

FROM: Sean McGovern, Director and General Counsel
LOCATION: 86/G5
EXTENSION: 6951
DATE: 30 June 2003
REFERENCE: Y3085
SUBJECT: THE UNDERWRITING BYELAW,
UNDERWRITING REQUIREMENTS, THE
DEFINITIONS BYELAW AND RUN-OFF
GUIDELINES
ATTACHMENTS: Underwriting Byelaw (No. 2 of 2003), Underwriting
Requirements, the Definitions Byelaw (No. 3 of 2003)
and Run-Off Guidelines
ACTION POINTS: **Underwriting agents and approved run-off
companies to note contents**
DEADLINE: **Effective 1 July 2003**

Following consultation with the LMA and the recommendation of the Franchise Board, the Council has made the Underwriting Byelaw ("the Byelaw") which is attached to this bulletin. The Byelaw was made with the support of the LMA Board.

The Byelaw implements key elements of the Chairman's Strategy Group proposals, including the new business planning and performance monitoring arrangements, and otherwise generally restates existing powers in a clear and transparent manner.

The Byelaw also consolidates and simplifies existing rules and revokes rules which are now out of date. That includes the Underwriting Agents Byelaw, which has been in force since 1984, and 18 other byelaws and regulations which comprise over 180 pages. This represents the first part of a project to consolidate and simplify all of Lloyd's byelaws, regulations and rules.

The Byelaw is an important element of the new franchise arrangements but it must be read in the context of the other elements. These include the Principles of Relationship, which are made under the Byelaw and which set out the Franchisor's commitments to franchisees, and

the Franchise Principles which require the Franchise Board to operate in a facilitative manner where possible. The Franchisor is also committed to issuing service standards for itself under the Byelaw.

The Byelaw provides a framework under which the Franchise Board can make and modify rules which are tailored to market risks and underwriting conditions. These rules are set out in the Underwriting Requirements which are also attached to this bulletin.

The Underwriting Requirements will be maintained in a consolidated form which will be kept up to date and made available to the market on Lloyd's website. It will therefore be much easier for the market to identify and access the most up to date information and rules.

The Underwriting Byelaw and the Underwriting Requirements will come into force on 1 July 2003. The Underwriting Byelaw revokes the Related Parties Byelaw and the Financial Guarantee Insurance Regulation on 1 January 2004. The issues which they were designed to address will be addressed through business plans for the 2004 year of account.

In order to further simplify and clarify Lloyd's rules, all of the defined terms and expressions in the Underwriting Byelaw and the Underwriting Requirements are set out in italics. These are then defined in the new Definitions Byelaw which is also attached to this bulletin.

Finally, also attached to this bulletin are Run-Off Guidelines which are intended to assist managing agents who manage syndicates in run-off to plan and conduct run-offs efficiently and cost effectively. The Guidelines, which were originally sent out for consultation in February, have now been made under paragraph 24 of the Underwriting Byelaw.

Any queries relating to this bulletin, should be referred to Mary-Emma Smith in the Legal Services Department (020 7327 6951 mary-emma.smith@lloyds.com). Queries relating to the Run-Off Guidelines should be referred to Eric Allman (020 7327 6772 eric.allman@lloyds.com) or Peter Spencer (020 7327 6099 peter.spencer@lloyds.com).

This bulletin has been sent to all underwriting agents, approved run-off companies, Lloyd's market associations and recognised accountants.

Sean McGovern
Director and General Counsel

UNDERWRITING BYELAW

Purpose:

The purpose of this Byelaw is to implement the proposals of the Chairman's Strategy Group so as to provide the basis for the new Lloyd's market supervision framework for *underwriting agents* and *approved run-off companies*.

The Byelaw also revokes –

1. Information Relevant to the Operation of Sections 10, 11 and 12 of Lloyd's Act 1982 Byelaw (No. 1 of 1984);
2. Substitute Agents Byelaw (No. 20 of 1983);
3. Disclosure by Direction Byelaw (No. 21 of 1983);
4. The Underwriting Agents Byelaw (No. 4 of 1984);
5. The Syndicate Premium Income Byelaw (No. 6 of 1984);
6. The Agency Agreements Byelaw (No. 1 of 1985);
7. The Reinsurance to Close Byelaw (No. 6 of 1985);
8. The Related Parties Byelaw (No. 2 of 1986);
9. The Review Powers Byelaw (No. 5 of 1986);
10. Insurance Intermediaries Byelaw (No. 8 of 1990);
11. Run-Off Accounts (Intermediaries) Byelaw (No. 10 of 1991);
12. Reinsurance to Close (Restriction) Byelaw (No. 15 of 1993);
13. Pool Reinsurance Company Limited (Intermediaries) Byelaw (No. 23 of 1993);
14. Run-Off Companies Byelaw (No. 2 of 1995);
15. Core Principles Byelaw (No. 34 of 1996);
16. Training and Development Byelaw (No. 23 of 1998);
17. Proportional Reinsurance Syndicates Byelaw (No. 9 of 1999);
18. Financial Guarantee Insurance Regulation (No. 4 of 1989);
19. Insurance Intermediaries Regulation (No. 3 of 1990).

Words and terms shown in italics have the meaning set out in the Definitions Byelaw (No 3 of 2003).

This Byelaw was made by the *Council* on 4 June 2003 in exercise of its powers under section 6(2) and 8(3) of, and paragraphs (4),(13), (14), (18), (19), (21), (24), (33), (34), and (37) of schedule 2 to, Lloyd's Act 1982 and may be referred to as the Underwriting Byelaw (No. 2 of 2003).

Contents

Part A Permission to act as an underwriting agent or an approved run-off company

- Requirements for permission
- Applications for permission
- Grant of permission
- Register of underwriting agents and approved run-off companies

Part B Principles of relationship and service standards

- Principles of relationship
- Service standards
- Use of services

Part C Business plans and performance monitoring

- Business plans
- Performance monitoring
- Confidentiality of business plans and performance reports

Part D Underwriting

- Underwriting guidelines
- Underwriting in accordance with agreed plans
- Acceptance and placement of business other than through a Lloyd's broker

Part E Risk management requirements

- Financial Services Authority
- Codes of practice

- Consent to changes
- Advance consents
- Notification of changes
- Disaster scenarios
- Syndicate premium income
- Compliance officer
- Active underwriter
- Run-off manager
- Ownership and control
- Business at Lloyd's
- Confidentiality
- Transactions and records

Part F Financial resources, financial returns and auditors

- Financial resources
- Financial returns
- Auditors

Part G Professional standards and development

- Requirements relating to qualifications and experience
- Training and development plans
- Continuing professional education and development
- Exemptions

Part H Review

- Power to conduct reviews
- Power to require production of reports

Part I Directions, conditions and requirements

Part J Withdrawal of permission

Withdrawal of permission to act as an underwriting agent or approved run-off company
Withdrawal of permission to manage a syndicate
Postponement

Part K Substitute agents

Appointment of a substitute agent
Directions
Application of powers relating to substitute agents

Part L Run-off

Requirement to keep prospects of a syndicate becoming a run-off syndicate under review
Run-off contingency and run-off closure plans
Run-off reports
Delegation of run-off functions

Part M Dispute resolution and appeals

Dispute resolution
Steps to be taken in advance of proceedings
Amendments to the Appeal Tribunal Byelaw

Part N Miscellaneous and transitional provisions

The Franchise Board
Fees
Revocation
Transitional and miscellaneous provisions
Commencement

**Part A – Permission to act as an underwriting agent
or an approved run-off company**

Requirements for permission

1. No *person*, other than a *substitute agent*, may act as a *managing agent* or a *members' agent* without the *Franchise Board's* permission.
2. No *managing agent* may manage a *syndicate* without the *Franchise Board's* permission.
3. No *person* may act as an *approved run-off company* without the *Franchise Board's* permission.

Applications for permission

4. Any *person* that wishes to act as an *underwriting agent* or *approved run-off company* or manage a *syndicate* (an "*applicant*") may apply to the *Franchise Board* for permission to do so.
5. Applications shall be made in accordance with such procedures and shall be accompanied by such documents and information as the *Franchise Board* may from time to time prescribe.

Grant of permission

6. The *Franchise Board* may –
 - (a) consider applications for permission to act as an *underwriting agent* or *approved run-off company* and grant or refuse any such application; and
 - (b) consider applications for permission to manage a *syndicate* and grant or refuse any such application.
7. Any permission granted under paragraph 6 may –

- (a) be limited to permission to undertake only specified functions;
 - (b) be granted either for a specific period or for an indefinite period.
8. The *Franchise Board* shall not –
- (a) grant permission to an *applicant* to act as an *underwriting agent* or to manage a *syndicate* unless the *applicant* complies with the Financial Services and Markets Act 2000 and the *Financial Services Authority's requirements* applicable to it;
 - (b) grant permission to an *applicant* to act as an *underwriting agent* or *approved run-off company* unless the *applicant* has demonstrated to the *Franchise Board's* satisfaction that it is a suitable company to be permitted to act in that capacity. In deciding whether an *applicant* is suitable to be an *underwriting agent* the *Franchise Board* shall have regard to such criteria as it may from time to time prescribe;
 - (c) grant permission to an *applicant* to manage a *syndicate* unless the *applicant* has demonstrated to the *Franchise Board's* satisfaction that it is a suitable company to be permitted to manage that *syndicate*. In deciding whether an *applicant* is suitable to manage a *syndicate* the *Franchise Board* shall have regard to such criteria as it may from time to time prescribe;
 - (d) grant permission to an individual or a partnership to act as an *underwriting agent*; or
 - (e) grant permission for a *underwriting agent* to act both as a *managing agent* and as a *members' agent*.

Register of underwriting agents and approved run-off companies

9. The *Franchise Board* shall maintain a register of all *underwriting agents* and *approved run-off companies* for the time being permitted to act under this Byelaw. The register shall be in such form and contain such information as the *Franchise Board* may from time to time determine.

Part B – Principles of relationship and service standards

Principles of relationship

10. The *Franchise Board* may, following consultation, from time to time make and issue statements setting out Lloyd's goals and market objectives and the principles in accordance with which Lloyd's and *managing agents* will generally be expected to work together and assist each other to achieve those goals and objectives.

Service standards

11. The *Franchise Board* shall from time to time make and issue statements setting out –
 - (a) standards for the provision of services provided by the *Society* to *underwriting agents*; and
 - (b) arrangements for charging fees for those services.
12. The *Franchise Board* may where it thinks reasonably necessary or appropriate require any *underwriting agent* or any *approved run-off company* or any class or group thereof to –
 - (a) comply with such principles and standards for the conduct or administration of insurance business as the *Franchise Board* may from time to time prescribe, recognise or endorse;
 - (b) implement such systems, protocols or arrangements for the conduct or administration of insurance business as the *Franchise Board* may from time to time prescribe, recognise or endorse.

Use of services

13. The *Franchise Board* may where it thinks reasonably necessary or appropriate direct that any *member*, *underwriting agent*, *substitute agent* or *approved run-off company* or any class or group thereof shall use any service specified in the

Franchise Board's direction whether such service is provided or is to be provided by the *Society* or by any other *person*.

Part C – Business plans and performance monitoring

Business plans

14. Each year, a *managing agent* shall prepare and submit to the *Franchise Board* a *business plan* relating to each *syndicate* managed (or to be managed) by it (other than a *run-off syndicate*) specifying the parameters within which the *managing agent* will carry out *underwriting* on behalf of each *syndicate*. The *Franchise Board* may prescribe requirements for *business plans* which may include –
 - (a) the period or periods to which each plan is to relate;
 - (b) the format and content of each plan;
 - (c) the methods and assumptions to be used in the preparation of each plan; and
 - (d) the date or dates on which each plan is to be submitted to the *Franchise Board*.
15. A *managing agent* may at any time submit a request to the *Franchise Board* to amend an *agreed business plan* relating to a *syndicate* managed by it. The *Franchise Board* may prescribe requirements for requests to amend an *agreed business plan* which may include the format of requests.
16. The *Franchise Board* may at any time direct or require a *managing agent* to submit such further information, explanation or justification in connection with a *business plan*, an *agreed business plan* or a request to amend an *agreed business plan* as the *Franchise Board* may specify.
17. The *Franchise Board* may –
 - (a) agree to a *business plan* or to a request to amend to an *agreed business plan*;
 - (b) reject a *business plan* and require a *managing agent* to submit a new or revised *business plan* within such period as the *Franchise Board* may specify;
 - (c) reject a request to amend an *agreed business plan*;

- (d) withdraw its agreement to an *agreed business plan* and require a *managing agent* to submit a new or revised *business plan* within such period as the *Franchise Board* may specify.
18. The *Franchise Board* shall not agree to a *business plan* or to a request to amend an *agreed business plan* unless the *managing agent* has demonstrated to the *Franchise Board's* satisfaction that the *business plan* or the request to amend the *agreed business plan* is appropriate and justifiable having regard to the performance and capabilities of the *managing agent* in question and such other criteria as the *Franchise Board* may from time to time prescribe.
19. Every *managing agent* shall keep under review the appropriateness of the *agreed business plans* relating to each *syndicate* managed by it.

Performance monitoring

20. Each quarter, a *managing agent* shall prepare and submit to the *Franchise Board* a *quarterly monitoring report* relating to each *syndicate* managed by it. The *Franchise Board* may prescribe requirements for *quarterly monitoring reports* which may include –
- (a) the period or periods to which each report is to relate;
 - (b) the format and content of each report;
 - (c) the methods and assumptions to be used in the preparation of each report; and
 - (d) the date or dates on which each report is to be submitted to the *Franchise Board*.
21. The *Franchise Board* may at any time direct a *managing agent* to prepare and send to the *Franchise Board* a *supplementary monitoring report* including such information as the *Franchise Board* may require.
22. The *Franchise Board* may at any time direct a *managing agent* to submit such further information, explanation or justification in connection with a *performance report* as the *Franchise Board* may require.

Confidentiality of business plans and performance reports

23. The *Franchise Board* may from time to time prescribe requirements relating to the disclosure of information contained in a *business plan, agreed business plan* or a *performance report* to *members* of the *syndicate* in question. Every *managing agent* shall act in accordance with the requirements and compliance with the requirements shall constitute proper and sufficient performance of a *managing agent's* duties to the *members* of a *syndicate* with regard to the disclosure of information contained in a *business plan, agreed business plan* or *performance report*.

Part D – Underwriting

Underwriting guidelines

24. The *Franchise Board* may from time to time make and publish *underwriting guidelines* for *managing agents*, *substitute agents* and *approved run-off companies* in respect of any matter relating to the business of insurance at Lloyd's.

Underwriting in accordance with agreed plans

25. A *managing agent* shall only *underwrite* on behalf of the *members* of a *syndicate* in accordance with an *agreed business plan* relating to that *syndicate* or, in the case of a *run-off syndicate* or *run-off account*, an *agreed run-off closure plan* relating to that *syndicate*.
26. In the event that a *managing agent* carries out *underwriting* on behalf of the *members* of a *syndicate* otherwise than in accordance with an *agreed business plan* or an *agreed run-off closure plan* relating to that *syndicate*, the *managing agent* must immediately notify the *Franchise Board*.

Acceptance and placement of business other than through a Lloyd's broker

27. A *member* may in the course of his or its *underwriting* at Lloyd's –
 - (a) place reinsurance (including *reinsurance to close*) of that business through a *Lloyd's broker* or through a *managing agent* carrying out *underwriting* on his behalf; and
 - (b) accept reinsurance (including *reinsurance to close*) placed by another *underwriting member* in the course of his *underwriting* at Lloyd's from a *Lloyd's broker* or from a *managing agent* carrying out *underwriting* of that other *member*.

28. A *member* may in the course of his or its *underwriting* at Lloyd's accept *personal lines business, commercial life business and commercial motor business* from or through a *person* who is not a *Lloyd's broker* where –
- (a) that *person* is a member of the *General Insurance Standards Council*; or
 - (b) the *managing agent* accepting business on the *member's* behalf has obtained the prior consent of the *Franchise Board* to accept business from that *person*; or
 - (c) as at 2 July 2000 there was in force between the *managing agent* accepting business on his behalf and a *Lloyd's broker* a guarantee in respect of the non-Lloyd's intermediary which complied as at that date with the Insurance Intermediaries Regulation (No. 3 of 1990).
29. A *member* may in the course of his *underwriting* at Lloyd's accept any insurance business constituting "Singapore policies" or "offshore policies" (as respectively defined in the Insurance Act (Cap 142) of the Republic of Singapore) from or through a *person* who is not a *Lloyd's broker* where that *person* has obtained the prior consent of the *Franchise Board*.

Part E – Risk management requirements

Financial Services Authority

30. Every *underwriting agent* shall at all times comply with the Financial Services and Markets Act 2000 and the *Financial Services Authority's requirements* applicable to it.

Codes of practice

31. The *Franchise Board* may from time to time make and issue *codes of practice* in respect of any matters relating to the business of insurance at Lloyd's.

Consent to changes

32. The *Franchise Board* may from time to time prescribe events which no *underwriting agent, approved run-off company* or *substitute agent* shall permit to occur without the prior consent of the *Franchise Board*.

Advance consents

33. The *Franchise Board* may from time to time waive a requirement contained in any *requirement of the Council* that an *underwriting agent* obtain the consent of the *Council* to any matter provided that the *underwriting agent* complies with such conditions and requirements as the *Franchise Board* may prescribe in respect of that matter.

Notification of changes

34. The *Franchise Board* may from time to time prescribe events which an *underwriting agent, approved run-off company* or *substitute agent* shall notify to the *Franchise Board* in writing should such an event occur. The *Franchise Board*

may prescribe a period or periods in which each such prescribed event must be notified.

Disaster scenarios

35. The *Franchise Board* may prescribe details of hypothetical events and disaster scenarios that could give rise to claims being made on contracts of insurance underwritten at Lloyd's. Every *managing agent* shall calculate, prepare and submit to the *Franchise Board* a report setting out the effect that such hypothetical events or disaster scenarios would have on the underwriting results of each *syndicate* managed by it if such events happened. The *Franchise Board* may for the purposes of this paragraph prescribe –
- (a) the period or periods to which each report is to relate;
 - (b) the form and content of each report;
 - (c) the methods and assumptions to be used in the calculation and preparation of each report; and
 - (d) the date or dates on which each report is to be submitted to the *Franchise Board*.

Syndicate premium income

36. The *Franchise Board* may from time to time prescribe requirements setting out the manner in which *syndicate premium income* is to be calculated by *managing agents*. The requirements may include –
- (a) how premiums are to be allocated to years of account;
 - (b) when premiums are to be credited to a *member*;
 - (c) how premiums are to be converted into different currencies; and
 - (d) what premiums paid in respect of *qualifying quota share contracts* shall constitute *qualifying reinsurance premiums*.
37. Every *managing agent* shall, in respect of every *syndicate* managed by it –
- (a) take reasonable steps to ensure that the *syndicate premium income* allocable to that year of account does not exceed the *syndicate allocated capacity* for that year of account;

- (b) establish and maintain effective systems for monitoring *syndicate premium income*; and
 - (c) keep the actual and forecast *syndicate premium income* allocable to every year of account under active review at all times.
38. Every *members' agent* shall take all reasonable steps to ensure that no *member's syndicate premium limit* for the time being applicable to any *member* for whom it acts is exceeded.
39. A *managing agent* shall prepare and submit to the *Franchise Board* reports relating to *syndicate premium income* forecasts and *syndicate premium income* monitoring. The *Franchise Board* may from time to time prescribe requirements relating to each type of report. The requirements may include –
- (a) the period or periods to which each report is to relate
 - (b) the format and content of each report;
 - (c) the methods and assumptions to be used in the preparation of each report; and
 - (d) the date or dates on which each report is to be submitted to the *Franchise Board*.

Compliance officer

40. Every *underwriting agent* and *approved run-off company* shall appoint a compliance officer who shall be a director or a company secretary of that *underwriting agent* or *approved run-off company* and who, without prejudice to the responsibilities and duties of the directors generally, shall be responsible for compliance with –
- (a) Lloyd's Acts 1871 to 1982 and the *requirements of the Council*; and
 - (b) in the case of an *underwriting agent*, its duties to the *members* for whom it acts.

Active underwriter

41. Every *managing agent* shall appoint an individual as an *active underwriter* in respect of each *syndicate* managed by it other than a *run-off syndicate*.

Run-off manager

42. Every *managing agent* shall appoint an individual as a *run-off manager* in respect of each *run-off syndicate* managed by it.

Ownership and control

43. No *person* shall, without the prior written consent of the *Franchise Board*, be a *controller* of an *underwriting agent*.
44. The *Franchise Board* may at any time require the *controller* of an *underwriting agent* or *approved run-off company* to execute and deliver or otherwise become a party to such deeds, contracts, bonds, guarantees, undertakings and other documents as the *Franchise Board* may specify.

Business at Lloyd's

45. An *underwriting agent's* business shall consist only of its business as such at Lloyd's and any other business which the *Franchise Board* may permit.

Confidentiality

46. No *underwriting agent, substitute agent* or *approved run-off company* shall, without the prior consent of the *Franchise Board* disclose, or permit to be disclosed, to any *person* other than the directors, officers, employees or legal advisers of that *person* or the *Financial Services Authority*, any information, document or material provided to it by Lloyd's where that information, document or material is stated to be confidential and does not otherwise provide or set out the terms on which it may be disclosed.
47. An *underwriting agent, substitute agent* or *approved run-off company* shall indemnify and hold harmless the *Society* for and against any and all claims, damages, losses, costs and expenses arising out of its breach or the breach of any

of its directors, officers, employees, agents or advisers of paragraph 46 of this Byelaw.

Transactions and records

48. Every *underwriting agent* and *approved run-off company* shall establish and maintain an adequate system of control over its transactions and records.

Part F – Financial resources, financial returns and auditors

Financial resources

49. The *Franchise Board* may from time to time prescribe requirements regarding the possession by *underwriting agents* and *approved run-off companies* of financial resources and capital and the maintenance of solvency margins and professional indemnity insurance. The requirements may include different requirements for *managing agents*, *members' agents* and *approved run-off companies*. The requirements may include –
- (a) the assets, liabilities and other matters to be taken into account in determining financial resources, capital and solvency margins;
 - (b) the manner in which such assets are to be held and maintained; and
 - (c) restrictions or prohibitions on *underwriting agents* incurring liabilities or granting guarantees or indemnities in favour of a specified *person* or class of *persons*.

Financial returns

50. Each quarter, every *underwriting agent* and every *approved run-off company* shall prepare, compile and submit to the *Franchise Board* a *quarterly financial return*.
51. Each year, every *underwriting agent* and *approved run-off company* shall prepare, compile and submit to the *Franchise Board* an *annual financial return*.
52. The *Franchise Board* may prescribe requirements for *quarterly financial returns* and *annual financial returns*. The requirements may make different requirements for *managing agents*, *members' agents* and *approved run-off companies*. The requirements may include, but shall not be limited to –
- (a) the period or periods to which each return is to relate or be made up to;
 - (b) the format and content of each return including documents required by law to be submitted to the Registrar of Companies by the *underwriting agent* or by any company within the same group as the *underwriting agent*;

- (c) the examination of the return by the directors of the *underwriting agent* and the completion of a declaration by them;
- (d) examination of the return by a *recognised accountant* and the completion of a report by that *recognised accountant*;
- (e) the date or dates on which each return is to be submitted to the *Franchise Board*.

Auditors

53. Every *underwriting agent* shall appoint a *recognised accountant* in accordance with the Audit Arrangements Byelaw (No. 7 of 1998).

Part G – Professional standards and development

Requirements relating to qualifications and experience

54. The *Franchise Board* may make requirements that any *person* shall, as a condition of exercising such functions in relation to the conduct of insurance business at Lloyd's as may be specified, have –
- (a) met such examination, standards and qualification requirements as are prescribed by the *Franchise Board*;
 - (b) such relevant experience as may be specified by the *Franchise Board*.

Training and development plans

55. Every *underwriting agent* and *approved run-off company* shall –
- (a) prepare a training and development plan; and
 - (b) nominate a director, whose identity shall be notified to the *Franchise Board*, responsible for the preparation and implementation of the training and development plan (without prejudice to the responsibilities of the directors generally) and who shall ensure that the training and development plan and its implementation are considered and reviewed by the directors at such periods as the *Franchise Board* may specify and that such review is documented and capable of production to the *Franchise Board* on request.

Continuing professional education and development

56. The *Franchise Board* may make requirements that such directors, officers and employees of *underwriting agents* or *approved run-off companies* as the *Franchise Board* may from time to time prescribe participate in programmes of continuing professional education and development.

Exemptions

57. The *Franchise Board* may grant exemptions to any requirements made under part G of this Byelaw for such period and on such conditions as it thinks fit.

Part H – Review

Power to conduct reviews

58. The *Franchise Board* may at any time order a review of –
- (a) any *underwriting agent* or *approved run-off company*'s permissions;
 - (b) the performance and capabilities of any *underwriting agent, substitute agent* or *approved run-off company*; and
 - (c) the affairs or any aspect of the affairs of any *underwriting agent, substitute agent* or *approved run-off company*.
59. Any review ordered pursuant to part H of this Byelaw may be conducted by such *person* or *persons* as may from time to time be nominated by the *Franchise Board*.
60. A *person* conducting a review of an *underwriting agent, approved run-off company* or *substitute agent* pursuant to part H of this Byelaw may require any *underwriting agent, approved run-off company* or *substitute agent* or any director, partner, officer, *registered individual*, agent or employee thereof –
- (a) to attend before him at such time and such place as he may specify;
 - (b) to answer questions or otherwise provide information to him;
 - (c) to produce or give to him all such documents or other materials in its or his possession, custody or power
- as the *person* conducting the review may reasonably require for the purposes of the review.
61. Where a *person* conducting a review requires the production of documents or other materials, that *person* may require the *underwriting agent, approved run-off company* or *substitute agent* –
- (a) to provide to him with all reasonable facilities in its premises for the purposes of examining or reviewing any such document or other materials;
 - (b) to permit him to copy or take extracts from them on the premises or elsewhere;

- (c) by a director, officer, *registered individual*, agent or employee thereof, to provide an explanation of them and if any of such documents or materials are not produced, to state, to the best of his knowledge and belief, where such documents or other materials are.

Power to require production of reports

- 62. The *Franchise Board* may require any *underwriting agent, substitute agent or approved run-off company* to provide it with a report on any matter about which the *Franchise Board* may order a review of under paragraph 58 of this Byelaw. The *Franchise Board* may require that the report –
 - (a) be undertaken by a *person* nominated or approved by the *Franchise Board* with every assistance of the *underwriting agent, substitute agent, or approved run-off company* as that *person* may reasonably require;
 - (b) contain such information and be in such form as the *Franchise Board* may determine;
 - (c) be undertaken at the cost of the *underwriting agent, substitute agent, approved run-off company* or a *member or members* of the *syndicate* in question; and
 - (d) be submitted to the *Franchise Board* on such date as it may prescribe.

Part I – Directions, conditions and requirements

Directions, conditions and requirements

63. The *Franchise Board* may at any time give such directions or impose such conditions or requirements on any *underwriting agent*, *substitute agent* or *approved run-off company* (or any class or group thereof) as it thinks reasonably necessary or appropriate. A direction, condition or requirement given or imposed under this paragraph may include a direction, condition or requirement for the purposes of –
- (a) ensuring that the *underwriting agent*, *approved run-off company* or *substitute agent* will be or will continue to be suitable to act in that capacity and, in the case of a *managing agent* or *substitute agent*, will be or will continue to be suitable to manage a *syndicate*;
 - (b) improving or seeking to improve the *underwriting* or the performance of the *underwriting* carried out by a *managing agent* or a *substitute agent*;
 - (c) protecting –
 - (i) the name, reputation or standing of the *Society* or of its *members*;
 - (ii) the general rating or ratings of the Lloyd’s market applying to policies of insurance underwritten by *members* of the *Society*;
 - (iii) the assets of the *Society* including the assets of the *New Central Fund*; and
 - (iv) the authorisation of *members* of the *Society* to conduct insurance business in the United Kingdom and overseas;
 - (d) ensuring compliance by that *underwriting agent*, *approved run-off company* or *substitute agent* with the provisions of the Financial Services and Markets Act 2000 and the *Financial Services Authority’s requirements* applicable to the *person* in that capacity; or
 - (e) ensuring compliance by that *underwriting agent*, *approved run-off company* or *substitute agent* with the requirements of Lloyd’s Acts 1871 to 1982 and the *requirements of the Council*.

64. The *Franchise Board* may from time to time add to, amend or withdraw any direction, condition or requirement given or imposed under part I of this Byelaw.
65. An *underwriting agent, approved run-off company* or *substitute agent* shall act in accordance with any direction, condition or requirement given or imposed upon it under this Byelaw.

Part J – Withdrawal of permission

Withdrawal of permission to act as an underwriting agent or approved run-off company

66. The *Franchise Board* may at any time withdraw the permission of an *underwriting agent* or *approved run-off company* to act as such if –
- (a) in the case of a *managing agent*, it is associated with a *Lloyd's broker* contrary to the provisions of Lloyd's Act 1982;
 - (b) the *underwriting agent* or *approved run-off company* is not suitable to act in that capacity;
 - (c) the *underwriting agent* or *approved run-off company* has failed to comply with any provision of Lloyd's Acts 1871 to 1982 or with any *requirement of the Council*;
 - (d) the *underwriting agent* or *approved run-off company* ceases to act as such; or
 - (e) the *underwriting agent* or *approved run-off company* so requests.

Withdrawal of permission to manage a syndicate

67. The *Franchise Board* may at any time withdraw the permission of a *managing agent* to manage a *syndicate* if –
- (a) the *managing agent* is not suitable to manage that *syndicate*;
 - (b) the *managing agent* has failed to comply with any *requirement of the Council*;
 - (c) the *managing agent* has ceased to manage that *syndicate*; or
 - (d) the *managing agent* so requests.

Postponement

68. Where the *Franchise Board* considers that there are grounds for withdrawing the permission of an *underwriting agent* or *approved run-off company* to act as such or withdrawing the permission of a *managing agent* to manage a *syndicate* under

any of the preceding provisions of this part other than paragraph 66(a) the *Franchise Board* may if it considers that there is good reason to do so –

- (a) postpone the withdrawal of permission for such period or periods as the *Franchise Board* may from time to time specify or until the *Franchise Board* shall otherwise determine; and
- (b) in connection with such postponement, at any time give such directions as it may think fit, including without limitation a direction that the *underwriting agent* shall not carry on any business or business activity of a specified class or description.

Part K – Substitute agents

Appointment of a substitute agent

69. The *Franchise Board* may appoint a specified *person* to act as agent or sub-agent (a “*substitute agent*”) for any *member* of the *Society* as to the whole or any part of that *member’s* underwriting business –
- (a) where such *member* has no *underwriting agent* for the whole or part of his underwriting business;
 - (b) where in the opinion of the *Franchise Board* –
 - (i) such appointment is in the interests of such *member*; or
 - (ii) it is essential for the proper regulation of the business of insurance at Lloyd’s; or
 - (c) where the *underwriting agent* of such *member* is subject, either totally or in part, to a direction of administrative suspension or to a direction of suspension pursuant to a penalty or sanction imposed, confirmed or modified following disciplinary proceedings.

Directions

70. Where a *substitute agent* is or has been appointed, the *Franchise Board* may give such directions as it considers appropriate –
- (a) to the *substitute agent*;
 - (b) to any *underwriting agent* who at any time has acted for such *member* whether or not in the capacity of *underwriting agent* or who is subject to suspension (the “*prior underwriting agent*”);
 - (c) to any other *person* conducting the business of insurance at Lloyd’s

in connection with the appointment of the *substitute agent* and the continuation of the agency business of the *prior underwriting agent* or concerning the underwriting business of any *member* of the *Society* or for the protection of any Lloyd’s policyholder, the *Society*, any *member* or any other *person* doing business

at Lloyd's.

71. Where a direction is given under paragraph 70 of this Byelaw, such direction shall take effect notwithstanding any contrary or inconsistent provision contained in any agreement between the *prior underwriting agent* and any *member*.
72. The *Franchise Board* may from time to time add to, amend or withdraw any direction given under paragraph 70 of this Byelaw.

Application of powers relating to substitute agents

73. The powers of the *Franchise Board* to appoint a *substitute agent* or to issue directions incidental thereto shall apply in relation to a *member* or a *former member* notwithstanding that he or it may at the date of the appointment or direction or subsequently have ceased to be a *member* for any reason.
74. Except where the context otherwise requires, references in this part of this Byelaw to a *member* or a *former member* include references to his personal representatives, trustee in bankruptcy, curator bonis, receiver or committee or any other *persons* by law entitled or bound to administer his affairs.

Part L – Run-off

Requirement to keep prospects of a syndicate becoming a run-off syndicate under review

75. A *managing agent* shall keep the prospects of a *syndicate* under its management becoming a *run-off syndicate* under review and comply with such requirements in this regard as the *Franchise Board* may from time to time prescribe. The requirements may include requirements to notify and report to the *Franchise Board* on the prospects of a *syndicate* becoming a *run-off syndicate*.

Run-off contingency and run-off closure plans

76. The *Franchise Board* may require a *managing agent* to prepare and submit to the *Franchise Board* a *run-off contingency plan* in respect of any *syndicate* or *syndicates* managed by it.
77. The *Franchise Board* may require a *managing agent* or a *substitute agent* to prepare and submit to the *Franchise Board* a *run-off closure plan* in respect of any *run-off syndicate* or *run-off account* managed or to be managed by it.
78. The *Franchise Board* may for the purposes of paragraphs 76 and 77 prescribe requirements in respect of *run-off contingency plans* and *run-off closure plans*. The requirements may make different requirements for *run-off contingency plans* and *run-off closure plans*. The requirements may include –
- (a) the period or periods in which each plan is to be prepared and submitted to the *Franchise Board*;
 - (b) the format and content of each plan;
 - (c) the methods and assumptions to be used in the preparation of each plan;
 - (d) that each plan is prepared by a *person* with the necessary skills, expertise and experience; and
 - (e) the date or dates on which each plan is to be submitted to the *Franchise Board*.

79. A *managing agent* or *substitute agent* may at any time submit a request to amend an *agreed run-off contingency plan* or an *agreed run-off closure plan* in respect of a *syndicate* managed by it. The *Franchise Board* may prescribe requirements in respect of such requests which may include the format of requests.
80. The *Franchise Board* may at any time direct or require a *managing agent* or a *substitute agent* to submit such further information, explanation or justification in connection with a *run-off contingency plan*, *agreed run-off contingency plan*, *run-off closure plan* or *agreed run-off closure plan* or a request to amend any such plan as the *Franchise Board* may specify.
81. The *Franchise Board* may –
- (a) agree to a *run-off contingency plan* or to a *run-off closure plan*;
 - (b) agree to a request to amend an *agreed run-off contingency plan* or an *agreed run-off closure plan*;
 - (c) reject a *run-off contingency plan* or a *run-off closure plan* and require a *managing agent* or a *substitute agent* to submit a new or revised plan within such period as the *Franchise Board* may specify;
 - (d) reject a request to amend an *agreed run-off contingency plan* or an *agreed run-off closure plan*;
 - (e) withdraw its agreement to an *agreed run-off contingency plan* or an *agreed run-off closure plan* and require the *managing agent* or *substitute agent* to submit a new or revised plan within such period as the *Franchise Board* may specify.
82. The *Franchise Board* shall not agree to a *run-off contingency plan* or to a *run-off closure plan* or to a request to amend an *agreed run-off contingency plan* or a *run-off closure plan* unless the *managing agent* or the *substitute agent* in question has demonstrated to the *Franchise Board's* satisfaction that the plan is appropriate and justifiable having regard to the performance and capabilities of the *managing agent* or *substitute agent* in question and such other criteria as the *Franchise Board* may from time to time prescribe.
83. An *agreed run-off contingency plan* shall be deemed to amend and be part of the corresponding *agreed business plan* relating to the *syndicate* in question.
84. A *substitute agent* shall only carry out the management of a *run-off syndicate* or a *run-off account* in accordance with an *agreed run-off closure plan*.

Run-off reports

85. The *Franchise Board* may at any time require a *managing agent* or *substitute agent* which manages a *run-off syndicate* or a *run-off account* to prepare and submit a *run-off monitoring report*. The *Franchise Board* may prescribe requirements for *run-off monitoring reports* which may include –
- (a) the period or periods to which each report is to relate;
 - (b) the format and content of each report;
 - (c) the methods and assumptions to be used in the preparation of each report; and
 - (d) the date or dates on which each report is to be submitted to the *Franchise Board*.

Delegation of run-off functions

86. The *Franchise Board* may for the purposes of paragraph 87 from time to time prescribe functions undertaken in the management of a *syndicate* which shall be called *executive functions*, *insurance functions* and *administrative and processing functions*.
87. Save where the *Franchise Board* otherwise permits or directs, no *managing agent* or *substitute agent* shall delegate any of its *executive functions*, *insurance functions* or *administrative and processing functions* in respect of a *run-off syndicate* or a *run-off account* managed by it –
- (a) without the *Franchise Board's* prior consent; and
 - (b) otherwise than to an *approved run-off company* or another *managing agent*.
88. The *Franchise Board* may require a *managing agent* or a *substitute agent* to comply with such requirements and procedures as it may from time to time prescribe prior to delegating any of its *executive functions*, *insurance functions* or *administrative and processing functions* to an *approved run-off company* or another *managing agent*. The requirements may include obtaining a number of

competitive quotes for the performance of the functions in question following a formal tendering process.

89. No *managing agent* shall delegate any of its *executive functions, insurance functions* or *administrative and processing functions* to another *managing agent* or to an *approved run-off company* other than by way of a written contract which shall contain such terms and provisions and be in such form as the *Franchise Board* may from time to time prescribe.

Part M – Dispute resolution and appeals

Dispute resolution

90. The *Franchise Board* may from time to time prescribe arrangements and procedures to resolve disputes between an *underwriting agent*, *approved run-off company*, or *substitute agent* and the *Franchise Board* in a timely, constructive and cost effective manner. The arrangements and procedures may include requirements that an *underwriting agent*, *approved run-off company* or *substitute agent* must follow.

Steps to be taken in advance of proceedings

91. In the event that any *underwriting agent*, *approved run-off company* or *substitute agent* intends to commence proceedings to challenge, review or appeal against any decision or action of the *Franchise Board* other than in accordance with paragraph 90 of this Byelaw or the Appeal Tribunal Byelaw (No. 32 of 1996) it must immediately inform the secretary to the *Franchise Board* in writing.

Amendments to the Appeal Tribunal Byelaw

92. The Appeal Tribunal Byelaw (No.32 of 1996) is amended as follows –
- (a) by deleting in paragraph 7 the words “Subject to the provisions of Schedule 2, the persons referred to in paragraphs 2” and substituting therefor the words “Subject to the provisions of Schedules 2 and 3, the persons referred to in paragraphs 2, 2A”;
 - (b) by deleting paragraph 3.1(c) of Schedule 2 and substituting therefor the words “(c) if leave or permission of the independent non-executive directors of the Franchise Board is required, the date on which leave or permission was granted.”;
 - (c) by deleting in paragraph 1 of Schedule 3 the words “made under Lloyd’s Act 1982 or:” and substituting therefore the words “made under any of the following provisions – ”;

- (d) by deleting paragraph 1(b) of Schedule 3 and substituting therefore the words “Underwriting Byelaw (No. 2 of 2003) as to –
 - (i) the withdrawal of an underwriting agent or approved run-off company’s permission to act as such;
 - (ii) the withdrawal of a managing agent’s permission to manage a syndicate; or
 - (iii) any other matter with the permission of the independent non-executive directors of the Franchise Board;”
- (e) by deleting paragraph 1(n) of Schedule 3;
- (f) by inserting in Schedule 3 the following new paragraph 2A “Appeals under sub-paragraph 1(b)(iii) of this Schedule may be brought by a person who has obtained the permission of the independent non-executive directors of the Franchise Board to do so.”; and
- (g) by deleting in paragraph 3 of Schedule 3 the words “,(b), (e), (f), (n)”.

Part N – Miscellaneous and transitional provisions

The Franchise Board

93. All references in this Byelaw to the *Franchise Board* shall be deemed to also be references to the *Council*. The *Franchise Board* may reasonably exercise all of the powers, discretions and functions set out in this Byelaw as the agent of the *Council*.

Fees

94. The *Franchise Board* may in connection with any application, submission or request made in accordance with this Byelaw, charge such fee as the *Franchise Board* may from time to time prescribe.

Revocation

95. The following byelaws and regulations are revoked –
- (a) Information Relevant to the Operation of Sections 10, 11 and 12 of Lloyd’s Act 1982 Byelaw (No. 1 of 1984);
 - (b) Substitutes Agents Byelaw (No. 20 of 1983);
 - (c) Disclosure by Direction Byelaw (No. 21 of 1983);
 - (d) The Underwriting Agents Byelaw (No. 4 of 1984);
 - (e) The Syndicate Premium Income Byelaw (No. 6 of 1984);
 - (f) The Agency Agreements Byelaw (No. 1 of 1985);
 - (g) The Reinsurance to Close Byelaw (No. 6 of 1985);
 - (h) The Review Powers Byelaw (No. 5 of 1986);
 - (i) Insurance Intermediaries Byelaw (No. 8 of 1990);
 - (j) Run-Off Accounts (Intermediaries) Byelaw (No. 10 of 1991);
 - (k) Reinsurance to Close (Restriction) Byelaw (No. 15 of 1993);
 - (l) Pool Reinsurance Company Limited (Intermediaries) Byelaw (No. 23 of 1993);
 - (m) Run-Off Companies Byelaw (No. 2 of 1995);
 - (n) Core Principles Byelaw (No. 34 of 1996);

- (o) Training and Development Byelaw (No. 23 of 1998);
 - (p) Proportional Reinsurance Syndicates Byelaw (No. 9 of 1999); and
 - (q) Insurance Intermediaries Regulation (No. 3 of 1990).
96. The following byelaws and regulations shall be revoked on 1 January 2004 –
- (a) The Related Parties Byelaw (No. 2 of 1986); and
 - (b) Financial Guarantee Insurance Regulation (No. 4 of 1989).

Transitional and miscellaneous provisions

Substitute Agents Byelaw

97. Every reference in the *requirements of the Council* to the Substitute Agents Byelaw (No. 20 of 1983) shall be deemed to also be a reference to part K of this Byelaw.
98. Every reference in the *requirements of the Council* to a *substitute agent* appointed under, in accordance with or within the meaning of the Substitute Agents Byelaw (No. 20 of 1983) shall be deemed to also be a reference to a *substitute agent* appointed under part K of this Byelaw.
99. Nothing in this Byelaw shall affect the validity of the appointment of any *substitute agent* appointed under the Substitute Agents Byelaw (No. 20 of 1983) or of any direction given under that byelaw.
100. Every subsisting direction as at 30 June 2003 given under the Substitute Agents Byelaw (No. 20 of 1983) shall from 1 July 2003 be deemed to be a direction given under part K of this Byelaw.

Underwriting Agents Byelaw

101. Every body which as at 30 June 2003 had the *Council's* permission, granted under paragraph 6 of the Underwriting Agents Byelaw (No. 4 of 1984), to act either as a *managing agent* or a *members' agent* shall from 1 July 2003 be deemed to have been granted a corresponding permission under paragraph 6(a) of this Byelaw.

102. Every *managing agent* which as at 30 June 2003 had the *Council's* permission, granted under paragraph 6 of the Underwriting Agents Byelaw (No. 4 of 1984), to manage a specific *syndicate* or *syndicates* shall from 1 July 2003 be deemed to have been granted a corresponding permission or permissions under paragraph 6(b) of this Byelaw.
103. Every *underwriting agent* which as at 30 June 2003 was subject to a condition or conditions, imposed under paragraph 9 of the Underwriting Agents Byelaw (No. 4 of 1984), shall from 1 July 2003 be deemed to be subject to a corresponding condition or conditions imposed under paragraph 63 of this Byelaw.
104. Every review of any permission granted to an *underwriting agent* which as at 30 June 2003 was being conducted pursuant to the terms of paragraph 8 of the Underwriting Agents Byelaw shall from 1 July 2003 be deemed to be a review ordered by the *Franchise Board* in accordance with paragraph 58 of this Byelaw.
105. The *Franchise Board* may direct that, to the extent specified, any *underwriting agent* which is a partnership, be dispensed from compliance with any provision of this Byelaw which cannot be applied to a partnership. The direction may include alternative requirements with which the partnership must comply.
106. Every undertaking, guarantee or commitment given to Lloyd's in accordance with the terms of the Underwriting Agents Byelaw (No. 4 of 1984) which subsisted as at 30 June 2003 shall remain valid and enforceable by Lloyd's notwithstanding the revocation of the Underwriting Agents Byelaw (No. 4 of 1984).
107. Every reference in the *requirements of the Council* to the Underwriting Agents Byelaw (No. 4 of 1984) shall, save where the context otherwise requires, be deemed to also be a reference to this Byelaw or, in the case of a definition, to the Definitions Byelaw (No. 3 of 2003).

Related Parties Byelaw

108. Every reference in the *requirements of the Council* to consent given under the Related Parties Byelaw (No. 2 of 1986) shall be deemed to be reference to consent given under paragraph 32 of this Byelaw.

Review Powers Byelaw

109. Every review of any *person* which as at 30 June 2003 was being conducted pursuant to the terms of the Review Powers Byelaw (No. 5 of 1986) shall from 1 July 2003 be deemed to be a review ordered by the *Franchise Board* in accordance with paragraph 58 of this Byelaw.

Insurance Intermediaries Byelaw

110. Every subsisting permission of the *Council* as at 30 June 2003 given under paragraph 2(ii) of the Insurance Intermediaries Byelaw (No. 8 of 1990) shall from 1 July 2003 be deemed to be the prior consent of the *Franchise Board* for the purposes of paragraph 28(b) of this Byelaw.

Run-Off Companies Byelaw

111. Every body whose name was entered in the register of approved run-off companies maintained under paragraph 5 of the Run-Off Companies Byelaw (No. 2 of 1995) as at 30 June 2003 shall from 1 July 2003 be deemed to have been granted permission to act as an *approved run-off company* under paragraph 6(a) of this Byelaw provided that any such permission shall be limited under paragraph 7(a) of this Byelaw so as to reflect any qualification imposed on it under paragraph 7(3) of the Run-Off Companies Byelaw (No. 2 of 1995).
112. Every *approved run-off company* which as at 30 June 2003 was subject to a condition or conditions, imposed under paragraph 9 of the Run-Off Companies Byelaw (No. 2 of 1995), shall from 1 July 2003 be deemed to be subject to a corresponding condition or conditions imposed under paragraph 63 of this Byelaw.
113. Every review being conducted pursuant to the terms of paragraph 10 of the Run-Off Companies Byelaw (No. 2 of 1995) on 30 June 2003 shall from 1 July 2003 be deemed to be a review ordered by the *Franchise Board* in accordance with paragraph 58 of this Byelaw.
114. Every undertaking, guarantee or commitment given to Lloyd's in accordance with the terms of the Run-Off Companies Byelaw (No. 2 of 1995) which subsisted as at 30 June 2003 shall remain valid and enforceable by Lloyd's notwithstanding the revocation of the Byelaw.

115. Every reference in the *requirements of the Council* to the Run-Off Companies Byelaw (No. 2 of 1995) shall be deemed to be a reference to this Byelaw.

Misconduct and Penalties Byelaw

116. The Misconduct and Penalties Byelaw (No. 30 of 1996) is amended by –
- (a) deleting paragraph 3(d); and
 - (b) in schedule 1 (interpretation) deleting the words “ “Core Principles” means any Core Principle regarding the conduct of business at Lloyd’s, either generally or in respect of certain classes of person, promulgated in any byelaw made under Lloyd’s Acts 1871 to 1982”.

Core Principles Byelaw

117. Every code of practice made under paragraph 2A of the Core Principles Byelaw (No. 34 of 1996) which as at 30 June 2003 was in force shall from 1 July 2003 be deemed to be a *code of practice* made by the *Franchise Board* under paragraph 31 of this Byelaw notwithstanding any reference in a *Code of Practice* to the core principles made under the Core Principles Byelaw.

Definitions

118. Every reference in the *requirements of the Council* to a definition set out in a byelaw or regulation revoked or to be revoked in accordance with paragraphs 95 and 96 of this byelaw shall be deemed to be a reference to the Definitions Byelaw (No. 3 of 2003).

Supplementary directions, conditions and requirements

119. The *Franchise Board* may at any time give such directions or impose such conditions or requirements as may be necessary in order to clarify or supplement the matters set out in paragraphs 95 to 118 of this Byelaw.

Commencement

120. This Byelaw shall come into force on 1 July 2003.

Notes

These notes, the note setting out the purpose of this Byelaw and the part and paragraph headings are for guidance only and do not form part of the Byelaw.

Words and terms shown in italics have the meaning set out in the Definitions Byelaw.

UNDERWRITING REQUIREMENTS

Purpose:

The purpose of the Underwriting Requirements is to conveniently set out all of the matters prescribed, issued or made by the Franchise Board under the Underwriting Byelaw. The Underwriting Requirements also contain links to Market Bulletins where they contain further relevant information.

The headings for each of the parts of the Underwriting Requirements correspond with the headings for each of the parts in the Underwriting Byelaw. The headings for each of the paragraphs of the Underwriting Requirements also include references to the relevant paragraphs in the Underwriting Byelaw under which the requirements were prescribed, issued or made.

The headings and these notes are for guidance only and do not form part of the Underwriting Requirements.

Words and terms shown in italics have the meaning set out in the Definitions Byelaw.

These requirements came into force on 1 July 2003.

Permission to act as an underwriting agent – Part A of the Underwriting Byelaw

Criteria for deciding whether an *applicant* is suitable to be granted permission to act as an underwriting agent – paragraph 8(b) of the Underwriting Byelaw

1. In deciding whether an *applicant* is suitable to be granted permission to act as an *underwriting agent* the *Franchise Board* shall have regard to the following criteria and all other relevant matters –
 - (a) whether the *applicant* is a competent, proficient and capable organisation. In considering this the *Franchise Board* may have regard to the following matters –
 - (i) the nature of the *applicant's* business;
 - (ii) the *applicant's* compliance with appropriate principles of good corporate governance;
 - (iii) the quality and adequacy of the *applicant's* human resources including –
 - (i) the competence, reputation, character and suitability of each of the *applicant's* directors;
 - (ii) the collective suitability of the *applicant's* board of directors and of each of its committees;
 - (iii) the competence, reputation, character and suitability of the *applicant's* officers and trustees;
 - (iv) the competence, reputation, character and suitability of the *applicant's* staff;
 - (v) the quality and adequacy of the *applicant's* training and development programme; and
 - (vi) in the case of an *applicant* applying for permission to act as a *managing agent*, the past, present and forecast *underwriting* performance of the *applicant's* underwriters;
 - (iv) the quality and adequacy of the *applicant's* other resources including –
 - (i) the quality and adequacy of the *applicant's* information technology systems;

- (ii) the quality and adequacy of the *applicant's* accounting and credit control systems;
 - (iii) the quality and adequacy of the *applicant's* consultants, advisers, service providers and agents;
 - (iv) the quality and adequacy of the *applicant's* resources to set and comply with appropriate service standards for its customers;
 - (v) the quality and adequacy of the *applicant's* resources to comply with such principles and standards for the conduct or administration of insurance business as the *Franchise Board* may from time to time prescribe, recognise or endorse;
 - (vi) the quality and adequacy of the *applicant's* record keeping arrangements; and
 - (vii) in the case of an *applicant* applying for permission to act as a *managing agent*, the quality and adequacy of the *applicant's* resources and systems for *underwriting* administration;
- (v) the quality and adequacy of the *applicant's* controls and procedures to manage its business including –
- (i) the quality and adequacy of the *applicant's* risk management and internal audit arrangements;
 - (ii) the quality and adequacy of the *applicant's* compliance arrangements;
 - (iii) the quality and adequacy of the *applicant's* arrangements to manage its service providers and agents;
 - (iv) the *applicant's* arrangements for identifying, resolving or managing conflicts of interest; and
 - (v) in the case of an *applicant* applying for permission to act as an *managing agent*, the quality and adequacy of the *applicant's* controls and procedures for the management of *underwriting* risk;
- (b) whether the *applicant* is of appropriate reputation and standing;
 - (c) whether any *person* who *controls* the *applicant* or who is connected or associated with the *applicant* is of appropriate reputation and standing;
 - (d) whether the *applicant* has adequate capital and financial resources.

Criteria for deciding whether an *applicant* is suitable to be granted permission to manage a *syndicate* – paragraph 8(c) of the Underwriting Byelaw

2. In deciding whether a *managing agent* is suitable to manage a *syndicate* the *Franchise Board* shall have regard to the criteria set out in paragraph 1 above having regard to the nature and quality of the *business plan* prepared and submitted by the *managing agent* in respect of the *syndicate* in question.

Principles of relationship – Part B of the Underwriting Byelaw

Principles of relationship – paragraph 10 of the Underwriting Byelaw

3. Following consultation, the *Franchise Board* made and issued the following statement setting out Lloyd's goals and market objectives and the principles in accordance with which Lloyd's and *managing agents* will generally be expected to work together and assist each other to achieve those goals and objectives.

The Principles of Relationship

1. The Franchise Board's Goal

The new franchise framework was developed to preserve the advantages that the Lloyd's market derives from being a marketplace of distinct independent businesses, whilst committing the Franchise Board to effectively promote the overall profitability of the market.

In order to ensure that the franchise framework is successful and that the Franchise Board can deliver the step-change in market performance that is required for Lloyd's to compete successfully in future in the global insurance market, the Franchise Board has been set a clear goal:

“Creating and maintaining a commercial environment at Lloyd's in which the long term return to all capital providers is maximised”.

2. Achieving the Franchise Board's Goal

In order to achieve its goal, the Franchise Board's vision for the franchise is to ensure that Lloyd's is the “leading specialist insurance marketplace” and the preferred market of choice for policyholders, brokers, underwriters and capital. The purpose of this document is to set out the principles in accordance with which the Franchise Board and franchisees will generally be expected to work together to achieve that.

The Franchise Board is committed to allowing franchisees in the Lloyd's marketplace to operate independently within a franchise framework which is committed to delivering consistent underwriting profit, which benefits from a common rating and mutual security and which attracts the highest quality management and underwriting talent.

The leading specialist insurance marketplace

Lloyd's derives considerable strength from being a market offering specialist expertise. The marketplace is attractive both to policyholders and brokers and to underwriting businesses. Specialism and expertise are at the heart of Lloyd's competitive advantage. The Franchise Board is committed to developing that advantage.

Independence within the franchise framework

The Lloyd's franchise framework is one where franchisees are recognised as independent businesses with the freedom to participate in whichever types of business they choose, subject to their duties and provided they operate in accordance with a business plan which they have agreed with the Franchise Board.

Commitment to delivering consistent underwriting profit

The Franchise Board recognises that consistent profit does not mean constant profit. Insurance is a cyclical business. However, it is proposed that each franchisee strives to ensure that each syndicate makes an underwriting profit each year, consistent with the long-term profitability target that will be set by the Franchise Board.

Licences, a common rating and mutual security

These are key elements of the Lloyd's Franchise. Lloyd's licenses to underwrite insurance in the UK and overseas and the security behind the Lloyd's policy depend, to varying but critical degrees, on the existence of the New Central Fund. Lloyd's market security ratings reflect the strength of the chain of security, including the New Central Fund. The strength of the rating and the perception of security depend critically on franchisees' performance. The market pays a reputational price for the performance of the poorest businesses, as well as an economic price in higher New Central Fund contributions. The Franchise Board is therefore committed to encourage higher standards of underwriting and risk management.

Attracting the highest quality management and underwriting talent

Attracting the best people will help the Lloyd's market achieve and maintain profitability and make Lloyd's the most attractive insurance market to work in.

3. The Franchise Board's Commitments

The Franchise Board is committed to achieving the Franchise Goal working in conjunction with the market. In order to do that, the Franchise Board will seek to –

- operate in an open, constructive and flexible manner
- take into account the views of individual franchisees
- encourage regular dialogue and consultation with franchisees and with the market associations. The Franchise Board will develop effective working arrangements with the market associations to achieve this
- adopt a cost effective, commercial and efficient approach
- actively support market initiatives relating to franchise business processes, such as LMP, leading to improved service standards and reduced costs
- allocate charges, as far as possible, on a user pays basis
- deliver high levels of service in accordance with agreed service standards and develop a performance culture amongst Lloyd's employees
- rationalise the frequency and manner in which data and information is collected from franchisees and reduce the number of returns that have to be made to Lloyd's
- give adequate notice of proposed changes to requirements for franchisees
- protect the confidentiality of commercially sensitive information provided to it by franchisees in accordance with published guidelines
- assist franchisees which manage underperforming syndicates to improve their performance but take firm action where a franchisee is unable or unwilling to respond to that approach

More specifically, the Franchise Board will –

- set a target level of profitability for the Lloyd's market over the insurance cycle. The target will be a long term target taking into account the cyclical nature of Lloyd's business
- from time to time publish guidelines with which it will generally expect franchisees to comply. These guidelines will cover a range of underwriting and risk management issues which are based on sound insurance industry practice
- develop the business planning process for syndicates and implement and operate it in a constructive and facilitative manner
- carefully monitor the performance of each syndicate against its business plan and assist franchisees to improve the results of underperforming syndicates. If, however, a franchisee does not respond to a facilitative approach the Franchise Board will take appropriate action which may ultimately include the removal of a franchisee from the franchise

In this way, the Franchise Board will seek to –

- improve profit performance and outperform the competition
- maintain and develop an outstanding risk management capability throughout the franchise
- improve standards of service to brokers and to policyholders and to be their market place of choice
- optimise flows of capital to the Lloyd's market
- reduce contributions to the Central Fund
- improve Lloyd's security rating
- protect, strengthen and develop Lloyd's licences and to have a competitive international trading platform

4. Franchisees' commitments

In return, the Franchise Board will expect franchisees to operate in accordance with the following principles –

- deal with Lloyd's in an open, constructive and cooperative manner
- protect –
 - the brand and reputation of Lloyd's
 - Lloyd's security rating
 - the security behind Lloyd's policies including the New Central Fund
 - Lloyd's licences and authorisations to conduct insurance business in the UK and overseas
- deliver high levels of service to brokers and policyholders in accordance with set service standards, systems and protocols
- prepare high quality business plans in accordance with the relevant guidelines with a view to achieving the Franchise Board's long term profitability targets
- operate and underwrite in accordance with agreed business plans
- accurately report syndicate performance in a timely manner and assist Lloyd's in understanding the factors which may have affected syndicate performance
- notify the Franchise Board in good time of any matters which may have a material effect on the franchisee, its syndicates or on Lloyd's as a whole
- protect the confidentiality of confidential information provided by Lloyd's

Underwriting – Part D of the Underwriting Byelaw

Underwriting guidelines

4. The *underwriting guidelines* made and issued by the *Franchise Board* relating to run-off are set out in Market Bulletin (The Underwriting Byelaw, Underwriting Requirements, Definitions Byelaw and Run-off Guidelines) issued on 30 June 2003.

Risk management requirements – Part E of the Underwriting Byelaw

Codes of practice – paragraph 31 of the Underwriting Byelaw

5. The *codes of practice* made and issued by the *Franchise Board* are set out in Lloyd's Codes Handbook.

Consent to changes – paragraph 32 of the Underwriting Byelaw

6. No *underwriting agent* shall permit any of the following events to occur without the prior written consent of the *Franchise Board* –
 - (a) In the case of a *managing agent*, the appointment or removal of a *person* as a *managing agent's trustee* or the appointment by any *managing agent's trustee* (in his capacity as such) of any *person* as attorney.

Notification of changes - paragraph 34 of the Underwriting Byelaw

7. An *underwriting agent* shall without delay notify the *Franchise Board* in writing if any of the following events occur –
 - (a) an event that must be notified to the *Financial Services Authority* via Lloyd's in accordance with the Supervision Arrangements for Underwriting Agents between the *Financial Services Authority* and the *Society*. Namely –
 - (i) the appointment of an auditor and information about the auditor in accordance with the *Financial Services Authority's Handbook* (SUP 3.3.2 R(2) and (5));
 - (ii) the notification of matters raised by an auditor in accordance with the *Financial Services Authority's Handbook* (SUP 3.7.2 G);
 - (iii) the termination of an auditor's term of office in accordance with the *Financial Services Authority's Handbook* (SUP 3.8.11 R and SUP 3.8.12 R);
 - (iv) the general notification requirements in accordance with the *Financial Services Authority's Handbook* (SUP 15.3) including –
 - i. matters having serious regulatory impact (SUP 15.3.1 R);

- ii. communication with the FSA in accordance with Principle 11 (SUP 15.3.7 G);
 - iii. breaches of rules and other requirements in or under the Financial Services and Markets Act 2000 (SUP 15.3.11 R);
 - iv. civil, criminal or disciplinary proceedings against a firm (SUP 15.3.15 R);
 - v. fraud, errors or other irregularities (SUP 15.3.17 R);
 - vi. insolvency, bankruptcy and winding up (SUP 15.3.21 R);
- (v) the Core information requirements in accordance with the *Financial Services Authority's Handbook* (SUP 15.5);
 - (vi) where an *underwriting agent* becomes aware that inaccurate, false or misleading information has previously been provided, in accordance with the *Financial Services Authority's Handbook* (SUP 15.6);
 - (vii) the change of an accounting reference date in accordance with the *Financial Services Authority's Handbook* (SUP 16.3.17 R);
 - (viii) annual controllers report in accordance with the *Financial Services Authority's Handbook* (SUP 16.4); and
 - (ix) annual close links report in accordance with the *Financial Services Authority's Handbook* (SUP 16.5);
- (b) in the case of a *managing agent*, that the *managing agent* is or is likely to become associated with a *Lloyd's broker* contrary to the provisions of Lloyd's Act 1982 (divestment);
 - (c) in the case of a *managing agent*, the death or resignation of, or the occurrence of any *notifiable event* in relation to any *managing agent's trustee*; and
 - (d) in the case of a *managing agent*, if at any time the *syndicate premium income* allocable to any year account of a *syndicate* managed by it exceeds or appears to have exceeded or likely to exceed the *syndicate allocated capacity* for that year of account. The notification shall include full particulars of the extent of the excess or expected excess, the reasons why the excess has arisen or is expected to arise and what remedial action the *managing agent* has taken or proposes to take.

Disaster scenarios – paragraph 35 of the Underwriting Byelaw

- 8. Details of the disaster scenarios prescribed by the *Franchise Board* and the requirements relating to the realistic disaster reports are set out in Market Bulletin Y3029 (Realistic Disaster Scenarios 2003) issued on 3 April 2003.

Syndicate premium income – paragraph 36 of the Underwriting Byelaw

9. When calculating *syndicate premium income*, *managing agents* shall –
- (a) allocate insurance business underwritten through a *syndicate* to a year of account in accordance with the accounting policies adopted in respect of that *syndicate*;
 - (b) allocate *premium income* to the same year of account as the insurance business out of which it arises unless that year of account of the *syndicate* has been reinsured to close in which case any payments subsequently received or made by way of additional premiums or returns in respect of such business shall be allocated to the reinsuring *syndicate*;
 - (c) where a year of account of a *syndicate* is closed by reinsuring all liabilities outstanding in respect of insurance business allocated to it into a later year of account of –
 - (i) the same *syndicate*, the premium in respect of such reinsurance to close shall not itself be treated as *premium income* allocable to the later year of that *syndicate*;
 - (ii) another *syndicate*, the premium in respect of such reinsurance to close shall, unless the *Franchise Board* otherwise directs, be treated as *premium income* allocable to the later year of that *syndicate*;
 - (d) treat *premium income* as being credited to a *member* –
 - (i) where it arises out of insurance business in respect of which a policy has been or is to be issued and signed by *LPSO*, in accordance with the central accounting system;
 - (ii) where it arises out of other insurance business, in accordance with the accounting policies adopted by the *managing agent* of the *syndicate* through which that business is underwritten;
 - (e) convert *premium income* which is credited in a currency other than sterling using the following rates of exchange for 2003 year of account –
 - (i) US Dollar 1.50;
 - (ii) Canadian Dollar 2.28;
 - (iii) Euro 1.56;
 - (iv) Australian Dollar 2.62;
 - (v) South African Rand 13.52;
 - (vi) Japanese Yen 183.20;
 - (vii) Swiss Franc 2.40;

- (f) treat premiums paid by a *member* of a *syndicate* under a reinsurance contract which satisfies the requirements for *qualifying quota share contracts* set out in Market Bulletin Y3024 (Qualifying Quota Share Reinsurance Arrangements For The 2003 Year Of Account) issued on 2 April 2003 as *qualifying reinsurance premiums*.

Reports relating to syndicate premium income – paragraph 39 of the Underwriting Byelaw

- 10. The requirements prescribed by the *Franchise Board* regarding *syndicate premium income* monitoring are set out in Market Bulletin Y3057 (Premium Income Data Collection) issued on 12 May 2003.

**Financial resources and financial returns – Part F of
the Underwriting Byelaw**

Financial resources – paragraph 49 of the Underwriting Byelaw

11. The requirements prescribed by the *Franchise Board* regarding the possession by *underwriting agents* of financial resources and capital and the maintenance of solvency margins are set out in the Market Bulletin (Underwriting Agents Financial Resource Requirements (FRRs)) issued on 30 June 2003.

Financial returns – paragraphs 50 and 51 of the Underwriting Byelaw

12. The requirements prescribed by the *Franchise Board* in respect of *quarterly financial returns* and *annual financial returns* are set out in the Market Bulletin (Underwriting Agents Financial Resource Requirements (FRRs)) issued on 30 June 2003.

Run-off – Part L of the Underwriting Byelaw

Delegation of run-off functions – paragraph 86 of the Underwriting Byelaw

13. The following functions undertaken in the management of a *run-off syndicate* or a *run-off account* shall be called *executive functions* –
 - (a) responsibility for *syndicate* strategy, including –
 - (i) approval of forecasts and budgets;
 - (ii) claims reserving and commutation policy and approval;
 - (iii) annual solvency and *syndicate* accounts;
 - (iv) compliance with the *requirements of the Council*;
 - (v) management and control of expenses;
 - (b) reporting and accounting to *members*;
 - (c) performance of duties under *premiums trust deed* – including (but not limited to) investment management policy;
 - (d) management of conflicts of interest between *syndicates* and years of account; and
 - (e) responsibility for the performance of any delegated or sub-contracted functions.
14. The following functions undertaken in the management of a *run-off syndicate* or a *run-off account* shall be called *insurance functions* –
 - (a) claims adjusting;
 - (b) identifying reinsurance recoveries;
 - (c) purchasing reinsurance;
 - (d) evaluating reinsurance security;
 - (e) effecting commutations, negotiations and set-off of inwards and outwards business;
 - (f) preparing and maintaining reserving and actuarial data; and
 - (g) undertaking cash and investment management.
15. The following functions undertaken in the management of a *run-off syndicate* or a *run-off account* shall be called *administrative and processing functions* –
 - (a) maintaining policy risk records;
 - (b) administering and processing claims;

- (c) aggregating claims and calculating reinsurance recoveries;
- (d) credit control in collecting reinsurance recoveries; and
- (e) maintaining statistical records.

Dispute resolution and appeals – Part M of the Underwriting Byelaw

Dispute resolution

16. The following arrangements and procedures are designed to resolve disputes between *underwriting agents* and the *Franchise Board* arising under the Underwriting Byelaw in a timely, constructive and cost effective manner.
 1. **“Minded to” decisions**
 - 1.1 Before a decision is taken by or on behalf of the *Franchise Board* which will be unfavourable to a specific *underwriting agent* the decision taker will, unless he considers that the circumstances make it inappropriate to do so –
 - (a) inform the *underwriting agent* that the decision taker is minded to decide the matter in that way;
 - (b) provide the *underwriting agent* with the decision taker’s reasons for deciding the matter in that way; and
 - (c) provide the *underwriting agent* with an opportunity to make representations to the decision taker prior to the decision being taken.
 - 1.2 Where a decision is taken by or on behalf of the *Franchise Board* which is unfavourable to a specific *underwriting agent* the decision taker will unless he considers that the circumstances make it inappropriate to do so, provide the *underwriting agent* with the decision taker’s reasons for deciding the matter in that way.
 2. **Requests to review decisions taken on behalf of the Franchise Board**
 - Step 1 – Submitting a request for a decision to be reviewed*
 - 2.1 In the event that a decision is taken on behalf of the *Franchise Board* which is unfavourable to a specific *underwriting agent*, the *underwriting agent* may, where it reasonably and objectively considers the decision to be wrong or unreasonable, request that the decision is reviewed (a “*request*”).
 - 2.2 A *request* shall be made in writing as soon as reasonably practicable following receipt of the decision. The *request* shall include an explanation as to why the

underwriting agent considers that the decision is either wrong or unreasonable. The *request* shall be made on behalf of the board of directors of the *underwriting agent* and shall be signed by a director of the *underwriting agent*. The *request* shall be submitted to the decision taker.

Step 2 – Review of the decision by the original decision taker

- 2.3 Following receipt of the *request*, the decision taker shall review the *request* and may, where he considers appropriate, amend, modify or withdraw his decision.

Step 3 – Review of the decision by a director of the Franchise Executive

- 2.4 Where the decision taker does not propose to amend, modify or withdraw his decision he shall refer the *request* to a director or, where appropriate, to the Franchise Executive Committee. The request shall be reviewed by the director or the Franchise Executive Committee and, where the director or the Franchise Executive Committee considers appropriate, the decision may be amended, modified or withdrawn.

Step 4 – Review of the decision by the Franchise Board

- 2.5 If, following the review of the *request* by a director or the Franchise Executive Committee (including where the original decision taker was the Franchise Executive Committee), the *underwriting agent* still reasonably and objectively considers the decision to be wrong or unreasonable, the *underwriting agent* may apply to the *Franchise Board* to review the *request*. The application shall be made in writing as soon as reasonably practicable. The application shall be made on behalf of the board of directors of the *underwriting agent* and shall be signed by two directors. The application shall be submitted to the Secretary to the *Franchise Board*.
- 2.6 The *Franchise Board* shall review the *request* and may, where it considers appropriate, amend, modify or withdraw the decision.

Step 5 – Application for permission to appeal to the Appeal Tribunal

- 2.7 Where, following a review of the *request* by the *Franchise Board*, the *underwriting agent* wishes to apply for the permission of the *independent non-executive directors of the Franchise Board* to appeal to the *Appeal Tribunal*, the *underwriting agent* may make an application to do so. The application shall be made in writing as soon as reasonably practicable. The application

shall be made on behalf of the board of directors of the *underwriting agent* and shall be signed by two directors. The application shall be submitted to the Secretary to the *Franchise Board*.

- 2.8 The *independent non-executive directors of the Franchise Board* may, where they consider appropriate, give permission to the *underwriting agent* to appeal to the *Appeal Tribunal*.

3. Request to review decisions taken by the Franchise Board itself

Step 1- submitting a request for a decision to be reviewed

- 3.1 In the event that a decision is taken by the *Franchise Board* which is unfavourable to a specific *underwriting agent* the *underwriting agent* may, where it reasonably and objectively considers the decision to be wrong or unreasonable, request that the decision is reviewed (a “*request*”).
- 3.2 A *request* shall be made in writing as soon as reasonably practicable following receipt of the decision. The *request* shall include an explanation as to why the *underwriting agent* considers that the decision is either wrong or unreasonable. The *request* shall be made on behalf of the board of directors of the *underwriting agent* and shall be signed by two directors of the *underwriting agent*. The *request* shall be submitted to Secretary to the *Franchise Board*.

Step 2 – Review of the decision by the Franchise Board

- 3.3 The *Franchise Board* shall review the *request* and may, where it considers appropriate, amend, modify or withdraw the decision.

Step 3 – Application for permission to appeal to the Appeal Tribunal

- 3.4 Where, following a review of the *request* by the *Franchise Board*, the *underwriting agent* wishes to apply for the permission of the *independent non-executive directors of the Franchise Board* to appeal to the *Appeal Tribunal*, the *underwriting agent* may make an application to do so. The application shall be made in writing as soon as reasonably practicable. The application shall be made on behalf of the board of directors of the *underwriting agent* and shall be signed by two directors. The application shall be submitted to the Secretary to the *Franchise Board*.

- 3.5 The *independent non-executive directors of the Franchise Board* may, where they consider appropriate, give permission to the *underwriting agent* to appeal to the *Appeal Tribunal*.

DEFINITIONS BYELAW

Purpose:

The purpose of this Byelaw is to define terms and expressions used in the *requirements of the Council*.

Words and terms shown in italics have the meaning set out elsewhere in this Byelaw.

This byelaw was made by the *Council* on 4 June 2003 in exercise of its powers under section 6(2) Lloyd's Act 1982 and may be referred to as the Definitions Byelaw (No. 3 of 2003).

Definition of terms and expressions

1. In every byelaw and regulation made under Lloyd's Act 1982, save where that byelaw or regulation expressly provides to the contrary or the context otherwise requires –

“active underwriter” means, in relation to a *syndicate*, the individual at or deemed by the *Council* to be at, the underwriting box with principal authority to accept risks on behalf of the *members* of the *syndicate*;

“administrative and processing functions” means, in relation to an *approved run-off company*, the functions prescribed by the *Franchise Board* in accordance with paragraph 86 of the Underwriting Byelaw (No. 2 of 2003);

“agreed business plan” means a *business plan*, as amended from time to time, agreed by the *Franchise Board* pursuant to paragraph 17 of the Underwriting Byelaw (No. 2 of 2003);

“agreed run-off closure plan” means a *run-off closure plan*, as amended from time to time, agreed by the *Franchise Board* pursuant to paragraph 81 of the Underwriting Byelaw (No. 2 of 2003);

“agreed run-off contingency plan” means a *run-off contingency plan*, as amended from time to time, agreed by the *Franchise Board* pursuant to paragraph 81 of the Underwriting Byelaw (No. 2 of 2003);

“annual financial return” means a return prepared by an *underwriting agent* in accordance with paragraph 51 of the Underwriting Byelaw (No. 2 of 2003);

“Appeal Tribunal” means the appeal tribunal established pursuant to section 7(1)(b) of Lloyd’s Act 1982;

“approved run-off company” means a company with the *Franchise Board’s* permission to perform *executive functions, insurance functions* or *administrative and processing functions* on behalf of a *managing agent* or a *substitute agent*;

“approved transfer agreement” has the meaning given in paragraph 2(2) of the Conversion and Related Arrangements Byelaw (No. 22 of 1996);

“business plan” means a business plan prepared by a *managing agent* in accordance with paragraph 14 of the Underwriting Byelaw (No. 2 of 2003);

“codes of practice” means the codes of practice from time to time made and issued by the *Franchise Board* under paragraph 31 of the Underwriting Byelaw (No. 2 of 2003);

“commercial life business” means *life business* which is not *personal lines business*;

“commercial motor business” means *motor business* which is not *personal lines business*;

“compliance officer” means the individual appointed by an *underwriting agent* or an *approved run-off company* in accordance with paragraph 40 of the Underwriting Byelaw (No. 2 of 2003);

“controller” shall have the meaning given in section 422 of the Financial Services and Markets Act 2000 and control shall be construed accordingly;

“corporate adviser” means a *members’ agent* which acts solely on behalf of a *corporate member*;

“corporate member” means a *member* of the *Society* which is a body corporate or a Scottish limited partnership;

“Council” means the council constituted by section 3 of Lloyd’s Act 1982;

“executive functions” means, in relation to an *approved run-off company*, the functions prescribed by the *Franchise Board* in accordance with paragraph 86 of the Underwriting Byelaw (No. 2 of 2003);

“Financial Services Authority” means the body corporate known by that name with the functions conferred on it by or under the Financial Services and Markets Act 2000;

“Financial Services Authority’s requirements” means any rule, direction, requirement, principle, evidential provision, code or guidance made, given or issued by the *Financial Services Authority*;

“former member” means any *person* who was a *member* of the *Society* but who has ceased to be a *member* of the *Society*;

“Franchise Board” means the board established by the *Council* with that name;

“General Insurance Standards Council” means the company limited by guarantee with the registered number 3705388;

“independent non-executive directors of the Franchise Board” means the directors for the time being of the *Franchise Board* designated by the *Council* as being the independent non-executive directors of the *Franchise Board*;

“individual member” means a *member* of the *Society* who is an individual;

“insurance functions” means, in relation to an *approved run-off company*, the functions prescribed by the *Franchise Board* in accordance with paragraph 86 of the Underwriting Byelaw (No. 2 of 2003);

“life business” means contracts of insurance on human life or contracts to pay annuities on human life;

“Lloyd's broker” means a *person* which is listed in the register of Lloyd's brokers maintained under the Lloyd's Brokers Byelaw (No. 17 of 2000);

“LPSO” shall, as the context requires, mean Lloyd's Policy Signing Office and/or any service provider (as that expression is defined in the Lloyd's Policy Signing Office Byelaw (No. 11 of 2000)) for the time being carrying on or out (under whatever name) all or any of the services and operations formerly carried on or out by the *Society* under the name of Lloyd's Policy Signing Office or the acronym LPSO;

“managing agent” means an *underwriting agent* which carries on *underwriting* for a *member*;

“managing agent’s trustee” means, in regard to a *managing agent*, any trustee of one or more *premiums trust deeds* designated under the terms of that deed or those deeds as the managing agent’s trustee in respect of that *managing agent*;

“MAPA” means an arrangement of the kind described in paragraph 10 of the Agency Agreements Byelaw (No. 8 of 1988) operated by a *members' agent*;

“member” means a *person* admitted to membership of the *Society*;

“members’ agent” means an *underwriting agent* which is appointed by a *member* to provide services and perform duties of the same kind and nature as those set out in the standard members’ agent’s agreement;

“member’s syndicate premium income” means *premium income* of a *member* of a *syndicate* arising out of insurance business underwritten through that *syndicate*;

“member’s syndicate premium limit” means –

- (a) the limit prescribed by or on behalf of a *member* of a *syndicate* on the amount of insurance business allocable to a year of account which is to be underwritten on his behalf through that *syndicate* (such limit being expressed as the maximum permissible amount of his *member’s syndicate premium income* allocatable to that year of account); or
- (b) where a limit lower than that referred to in (a) above is prescribed by the *Council* that lower limit;

“motor business” means insurance business of any one or more of the following classes –

- (a) risks of bodily injury to or the death of the person insured while driving or travelling as a passenger (which expression shall include a person getting into, onto, out of or off a motor vehicle) in or on a motor vehicle;

- (b) risks of loss of or damage to property or of bodily injury to or the death of any party caused by, or arising out of, the use of motor vehicles including third-party risks and carrier's liability;
- (c) risks of loss of or damage to –
 - (i) vehicles used on land, including motor vehicles but excluding railway rolling stock or
 - (ii) such vehicles as are referred to in sub-paragraph (c)(i) while in the course of transportation by land, rail, air, sea or inland waterway;
- (d) risks of loss of or damage to merchandise, baggage and all other goods in transit by motor vehicle or trailer; or
- (e) risks of loss arising out of or in connection with the mechanical or electrical breakdown or failure of a motor vehicle, or any part thereof, under which insurance the purchaser of the motor vehicle is the assured;

“New Central Fund” means the fund held, managed and applied by the *Society* pursuant to the New Central Fund Byelaw (No. 23 of 1996);

“notifiable event” has the meaning given in paragraph 4 of the Premiums Trust Fund and Regulating Trustee Byelaw (No. 22 of 1998);

“performance report” means either a *quarterly monitoring report* or a *supplementary monitoring report*;

“person” shall include any natural person, firm, partnership, corporation, association, or other body of persons (whether corporate or unincorporate);

“personal lines business” means insurance business of any nature in relation to which the insured has an insurable interest which satisfies both of the following requirements –

- (a) the insured must be an individual (which expression shall exclude any body whether corporate or unincorporate or any other legal person not being a natural person); and
- (b) the insured in concluding the contract of insurance must be acting –
 - (i) on his own behalf and (where appropriate) in his private capacity; or
 - (ii) on behalf of any member of his family ordinarily residing in his household; or
 - (iii) in furtherance of a business (other than the underwriting business of a *member*) carried on by him as a sole trader;

“premium income” means, in relation to a *member*, the aggregate of the premiums credited to him less, or net of, *qualifying reinsurance premiums*, brokerage, discount, commission, *premium tax* and returns;

“premium tax” means any tax charged upon or any monies withheld from a premium by or on behalf of any statutory, governmental, state, provincial or local governmental authority, body or official;

“premiums trust deed” means a trust deed, in the form for the time being required by the *Council*, constituting a premiums trust fund;

“qualifying quota share contract” means a reinsurance contract which satisfies the requirements specified by the *Franchise Board* in accordance with paragraph 36 of the Underwriting Byelaw (No. 2 of 2003);

“qualifying reinsurance premiums” means premiums paid by a *member* of a *syndicate* under a reinsurance arrangement which is a *qualifying quota share contract*;

“quarterly monitoring report” means a report prepared by a *managing agent* in accordance with paragraph 20 of the Underwriting Byelaw (No. 2 of 2003);

“quasi-individual member” means a *corporate member* whose members consist only of, or of nominees for, a single individual or a group of connected individuals (together with, in the case of a Scottish limited partnership, another person who is the general partner in that partnership) and for the purposes of this definition only –

- (a) a “group of connected individuals” means a group of individuals each of whom is a director or manager of, or a partner in, the *corporate member* or a close relative of any such person;
- (b) “close relative” means an individual's spouse, his children and step-children, his parents and step-parents, his brothers and sisters and his step-brothers and step-sisters;

“recognised accountant” means an individual or firm entitled to act as a recognised accountant in accordance with the Audit Arrangements Byelaw (No. 7 of 1998);

“registered individual” means an individual registered in accordance with paragraph 1 of the Individual Registration Byelaw (No. 3 of 1998);

“reinsurance to close” has the meaning given in paragraph 1 of Schedule 1 to the Syndicate Accounting Byelaw (No. 18 of 1994);

“requirements of the Council” means any requirement imposed by any byelaw or regulation made under Lloyd’s Acts 1871 to 1982 or under the authority given by any *premiums trust deed*, any code of practice, *underwriting guideline*, condition or requirement made or imposed or direction given under any such byelaw regulation or authority and any direction given under section 6 of Lloyd’s Act 1982, any requirement imposed by or under any agreement, deed or other instrument between Lloyd’s or the *Council* and any *member*, *underwriting agent*, or any trustee of any premiums trust deed, or by or under any undertaking in favour of Lloyd’s or the *Council* given by a *member*, any *underwriting agent* or any trustee of any *premiums trust deed*, and any other direction or requirement given or made by the *Council* under Lloyd’s Acts;

“run-off account” means a year of account which has not been closed as at the date at which it would normally have been closed in accordance with the policies and practices generally adopted in respect of the *syndicate* concerned;

“run-off closure plan” means a plan prepared by a *managing agent* in accordance with paragraph 77 of the Underwriting Byelaw (No. 2 of 2003);

“run-off contingency plan” means a plan prepared by a *managing agent* in accordance with paragraph 76 of the Underwriting Byelaw (No. 2 of 2003);

“run-off manager” means, in relation to a *run-off syndicate*, the *person* who has principal authority to negotiate or place contracts of reinsurance or negotiate and settle the payment of claims on contracts of insurance or reinsurance on behalf of the *members* of the *syndicate*;

“run-off monitoring report” means a report prepared by a *managing agent* which manages a *run-off syndicate* or a *run-off account* in accordance with paragraph 85 of the Underwriting Byelaw (No. 2 of 2003);

“run-off syndicate” means a *syndicate* which no longer accepts new or renewal insurance business (other than the variation or extension of risks previously underwritten, or *reinsurance to close* of an earlier year of account of that *syndicate*);

the “Society” means the Society incorporated by Lloyd’s Act 1871 by the name of Lloyd’s;

“substitute agent” means a person or body appointed in accordance with the Substitute Agents Byelaw (No. 20 of 1983) or in accordance with part K of the Underwriting Byelaw;

“supplementary monitoring report” means a report prepared by a *managing agent* in accordance with paragraph 21 of the Underwriting Agents Byelaw;

“syndicate” means a *member* or group of *members* underwriting insurance business at Lloyd’s through the agency of a *managing agent* or a *substitute agent* to which a syndicate number is assigned by the *Council*. Except where it is expressly otherwise provided the several groups of *members* to which in different years a particular syndicate number is assigned by or under the authority of the *Council* shall be treated as the same *syndicate*, notwithstanding that they may not comprise the same *members* with the same individual participations;

“syndicate allocated capacity” means, in relation to a *syndicate*, the aggregate of the *member’s syndicate premium limits* of all the *members* for the time being of the *syndicate*;

“syndicate premium income” means, in relation to a *syndicate*, the aggregate of the *member’s syndicate premium income* of all the *members* for the time being of the *syndicate*;

“transferor” has the meaning given in relation to an *approved transfer agreement* in the Conversion and Related Arrangements Byelaw (No. 22 of 1996);

“underwriting” shall, unless the context otherwise requires, mean the business of underwriting and all related activities including the acceptance of risks, the purchasing of reinsurance and the settlement and payment of claims and the word “underwrite” shall be construed accordingly;

“underwriting agent” means a *managing agent* or a *members’ agent*;

“underwriting guidelines” means the guidelines made and issued by the *Franchise Board* under paragraph 24 of the Underwriting Byelaw (No. 2 of 2003).

Underwriting Agents Byelaw

2. Every reference in the *requirements of the Council* to a definition set out in the Underwriting Agents Byelaw (No. 4 of 1984) shall be deemed to be a reference to this Byelaw.

Revocation

3. The Glossary Byelaw (No. 8 of 2001) is revoked.

Commencement

4. This byelaw shall come into force on 1 July 2003.

Notes

These notes, the note setting out the purpose of this Byelaw and the paragraph headings are for guidance only and do not form part of the Byelaw.

RUN-OFF GUIDELINES

1. Explanatory Note

- 1.1 These run-off guidelines are intended to assist managing agents who manage syndicates in run-off to plan and conduct run-offs efficiently and cost-effectively. They are also intended to ensure that Lloyd's is able to obtain the information needed to manage the franchise properly and enable it to take appropriate action to protect the franchise, should that be necessary.
- 1.2 Lloyd's seeks to achieve these objectives by assisting managing agents to adopt best practice in the conduct of their run-offs. The Franchise Performance Directorate ("FPD") will always seek to agree the best approach first. This usually requires professional advice to develop appropriate plans and high quality reporting to ensure the delivery of such plans.
- 1.3 These run-off guidelines are intended to set out the steps that a managing agent will ordinarily be expected to follow when –
 - a. the managing agent considers that there is a reasonable prospect that a syndicate under its management will, within the foreseeable future, permanently cease to underwrite new contracts of insurance and be placed into run-off;
 - b. the managing agent has taken the decision to permanently cease underwriting new contracts of insurance on behalf of a syndicate, other than by reason of a Lloyd's approved merger, and place it into run-off either immediately or at some point in the future. In these guidelines, such a syndicate is referred to as a "Run-Off Syndicate";
 - c. managing a Run-Off Syndicate; and
 - d. managing one or more syndicate years of account which have not been reinsured to close after 36 months but where the syndicate continues to underwrite for the current year of account. In these guidelines, such a syndicate is referred to as a "Run-Off Account".

1.4 These run-off guidelines are intended to assist managing agents properly to protect the interests of the members of the syndicate in question, policyholders and Lloyd's, including the New Central Fund.

2. Obligation to keep the viability of syndicates under review

2.1 The decision to place a syndicate into run-off can have very serious consequences for the members of the syndicate, the managing agent and Lloyd's. Accordingly, the board of directors of a managing agent must keep the viability of each syndicate under its management under continuous review.

2.2 In order to encourage the best business practice in this regard, the board of directors should consider regularly whether there is a reasonable prospect that a syndicate under its management will, within the foreseeable future and for a period not less than 12 months, permanently cease to underwrite new contracts of insurance and reinsurance, and so be placed into run-off. The board's considerations should be fully minuted.

2.3 In the event that the board of directors has any concern about the future viability of any syndicate under its management, the compliance officer must immediately inform the FPD and provide such additional information as will be necessary for the FPD to assess the position.

2.4 The FPD will ordinarily seek to meet with representatives of the managing agent as soon as possible to discuss the position in an open and constructive manner.

2.5 As soon as a managing agent decides that a syndicate under its management is to cease underwriting, the managing agent will have 60 days to prepare a detailed Run-Off Closure Plan, in accordance with Regulatory Bulletin 28/2000 and Lloyd's letter to all agents of 18 December 2002. The FPD will normally require the managing agent to prepare an interim plan, both before and after entering run-off, and also to discuss the contents of the Run-Off Closure Plan before it is finalised. These requirements are laid out more fully in Sections 3 and 4 below.

3. Steps to be taken prior to run-off - preparation of a Run-Off Contingency Plan

3.1 If, following the meeting between the FPD and the managing agent, it is concluded that there is a reasonable prospect that a syndicate will be placed into run-off at some point in the foreseeable future, the managing agent will ordinarily be required to

prepare a Run-Off Contingency Plan. The managing agent will also usually be expected to –

- a. obtain professional run-off advice to assist it in the preparation of the Run-Off Contingency Plan;
- b. appoint a director to have the day to day responsibility for the preparation and review of the Run-Off Contingency Plan.

3.2 The information in the Run-Off Contingency Plan is set out in two parts. Part A includes information relating to the management of the syndicate whilst it continues to underwrite. Part B includes information relating to the management of the syndicate following a decision to place the syndicate into run-off. Lloyd's issues separate guidance on the detailed contents of the Run-Off Contingency Plan, which will be available from the FPD in due course.

3.3 Once the Run-Off Contingency Plan has been prepared and agreed with the FPD, the managing agent will be expected to manage the operation of the syndicate in accordance with the plan.

4. Where a Syndicate is placed into Run-Off

4.1 This can happen in a number of situations –

- a. where a managing agent has decided to place a syndicate into run-off with immediate effect where this had not been foreseen by the managing agent and no Run-Off Contingency Plan has been prepared (an “Unplanned Run-Off”);
- b. where a syndicate has been placed into run-off with immediate effect where a Run-Off Contingency Plan has been prepared (a “Planned Immediate Run-Off”);
- c. where a managing agent has taken the decision to place a syndicate into run-off at some determined date in the future (a “Planned Delayed Run-Off”).

An Unplanned Run-Off

4.2 It is expected that an unplanned run-off will be highly unusual if managing agents comply with their obligations under section 2 above. In the event that a managing agent convenes a board meeting for the purposes of deciding whether to place a syndicate into run-off with immediate effect and where the FPD is not already on notice of this, the compliance officer must immediately notify the FPD and provide such additional information as will be necessary for the FPD to assess the position. An urgent meeting between the managing agent and the FPD will usually be

convened prior to the board meeting, in order to discuss the position in a constructive manner.

- 4.3 It is recommended that the managing agent receive, prior to or at the board meeting, legal advice relating to all its obligations, including its obligations under the relevant managing agent's agreements with the members of the syndicate and under Lloyd's rules generally.
- 4.4 There are actions required in the early stages of a run-off in order to ensure that the run-off is conducted in an efficient manner. These actions will be discussed with the FPD at an early stage, and the managing agent will ordinarily be required to prepare and implement a plan in the form of Part B of the Run-Off Contingency Plan (see Paragraph 3.2) and a Run-Off Closure Plan. The managing agent will also ordinarily be required to obtain professional run-off advice to assist in the preparation of those plans and to appoint a director to have day to day responsibility for the preparation, review and implementation of the Run-Off Closure Plan.
- 4.5 The managing agent will ordinarily have 60 days in which to finalise the Run-Off Closure Plan. However, during that period, the managing agent will ordinarily be required to report to the FPD regularly on the implementation of Part B of the Run-Off Contingency Plan and on the progress towards completion of the Run-Off Closure Plan.

A Planned Immediate Run-Off

- 4.6 A managing agent will normally have developed its Run-Off Contingency Plan as the prospect of run-off increases so that it includes greater detail in respect of Part B (information relating to the management of the syndicate following a decision to place the syndicate into immediate run-off).
- 4.7 The managing agent may have prepared a Run-Off Closure Plan. If not, the managing agent will be required to do so, in accordance with regulatory Bulletin 28/2000 and Lloyd's letter to all agents of 18 December 2002.
- 4.8 If it has not already done so, the managing agent will ordinarily be required to obtain professional run-off advice to assist it in the preparation of the Run-Off Closure Plan and to appoint a director to have the day to day responsibility for the preparation and review of the Run-Off Closure Plan.
- 4.9 The managing agent will ordinarily have 60 days in which to finalise the Run-Off Closure Plan. However, during that period, the managing agent will ordinarily be required to report to the FPD regularly on the implementation of Part B of the Run-

Off Contingency Plan and on the progress towards completion of the Run-Off Closure Plan.

A Planned Delayed Run-Off

- 4.10 Where the managing agent decides following a meeting with the FPD that a syndicate will cease underwriting at some future date (“the effective date”), it will ordinarily be required to take the following actions –
- a. prepare and submit to the FPD a short-term management plan. This will address the management of underwriting up to the effective date, so as to minimise the cost and duration of the run-off. The short-term management plan should include the information referred to in Part A of the Run-Off Contingency Plan. Managing agents will be expected to manage the syndicate and its underwriting in accordance with this plan;
 - b. prepare and submit to the FPD a short-term action plan, based on Part B of the Run-Off Contingency Plan (Information relating to the management of the syndicate following the decision to place the syndicate into immediate run-off);
 - c. prepare and submit to the FPD a Run-Off Closure Plan (see paragraph 2.5 above).
- 4.11 The timing of the preparation and submission of each of the plans will be discussed with the managing agent and monitored by the FPD.

5. General approach to Run-Off Syndicates and Accounts

- 5.1 Every managing agent managing a Run-Off Syndicate or a Run-Off Account must seek to close the relevant years of account at the earliest possible time consistent with the proper performance of its duties as managing agent of the syndicate. The managing agent must adopt objectives, strategies and plans supporting and evidencing adherence to this requirement.
- 5.2 The FPD will therefore expect a managing agent to adopt a professional project management approach to the management of run-off. In particular, the managing agent will ordinarily have to –
- a. consider who is best placed to manage the run-off and whether the appointment of a substitute agent or a run-off company would be appropriate;

- b. keep the suitability of the Run-Off Closure Plan under continuous review, amend the plan as necessary and manage the run-off in accordance with the Run-Off Closure Plan.

6. Who should manage and conduct the Run-Off?

Substitute agents

- 6.1 Whenever a managing agent proposes to leave a year of account open as a Run-Off Account or to place a syndicate into run-off, the FPD will undertake a review of the managing agent to determine whether the managing agent is the most appropriate person to manage the run-off having particular regard to the interests of –
 - a. policyholders;
 - b. any unaligned members of the syndicate (having consulted with them through their members' agents); and
 - c. the interests of any member of the syndicate supported by payments from the New Central Fund.
- 6.2 If the FPD considers that the managing agent may not be the most appropriate person to manage the run-off and that the appointment of a substitute agent may therefore be in the interests of the members and policyholders of the syndicate, it will seek to agree an appropriate course of action with the managing agent. In the absence of agreement, the FPD may make arrangements to appoint the most appropriate person to manage the run-off.

Run-off companies

- 6.3 The Run-Off Companies' Byelaw provides that a managing agent may delegate any of its executive functions, insurance functions and administration and processing functions to an approved run-off company.
- 6.4 In every case, a managing agent which is to manage a Run-Off Syndicate or a Run-Off Account, must consider whether to delegate some or all of the conduct of the run-off to an approved run-off company.
- 6.5 The board of directors of a managing agent must give careful consideration to the following factors when deciding whether to delegate any of its functions –
 - a. the interests of the members and policyholders of the syndicate;
 - b. the skills, experience and resources of the managing agent to manage and conduct the run-off efficiently;

- c. how the managing agent will manage any conflicts of interest identified in the Run-Off Closure Plan.
- 6.6 The above factors should be set out in writing and must be discussed with the FPD in advance of the board meeting at which any delegation may finally be decided. The FPD will seek to work with the managing agent in its analysis of these factors.
- 6.7 The managing agent should identify suitable approved run-off companies which would be prepared to conduct the run-off. The managing agent should discuss its choices with the FPD and consider whether a formal tendering process should be commenced. The FPD can assist managing agents and will be able to provide guidance on matters that must be included in all run-off agreements.
- 6.8 The managing agent will ordinarily be required to notify the FPD of its board's decision with regard to delegation and set out its reasons for the decision. The FPD will review the decision with the managing agent, and may require the managing agent to review its decision or, exceptionally, direct the managing agent to adopt a different run-off strategy with regard to delegation.

7. The Management and conduct of Run-Off Syndicates and Accounts

Responsibility of the managing agent

- 7.1 In every case, the managing agent is responsible to the members of the syndicate for the management of the run-off notwithstanding that a run-off company has been appointed. Accordingly, the managing agent must adopt proper procedures and controls to monitor, control and actively manage any run-off companies appointed by it.
- 7.2 The managing agent and approved run-off companies must in all cases continue to have regard to the relevant Codes of Practice relating to Sound and Prudent Management, Compliance with Regulatory Requirements and Managing Underwriting Risk (in particular, the supervision of claims, administrative and accounting staff, managing the reinsurance programme, settling and paying claims and determining reserves and premiums for reinsurance to close).
- 7.3 In addition, managing agents and approved run-off companies must properly plan and manage –
- a. the cost-effective mitigation of unexpired risk;
 - b. agreement and settlement of claims;

- c. the resources required to conduct the run-off according to the Run-Off Closure Plan;
- d. financial management;
- e. reporting against the Run-Off Closure Plan to the board, members and the FPD.

Further detail of each of these is set out in Sections 8 to 12 below.

8. Exposure Management

Cessation of underwriting

8.1 This will usually include the following –

- a. immediately terminating the existing authority of directors, officers and employees of the managing agent to –
 - i. enter into new contracts of insurance;
 - ii. amend, extend, endorse or renew existing contracts of insurance;
 - iii. enter into new delegated underwriting arrangements;
 - iv. amend, extend or renew existing delegated underwriting arrangements.
- b. immediately taking custody of all underwriting stamps;
- c. immediately terminating lineslips on which the relevant syndicate participates;
- d. seeking to terminate other delegated underwriting arrangements as soon as possible;
- e. delegating limited authorities to directors and senior employees in accordance with the Run-Off Contingency Plan or Run-Off Closure Plan.

8.2 The FPD will provide managing agents with guidance as to how they may achieve the matters set out above when they prepare either the Run-Off Contingency Plan or the Run-Off Closure Plan.

Identifying and recording contracts of insurance that have been underwritten

8.3 The FPD considers that it is essential for the professional project management of run-off that managing agents maintain full, accurate and complete records of all contracts of insurance underwritten by the syndicate. These records will include slips, contract wordings and records relating to contracts written under delegated underwriting arrangements.

- 8.4 The review, verification and where appropriate the completion of these records forms a key element of the Run-Off Contingency Plan and the Run-Off Closure Plan. However, if there remain any material errors or omissions in the managing agent's records at the commencement of a run-off the managing agent must complete and verify the records as a matter of the highest priority. The managing agent will be expected to be able to demonstrate the adequacy of the records to the FPD early in the run-off.

Cancelling, commuting and replacing contracts of insurance

- 8.5 Managing agents should carefully review all contracts of insurance underwritten by the syndicate to determine whether there is any scope for seeking to cancel, commute or replace those contracts, in accordance with the wording of the contracts. Considerable care must be taken at all times to ensure that any proposed step will not adversely affect the members of the syndicate or the reputation, ratings or licences of the Society. Where necessary, all proposed steps which may have that effect must first be discussed with and agreed by the FPD before any action is taken.

Effective use of reinsurance

- 8.6 This will usually include the following –
- a. assessment of the likelihood of loss and probable quantum arising from the syndicate's underwriting;
 - b. identification of all existing contracts of reinsurance for the benefit of the syndicate in question and the assessment of all restrictions and limitations in respect of those reinsurances;
 - c. assessment of the adequacy of those reinsurances having regard to all of the contracts of insurance and reinsurance underwritten by the syndicate, remaining coverage, reinsurance security, and disputes; and
 - d. consideration of the prudence and cost effectiveness of purchasing additional reinsurance and the availability of such reinsurance.
- 8.7 Managing agents should consider in any proposed reinsurance purchase that the appetite for risk of the members of the syndicate may have changed, following the cessation of underwriting, and that as the syndicate is now in run-off, it should not normally be seeking to accept additional risk through amendments to its approach to reinsurance.

9. Claims Management

9.1 Management of claims will usually include the following:

- a. immediately terminating the existing authority of directors, officers and employees of the managing agent to –
 - i. agree or decline in whole or part new claims;
 - ii. agree, decline or amend in whole or part existing notified claims;
 - iii. compromise claims;
 - iv. negotiate on behalf of the syndicate in respect of disputes or contentious claims.
- b. immediately terminating delegated claims authorities, where possible, and where alternative procedures have been put in place.
- c. delegating limited claims agreement authorities to directors and senior employees in accordance with Lloyd's relevant Codes of Practice, but excluding any authority to make ex-gratia or other payments for which there is no legal liability unless the FPD has given its approval for such payments.

10. Resources

Human resources

10.1 Where a syndicate goes into run-off there is a risk that staff who are essential to the effective management of the run-off will leave. Accordingly, the managing agent must –

- a. identify members of staff with skills, knowledge and experience that are essential to the effective management of the run-off;
- b. take steps to secure the ongoing services of such staff;
- c. identify any additional skills and experience required; and
- d. take steps to secure access to such skills and experience.

10.2 The adequacy of human resources should be kept under continuous review by the managing agent during the course of the run-off.

IT systems

- 10.3 Managing agents should secure access to the necessary IT systems, including hardware, software and data at the earliest opportunity. The planning for this should be included in any plans required to be prepared under these guidelines.
- 10.4 Managing agents should give careful consideration to whether their systems are suitable for the purposes of run-off, and should normally take professional run-off advice on this matter. Nevertheless, before any material change is made, the board should approve it, after considering a detailed justification on cost and other grounds. Where a run-off agent is employed, the board should make the same consideration before permitting the run-off agent to transfer to another system.

11. Financial Management

- 11.1 Managing agents remain responsible for the efficient management and safeguarding of the syndicate's assets. Sound and prudent financial controls must be in place over the following –
- a. non-insurance assets, liabilities and solvency;
 - b. cashflow;
 - c. premium and reinsurance credit control;
 - d. investment management;
 - e. expenses.
- 11.2 As soon as possible, after the syndicate has entered run-off, managing agents should make a detailed assessment of the total cost of the run-off, identifying extra costs arising from the decision to cease underwriting. The assessment should be kept under continuous review and updated as appropriate. Matters to be considered include –
- a. claims reserves and the potential for deterioration;
 - b. bad debt provisions and the potential for deterioration;
 - c. future reinsurance costs;
 - d. the costs of the run-off;
 - e. any risk premium payable on reinsurance to close, or any other costs relating to closure of the run-off.

12. Planning & Reporting

Reporting to Lloyd's

- 12.1 Lloyd's has issued extensive guidance requirements to managing agents concerning run-off planning and reporting to Lloyd's, which managing agents are urged to consult.
- 12.2 Managing agents will also be subject to a monitoring regime appropriate to the size and risk inherent to the syndicates in run-off under their management. This regime may involve regular meetings with FPD and additional reporting. FPD makes a regular assessment of such risks based upon the planning and reporting prepared by the managing agent reporting to members.
- 12.3 Managing agents must continue to report as usual to members. They should also consider whether additional reporting would be of value to members and, where they consider that it would, they should provide it.

13. Contacts

- 13.1 In the event of any queries concerning this guideline, please contact Eric Allman (tel. 020 7327 6772) or Peter Spencer (tel. 020 7327 6099) in FPD.
- 13.2 If you need to contact FPD in connection with a possible or impending run-off, please contact Sarah Wilton (tel. 020 7327 5400) or Lorraine Adlam (tel. 020 7327 5552) in FPD.