

MARKET BULLETIN

REF: Y5062

Title Business subject to Continuation Obligations

Purpose To inform managing agents of the required procedure to follow when writing business subject to continuation obligations

Type Event

From Brian Secrett
Interim Head of Underwriting Performance
020 7327 5020 Brian.Secrett@lloyds.com

Date 7 February 2017

Deadline 31 March 2017

In a number of countries, local regulations provide that policyholders of certain mandatory and voluntary insurances have the right to request that the insurer continues to provide the insurance after the policy has been non-renewed. This is known as the insured's right to obtain continuation insurance. In general, the circumstances in which an insurer is able to refuse to provide renewal terms to a policyholder or an insured person where there are rights to continuation insurance are extremely limited. This is the case even when the insurer has given notice of non-renewal to the policyholder.

Managing agents should refer to Crystal ('Cancellation and Non-Renewal' section) for details of those countries where Lloyd's has identified that continuation insurance rights exist. At present, this includes: Austria, Denmark, Finland, France, Germany, Ireland, Israel, Norway, Spain and Sweden.

It is Lloyd's view that writing business subject to continuation insurance obligations presents risks to syndicates of adverse selection with the possibility of long-term exposures that will be challenging for the syndicate to administer or withdraw from.

Accordingly, Lloyd's believes that managing agents should be very cautious before agreeing to participate on programs that have continuation insurance obligations.

If managing agents choose to write risks that are subject to continuation insurance obligations then Lloyd's requires that the product is submitted to, and is approved by, the managing agent's Product Oversight Group (POG) or equivalent committee with delegated authority from the board to consider product oversight. The requirement to provide continuation insurance and any conduct considerations resulting from this must be specifically considered by the POG in relation to both Lloyd's conduct standards and local regulations. The process applies to both leaders and followers. Managing agents should, in particular, ensure that they are satisfied that the following points can be addressed:

- The syndicate will not reject an insured's request for continuation cover where required to provide it under local regulations. Where the local regulations include exceptions to the requirement to provide continuation insurance, managing agents must only seek to rely on the exceptions if the cover plainly fits into a category that is eligible for the relevant exemption. Any queries on this may be directed to Lloyd's International Trading Advice (LITA).
- The syndicate is capable of complying with all local requirements and regulatory expectations regarding the terms of cover to be provided including in relation to the premium chargeable at offer of continuation. Any material increase in premium should be fully justifiable in relation to the underwriting criteria for the product. Increasing the premium to prohibitive levels in order to encourage the insured to not continue with the insurance is not an acceptable practice.

With regard to existing programs written within the market, Lloyd's would like to receive confirmation that the Underwriting Committee of each syndicate (leaders and followers) has seen the program and has agreed to the business being written. Managing agents are accordingly asked to provide details to their respective Syndicate Underwriting Performance Executive of all programmes written by them which are subject to continuation insurance requirements by 31 March 2017.

Further Information

Further details of the local requirements to provide continuation insurance in the relevant countries can be found on Crystal.

For questions about continuation obligations in these countries, please contact LITA:

Lloyd's International Trading Advice
Tel: 020 7327 6677
Email: LITA@lloyds.com