LLOYD'S

MARKET BULLETIN

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Title	Binding authority agreements – delegating authority to the slip leader to agree amendments to the binding authority agreement
Purpose	Binding authority agreements
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Underwriters will often enter into binding authority agreements that provide for delegation of authority by underwriters to the slip leader to agree amendments to the binding authority agreement. Typically, this clause will be contained in the non-schedule subscription panel of the MRC and in particular it will often be included under the "Basis of Agreement to Binding Authority Changes" heading. The effect of the clause will be to bind following underwriters to any amendment agreed by the slip leader.

Lloyd's appreciates that there may be good commercial and administrative reasons for following underwriters allowing the slip leader to agree changes to the binding authority agreement, to the rates used or the format of certificates issued under the binding authority agreement where such changes are minor or non-material.

However, in some cases the slip leader has been given authority to agree material changes including the ability to agree individual exposures significantly beyond the limits set out in the binding authority agreement. In some cases the relevant clause delegating authority to the slip leader has been given with no limitations as to the slip leader's authority.

Lloyd's believes that unlimited or excessive levels of delegation to a slip leader is unacceptable. As with all forms of delegated underwriting, delegation of authority from the following underwriters to the slip leader should always be subject to clearly defined limits as to the scope and extent of the delegation. Unlimited delegation to a slip leader poses a prudential risk to the following underwriters.

Accordingly, the London Market Group ("LMG") will be giving consideration to the feasibility of developing an equivalent of the "general underwriters agreement" (GUA) suitable for use with binding authority agreements. This would be with the aim of producing a model clause that sets out the limits of the slip leader's authority both in terms of agreeing amendments to the Binding Authority but also as to its ability to agree special acceptances.

In the meantime, underwriters must ensure that any clause delegating authority to the slip leader to agree amendments to the binding authority agreement clearly sets out the scope and limits of the slip leader's authority. The clause should not purport to give the slip leader unlimited authority to amend the terms of the binding authority or allow the slip leader an unlimited ability to accept special acceptances.

In general, delegation of authority should be limited to agreeing non-material amendments. In particular, Lloyd's would not expect such a clause to permit the slip leader to agree:

- Any increase in limit of liability in excess of 10 per cent over that permitted by the binding authority
- Any extension in the period of cover given under certificates issued for more than 30 days over that permitted by the binding authority
- Any increase in the gross aggregate premium limit
- Any material variation in ratings, terms and conditions or exclusions
- Any class of business or any territorial extension
- Any material amendment to vary profit commissions or fees
- Any other material amendments especially which may affect the risk profile of the binding authority

Of course following underwriters may wish to impose more restrictive limitations on the scope of the slip-leader's authority.

This guidance will be incorporated into future versions of the Code for Delegated Underwriting but has immediate effect for all binding authority agreements entered into or renewed after the date of this circular.

Any questions on this matter should be addressed to Peter Montanaro: peter.montanaro@lloyds.com