LLOYD'S

Lloyd's Minimum Standards MS10 – Regulatory

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MS10 – Regulatory Standards

Minimum Standards and Requirements

Lloyd's expects that managing agents will operate in compliance with all applicable UK and international laws and regulations and do business according to accepted ethical standards. This supports and protects Lloyd's globally recognised brand and reputation and enables Lloyd's to meets the expectation of UK and international regulators for regulated firms to be able to evidence compliant and ethical conduct. Managing agents should demonstrate that they can meet these expectations and have systems and controls to ensure that they:

- Conduct all discussions with regulators in an open and transparent manner, recognising the need for Lloyd's to coordinate such relationships with international regulators and be kept abreast of significant or non-routine interactions with the UK regulators;
- Do business in accordance with Lloyd's UK and international licensing permissions and with due regard to applicable laws and regulations;
- Have due regard to business conduct standards and embedding principles of integrity and fairness in all dealings with customers;
- Implement all applicable laws and regulations appropriately;
- Gather accurate data and undertake appropriate analysis on the firm's business;
- Make accurate and timely submissions including regulatory returns, information requests and responses to consultations: and
- Comply with *legislation concerning international sanctions and terrorist financing, anti-money laundering, anti-bribery and corruption, market abuse/insider dealing, and facilitation of UK tax evasion and foreign tax evasion.*

Within this document the standards and supporting requirements (the "must dos" to meet the standard) are set out in the blue box at the beginning of each section. The remainder of each section consists of guidance which explains the standards and requirements in more detail and gives examples of approaches that managing agents may adopt to meet them.

Guidance

This guidance provides a more detailed explanation of the general level of performance expected. They are a starting point against which each managing agent can compare its current practices to assist in understanding relative levels of performance. This guidance is intended to provide reassurance to managing agents as to approaches which would certainly meet the Minimum Standards and comply with the Requirements. However, it is appreciated that there are other options which could deliver performance at or above the minimum level and it may be acceptable for managing agents to adopt alternative procedures as long as they can demonstrate the Requirements of all Lloyd's Minimum Standards have been met.

Definitions

- **Lloyd's Trading Advice Tools** – Online tools available to Lloyd's market participants (e.g. Risk Locator Tool, Crystal, Binding Authority QA Tool, Open Market QA Tools) which facilitate determinations of: risk location, international regulatory and taxation requirements, and contract quality requirements.

- **The Board** - Where reference is made to the board in the standards, managing agents should read this as the board or an appropriately authorised committee. In line with this, each agent should consider the matters reserved for the board under the Governance Standard in order to evidence appropriate full board discussion and challenge on the material items.

Section 1: Relationship with Regulators

REG 1.1 - Relationship with regulators

Managing agents shall conduct all discussions with regulators in an open and transparent manner, recognising the need for Lloyd's to coordinate such relationships with international regulators and be kept abreast of significant or non-routine interactions with the UK regulators.

Managing agents shall:

- have an open and transparent relationship with UK and international regulators;
- consult Lloyd's before engaging with international regulators and advise Lloyd's promptly of significant and/or non-routine interactions with UK regulators including the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA)and the Information Commissioner's Officer (ICO), or International Regulators;
- ensure they resolve regulatory issues and respond to regulatory requests within a reasonable time and support Lloyd's in its management of both ; and
- inform Lloyd's promptly of any issue of which Lloyd's would reasonably expect notice, including, but not limited to, issues which may generate complaints, receive regulatory or significant press attention or concern the misuse or potential misuse of Lloyd's name or brand.

Regulatory interactions

The maintenance of Lloyd's licensing capability worldwide rests on the confidence of UK and international regulators that the Market is able to trade in a compliant manner. This requires significant relationship building by Lloyd's to assure regulators that its unique structure strengthens rather than diminishes that compliant behaviour. Part of this is ensuring that communication with regulators is conducted in a consistent way and with reference to the context of other discussions that may have taken place. In this, the cooperation of managing agents is crucial.

Lloyd's expects managing agents to consult in advance with Lloyd's if the need to engage with international regulators arises. This is important in supporting Lloyd's management of its international licences and trading rights

In instances where managing agents are contacted by an international regulator or if managing agents are aware of an issue of which Lloyd's or an international regulator would reasonably expect notice, they should promptly contact their supervisor at Lloyd's. Alternatively, Managing Agents can contact :

- the Lloyd's International Trading Advice team (LITA@Lloyds.com; +44 (0)20 7327 6677) for further information on the appropriate contact point at Lloyd's; or
- the Lloyd's country manager – where there is one.

Lloyd's acknowledges that managing agents will have interactions with UK regulators routinely and does not expect to be advised of such interactions as a matter of course. However, Lloyd's does expect the Standard to apply to significant and/or non-routine interactions with UK regulators .

Section 2: Licensing and Market Access

REG 2.1 - Licensing and Market Access

Managing agents shall conduct business in accordance with Lloyd's UK and international licensing permissions and with due regard to applicable laws and regulations.

Managing agents shall:

- set, and review regularly, clear underwriting guidance as to what business can be written in accordance with regulatory requirements under Lloyd's licences, making reference to the Risk Locator Tool, the Binding Authority QA Tool, the Open Market QA Tool and Crystal;
- demonstrate and use appropriate levels of knowledge and skill in relation to Lloyd's licences and those areas where restrictions or exceptional processes apply; and
- establish, and review regularly, clear escalation procedures and criteria, for use in underwriting decisions or where a potential breach is identified once a risk is bound

Underwriting guidance

Lloyd's takes very seriously the need to protect the market's licence platform by ensuring business is undertaken in a compliant manner and seeks to encourage a compliance culture within the Lloyd's market based upon the proactive management of regulatory risk. To that end, managing agents should have a regulatory risk appetite statement, which has been considered by the board and is reflected in the business' underwriting guidance and regulatory compliance strategy.

Additionally, managing agents' underwriting guidance should include a requirement that underwriters and agents undertake appropriate risk based due diligence, such as the use of the Lloyd's Trading Advice Tools, prior to a risk being bound in order to confirm compliance with Lloyd's trading rights and local law.

Managing agents should give consideration to how they can evidence the decisions taken as a result of such guidance, and what the review and assurance procedures and responsibilities are around adherence to and the effectiveness of the guidance?

Building regulatory expertise

All those carrying on insurance business should do so equipped with appropriate levels of knowledge of international regulatory requirements and access to appropriate sources of information. Managing agents should provide regular appropriate training and guidance to their staff reflecting the role of the individual and updated to reflect regulatory changes.

Managing agents bear responsibility for providing clear guidance to all relevant employees, representatives and agents that ensures a clear understanding of regulatory compliance requirements. The guidance should encourage the use of the Lloyd's trading advice tools and other regulatory information resources. Managing agents should verify that all relevant employees, representatives and agents have appropriate knowledge regarding the use of Lloyd's tools and other sources of regulatory information and assess their training needs regularly.

Support for training on the use of Lloyd's Trading Advice Tools is available from the Lloyd's International Trading Advice Team (LITA), including Crystal Assist – an online tutorial which demonstrates how to use the Crystal system.

Escalation and compliance procedures

Managing agents should adopt clear procedures for identifying and escalating cases where more detailed compliance scrutiny is required.

Procedures should be risk based, and consider the need to escalate before a risk is bound and for cases where a potential breach of regulatory requirements is identified.

Escalation procedures should be documented, available to all relevant staff, and reviewed on a regular basis.

The procedures should cover the following:

Who is responsible for escalating a case, and who to?

What are the criteria for escalation? These might include, for example, the following factors:

- the sensitivity of the business class involved;
- the complexity of the business or policy;
- the location of the risk;
- the expertise or vulnerability of the customer;
- the regulatory environment of the country concerned;
- the distribution mechanism for the product (for example, a master policy);
- the compliance capability of any party to whom underwriting authority is delegated; and
- the managing agent's own risk appetite and expertise.

What are the review and assurance processes and responsibilities around adherence to and the effectiveness of the procedures?

Who has the authority to stop a risk being bound?

[See also Lloyd's MS9 Customer Minimum Standard (Conduct Risk)

Section 3: Information and Reporting

REG 3.1 - Information and Reporting

Managing agents shall gather accurate data, on the firm's business and make accurate and timely submissions.

Managing agents shall:

- be transparent in their dealings with stakeholders, supplying necessary information about their business, and be responsive to deadlines and communications about prudential and regulatory information;
- have appropriate systems, processes and controls to ensure that complete, accurate and timely information is available to meet Lloyd's prudential and regulatory obligations, including those operated by others on its behalf; and
- meet all Lloyd's prudential funding and asset requirements.

Lloyd's has international prudential obligations imposed by the relevant regulatory authority in most overseas territories where Lloyd's is licensed, and in some territories where Lloyd's does not hold a licence.

Stakeholder interaction

Managing agents should inform Lloyd's immediately if there is, or may be, an issue impacting the completeness, accuracy or timeliness of Lloyd's reporting.

Where managing agents are approached directly by regulators or other relevant bodies or wish to initiate direct communication regarding data, reporting or funding issues, Lloyd's expects that this will be discussed and agreed with Lloyd's first. Contact can be made per Reg 1.1.

Prudential funding and asset requirements

Managing agents should ensure that they have appropriate systems, controls and processes in place so that::

- Assets are admissible in compliance with local requirements as well as UK requirements;
- All terms of the relevant trust deeds are complied with; and
- Funds are available to meet funding requirements when such funding requirements fall due.

Systems, processes and controls

Systems, processes and controls should be commensurate with the risk, appropriately documented, adequately understood by all appropriate staff, robust, reviewed regularly and provide managing agents with the ability to answer targeted questions concerning information and reporting adequately.

These should consider the following:

How to ensure effective planning execution, control and monitoring?

What are the review and assurance procedures and responsibilities around adherence to and the effectiveness of the systems, processes and controls?

How do we ensure timely, complete and accurate delivery of information from stakeholders?

How do we ensure that all relevant staff maintain an up to date understanding of regulatory requirements and expectations?

Section 4: Financial Crime

REG 4.1 - Financial Crime

Managing agents shall comply with all applicable financial crime legislation, including: *international sanctions and terrorist financing; anti-money laundering; anti-bribery and corruption; market abuse/insider dealing,; and facilitation of UK tax evasion and foreign tax evasion*

Managing agents shall:

- have systems and controls in place to identify and manage effectively all financial crime risks in compliance with legislation concerning international sanctions and terrorist financing, anti-money laundering, anti-bribery and corruption, market abuse/insider dealing, and facilitation of UK tax evasion and foreign tax evasion paying due regard to Lloyd's and any other relevant regulatory guidance;
- ensure that the above mentioned systems and controls are independently assessed and tested for effectiveness at an appropriate frequency;
- ensure there is a clear allocation of responsibilities in the first and second line for monitoring compliance;
- ensure there is appropriate oversight and escalation;
- ensure staff receive appropriate training on the relevant legislation and on the managing agents policies and procedures
- deal with Lloyd's and law enforcement agencies in an open, responsive and cooperative way, supporting the resolution of financial crime concerns and issues; and
- commit to defending the Lloyd's brand against the misuse of Lloyd's name or misrepresented coverage, including by its agents, clients or other parties involved in the arranging of (re)insurances.

Lloyd's has zero appetite for a financial crime breach and expects managing agents to give due consideration to policyholders and Lloyd's reputation and brand when managing financial crime risks. For the purposes of this guidance, a financial crime risk or breach should be regarded as including *legislation concerning international sanctions and terrorist financing, anti-money laundering, anti-bribery and corruption, market abuse/insider dealing, and facilitation of UK tax evasion and foreign tax evasion.*

Systems and controls

The management of financial crime risk requires, as with any risk, the identification and assessment of the risk and the implementation of appropriate systems and controls to mitigate that risk. In recognition that Lloyd's has no appetite for any breach of any financial crime legislation, managing agents should be able to evidence a risk framework which routinely assesses and documents the effectiveness of its systems and controls to reduce the financial crime risks they face and which are reasonable to counter the risk that they may be used to further financial crime. This should include independent assessment of such controls at an appropriate frequency e.g. an appropriately scoped review by the firm's Internal Audit function or an appropriately skilled third party.

The anti-financial crime control governance framework and systems and controls should be supported and endorsed by each managing agent's board or an appropriate committee with the required delegation of authority, reflecting appropriate 'tone from the top'. Countering-financial crime policies and procedures should be an integral part of a managing agent's control framework. Managing agents should review Governance standard [GOV 3.7] which explains matters that require full board involvement including the control framework. Lloyd's expects managing agents to be able to demonstrate how the full board has been involved in its countering-financial crime management and where issues

have been delegated to another committee that this delegation is appropriate given the nature and materiality of the issue or risk.

Managing agents are expected to review Lloyd's guidance and be able to demonstrate implementation and compliance within a reasonable timeframe as and when it is issued.

Notification

Managing agents are expected to notify Lloyd's immediately of any suspected or actual incidents of financial crime (excluding claims fraud activity which is not required to be notified to Lloyd's, unless there is a suspicion, or evidence, of money laundering, bribery and corruption or other type of financial crime being present).

Brand and reputation

Managing agents are responsible for ensuring that the financial crime and brand and reputation requirements of the minimum standard are appropriately applied to any entities acting with delegated authority on their behalf. This standard is not exclusive to financial crime but is equally applicable to all misuse of Lloyd's name matters in which Lloyd's takes an interest. If any incidents of misuse or misrepresentation by those acting on behalf of managing agents, or their policyholders (including reinsureds) are identified, managing agents are expected to take robust steps to correct any misuse or misrepresentation of any coverage they have provided to Lloyd's satisfaction.

Similarly, managing agents writing reinsurance should remain alert to the risk that certain insurers may seek to misrepresent the nature of reinsurance coverage to underlying insureds or otherwise misuse that cover and should satisfy themselves that their risk framework provides for the prevention of that risk to the extent foreseeable.

Appendix – Links

- **Crystal**

http://www.lloyds.com/the-market/tools-and-resources/tools-e-services/crystal

- **Quality Assurance (QA) Tools**

https://www.lloyds.com/tools-and-systems/quality-assurance-qa-tools

- **Risk Locator Tool**

https://www.lloyds.com/tools-and-systems/risk-locator

- **Market Bulletins**

https://www.lloyds.com/the-market/communications/market-bulletin-search/market-bulletins

- **Compliance Officer E-Alert Archive**

https://www.lloyds.com/market-resources/market-communications/regulatory-communications/compliance-officer-e-alert-archive

- **Regulatory News Articles**

https://www.lloyds.com/market-resources/market-communications/regulatory-communications/regulatory-communications