

**FROM:** Manager, Education, Training & Development,  
Training Centre

**LOCATION:** 86/719

**EXTENSION:** 5677

**DATE:** 25<sup>th</sup> July 2003

**REFERENCE:** Y3102

**SUBJECT:** LLOYD'S MARKET SUPERVISION (FORMERLY  
LLOYD'S REGULATORY REQUIREMENTS)  
CHANGE IN SYLLABUS AND STUDY BOOK FOR  
OCTOBER 2003 EXAMINATION SESSION

**SUBJECT AREA(S):** The title of this examination will change to 'Lloyd's  
Market Supervision' from October 2003.  
A revised syllabus is operative immediately.  
A new study and work book is available immediately.  
ACII and Lloyd's Market Certificate (LMC) Tuition  
Programme.

**ATTACHMENTS:** New examination syllabus for Lloyd's Market  
Supervision.  
Details of ACII/LMC subject evening tuition  
programme at Lloyd's Training Centre.

**ACTION POINTS:** **Compliance officers:**

- 1. to advise candidates who are already  
registered or expect to register to sit this  
examination October 2003 to obtain new  
study material from the Chartered Insurance  
Institute (CII)**
- 2. to advise candidates who wish to undertake  
tuition for Lloyd's Market Supervision that  
the evening course will commence on the 6<sup>th</sup>  
August 2003**

**DEADLINE:** Effective immediately

## **Subject 920 Lloyd's Market Supervision (formerly Lloyd's Regulatory Requirements)**

The implementation of the franchise structure at Lloyd's and the FSA's decision since the beginning of 2003 to carry out more direct supervision of managing agents has necessitated substantial changes to the syllabus and study material for Lloyd's Market Supervision (formerly known as Lloyd's Regulatory Requirements) associateship examination of the Chartered Insurance Institute. The principal changes include the insertion of new chapters on the Franchise Board and Business Planning. The remaining chapters have also been re-ordered and their contents amended to reflect the implementation of the franchise.

Lloyd's Training Centre and the CII are aware of the relatively short time between the release of this new syllabus and course book and the October 2003 exam. Whilst every measure is taken to ensure that new material is released as quickly as possible, the changes that have been occurring mean this has been slower than candidates would like. We remain committed however to ensuring that study materials and the syllabus are as up to date and relevant as possible.

If you have not subscribed to the CII Examinations Study Book update service then please contact the CII's customer service team on 020 8989 8464 or email [customer.serv@cii.co.uk](mailto:customer.serv@cii.co.uk) to obtain a copy of the revised study material for the October 2003 examination in this subject.

### **Tuition for the Lloyd's Market Supervision**

Due to circumstances beyond our control the programme of tuition to support study for the Lloyd's Market Supervision examination will now commence on **6<sup>th</sup> August** and not 03 September as published in the LTC Directory of Courses for 2003. Please see the attachment to this bulletin for full details of the programme.

### **ACII and Lloyd's Market Certificate Tuition (See attachment)**

Tuition in the following subjects is available for the October 2003 examination session:

- 511 - Risk and insurance (with special reference to Lloyd's)
- 520 - Company and contract law and their application to insurance
- 785 - Principles of reinsurance
- 935 - Principles and practice of management in insurance and other financial services

**To book a place on any of the above study programmes please contact Murette Totten on 020 7327 5639, e-mail [murette.totten@lloyds.com](mailto:murette.totten@lloyds.com) or Rachel Bye, Tel: 020 7327 6290, e-mail [rachel.bye@lloyds.com](mailto:rachel.bye@lloyds.com). Lloyds' Training Centre Standard Terms and Conditions apply except for subject 920.**

This bulletin has been sent to compliance officers of all underwriting agents and Lloyd's accredited brokers.

**Terry Webb**

## **Lloyd's market supervision 920**

**Objective:** To develop an understanding of, and the ability to apply the requirements for, the effective management of the governance, regulation and conduct of business at Lloyd's.

### **Knowledge Ratings**

*Each sub-topic has been designated a numerical knowledge rating as follows:*

- 1 *General background awareness necessary.*
- 2 *Requires a knowledge of the major elements of procedures or concepts and their uses.*
- 3 *Requires the ability to evaluate concepts, issues, policies and procedures, together with an understanding of associated aspects of these items and their application to various situations.*

### **Regulation at Lloyd's**

The origins and purpose of financial services regulation – consumer protection, customer risk, clean and orderly financial markets and maintaining confidence in the financial system. 1

The FSA and Lloyd's – supervision arrangements, enforcement and co-operation arrangements. 1

The structure of governance at Lloyd's – the Council of Lloyd's (including voting rights), the Franchise Board, the recommendations for the future structure of Lloyd's from the Lloyd's Strategy Group 2002. 1

The legal framework of Acts, Byelaws and Codes of Practice underpinning governance at Lloyd's. 1

### **Lloyd's Franchise Board**

The structure of the Lloyd's franchise. 1

The franchise goals and the overriding, operating and capital principles. 2

The membership, functions, powers and responsibilities of the Franchise Board. 2

The functions, powers and responsibilities of the Market Supervision Advisory Committee, Underwriting Advisory Committee and Capacity Transfer Panel. 2

### **Business plans**

The nature and purpose of business plans, the FSA requirements for strategic plans and Lloyd's requirements for annual plans. 2

The purpose strategic plans, their underlying assumptions and identification of risks to the achievement of the plan. 2

The procedures for the approval, submission and monitoring of an agent's annual business plan. 2

The structure of the annual business plan – including the business plan parameters, the structure of the agent and target levels of capacity. 2

The financial projections required by the annual business plan – details of syndicate capacity, total gross premium, gross and net ultimate loss ratios, performance forecasts for premiums and ultimate loss ratios for each class of business to be written, cashflow forecasts and syndicate expenses. 3

The content of the underwriting plan including the distribution of business, the geographic split of business, internal descriptions of class of business, risk code mapping by class, rating forecasts, changes in business to be written, the underwriting controls to be used (eg absolute maximum, normal maximum and the gross and net retained lines to be written by class of business for current and future years), and the procedures for independent and peer reviews of underwriting. 3

The systems and controls to be used by the agent in measuring and monitoring catastrophe exposure, the reinsurance programme, reserving, forecast premium income by risk code, the management of delegated underwriting authorities, the management of multi-year policies, the management of investment risk and the management of third party credit risk. 3

### **Corporate governance**

The evolution and development of current attitudes to corporate governance – in particular

the evolution and development of the Combined Code (Turnbull) and the Turnbull principles. 2

The Lloyd's Core Principles and the FSA Principles of Business and their application – the composition and purpose of the board of an underwriting agent, the requirements for sound and prudent management, and the appointment of 'fit and proper' individuals to the board. 3

### **Operation of the underwriting agency boards**

The nature and purpose of the board – its terms of reference. 2

The conduct of board meetings – the roles and duties of the chairman, executive directors and non-executive directors (especially in providing an 'independent view') and other senior managers at the board meeting and with respect to attendance and preparation. 3

The role of the company secretary. 2

The structure and content of agendas and minutes – standing and regular items and reports to be considered and the distribution of board papers. 2

The structure, purposes and conduct of sub-committees of the board – in particular the Executive Committee, Investment Committee, the Syndicate Monitoring Committee and the Reinsurance Security Committee. 3

### **Duties and responsibilities of directors and managers**

The role and requirements of the chairman, executive and non-executive directors and the 'balance of the board'. 3

The compliance responsibilities of the board – compliance reporting to the board, delegation of compliance responsibilities to senior managers, control and accountability for senior managers, communication between the board and its senior managers and with respect to syndicates in 'run-off'. 2

### **The law of agency**

The law of agency as a fundamental legal principle underpinning contractual relationships at Lloyd's. 3

Agency agreements at Lloyd's – the standard agency agreement, contractual relationships between: a member and the member's agent, the member's agent and the managing agent and the member and the managing agent. 3

Corporate members and agency agreements. 2

The duties, services and obligations placed upon members, members' agents and managing agents by the standard agency agreement. 3

The role and purpose of the Agent's Syndicate List. 2

### **Operational risk at Lloyd's**

The Hampel report recommendations for good corporate governance. 2

Lloyd's Sound and Prudent Management – the measurement and mitigation of business and underwriting risks. 2

The role of syndicate business plans and syndicate forecasts in identifying, quantifying, monitoring and mitigating underwriting and operational risks. 3

The FSA and Lloyd's goals for protecting policyholders and members' assets. 2

The Lloyd's Code of Managing Underwriting Risk – underwriting requirements, responsibilities of the managing agents, determining the underwriting and reinsurance policy of each managed syndicate, supervision of the underwriter, claims and accounting staff, the acceptance of risk on behalf of syndicates, managing the reinsurance programme, settling and paying claims and reserving and reinsurance to close (RITC). 3

The management of delegated underwriting authorities – binders and coverholders, line slips and cargo covers, consortium underwriting, proportional treaties, and direct relationships with reinsurers. 3

### **The role of the compliance officer**

The nature and purpose of compliance at Lloyd's as the basis of sound and prudent management. 3

Core activities of the compliance function at Lloyd's including relationships with the FSA. 3

The role of the compliance officer at Lloyd's – job specification, terms of reference and qualifications and experience. 3

The compliance officer in action – managing internal relationships with the board and other

staff, managing external relationships with Lloyd's and the FSA and planning and controlling their work. 3

The annual compliance review – its purpose, what is tested and examined and the key areas for review. 3

The nature and regulation of money laundering. 2

Responsibilities of the money laundering reporting officer. 2

The Internet and compliance. 2

### **Controlled functions and approved persons**

The Controlled Functions and Approved Persons – FSA specification of controlled functions, and approved persons, including the Fit and Proper test requirements. 3

Individual registration requirements at Lloyd's. 2

Qualifications, experience and training and development requirements of incumbents of senior roles in underwriting agents. 3

### **Conduct of business**

The FSA principles of business and the Lloyd's core principles. 3

The application of the FSA's Conduct of Business (COB) to financial promotion and advising on syndicate participation at Lloyd's. 2

The nature and management of third party relationships. 2

Lloyd's codes of practice (see the section with the same title below for codes that should be read in conjunction with the main study text). 3

### **Solvency and reporting**

The Lloyd's Risk Based Capital model – definition, the nature and purpose of the Lloyd's RBC model, components of the RBC calculation, RBC and Funds at Lloyd's. 2

Lloyd's chain of security – the premium trust funds, funds at Lloyd's, other personal wealth, the New Central Fund and discretionary callable amounts. 3

Members' solvency – individual members' means, the members' annual solvency test, the duties of a members' agent, members' and Lloyd's prescribed surplus, managing agency obligations and the solvency return and managing a members' shortfall. 2

Lloyd's solvency – components of the Lloyd's solvency test. 2

Lloyd's New Central Fund – the origins and purpose of the new central fund, FSA requirements, claims and insurance of the fund, the purpose of 'net central assets' and the FSA requirements for minimum margins. 2

Admissible assets and liabilities – valuation of assets, definition of admissible assets and liabilities. 2

Syndicate results as the basis for solvency calculations – the reporting paths and timetable and actuarial opinions. 2

The nature and purpose of Lloyd's global returns. 2

The role of auditors. 2

### **Syndicate accounting**

The concepts of the 'annual venture' and the nature and purpose of the three year accounting cycle. 3

The legal framework for syndicate accounting at Lloyd's – the principal components and requirements of the syndicate accounting byelaws. 3

The structure of syndicate accounts – prudent basis of accounting, accounting policies, the core elements of the underwriting account, currency accounting, the profit and loss and balance sheet for syndicates, the purpose of the managing agents report, pure and closed years of account and accounting record requirements. 2

Reporting to members – the core components of the managing agent report to syndicate members. 3

The nature and purpose of the reinsurance resumé. 2

The nature and purpose of the Reinsurance to Close (RITC) process – the Lloyd's Code for Reserving risk, who is responsible for what, requirements for independent justification and documentation, RITC considerations and calculation, types of reserve and RITC and run-off. 3

Code for Management of Investment Risk. 3

## **Capacity transfers**

The nature and structure of the capacity transfer process at Lloyd's the auctions and other transfer mechanisms – the regulation of the auctions by the FSA and Lloyd's, the matching process and auction charges, mandatory offers, minority buyouts, syndicate pre-emptions and de-emptions and bilateral arrangements. 3

## **The disciplinary regime**

The legal framework. 2

The FSA and the disciplinary regime at Lloyd's. 1

The structure and the Lloyd's disciplinary procedures – the relevant byelaws, who is subject to the Lloyd's disciplinary regime, what constitutes misconduct and classification of disciplinary proceedings. 2

The disciplinary process at Lloyd's – commencement, the role of the Disciplinary Board, settlement procedures, judgement in default, key contested cases, formal proceedings, reasons for verdicts, appeals procedures and the appeal to the Council of Lloyd's. 2

## **Lloyd's codes of practice relating to governance and management**

Lloyd's Core Principles. 3

Sound and Prudent Management. 3

Managing Credit Risk. 2

Syndicate expenses. 2

Managing and Controlling Binding Authority Arrangements. 3

Standards of Compliance with Regulatory Requirements. 3

UK Personal Lines. 2

Managing Underwriting Risk. 3

Management of Reserving Risk. 3

Management of Investment Risk. 2

Other codes of practice:

Australia – Insurance Code of Practice. 2

ABI Code for the Selling of General Insurance. 2

Responsibilities to Members (Code for Members' Agents). 3

Advertising and Publications. 2

UK personal lines claims and complaints handling. 1

## **Lloyd's guidance on business conduct**

Advance Fee Fraud. 1

Money Laundering Procedures. 2

Service companies. 1

Consortium Underwriting Arrangements. 2

Internet Guidance. 3

Controls over Proportional Treaty Underwriting. 2

Agency Obligations of Lloyd's Managing Agents. 3

Fronting Arrangements. 2

Line Slips and Open Cargo Covers. 2

Managing Agent Controls over Syndicates Dealing Directly with their Coverholders. 2

The FSA Regulatory Regime: Notes for Compliance Officers. 3

## **Lloyd's byelaws and documentation**

Individual Registration Handbook. 2

Managing Agents Agreement. 2

Auction Byelaw (No 14 of 1997). 2

Agency Agreement Byelaw (No 8 of 1988). 1

Audit Arrangements Byelaw (No 7 of 1998). 1

Bilateral Arrangements Byelaw (No 8 of 1998). 3

Core Principles Byelaw (No 34 of 1996). 2

Disclosure Of Interests Byelaw (No 3 of 1984). 2

Major Syndicate Transactions Byelaw (No 18 of 1997). 2

Mandatory Offer Byelaw (No 5 of 1999). 1

New Central Fund Byelaw (No 23 of 1996). 2

Related Parties Byelaw (No 2 of 1986). 2

Solvency & Reporting Byelaw (No 13 of 1990). 2  
Syndicate Accounting Byelaw (No 18 of 1994). 2  
Syndicate Pre-Emption Byelaw (No 19 of 1997). 2  
Training & Development Byelaw (No 23 of 1998). 2  
Underwriting Agents Byelaw (No 4 of 1984). 2

### **FSA handbooks**

Statements of Principle and Code of Practice for Approved Persons (APER). 3  
Conduct of Business (COB). 3  
The Fit & Proper Test For Approved Persons (FIT). 3  
Lloyd's (LLD). 1  
Money Laundering (ML). 2  
Principles for Business (PRIN). 3  
Senior Management Arrangements, Systems and Controls (SYSC). 3

### **Study materials**

The following list provides details of various publications which may assist with your studies. The primary text for this syllabus is shown first. Periodicals and publications listed as additional reading will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. The reference materials cited are authoritative, detailed works which should be used selectively as and when required.

**Note:** The examination will test the syllabus alone. The reading list is provided for guidance only and is not in itself the subject of the examination.

Most of these additional study materials can be borrowed or purchased from CII Information Services. Go to [www.cii.co.uk/is](http://www.cii.co.uk/is).

### **Primary text**

***Lloyd's market supervision*. London: The CII. Coursebook 920.**

### **Additional reading**

*An Introduction to Lloyd's*. -2003. London. Lloyd's Training Centre. N.B. This forms the study material for the Lloyd's Introductory Test. Further details on how to obtain this material can be found on [www.lloydstraining.co.uk](http://www.lloydstraining.co.uk)  
*Lloyd's Market Practice*. Robert Brown & John Wormell. 1992. Witherby.  
*One Stop Director*. David Martin. 2000. The Institute of Chartered Secretaries and Accountants.  
*Company Secretarial Practice Manual*. David Venus. 1990. Butterworths.  
*Reinsurance Management*. L. Lucas, J. McLean, & P. Green. 1996. LLP Witherby's Dictionary of Insurance. 1987. Witherby.  
*Value From Governance*. 2001. Willis. The Risk Practice,  
*The Turnbull Report*. Guidance on Internal Control. Nigel Turnbull et al. 1999.  
*The Hampel Report Internal Control*. Sir Ronald Hampel et al. 1998. Institute of Chartered Accountants.  
*The Greenbury Report: Directors Remuneration*. Sir Richard Greenbury et al. 1995.  
*The Cadbury Report: The Financial Aspects of Corporate Governance*. Sir Adrian Cadbury et al. 1992.  
*Regulatory Arrangements at Lloyd's*. Sir Patrick Neill et al. 1986.  
*Self Regulation at Lloyd's*. Sir Henry Fisher et al. 1980.  
*OECD Principles of Corporate Governance*. Organisation of Economic Co-operation & Development.  
*Department of Trade & Industry Report concerning Alexander Howden*  
*Criminal Justice Act 1993* HMSO  
*The Companies Act 1985* HMSO  
*Directive of the European Parliament 73/239/EEC EC Insurance Groups Directive*.

### **Reference materials**

*Lloyd's Global results*. Annual London. Lloyd's.  
*Lloyd's: A Route Forward*. London. Lloyd's 1992.  
*Lloyd's Act 1982*. London HMSO, 1982.

*A New Structure of Governance for Lloyd's*. 1992. London. Lloyd's.  
*Lloyd's future direction*. London Lloyd's 1997.  
*Report of Lloyd's Regulatory Review Group*. 1997. London. Lloyd's.  
*Lloyd's Regulatory Plan for 1999*. London. Lloyd's.  
*Lloyd's Regulatory Report*. 1998. London. Lloyd's.

### **Web Sites**

Many of the FSA and Lloyd's specific publications cited can be downloaded from the following web sites.

[www.fsa.gov.uk](http://www.fsa.gov.uk)

[www.lloyds.com](http://www.lloyds.com)

Within this site a useful source of information and reference is the Market Bulletins which can be found under: [www.lloyds.com/bulletins.htm](http://www.lloyds.com/bulletins.htm)

### **Examination guides**

You are strongly advised to study these before the examination. Please visit [www.cii.co.uk](http://www.cii.co.uk) to buy online or contact CII Customer Service for further information on 020 8989 8464.



## ACII and Lloyd's Market Certificate Tuition

### Who would benefit?

These courses offer an opportunity for students to supplement their studies with expert tuition. Students are, however, expected to work concurrently through the distance learning material supplied by the CII tuition service. Courses are designed to support the student's own studies.

Tuition in the following subjects will be offered:

### **511 - Risk and Insurance (with special reference to Lloyd's)**

<b>Duration: 5.30pm-8.00pm</b>	<b>Fee: £280.00</b>
02 September 2003	30 September 2003
09 September 2003	07 October 2003
16 September 2003	14 October 2003
23 September 2003	

### **520 - Company and Contract Law and their Application to Insurance**

<b>Duration: 5.30pm-8.00pm</b>	<b>Fee: £280.00</b>
01 September 2003	29 September 2003
08 September 2003	06 October 2003
15 September 2003	13 October 2003
22 September 2003	

### **785 – Principles of Reinsurance**

<b>Duration: 5.30pm-8.00pm</b>	<b>Fee: £280.00</b>
04 September 2003	02 October 2003
11 September 2003	09 October 2003
18 September 2003	16 October 2003
25 September 2003	

### **920 - Lloyd's Market Supervision (Formerly Lloyd's Regulatory Requirements)**

<b>Duration: 5.30pm-8.00pm</b>	<b>Fee: £280.00</b>
06 August 2003	03 September 2003
13 August 2003	10 September 2003
20 August 2003	17 September 2003
27 August 2003	

### **935 - Principles and Practice of Management in Insurance and Other Financial Services**

<b>Duration: 5.30pm-8.00pm</b>	<b>Fee: £280.00</b>
04 September 2003	02 October 2003
11 September 2003	09 October 2003
18 September 2003	16 October 2003
25 September 2003	

To book a place on any of the above study programmes please contact Marett Totten on 020 7327 5639, e-mail [marette.totten@lloyds.com](mailto:marette.totten@lloyds.com) or Rachel Bye, Tel: 020 7327 6290, e-mail [rachel.bye@lloyds.com](mailto:rachel.bye@lloyds.com). Lloyd's Training Centre Standard Terms and Conditions apply.