

MARKET BULLETIN

From	Worldwide Markets Compliance (extn 5131)
Date	21 December 2006
Reference	Y3931
Subject	Coverholders: US territorial approval
Subject areas	Binding authorities: coverholders doing business in the US
Attachments	None
Action points	Lloyd's brokers and managing agents to note the approach set out in this bulletin
Deadlines	Binding authorities should comply with these requirements immediately.

Purpose of bulletin

This bulletin states that when the term "the US" is used in binding authority documentation, Lloyd's views it as including Illinois, Kentucky and the US Virgin Islands. Lloyd's is licensed in each of these states and territory.

If a binding authority slip schedule refers to "the US" and the coverholder does not have matching territorial approval, the slip could be rejected or queried by Xchanging.

Coverholders: territorial approval

All Lloyd's coverholders (other than restricted coverholders) require Lloyd's approval, including Lloyd's brokers who act as Lloyd's coverholders¹. A "standard" approval permits a coverholder to carry on business on behalf of Lloyd's underwriters in the coverholder's own territory².

Xchanging check binding authority slip schedules to ensure that the coverholder is approved for the territories from which it will obtain business. A coverholder's territorial approval is checked against

¹ Special arrangements apply to Lloyd's brokers approved before 1 April 2004.

² "Territory" means a jurisdiction granting licences to insurers. It therefore includes the US Virgin Islands and the US states of Illinois and Kentucky, where Lloyd's is licensed.

the following subsections of the slip schedule for the binding authority granted to it by a Lloyd's managing agent:

- Subsection 11.2 of non-marine binding authority agreements LMA 3018, LMA 3019 and LMA 3020³. This reads:

“The Coverholder is authorised to bind insurances only for insureds domiciled in the territory(ies) stated in the Schedule”.

- Subsection 11.1 of marine binding authority agreement LMA 3005. This reads:

“The Coverholder is authorised to bind insurances hereunder only for risks located or Assureds domiciled in those territories stated in the Schedule”.

The slip schedule is queried if the coverholder is not approved by Lloyd's for any territory that appears in these subsections.

Territorial approval and the US

Lloyd's has instructed Xchanging that, when checking the subsections detailed above, it should interpret the words “the US” (or similar wording) to mean the whole US, including the US states and territory in which Lloyd's is licensed: Illinois, Kentucky and the US Virgin Islands (USVI).

Lloyd's system of granting territorial approvals in the US differentiates between the three licences and the rest of the US. Lloyd's has four separate US coverholder territorial approvals:

- The US (other than Illinois, Kentucky and the USVI)
- Illinois [covering licensed and surplus lines business].
- Kentucky.
- The USVI.

Lloyd's requires a coverholder applying for territorial approval in Illinois, Kentucky and the USVI to sign addenda to their coverholder's undertaking. These set out specific requirements for doing business in the two states and the territory.

Separate territorial approvals help to protect Lloyd's licences, by ensuring that coverholders are aware of specific requirements for doing business on behalf of Lloyd's underwriters in Illinois, Kentucky and the USVI.

³ The references to the non-marine binding authority agreements above are to the new binding authority wordings, published by the LMA on 21 July 2006. The comparable sub-sections in the older wordings are worded slightly differently. Binding authorities for US coverholders will usually use the USA Non-Marine Binding Authority Agreement, LMA 3018.

The assumption that the term “the US” is intended to include all US states and territories is intended to promote clarity and to avoid misunderstandings by assuming that words and phrases have the meaning assigned to them in common use.

Consequences for US binding authorities

If a Slip Schedule is completed to show “the US”, “the United States” or any other appellation with the same meaning against the subsections detailed on page 2 of this bulletin, the coverholder must have the four Lloyd’s US territorial approvals set out above. If they do not have them, Xchanging will query the Slip Schedule.

To give the market time to adjust to this approach Xchanging is, for the next few months, treating every such case as a category C query reference. Signings will not be rejected, but the non-compliance will be brought to the notice of the broker. For binding authorities submitted to Xchanging that incept on or after 1 April 2007, this will be raised to a category A query reference, meaning that the signing will be rejected.

If a US coverholder does not possess Lloyd’s territorial approval for Illinois, Kentucky and the USVI, we recommend that it applies for such approval. If it does not do so, any binding authority granted to it under which it can accept US business should not permit it to do business in Illinois, Kentucky and the USVI. For example, if the binding authority wording used is LMA 3018, sub-section 11.1 should be completed to read “the US (other than Illinois, Kentucky and the USVI)”, or a similar wording. The prohibition on doing business in Illinois without territorial approval for Illinois applies to Illinois surplus lines insurance as well as to licensed business.

Complying with licensed and surplus lines business requirements

It is essential that a coverholder meets all the requirements for transacting insurance business in every US state in which they do business. A failure to do this could lead to its Lloyd’s coverholder approval being withdrawn.

We recommend that, before accepting any risks from Illinois, Kentucky and the USVI, the coverholder talks to Lloyd’s office in the state or territory concerned. Contact details are provided on page 4 of this bulletin.

An important requirement is the countersignature of insurance documentation. Any bordereau submitted to Xchanging for signing that includes one or more risks in Illinois, Kentucky and the USVI must include a copy of the associated counter-signed insurance documentation. If this is not included, the signing will be queried. The Illinois Binding Authority Premium Report also satisfies this requirement (contact info@loydsillinois.com for more information).

Guidance on conducting business in Illinois is available from Lloyd’s Illinois’ [Coverholder/ Binding Authority Guide.pdf](#) .

Further information

Contact details for Lloyd's offices in Illinois, Kentucky and the USVI are as follows:

Lloyd's Illinois, Inc.
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Chicago
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USA

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If you have any queries about Lloyd's business outside the UK please contact:

Lloyd's Worldwide Market Services
Tel: 020 7327 6677
Email: market.services@lloyds.com
Box 190b, Gallery 1

If you need to change the territorial approval of a coverholder please visit the page on www.lloyds.com entitled "Changing an approved coverholder's details". It is accessible through this link: www.lloyds.com/coverholderchanges. If you have any further questions contact:

Coverholders department
Tel: 020 7327 6275
Email: coverholders@lloyds.com

This bulletin has been sent to active underwriters and the compliance officers of managing agents and Lloyd's brokers.

Julian James
Director
Worldwide Markets