty
Class of Business: General Liability



Country / State	Risk location determining factor	Regulatory	Taxes that may apply
Australia - New South Wales C	Location of insured peril, contingency or event	Does not create a risk location	Stamp Duty T Income Tax T
	Location of producing broker	Does not create a risk location	No taxes apply to Lloyd's Underwriters
New Zealand C	Location of insured's residence or place of business	This may create a risk location R	Income Tax ¹ T
Not listed below	Location of insured peril, contingency or event	Does not create a risk location	No known taxes apply to Lloyd's Underwriters

Selected Territories

Location of insured peril, contingency or event			
Not listed below	Australia - New South Wales		
Location of insured's residence or place of business			
New Zealand			
Location of producing broker			
Australia - New South Wales			



Tax and Regulatory Guidance Enquiry Report



Reference Number Montanaro Motors
Enquiry Reference Number 1518881

Enquiry Date 02/05/2014 03:25
Insurance Type Insurance
Market Classification Casualty
Class Of Business General Liability

Location of Risk Enquiry :
 Was the enquiry completed? Yes

Details of Enquiry

Question	Answer
Where is the insured's residence or place(s) of business? (Where there are multiple insureds, select all appropriate territories)	New Zealand
Where does the insured contingency or event take place?	Not listed below
	Australia - New South Wales
Is the risk placed via a coverholder / Lloyd's Asia?	No
Where is the producing broker located?	Australia - New South Wales

Tax and Regulatory Guidance:

Country/State	Risk Location Determining Factor	Regulatory	Taxes that may apply
Australia - New South Wales	Location of insured peril, contingency or event	Does not create a risk location	Stamp Duty
			Income Tax
	Location of producing broker	Does not create a risk location	No taxes apply to Lloyd's Underwriters
New Zealand	Location of insured's residence or place of business	This may create a risk location	Income Tax
Not listed below	Location of insured peril, contingency or event	Does not create a risk location	No known taxes apply to Lloyd's Underwriters

The output of Lloyd's Risk Locator Tool shown in this statement is based upon the information you provided as set out above. This statement is intended to give general guidance as to which territories should be considered for tax and regulatory compliance in connection with the specific risk that you described. It is assistance and not assurance. Lloyd's does not accept any responsibility or liability for the accuracy or completeness of the information in this statement. If you choose to rely on it, you do so at your own risk. You are strongly encouraged to consult Crystal for more information and where appropriate, to take your own specialist legal/regulatory and taxation advice.

Registration

- ▶ Is crucial to enable you to
 - Access Crystal
 - Use the Risk Locator Tool
 - Receive regulatory updates from Lloyd's

Please drop your card into the bowl outside and we will register you today!





Questions



Financial Crime and Sanctions

Andy Wragg – International Regulatory Affairs,
Lloyd's

Jacqueline Sinclair - International Regulatory
Affairs, Lloyd's

Why is this area important?

- ▶ FCA focus in this area – both on **delegated authority arrangements**, and **financial crime**
- ▶ Areas for improvement
- ▶ Increased regulatory activity in the **international sanctions** space
- ▶ Increased regulatory focus on **anti-bribery & corruption**, particularly in the broking community
- ▶ Focus of enforcement activity not on identifying **actual breaches**, but rather **poor systems and controls**
 - e.g. recent **JLT** fine (£1.8 million)

A risk based approach to managing coverholder sanctions and financial crime compliance

Managing agents need to:

- ▶ Risk assess their coverholder book for current financial crime risk – consider **sanctions, AML and bribery & corruption**
- ▶ Apply a **proportionate level of controls** to mitigate the risk
- ▶ Use this risk assessment as a basis for **verifying the controls are working through audit process**
- ▶ Make sure their coverholders know your expectations

Lloyd's has prepared a **template Compliance Manual** for coverholders who don't have their own policies and procedures.

Sanctions Search is a **web-based screening tool** which enables coverholders to screen their insureds, and **automatically re-screens them for the life of the risk**

Completion of eLearning modules is evidence the coverholder has **undertaken training** as to their financial crime obligations

Coverholder Toolkit & Draft Compliance Manual

Sanctions Search portal

eLearning modules for coverholders



Created by Professional Office
Telephone: 0843 713 0 777



Auditors should review Lloyd's Market Bulletin Y4727

LLOYD'S

MARKET BULLETIN

REF: Y4727

SANCTIONS

Class of Business	Territorial Risk (based on HMT/EU and OFAC regimes)		
	No sanctions	Targeted sanctions	Country prohibition
Personal Accident	No sanctions	Targeted sanctions	Country prohibition
Life			
Livestock			
Directors and Officers			
Medical			
Space			
Motor			
Employers Liability			
Financial Institutions			
Professional Indemnity			
Bloodstock			
Fine Art and Specie			
Nuclear			
Energy			
Engineering			
Marine Liability			
Property			
Aviation			
Marine Hull	Country prohibition		
Cargo			
K&R			
War			
Terrorism			

Audit preparation...

- ▶ Prior to the audit, ensure that you understand the:
 - MA's **risk assessment of the coverholder**, and,
 - their **requirements for managing the risk**
- ▶ For **HIGH risk coverholders** – there may be a requirement for the coverholder to have enhanced controls
- ▶ Coverholders who are deemed to be a **very LOW risk** for financial crime/sanctions may only be required to show they can meet minimum standards of financial crime compliance
- ▶ Check the coverholder has **policies and procedures** covering how they comply with each area, as required



What is the **risk profile**?

- Do **controls** match the risk profile?
- Testing should focus on **confirming coverholder understands their obligations**, any reports made

What is the **risk profile**?

- Do **controls** match the risk profile?
- Testing should focus on **confirming coverholder understands their obligations**, any reports made



- What is the **risk profile**?
- Testing should focus on **verifying sanctions checking occurs** in line with Managing Agents expectations

Anti Money Laundering ('AML')



Anti Bribery and Corruption ('ABC')



International Sanctions



The new Audit Scope – AML

2.7.1

Anti-money laundering

Q75

Provide details of the coverholder's anti money laundering (AML) procedures. Include comments on:-

- Whether the AML compliance requirements set by the managing agent in their risk assessment are being adhered to, particularly any additional requirements for coverholders identified as having a higher money laundering risk profile.
- Any reporting processes in place, including reports to the managing agent, and whether any reports have been made.
- Whether anyone has been assigned this responsibility and the name of the designated person to receive, consider and report on suspicious transactions.
- Any anti-money laundering training; and whether this includes Lloyd's anti-money laundering training.
- Which staff receive training?
- Any changes to procedures made in the last twelve months and/or any variance from the managing agent's required procedures.

Q76

Test and provide evidence that the coverholder has understood and meets the local and UK regulations with respect to anti-money laundering by:

- Asking questions to test understanding of what money laundering is and how it can be prevented
- Reviewing logs and reports and taking copies of examples; or if this is not appropriate then asking about the coverholder's processes.

The New Audit Scope – ABC

2.7.2

Anti-bribery and corruption

Q77

Provide details of the coverholder's anti-bribery procedures. Include comments on:-

- Whether the anti-bribery compliance requirements set by the managing agent in their risk assessment are being adhered to, particularly any additional requirements for coverholders identified as having a higher bribery risk profile.
- Any reporting in place, including reports to the managing agent, and whether any reports have been made.
- Have there been any notifications of suspicions of bribery and how were they resolved?
- Whether anyone has been assigned this responsibility.
- Gifts and entertainments policies and procedures.
- Any anti-bribery training; and whether this includes Lloyd's anti-bribery training.
- Which staff receive training.
- Any changes made in the last twelve months.

Q78

Test and provide evidence that the coverholder has understood and meets the local and UK regulations with respect to anti-bribery by:

- Asking questions to test understanding of what bribery is and how it can be prevented.
- Reviewing logs and reports and taking copies of examples; or if this is not appropriate then asking about the coverholder's processes.

The New Audit Scope – International Sanctions

2.7.3

Sanctions

Q79

Provide details of the coverholder's sanctions procedures and capabilities. Include comments on:-

- Whether the sanctions compliance requirements set by the managing agent in their risk assessment are being adhered to, particularly any additional requirements for coverholders identified as having a higher sanctions risk profile.
- Any reporting in place, including reports to the managing agent, and whether any reports have been made.
- Whether anyone has been assigned this responsibility.
- Any sanctions training; and whether this includes Lloyd's sanctions training.
- Which staff receive training.
- Whether the sanctions compliance requirements set by the managing agent are being adhered to
- What sanctions checks are being undertaken? For example, complete on checks made pre-bind, during the policy period, prior to a claim or return premium payment.
- Is the whole book sanction checked? And if so how often does this occur?
- Have there been any sanctions matches and what is the referral process to the managing agent?
- Which sanctions lists are being used for checking?
- Whether processes are manual or automated.
- Where sanctions checks are automated, provide the name of the system and system vendor being used.
- Have any matters of concern under these procedures been passed on to underwriters?
- How are false positives handled?
- Any changes made in the last twelve months.

In summary...

- ▶ Financial crime controls are an **increasingly important focus for regulators**
- ▶ Ask the managing agent **how they have assessed the coverholders' risk profile**, and what controls they require
- ▶ Are these controls in place? Need **evidence** through file review or discussions
- ▶ A **'one-size-fits-all approach' doesn't work**
 - use the Coverholder Audit Template as a starting point, and dig deeper where the risk profile requires



Underwriting: Review or Audit?

Steve Hart – Ark Underwriting

Q & A

LLOYD'S



Question: When delegating authority, when do we really learn what a risk and insured is like?

- ▶ Underwriting time?
- ▶ Inspection/Survey time?
- ▶ Answer: Claim time

Unfortunately, too late!



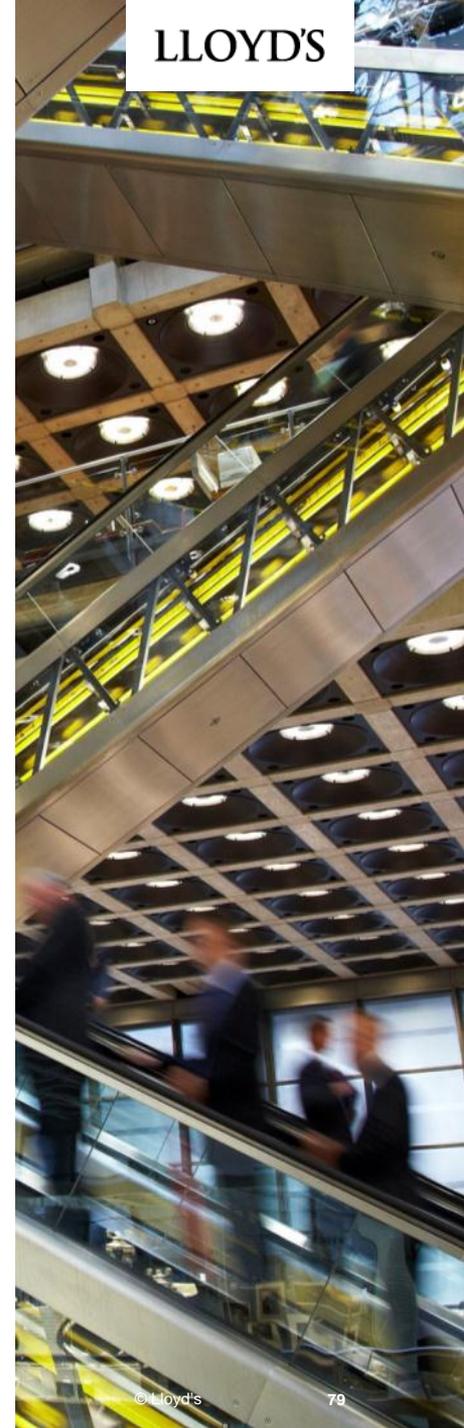
Defensive measures...

- ▶ Lloyd's underwriters
 - Coverholder selection
 - Underwriting guidelines/rate scales
 - Lloyd's coverholder approval/Atlas
- ▶ Coverholder
 - Risk selection
 - Risk underwriting
 - Post-bind – inspections/surveys
- ▶ Auditor
 - Coverholder audit
 - Observations and recommendations



Theme and approach

- ▶ Trust... but verify
- ▶ Test and provide evidence



Type of authority will drive the depth of the underwriting aspect of the audit

- ▶ Full
- ▶ Pre-determined rates
- ▶ No discretion
- ▶ Prior submit



Split into two parts

- ▶ Underwriting management
- ▶ Underwriting file compliance review



Underwriting management

- ▶ Processes
- ▶ Management of processes



Underwriting management

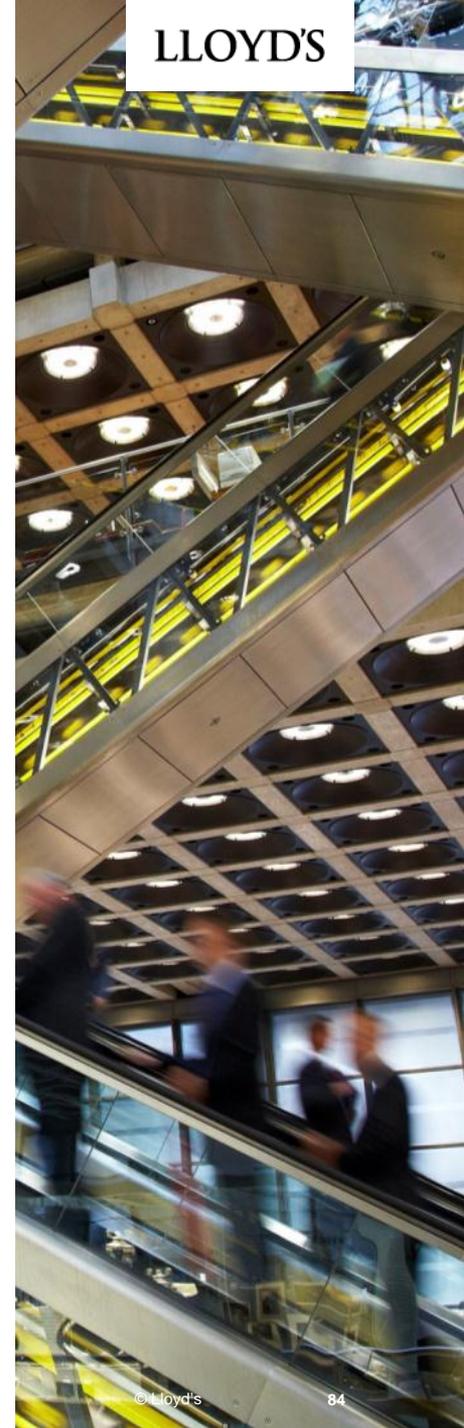
► Processes

- Submissions
- Rating
- Quotes
- Binding
- Post bind – inspections/surveys/premium audit
- Policy/Endorsement issuance
- Renewals



Underwriting management

- ▶ Management of processes
 - Management reports
 - Peer review
 - Underwriting meetings
 - Hit ratios
 - Monitoring of binding authority constraints



Underwriting file compliance review

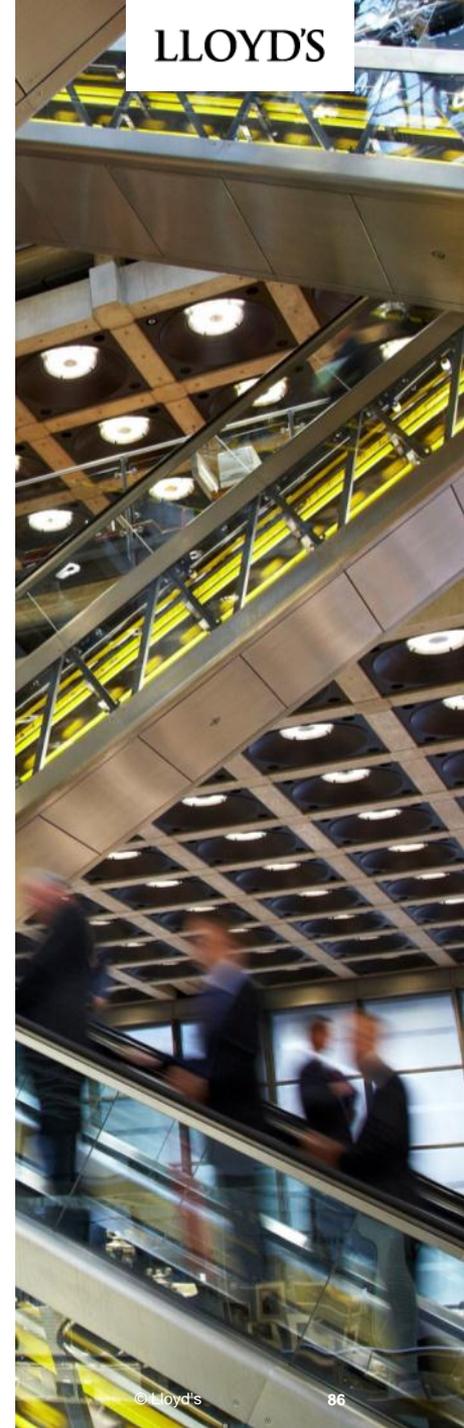
- ▶ Is what you've just been told actually true?
- ▶ Do the underwriting files bear out their stated processes?
- ▶ Testing and providing evidence
- ▶ Not expected to form an opinion of risk selection
- ▶ How many files? Stated on Audit Order Sheet



Underwriting file compliance review

► Checklists

- Underwriting file
- Certificate/Policy
- Will vary by line of business and territory
- Pre-approve with the syndicate



Conclusion

- ▶ Trust...but verify
- ▶ Test and evidence
 - Coverholders underwriting processes
 - Underwriting files
- ▶ Good processes = Good loss ratio
- ▶ Involve your friendly Lloyd's underwriter
 - We know the coverholder
 - Background
 - Areas of concern
 - Own underwriting file reviews





Company Information, IT, Accounts, Claims

Dan Lott – Svalinn

Charles Rowley - Catlin

Coverholder audit scope – questions

2.2. The Company

2.2.1	People
Q2	Provide details of who is responsible for managing the coverholder and any succession plans.
Q3	In the legal entity with which the managing agent has the contract <ul style="list-style-type: none"> • How many staff are there now? • How many staff were there last year? • What is the total level of staff turnover this year? • What was the total level of staff turnover last year?
Q4	Provide details of staff training. Include comments on:- <ul style="list-style-type: none"> • Induction programmes for new staff. • Which staff receive training? • Training and education for underwriters and claims handlers. • Any changes to the training programme in the last twelve months.
Q5	Test the evidence that training has taken place, for example by reviewing examples of attendees at training sessions and materials used; and asking questions to check whether staff understand key processes and procedures.
Q6	<u>EU (including the UK) only</u> : Does the operation of this binding authority contract present Lloyd's syndicates with a potential exposure to Transfer of Undertakings (Protection of Employment) regulations - TUPE? If so provide details.

2.2.2	Multi Office locations (if applicable)
Q7	Explain how consistency is ensured between offices and any central controls in place.
Q8	How is home-working / remote working controlled? <ul style="list-style-type: none"> • Provide details of the controls and list any authority holders who work from home or remotely. • Confirm that any remote workers have completed and signed a remote worker form.
Q9	Test and provide evidence of how consistency, of each of the relevant areas of the audit scope, between multi office locations is managed, for example by looking at samples of files and reports and control or audit logs.

2.2.3	Outsourcing, insourcing and producers
Q10	Provide details of the coverholder's outsourcing arrangements and any activities which are insourced, that is provided by a different company or division within the same group of companies, for example.

2.2.3 Outsourcing, insourcing and producers	
Q11	<p>Provide details of any call centre arrangements including how they are controlled. Include comments on:-</p> <ul style="list-style-type: none"> • Whether the calls are scripted. • Whether the calls are advised or non-advised. • Details of the training that employees receive. • Which staff receive training. • Whether the coverholder provides on-going training. • How the coverholder monitors calls. • Whether call audits are carried out, the frequency of these and how the calls to be reviewed are selected. • What the coverholder does with the results, and whether these are reported to management on a regular basis. • Details of the actions that a coverholder takes if a call is not satisfactory.
Q12	<p>Describe how the coverholder manages their external producers. Include comments on:-</p> <ul style="list-style-type: none"> • How the coverholder monitors external producers. • Details of any regular vetting or monitoring. • Any processes to check that due diligence has been done. • Validate that the correct licences are in place for their producer agreements. • The process to end relationships with external producers including details of any documentation such as TOBAs. • Where the coverholder has a network of producers bringing business in on a non-inclusive arrangement, validate that there is a document of the arrangement such as a TOBA.
Q13	<p>Test and provide evidence of how outsourcing and insourcing arrangements and producers are being managed, for example by reviewing call scripts, training plans, recordings of calls and action logs.</p>

2.2.4 Conflicts of interest	
Q14	<p>Provide details of any actual and potential conflicts of interest which relate to the binding authority contract(s).</p>
Q15	<p>Provide details of how the coverholder manages conflicts of interest which relate to the binding authority contract(s). Include comments on:-</p> <ul style="list-style-type: none"> • How they identify conflicts. • How they resolve conflicts. • How they manage conflicts. • Any changes to the process in the last twelve months. <p>Attach any relevant documentation relating to identifying, resolving or managing conflicts of interest.</p>
Q16	<p>Provide details of any member of the senior management who has a financial interest in any other entity within the insurance industry.</p>
Q17	<p>If any producers provide 10% or more of the coverholder's turnover with respect to the binding authority contract(s) then provide details of these.</p>

2.2.4 Conflicts of interest	
Q18	Does the coverholder offer any staff incentives, individual profit commission arrangements or reward schemes? If so provide details.
Q19	Test and provide evidence of how conflicts of interests are being avoided, identified, resolved and managed, by reviewing examples of logs and incidents and asking questions to test understanding of what represents a conflict of interest.

2.2.5 Litigation and formal investigations	
Q20	Provide details of <ul style="list-style-type: none"> • Any formal investigation by an Insurance Department, Federal entity or other local regulatory or tax authority; of the coverholder. • Any involvement in any litigation. • Comment on whether these may be material to the coverholder's on-going operation and suitability. It is recognised that coverholders may not be able to disclose full details.

2.2.6 Errors and omissions	
Q21	Provide details of any claims or notifications made against the coverholder's Errors and Omissions (E&O) policy in the last three years. Include details of the current status, outstanding reserve amount, and brief circumstances of the claim notification.
Q22	Provide details of any attempts to renew E&O cover which have been declined by an insurer. It is recognised that coverholders may not be able to disclose full details.

2.3. Accounts

2.3.1 Fund accounts	
Q23	Provide details of how premium accounts and claims loss funds are held. Include comments on:- <ul style="list-style-type: none"> • Whether these are in accordance with the binding authority contract; and if not details of the reasons why not. • Whether insurance accounts and loss funds are segregated from company operating accounts. • Whether the coverholder has a no off-set letter from their bank. • Any changes made in the last twelve months to the operations and handling of accounts.
Q24	Provide details of how any insurer's monies are invested. Include details of <ul style="list-style-type: none"> • Any of the managing agent's money placed in interest bearing accounts or similar. • What happens to the insurer's monies before they are given to the insurer?
Q25	Provide details on how bank accounts holding Lloyd's insurance funds are guaranteed.
Q26	Provide details of the process for authorising transactions. Include comments on:- <ul style="list-style-type: none"> • Who holds the authority to authorise payments? • Whether there is a dual signatory process on all outgoing transactions from the bank accounts.

2.3.1	Fund accounts
Q27	<p>Provide details of the processes for reconciliation. Include comments on:-</p> <ul style="list-style-type: none"> • How are premium accounts and claims loss funds reconciled to bank statements? • Any regular reconciliation of the segregated banking account containing Lloyd's monies conducted by the coverholder. • Obtain copies of the last reconciliations for each account and ensure there are no material or unusual reconciling items. If there are, then provide details of these. • The level of unallocated cash. • Any suspense accounts. • The process for matching cash and debit notes, and the effectiveness of this. • Any changes to the process in the last twelve months.
Q28	<p>Test and provide evidence of how fund accounts are managed by reviewing samples of files, transactions, logs and statements; and by asking questions to check understanding of the processes in place.</p>

2.3.2	Credit control
Q29	<p>Provide details of the coverholder's process for managing aged debt. Include comments on</p> <ul style="list-style-type: none"> • How frequently aged debt is monitored. • Describe the level of detail and accuracy of aged debt monitoring including whether the amounts reported and the overdue periods reported are accurate. • Review and comment on the latest aged debt reports. • Any changes to the process in the last twelve months.
Q30	<p>Describe how the coverholder moves insurance funds between accounts.</p>
Q31	<p>Provide details of any times when the coverholder appeared to suffer a prolonged period of cash flow adversity. Explain why this occurred and the outcome.</p>
Q32	<p>Test and provide evidence of how credit control is being managed, for example by:</p> <ul style="list-style-type: none"> • Reviewing samples of files, transactions, logs and statements. • By asking questions to check understanding of the processes in place.

2.3.3	Taxes and regulatory
Q33	<p>Confirm that the coverholder is only writing business in territories in accordance with Lloyd's authorised territories for the coverholder as shown on Atlas, and as agreed for the binding authority contract in question.</p> <ul style="list-style-type: none"> • Review the binding authority contract to understand the territories in which the coverholder is allowed to write. • Provide details of the coverholder's procedures and any discrepancies between these and the binding authority contract. • Ask questions to test the understanding of these policies by the coverholder's staff. • Review internal training plans or circulars or similar. • Test a sample of risks, check the details and location of the insured and the risk and the information held on the transactions. • Provide details of findings including any discrepancies.

2.3.3	Taxes and regulatory
Q34	Confirm that the managing agent's current risk assessment of the coverholder's business for collecting and processing tax and regulatory information is in line with what is actually found.
Q35	<p>Provide details of how the coverholder determines the location of risk and the relevant taxes and regulations to apply. Include comments on:-</p> <ul style="list-style-type: none"> • The information which the coverholder captures to determine the insured's domicile, the risk location and the location(s) of the subject of the insurance. • How the coverholder determines, applies and records the location of the risk and the insured from a tax and from a regulatory perspective. • How the information used to determine risk locations from a tax and regulatory perspective is maintained and updated. • How the coverholder determines and applies the taxation requirements and the tax liabilities for the insured and the insurer. • Whether the coverholder's controls are adequate to determine whether the risks being written are cross border risks (see Q37 below). • Whether the coverholder uses Crystal and the Risk Locator tools; how and when in the process they are used and what evidence of checks is retained. • If Crystal and the Risk Locator tools are not used, then describe how the coverholder determines the tax rates applicable to any given risk; and how this source of information is maintained and updated; and what records are maintained as evidence of how the rates were determined. • How tax issues are resolved, for example where there is conflicting advice. • Comment on any changes made in the last twelve months.
Q36	<p>Test and provide evidence of how the coverholder determines the location of risk and relevant taxes and regulations by:-</p> <ul style="list-style-type: none"> • Asking questions to test the understanding of staff to test understanding and usage of processes and procedures. • Reviewing internal training plans or circulars or similar. • Take a sample of risks, apply the coverholder's processes and procedures and compare the results to, for example; the details recorded on the invoice, the coverholder's system and reports to managing agents. • Look at Crystal and the Risk Locator Tool to decide whether they think that the location(s) identified are correct. • Comment on any discrepancies or errors found. <p>For coverholders which are identified as higher risk, or writing cross border risks, the auditor should check at least three transactions for each territory and class of business and the managing agent may also ask the auditor to review such transactions against Lloyd's Control Framework Data Items:- http://www.lloyds.com/the-market/operating-at-lloyds/control-framework</p>

2.3.3	Taxes and regulatory
Q37	<p>A cross border risk is one where either:-</p> <ul style="list-style-type: none"> • The insured is domiciled in a different country or state or province to the coverholder or where different regulatory controls are in operation. • The subject of the insurance is located in a different country or different state or province to the coverholder or where different regulatory controls are in operation. • The subject (or any part) of the insurance is located in more than one country, state, province or location where different regulatory controls are in operation. <p>If the coverholder binds cross border risks on the binding authority contract being audited, which are located in a different country to the coverholder, or where multiple risk locations apply; then answer the questions in Appendix Two.</p>
Q38	<p>Describe any regulatory location or tax information which the coverholder reports to the managing agent. Include comments on:-</p> <ul style="list-style-type: none"> • Whether or not the coverholder has been asked by the managing agent(s) to produce such reports. • Whether the managing agent(s) have specified particular formats. • How the coverholder substantiates, assesses and records the location of risk to meet tax and regulatory reporting requirements. • Whether entries in the reports are sent to the managing agent(s) in accordance with the managing agent(s)' requirements. • Whether reports include both the insured's domicile and the regulatory domicile. • Whether information is being reported at a transactional or summarised level. • Whether all data is correctly stated in each case. • Whether the coverholder uses an automated system or a manual re-keying process to enter the tax and regulatory information in the reports.
Q39	<p>Test any regulatory and tax reports by comparing what is on the reports to what is on the underwriting files, claims files and bank accounts.</p>
Q40	<p>Validate and provide evidence that relevant local taxes are being paid, accurately and in a timely manner to the correct body or forwarded on to the underwriter for settlement in accordance with regulations.</p> <ul style="list-style-type: none"> • Detail the process the coverholder uses to make returns to relevant local authorities. Provide details of evidence of this including details of the frequency and accuracy of reports. • Provide evidence for local tax payments by completing a table similar to that shown in Appendix Three.
Q41	<p>Validate and provide evidence that fees and charges are clearly disclosed to the insured(s) and underwriter(s).</p>
Q42	<p>Provide details of where taxes are being settled by any party other than the coverholder. For example, by retail brokers or producers. Comment on:</p> <ul style="list-style-type: none"> • Whether the coverholder holds any records of this tax. • How the coverholder satisfies themselves that this tax is settled. • Test and validate by obtaining evidence of the tax settled by other parties on a sample basis.

2.3.3	Taxes and regulatory
Q43	Provide details of how the processes described above are monitored and managed. <ul style="list-style-type: none"> • Who checks that the correct taxes have been applied? • The quality control procedures in place to validate the entries before reports are released. • Where the reports are manually compiled, whether the entries validated against any system reports or other data. • What proportion of the risks are checked separately when carrying out quality control checks. • What system control reports are run to reconcile the information within the underwriting systems, financial systems, reports and bordereaux submitted to the managing agents; to ensure that all risks and transactions are reported?
Q44	Provide details of any reviews of the coverholder by local regulators or tax authorities. <ul style="list-style-type: none"> • What was the conclusion? • Was any resultant action taken?

2.4. IT

2.4.1	IT Systems
Q45	Provide details of any system(s) which are used by the coverholder to process business under the binding authority contract. Include comments on:- <ul style="list-style-type: none"> • How system(s) are supported and maintained. • For each system, state the name of the system and the vendor. • For each system, provide details of when software was last upgraded. • Any changes made in the last twelve months.
Q46	Provide details of any ESCROW agreements (any agreements where relevant software source code is lodged with an independent third party) are in place for the main software system(s) in case the vendor fails.
Q47	Provide details of any problems which the coverholder's systems have had in the last year which have resulted in downtime of more than half a day.
Q48	Provide details of any systems which the coverholder has which are hosted in the Cloud or by a third party. Include comments on:- <ul style="list-style-type: none"> • Any Service Level Agreements (SLAs) in place. • Any security in place. • Any changes made in the last twelve months.
Q49	Provide details of the coverholder's anti-virus and anti-spam protection that is in place for the network including servers and workstations. Include comments on any changes made in the last twelve months.
Q50	Provide details of the coverholder's policies on the use of own devices (staff private devices such as tablets or smart-phones) and the security policy in place for these. Include comments on any changes made in the last twelve months.

2.4.1 IT Systems	
Q51	Describe back up procedures for internal systems and for external web based services. Include comments on:- <ul style="list-style-type: none"> • How often system back-ups are performed. • Whether back-ups are partial, incremental or full back-ups. • Where back-ups are stored. • If there is a written policy for back-ups. • Any changes made in the last twelve months.
Q52	Test and provide evidence of how IT systems are being managed, for example, by reviewing any logs, reports, SLA documentation and samples of policies and by asking questions to check understanding of processes and procedures.

2.4.2 Data Protection	
Q53	Describe how the coverholder complies with relevant data protection laws in its territory and for the UK. Include comments on:- <ul style="list-style-type: none"> • The steps undertaken to ensure that all data is kept securely. • The controls in place. • Data retention and general information security procedures outside of personal data, for example confidential information. • Any changes made in the last twelve months.
Q54	If there are branch offices, provide details of how data is transferred between offices and how it is secured. Provide details of the processes for home workers/branch offices and those with remote access.
Q55	Provide details of any data security breach in the last twelve months.
Q56	Provide details of any system(s) penetration tests which have been performed in the last twelve months.
Q57	Provide details of any policies governing the management of passwords including password length, format, expiry, use of unique user IDs and user lockout.
Q58	Where credit card payments are being taken, comment on whether the coverholder adheres to the Payment Card Industry Data Security Standards in terms of how the information is stored etc.
Q59	Test and provide evidence of how the coverholder is managing data protection, for example, by reviewing the data protection policy, samples of logs, reports, and transactions and by asking questions to check understanding of processes and procedures.

2.4.3 Internet	
Q60	If the coverholder has a website, which allows trading, quoting or binding then answer the questions in Appendix Four.

3.2	Claims authority
Q108	Does the coverholder have claims authority? If so please answer all the questions in Section 3.2 Claims.
Q109	If not, what is the process used to notify and refer claims?
Q110	If the coverholder does not have claims authority, the managing agent should specify the questions to be answered on claims.
Q111	<p>Ideally, all new and existing Third Party Administrators (TPAs) and coverholders with claims authorities should complete the questionnaire provided in Appendix Seven, and update this every twelve months in advance of contract review and renewal.</p> <p>However, any new TPA which has not handled claims for the Lloyd's market may complete the short self- assessment questionnaire in Appendix Eight.</p>

3.2.1 Claims management

3.2.1.1	Claims organisation
Q112	<p>Provide details of the way in which the coverholder manages their claims team. Provide comments on:-</p> <ul style="list-style-type: none"> • What is the average case load per claims handler on all contracts handled by this coverholder? • How are staff workloads monitored and managed? • Is performance controlled and improved upon via internal claims audit or peer review? • Any changes made in the last twelve months.

3.2.1.2	Claims Management
Q113	<p>Describe the coverholder's policy for reserving. Include comments on:-</p> <ul style="list-style-type: none"> • What policies and procedures are in place to control accurate and timely (30/90 day) reserving? • Provide details of the reserving policy and any guidelines in place. • Any changes made in the last twelve months.
Q114	<p>Describe the coverholder's procedures for managing their claims files. Include comments on:-</p> <ul style="list-style-type: none"> • How files are diarised for review/updating and how these are maintained. • The coverholder's file retention policy. • How this complies with any limitation periods that apply in relevant territories. • Comment on the management of claims costs. • Any changes made in the last twelve months.
Q115	Comment on any claims backlog.
Q116	Describe the coverholder's procedure for claims outside of the coverholder's coverage, reserve or loss payment authority? Describe any changes which have taken place in the last twelve months.
Q117	What documented procedures encourage proactive claims adjustment?
Q118	Where appropriate; provide details of the catastrophe claims handling plan. Describe any changes which have taken place in the last twelve months.
Q119	Provide details of the procedures in place relative to the collection of deductibles. Describe any changes which have taken place in the last twelve months.

3.2.1.2 Claims Management	
Q120	Describe the coverholder's process for managing subrogation and salvage. Include comments on:- <ul style="list-style-type: none"> • How does the coverholder control the pursuit of subrogation and salvage rights to maximise underwriter's recovery? • Describe any changes which have taken place in the last twelve months.
Q121	Test and provide evidence that the coverholder has a policy for the fair treatment of customers and that this policy is embedded throughout the company; for example by:- <ul style="list-style-type: none"> • Asking questions to test understanding of what the fair treatment of customers means within the company by interviewing key staff to ensure appropriate understanding of the policy. • Reviewing internal circulars and training plans or similar.
Q122	Does the coverholder regularly produce and review treating customers fairly management information in order to monitor compliance with local consumer regulations?
Q123	Provide details of the treating customers fairly management information which is collected and the process for review (this may be outlined in the coverholders treating customers fairly policy).
Q124	Test and provide evidence of any regular or recent action taken in response to issues highlighted by the treating customers fairly management information.
Q125	Provide details of how claim files are being closed, and validate that this is reflected on claims reports.

3.2.1.3 Experts	
Q126	Describe the coverholder's process for managing experts. Include comments on:- <ul style="list-style-type: none"> • If experts are selected from an approved panel then provide details of the panel. • How is the panel monitored? • Provide details of terms of engagement in place for all experts including frequency of reporting, fee scale and billing guidelines. • Any changes which have taken place in the last twelve months.

3.2.1.4 Denials	
Q127	Provide details of the coverholder's process for managing denials. Include comments on:- <ul style="list-style-type: none"> • Does the coverholder have authority to deny claims? • Comment on how denials, and the reasoning behind denials, are recorded and reported to underwriters. • Any changes which have taken place in the last twelve months.

3.2.2 Claims file review	
Q128	Test and provide evidence of claims processes and procedures by undertaking reviews of claims files as detailed in Appendix Nine and by asking questions to test understanding of policies and procedures,.



Practical Experiences of the New Scope

Various auditors



Audit Co-ordination

Paul Jeffrey – Kiln

Leena Ekman – Brit

Lindsey Davies – Lloyd's

Agenda

- ▶ History and background (drivers for change)
- ▶ Experiences to date
- ▶ Compromises required
- ▶ Current and future challenges
- ▶ Central co-ordination and planned approach to action points
- ▶ Audit fees
- ▶ Co-ordinated central I.T. system
- ▶ Auditor accreditation – planned approach

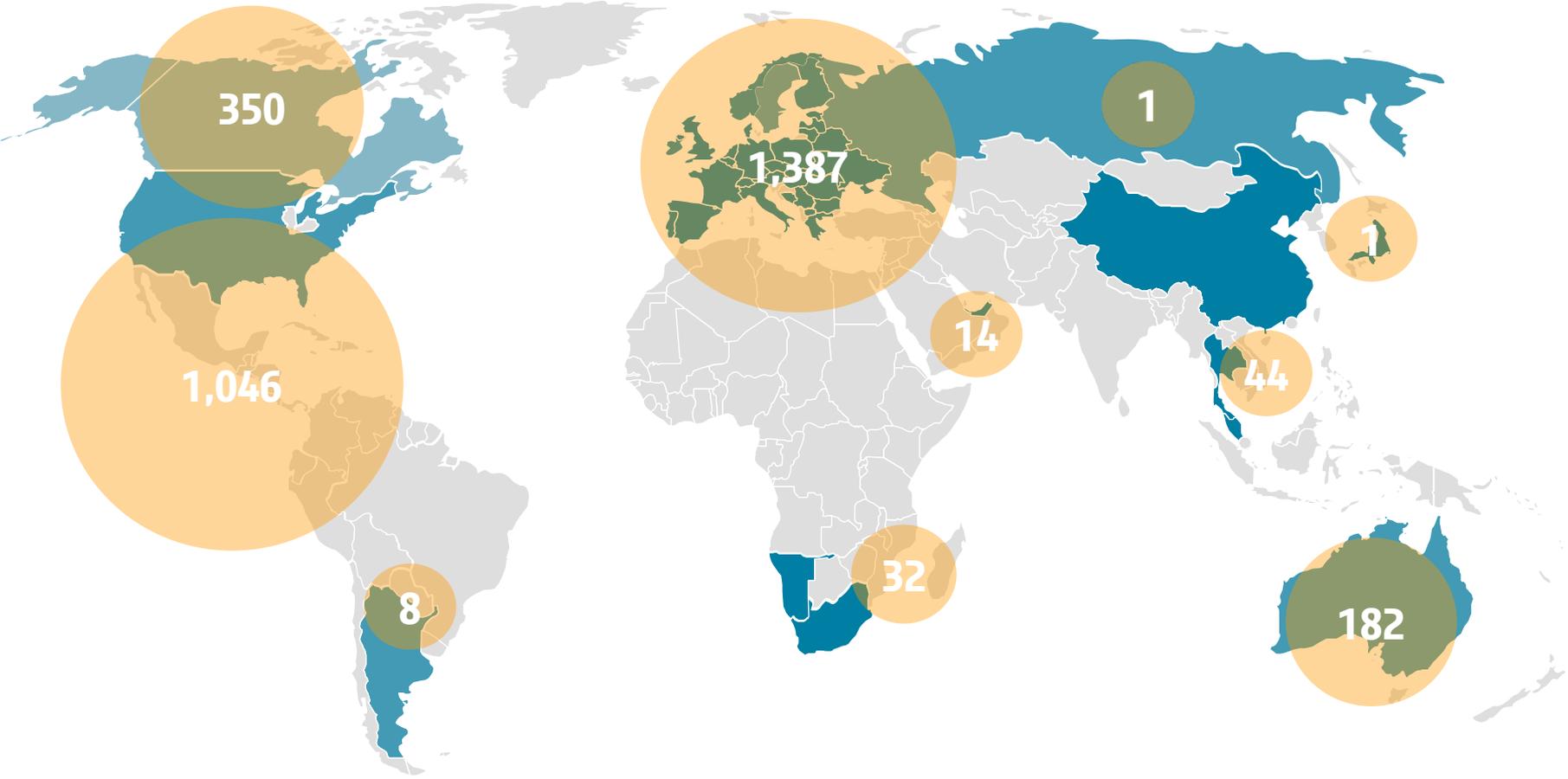


History and background – drivers for change

- ▶ Feedback from coverholders
- ▶ Coverholder's experience of Lloyd's market needs improvement
- ▶ Co-ordination pilot was born
 - Amlin, Beazley, Brit, Catlin, Chaucer, Hiscox, Kiln, QBE and Talbot
- ▶ Control framework impact
- ▶ Lloyds broker coverholders impacted

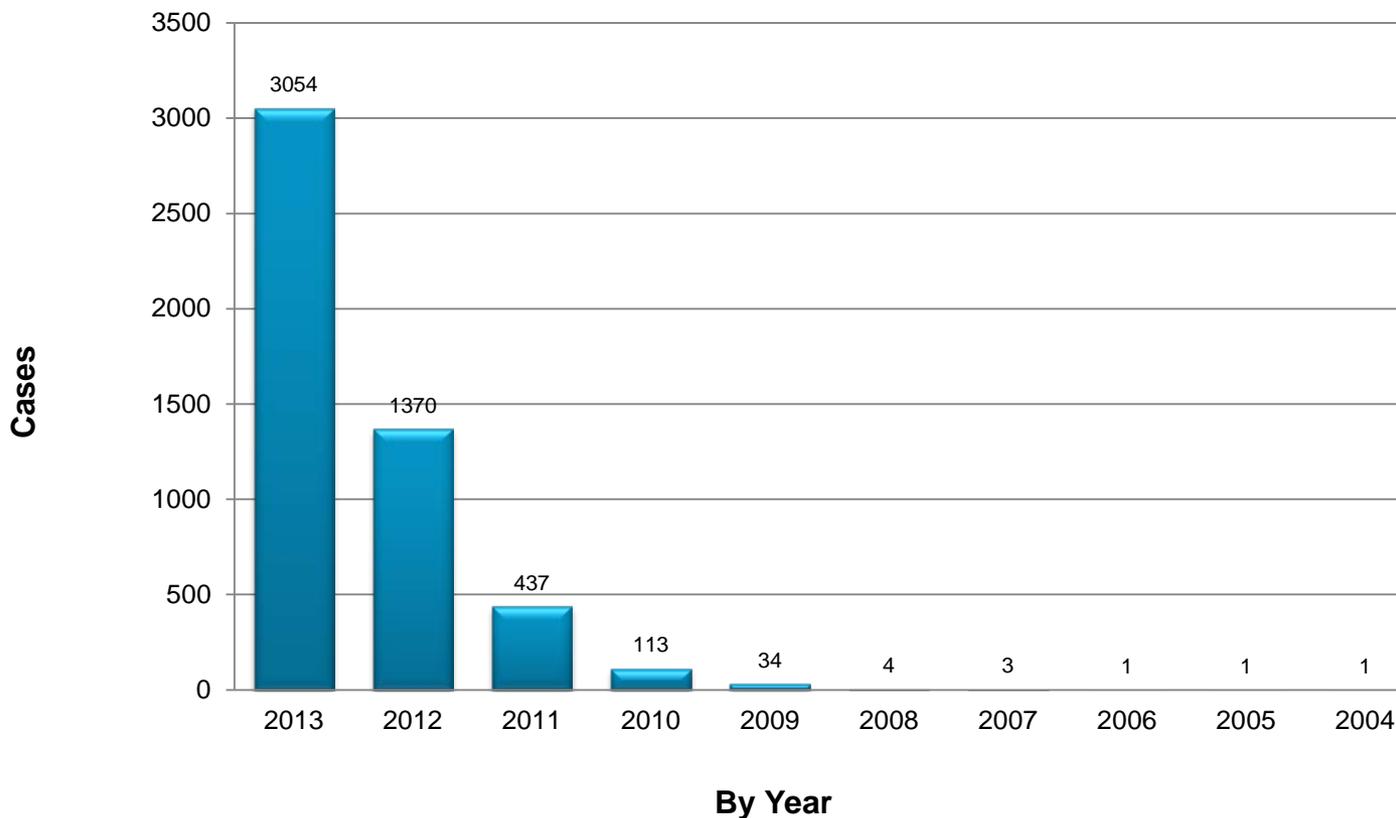


Global distribution of coverholders @ 1/1/14

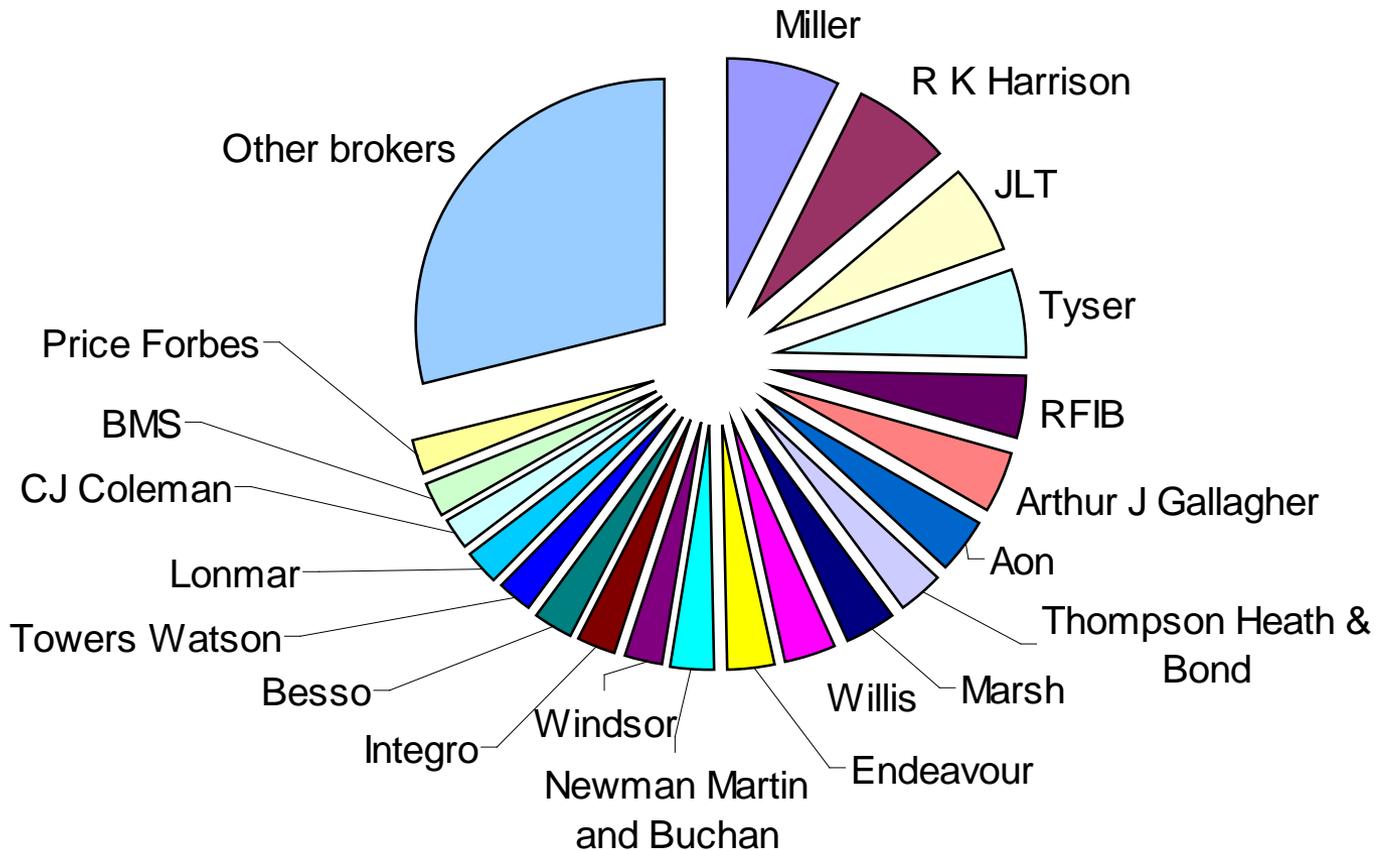




When was the last time you audited your coverholder?



Top 20 delegated authority brokers



Gap analysis – Lloyd's v alternatives

► “Conclusions

- Lloyd's itself is seen as advantageous to coverholders who like the brand, financial ratings and local offices.
- **Lloyd's is different because it is a market. Lloyd's international presence and expertise is favoured; but explaining the market concept and Lloyd's terminology is difficult and relationships are more complicated. When coverholders work with a carrier it will always do things in the same way; and coverholders would like to see the market more joined-up and more consistent by co-ordinating audits, working together on co-lead claims and more standardised reporting requirements.**
- Lloyd's is different because it is more flexible. Lloyd's enables more and different products. Lloyd's allows freedom of rate and form. However, flexibility can increase regulatory requirements.
- Lloyd's is behind in terms of technology. There is no central system collecting risk data as a by-product of policy issuance; which means additional reporting requirements; nor as a market have we introduced a technological solution to submit this information for those who are happy with their own systems. Coverholders have to do sanctions checking themselves, there is no central service.
- Lloyd's is slower. Lloyd's is slow to respond to referred risks and claims. Time differences can cause issues. Counter signing requirements slow down processes.
- Coverholders can handle their own claims. However, this can mean extra regulatory requirements; and there is a marked division in London between underwriters and claims experts which does not exist in other markets.
- Lloyd's binder processes are more structured and more professional. It was commented that the binder contracts are harder to understand and to manage; however, there has recently been a thorough review of the binder wordings which should address this issue. The renewal process is more onerous. Annual compliance is more comprehensive and more challenging.
- Lloyd's is perceived as being stricter from a regulatory perspective and having less understanding of local regulatory requirements”.





Experiences to date

- ▶ Pilot group of key managing agents
- ▶ One leader per co-ordinated coverholder audit
- ▶ Co-ordination pilot - time consuming
- ▶ Formulation of standard processes
- ▶ Compromises and flexibility needed
- ▶ Positive reaction from coverholders



Current and future challenges

- ▶ Getting MA's to all agree on choice of audit firms across large volumes
- ▶ Auditor capacity and number
- ▶ United frequency of audits
- ▶ Embedding the new audit scope and its demands with brokers and coverholders
- ▶ Increased and changing regulatory challenges
 - Conduct risk
 - Financial crime
 - Data requirements
- ▶ Efficient and effective application of a common audit scope and follow up of recommendations
- ▶ Co-ordinated payment of invoices
- ▶ Improved coverholder and market experience

Vision

- ▶ Co-ordinate audits for 2015 and onwards
 - One central system
 - Auditor accreditation
 - Audit MI
- ▶ Centralise compliance functions, remove market duplication and costs
- ▶ Address communication issues

Giving the market what you want

Q & A

LLOYD'S





