

MARKET BULLETIN

REF: Y4727

Title	Financial Crime/Sanctions Guidance for Coverholder Business
Purpose	To provide guidance on Lloyd's requirements for the Market's management of financial crime risk through delegated authorities.
Type	Event
From	Peter Montanaro, Head, Delegated Authority Team
Date	7 October 2013
Deadline	Immediate
Related links	See Appendix 1

The need to ensure compliance with Lloyd's Financial Crime requirements extends to underwriting through delegated authorities. This bulletin sets out the minimum standards that Lloyd's expects managing agents to meet in respect of their coverholders' compliance with sanctions and financial crime obligations.

The bulletin consolidates expectations previously communicated to managing agents. It provides risk matrices that will assist in assessing the compliance risk likely to be found in different delegated authority arrangements and it highlights a number of Financial Crime and Sanctions tools available to the market, which managing agents should encourage their coverholders to use.

This bulletin applies to delegated authority arrangements, including binding service company business.

1. Risk Assessment

Taking account of available financial crime/sanction legal and regulatory crime guidance, managing agents should as a first step assess the financial crime/sanction risk posed by each of their coverholders in order to determine the level of controls needed to mitigate the risk.

To assist in assessing the level of risk associated with individual delegated authorities, Lloyd's has prepared three risk matrices, which may be of assistance to managing agents. These risk matrices, which can be found at Appendix 1, cover the three key areas: Sanctions, Anti-Money Laundering (AML), Anti-Bribery and Corruption (ABC) risk.

These risk matrices are intended to provide indicative results only and should not be relied on as the sole means of assessing a coverholder's financial crime/sanction risk. In particular, they only take into account a subjective view of the relevant territory and class of business as risk factors. Other risk factors to consider, depending on the specific financial crime risk being considered, include:

- The level of authority delegated, including claims settling authority
- The level of premium/volume of business bound
- The number of producers to the coverholder

Ultimately, managing agents will be best placed to understand any financial crime/sanctions risks posed by their own coverholders and should develop their own methodology for assessing the risks.

Example 1: In respect of sanctions, coverholder XYZ falls into the amber zone as it writes property business in Egypt, a territory that is currently subject to financial sanctions. In addition, they operate under a full binding or underwriting authority, including claims settling authority. Therefore, in view of the territory and level of underwriting authority granted, XYZ might be assessed as a 'high risk' coverholder overall.

2. Financial Crime/Sanctions – Minimum Standards

The following three sub-headings set out the minimum standards for compliance that Lloyd's expects of managing agents in each of the three main areas of financial crime/sanctions risk (sanctions, AML, bribery and corruption). Managing agents may elect to adopt higher standards, based on their own risk appetite.

Lloyd's expectations for compliance are set out in greater detail below each of the risk matrices in Appendix 1.

The following four bullet points set out the key considerations for managing agents:

- Binding authority agreement - Managing agents should ensure there is an appropriate financial crime clause in each binding authority agreement entered into with coverholders.
 - LMA 3113, LMA 3114 and LMA 3114 each contain a suitable clause based on LMA 5173 which meets Lloyd's expectations. This clause should be included in all binding authority agreements and should not be amended in a way that may offer any less assurance of compliance.
- Coverholder written procedures - Managing agents should ensure that coverholders have written procedures to manage financial crime/sanctions risks.

- Lloyd's has prepared a model financial crime/sanctions compliance manual suitable for use by coverholders. A copy of the manual is available on request by contacting your Delegated Authorities account executive.
- Coverholder training – Managing agents should ensure that all relevant staff at each coverholder has undertaken suitable training, by requiring an assurance from the coverholder or confirming via the audit process.
 - Lloyd's has made available online training modules for coverholders to provide to their staff. As a minimum, managing agents should ensure that all relevant staff complete these modules. Managing agents and coverholders wishing to access the online training can do so via Lloyds.com, at the following links:

[Sanctions eLearning Module](#)

[Bribery & Corruption eLearning Module](#)

[Anti-Money Laundering eLearning Module](#)

Audits – Managing agents should ensure that coverholder audits should include a review of the coverholder's financial crime/sanctions controls and procedures. The review should be commensurate with the assessed level of risk of the coverholder.

- Lloyd's updated standard audit scope, to be issued shortly, will include questions that meet Lloyd's minimum expectations for coverholder audits.

- Sanctions

- At a minimum, managing agents should understand the sanctions checking capability of their coverholders and at what point in the lifecycle of a policy the checks are carried out. This should be appropriate to the coverholder's risk profile, and should be formalised in written procedures. This should also be subject to regular review.
- Lloyd's has published Sanctions Due Diligence Guidance for Lloyd's Market to outline the general expectations with regards to due diligence as it related to insurance. Managing agents should be aware of Section 2.4 of [Lloyd's Sanctions Due Diligence Guidance](#), as it relates to coverholders, and should apply this guidance to their coverholders, where relevant
- Managing agents should consider that any coverholders who are assessed as high or medium risk for sanctions are subject to an annual audit of their sanctions compliance controls.
- Managing agents should consider that where any coverholders are assessed as high risk for sanctions, whether all certificates issued under the binding authority must include a sanctions clause.

- Managing agents must ensure that key coverholder staff complete the online sanctions e-learning module or satisfy themselves that similar training has been undertaken, to a similar standard. .

- Anti-Money Laundering

- Managing agents should ensure that their coverholders have written procedures covering the recognition and reporting of suspicious transactions.
- Managing agents should ensure that all coverholders have designated a person to receive, consider and report any suspicions identified by staff, as well as to conduct staff training, undertake record keeping and promote awareness regarding money laundering prevention.
- Managing agents should ensure that any coverholders who are assessed as medium risk or above for money laundering are subject to an annual audit of financial crime controls.
- Managing agents must ensure that key coverholder staff complete the online money laundering eLearning module.
- In view of the particular considerations that apply in this class, any coverholder writing term life insurance should be treated as high risk for money laundering and must demonstrate that it has commensurate procedures covering due diligence, dealing with politically exposed persons (“PEPs”) and detailing their compliance with any country-specific AML requirements.

- Bribery and Corruption

- Managing agents must ensure that key coverholder staff complete the online anti-bribery e-learning module.
- Managing agents must ensure that all coverholders have a suitable anti-bribery policy in place.
- Managing agents should ensure that any coverholders who are assessed as medium risk or above for bribery and corruption are subject to an annual audit of financial crime controls.

Example 2: Coverholder DEF has been assessed as medium risk in respect of sanctions but low risk for AML and bribery & corruption. Its managing agent should ensure that DEF has a process for screening for sanctions matches prior to making any claims payments, and review this annually with the coverholder. In addition, DEF should have a named person responsible for AML, and a written policy covering suspicious transaction reporting. DEF will also need to ensure key staff complete the anti-bribery eLearning module and that there is an anti-bribery contractual clause in the binding authority.

3. Tools available for Lloyd's coverholders

Lloyd's has developed a number of tools to assist coverholders with financial crime compliance. The current suite of tools is summarised at Appendix 2 along with details of how to access these tools. Managing agents are encouraged to use these tools and to share them with their coverholders as they consider appropriate.

4. Further information

If managing agents have questions regarding this bulletin they should contact their Delegated Authorities account executive in the first instance.

For further information about Lloyd's requirements for financial crime/sanctions compliance managing agents can visit Lloyds.com or alternatively contact: Lloyd's International Trading Advice (email: LITA@lloyds.com; tel: +44 (0)20 7327 6677)

Appendix 1 – Financial Crime Coverholder Risk Matrices and Guidance Notes

SANCTIONS

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

Definitions:

‘No sanctions’ means the business written by the coverholder is limited to countries where there are no country, trade or targeted sanctions in place.

‘Targeted sanctions’ means the business written by the coverholder is limited to either countries with no sanctions, or countries where there are sanctions against specific people or companies (eg. Sudan)

‘Country prohibition’ means the business written by the coverholder includes countries where there are trade sanctions applicable to the country (eg. Iran).

Overall, the risk should be assessed with reference to the:

- Class of business; as some classes of business are recognised as posing higher sanctions risks, due to the nature of the cover, for example marine business

- The country or countries where the coverholder is authorised to bind business located, and if any sanctions regimes apply to the country, be it targeted or trade sanctions.

Expectations for High Risk (Sanctions)	Expectations for Med Risk (Sanctions)	Expectations for Low Risk (Sanctions)
The coverholder must perform sanctions checks prior to binding business , as well as prior to making any payment	The coverholder must perform sanctions checks prior to making any payment	The managing agent must be aware of what sanctions checks are performed by the coverholder prior to the payment of claims, document the position and reconsider it regularly (at least annually)
The managing agent should be aware of what sanctions checks the coverholder performs, document this position and reconsider it regularly (at least annually)	The managing agent should be aware of what sanctions checks the coverholder performs, document this position and reconsider it regularly (at least annually)	
This should take into account the managing agent's risk appetite	This should take into account the managing agent's risk appetite.	This should take into account the managing agent's risk appetite.
Key staff should complete Lloyd's Sanctions eLearning module.	Key staff should complete Lloyd's Sanctions eLearning module.	Key staff should complete Lloyd's Sanctions eLearning module.
Managing agents should also conduct an audit to review the financial crime controls, in line with Lloyd's standard audit scope – any decision not to conduct such an audit should be documented.	Managing agents should also conduct an audit to review the financial crime controls, in line with Lloyd's standard audit scope – any decision not to conduct such an audit should be documented.	
Managing agents should ensure that all certificates issued under the binding authority include a sanctions clause where the territorial scope of the binding authority extends beyond the EU or the US.	Managing agents should consider whether certificates issued under the binding authority needs to include a sanctions clause where the territorial scope of the binding authority extends beyond the EU or the US.	

SUSPICIOUS FINANCIAL TRANSACTIONS (INCLUDING MONEY LAUNDERING)

Class of Business	<u>The Financial Action Task Force ('FATF') List of High Risk and Non-cooperative jurisdictions</u>					
	<u>Countries on neither list</u>	<u>Countries on the 'on-going progress' list</u>	<u>Countries deemed high risk by virtue of appearing on the 'Public Statement' list</u>			
Professional Indemnity	Green	Yellow	Yellow			
Personal Accident						
Medical						
Employers Liability						
Space						
Directors and Officers						
Financial Institutions						
Aviation						
Engineering						
Nuclear						
Energy						
Motor						
Property						
Marine Liability				Yellow	Yellow	Yellow
Marine Hull						
Livestock and Bloodstock						
Jewellers Block						
Marine Cargo						
Fine Art & Specie						
Life	Red	Red	Red			

Expectations for High Risk (AML)	Expectations for Med Risk (AML)	Expectations for Low Risk (AML)
The coverholder should have written procedures covering the recognition and reporting of suspicious transactions, including the appointment of a designated person to receive, consider and report any suspicions identified by staff, as well as conduct staff training, promote awareness and manage record keeping.	The coverholder should have written procedures covering the recognition and reporting of suspicious transactions, including the appointment of a designated person to receive, consider and report any suspicions identified by staff, as well as conduct staff training, promote awareness and manage record keeping.	The coverholder should have written procedures covering the recognition and reporting of suspicious transactions, including the appointment of a designated person to receive, consider and report any suspicions identified by staff, as well as conduct staff training, promote awareness and manage record keeping.
Key staff should complete the Lloyd's eLearning module.	Key staff should complete the Lloyd's eLearning module.	Key staff should complete the Lloyd's eLearning module.
Managing agents must also conduct an audit of their coverholder's financial crime controls, in line with Lloyd's standard audit scope – any decision not to conduct such an audit should be documented. .	Managing agents must also conduct an audit of their coverholder's financial crime controls in line with Lloyd's standard audit scope – any decision not to conduct such an audit should be documented.	
The coverholder have in place written procedures setting out their due diligence procedures, enhanced due diligence procedures, and process for dealing with PEPs.		
The coverholder must have in place written procedures detailing their compliance with any country-specific AML requirements – for example, coverholders writing Spanish life business.		

BRIBERY & CORRUPTION

Class of Business	Transparency International 'Corruption Perceptions Index' Ranking		
	80 - 100	51 - 79	Less than 50
Employers Liability	Green	Yellow	Red
Life			
Motor			
Personal Accident			
Professional Indemnity			
Directors and Officers			
Financial Institutions			
Property	Yellow	Red	
Nuclear			
Fine Art and Specie	Yellow	Red	
Livestock and Bloodstock			
Jewellers Block			
Engineering			
Energy			
Marine Liability*			
Marine Hull*			
Marine Cargo*			
Aviation*			
Public Tender (any class)*			

* Particularly where there are fewer producers / introducers of the business into the coverholder in question.

Expectations for High Risk (B&C)	Expectations for Med Risk (B&C)	Expectations for Low Risk (B&C)
Managing agents must ensure that key staff completes the online anti-bribery eLearning module and that they have an anti-bribery policy in force.	Managing agents must ensure that key staff completes the online anti-bribery eLearning module and that they have an anti-bribery policy in force.	Managing agents must ensure that key staff completes the online anti-bribery eLearning module and that they have an anti-bribery policy in force.
Managing agents must ensure there is an appropriate anti-bribery contractual clause in the binding authority.	Managing agents must ensure there is an appropriate anti-bribery contractual clause in the binding authority.	Managing agents must ensure there is an appropriate anti-bribery contractual clause in the binding authority.
Managing agents must also conduct an audit of their coverholder's financial crime controls, in line with Lloyd's standard audit scope.	Managing agents must also conduct an audit of their coverholder's financial crime controls, in line with Lloyd's standard audit scope – any decision not to conduct such an audit should be documented.	

Appendix 2 – Summary of Financial Crime Training and Tools available to coverholders

Coverholder Tool	Description	Links
Coverholder Toolkit	Chapter 10 of the Coverholder Toolkit provides high level information and 'FAQs' for coverholders on the key areas of financial crime.	http://www.lloyds.com/~media/Files/The%20Market/1%20am%20a/Coverholders/Toolkit/Chapter10.pdf
Lloyds.com Guidance for Coverholders	More detailed guidance is available on Lloyds.com for coverholders, with more specific information on AML, sanctions and bribery & corruption	http://www.lloyds.com/the-market/operating-at-lloyds/regulation/economic-trade-and-financial-sanctions Review the 'Coverholder Expectations' tab for content.
eLearning Modules	Three eLearning modules can be found on Lloyds.com, which are designed for coverholders and are required to be completed by key staff. These cover sanctions compliance, bribery and corruption and the proceeds of crime (AML) and are available in five different languages. Lloyd's can provide completion statistics to Managing Agents on request.	http://lloyds.exari.com/sanctions/info http://lloyds.exari.com/bribery/info http://lloyds.exari.com/moneyLaundering/info
Compliance Manual Template	A template compliance manual to assist where an existing compliance manual is not in place.	Not currently available online, please contact your Delegated Authorities Account Executive to request a copy.
Sanctions Portal	Lloyd's coverholders are able to use Sanctions Search where Managing Agents deem it appropriate, dependent on the level of sanctions risk identified. Managing agents should discuss with coverholder at what point they should be undertaking screening and what data needs to be screened. The cost of using the system should be agreed between the managing agent and the coverholder.	http://www.sanctionssearch.com Contact: Mr Chris Clare Telephone: 0844 991 8 991 Email: info@sanctionssearch.com

<p>Financial Crime Clause in Binding Authority Wordings</p>	<p>LMA 3113, LMA 3114 and LMA 3114 each contain a suitable clause based on LMA 5173 which meets Lloyd's expectations. This clause should be included in all binding authority agreements and should not be amended in a way that may offer any less assurance of compliance.</p>	<p>http://www.lloyds.com/the-market/i-am-a/delegated-authority/operations/binding-authority/2013-lma-binding-authority-model-agreements</p>
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