

FROM: Iain Saville EXTN: 5932
DATE: 21 April 2005 REF: Y3547
SUBJECT: **Quality Assurance Checking for Binding Authority Contracts**
SUBJECT AREA(S): Update of the binding authority quality checking tool.
ATTACHMENTS: None

ACTION POINTS: **Broker and underwriter staff involved in preparing and placing contracts and endorsements to understand this bulletin's relevance to contract certainty, and make routine use of the tool on www.lloyds.com/qatool**

DEADLINE(S): **From 22 April 2005**

Introduction and Background

As part of the contract certainty project, Lloyd's is continuing to evaluate and streamline the checks performed on contract documentation. The first output in relation to binding authorities was issued on 23 December 2004 in the form of a web tool to help the market improve its knowledge and performance in this area. This bulletin notifies you that an update has been issued to the current version, following market feedback. It also provides background information on the project, and confirms that the complete set of checks for all business classes remains on track for publication at the end of June.

Quality checking of contracts is extremely important in containing risk and cost, and maintaining brand reputation, as follows:

- The risk of financial loss by underwriters and/or brokers, through the costs of unanticipated claims, dispute resolution etc
- The risk of loss to the NCF caused by avoidable claims attributable to poorly constructed contracts
- The risk of compromising international licences and trading privileges
- The costs of inefficient post-placing processing (policies and premiums)
- The maintenance of brand value by providing well constructed, clear and high quality documentation.

Bureau rejection rates demonstrate that standards of compliance in all these areas need to be higher.

Each franchisee is responsible for quality in relation to Lloyd's business. This quality should be engineered into placing, rather than left to the policy checking stage, after the contract has inception. Accordingly, Lloyd's broking and underwriting teams should check slips during the placing process to confirm that business is being placed in compliance with Lloyd's requirements.

An important strand in the market's contract certainty plan involves XIS undertaking checks during placing, or very shortly after signed lines. This process will be rolled out to substantially

the whole market, starting in June once current pilots are complete. The transition will be smoother and more efficient if all brokers and underwriters alike understand and use the QA tools¹ – which include and describe all the checks that XIS undertake.

This will lead to a much higher proportion of contracts and policies being signed first time by XIS, which will improve efficiency. It is also relevant to contract certainty, in that queries can often mean the contract is uncertain, even though the underwriters and client may have agreed to its terms, which could result in financial and/or reputational loss to Franchisees or the Franchisor. Remediation through re-broking is resource-intensive and can damage the reputation of the broker and underwriters in the client's eyes.

Since the quality checking standards are critical to the Lloyd's market they will be kept fresh, under change control, and reflected in the online quality assurance tool (QA Tool).

Binding authorities

The first release of the QA Tool for binding authority contracts was published on lloyds.com towards the end of 2004. The web page is receiving many enquiries, reflecting the market's increasing use of it to manage quality in placing and endorsements.

As a signal of our commitment to keep the checks and the QA Tool refreshed, a second release is being published on 22 April 2005. This improved version has benefited from useful feedback from brokers, managing agents and XIS on release 1.

What has changed?

All changes have been highlighted to show whether they are additions, amendments or deletions, with entries in a new column containing the reason why the change has been made. Most of the changes are the result of clarifying the wording of previous checks.

The International Requirements section has been thoroughly revised and aligned to the country manuals and all current XIS checks. It now contains all countries where Lloyd's is licenced or has authorisation to trade.

We have decided to withdraw the requirement for the worldwide affidavit in relation to Lloyd's brokers acting as coverholders for binding authorities. Worldwide Markets will shortly release a separate Lloyd's market bulletin on this subject, with additional guidance on territorial approvals and correction completion of the contract.

Each check has now been allocated a category of query (A, B or C), which determines the action to be taken by XIS if an error is found. The aim is to help brokers and underwriters identify which queries need priority attention – in brief, those which affect the contract of delegation. Please note however that you should aim to pass all the checks. The User Guide tab on the QA Tool describes the three different categories in more detail.

Finally, a further additional column shows the department or directorate within the Franchisor that is responsible for each check. This gives you a point of contact for queries on specific checks. The User Guide tab on the QA Tool provides more details.

¹ The binding authority QA Tool published on 22 April and the open market equivalent QA Tool which will be available from the end of June.

Action Required

Each organisation needs to ensure that all those staff involved in handling binding authority contracts of delegation, whether in a front office placing or underwriting capacity or in a back office servicing role, have access to the updated QA Tool.

Compliance Officers in brokers and managing agents are asked to ensure that the appropriate teams within their organisation are made aware of this update and that staff are asked to start to use it to quality check any binding authority contracts of delegation that they are working on, whether during the placing and endorsement process, or during preparation for closing to Xchanging.

The QA Tool for binding authorities is located at www.loyds.com/gatool and the update will be available by close of day on 22 April.

Enquires and Feedback

A new email address has been set up for market practitioners to use to lodge any questions, issues or feedback on the QA tool. The address is QAtoolsenquiries@loyds.com. The web page also contains details of some contact names and telephone numbers for anyone who wishes to discuss the QA Tool in general or any of the checks listed.

This bulletin is being sent to Active Underwriters, Lloyd's brokers, Managing Agents and Compliance officers.

Head of Business Process Reform