

Delegated Authority - Coverholder onboarding & change in permission guidance

October 2022

Delegated Authorities Strategy

Lloyd's strategic aim is to be the market of choice for sustainable, profitable delegated authority business, where interests are aligned and where products and services are provided that deliver good customer outcomes. To deliver this Lloyd's need to focus on oversight and performance as well as improving the associated Lloyd's infrastructure and shared services.

Our vision for Delegated Authority

Lloyd's wishes to support DA business that delivers the following outcomes –

- ✓ ensuring coverholders and DCAs uphold Lloyd's values, protect Lloyd's brand and provides good value for policyholders
- ✓ includes business proposals that are proven and/or include plans that will realistically achieve sustainably profitable business
- ✓ promoting innovation and new business through products, distribution models and services
- ✓ ensuring commissions paid to coverholders should be fair and reasonable, and the link between remuneration and profitability needs to be strong with interests that are aligned
 - that fees are transparent and commensurate with services delivered
 - supporting coverholders and DCAs that have the capability to accurately capture and share meaningful data and MI

For DA propositions that do not support these outcomes, Lloyd's role will be to drive improvement and intervene where needed. But for business that does deliver on these outcomes Lloyd's will enable and facilitate profitable growth.

Why are these changes being made?

The recent go-live of the new Principles of Doing Business and having access to more granular contract data now available to Lloyd's through DCOM, as well as insights from other data sources such as DAM, has allowed Lloyd's the opportunity to look again at our oversight model and support a more mature and impactful oversight model.

Each managing agent is now required to meet each of the new 13 Principles for Doing Business including the Customer Outcomes principle. This includes a specific sub-principle relating to the managing agent's ability to oversee and manage DA business. Agents have now self-assessed themselves against those principles and Lloyd's has in turn fed back its own view of those assessments.

In our view, a managing agent that meets the required maturity level under Rio should be trusted to assess and appoint its own coverholders on contracts it leads without Lloyd's separately putting in place an additional approval process.

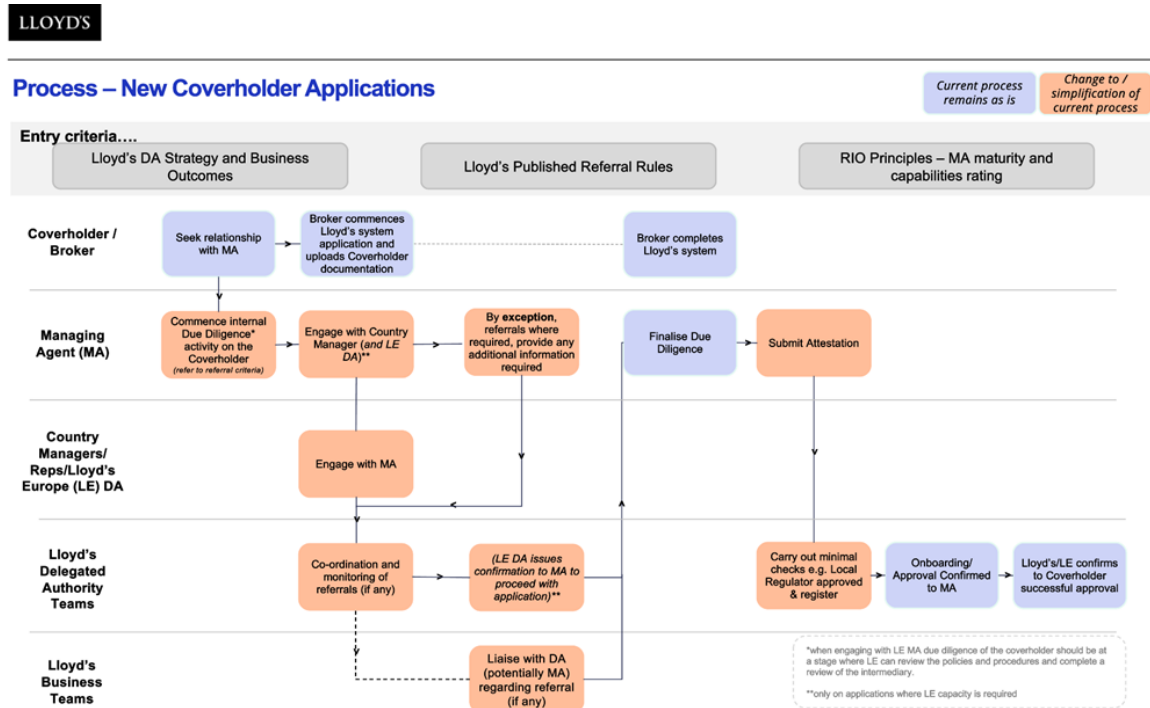
Lloyd's role will provide support and guidance to managing agents when they appoint new coverholders and critically, will oversee and intervene where poor performance is evident. In particular, we want managing agents and prospective coverholders to seek at an early-stage guidance from the country manager regarding market conditions and opportunities as well as any regulatory areas of focus. Lloyd's Delegated Authorities team will be moving from a 'gatekeeper' role to overseeing market practices and working with underperformance.

Lloyd's Europe will continue to approve their coverholders however will follow a similar revised approach. Where you are looking to appoint a Lloyd's Europe coverholder it is important that you liaise upfront with the Lloyd's Europe Delegated Authorities when you commence due diligence.

Onboarding coverholders for Syndicates meeting the expected maturity rating

This will come into force from 1 November 2022.

Below is the process flow to be followed for onboarding new coverholders.



Key points to note -

1. Lloyd's will be asking that for all new coverholder applications, the sponsoring syndicate discusses the business proposal with the relevant Lloyd's country manager prior to completing their own due diligence. This is an opportunity to utilise the commercial and regulatory input from Lloyd's prior to establishing this new relationship. Contact information for our country managers can be found [here](#).
2. If the application is for Lloyd's Europe business you need to also engage with Lloyd's Europe at this point, please see the Lloyd's Europe section below for further information.
3. Lloyd's has also made available to the market the referral criteria for delegated authority business. This will be available [here](#) on Lloyds.com under our Third Party Oversight area and will always be up to date. Managing Agents must review this whilst completing their own due diligence.
4. Where the approval falls into the published referral criteria the sponsoring syndicate should contact Lloyd's DA team at coverholders@lloyds.com and provide the necessary referral information. Once the approval has been given by the relevant Lloyd's business team, the attestation can be submitted on ATLAS which will allow Lloyd's to formally approve. The attestation should be signed by the individual who has been given authority by the syndicate/managing agent to make delegated authority submissions to Lloyd's.

5. Lloyd's will place reliance on the sponsoring syndicate to carry out due diligence and will rely upon the attestation provided as confirmation that due diligence has been completed and that the coverholder is suitable. Lloyd's will cease conducting its own separate assessment of the syndicate's checks.
6. Lloyd's will continue to update Lloyds.com with all relevant market support and required documentation. Lloyd's SLA for this type of submission is 5 working days, however, this is dependent on all applicable referrals/engagement being completed prior to submitting the attestation.

Within the Managing Agent's due diligence of a new coverholder; as a minimum, as per current expectations, Lloyd's would expect the Managing Agent to review and assess the following information:

Company information – including legal name and structure, address – ensuring the prospective coverholder is only carrying out coverholder activities in the trading address. Unless both locations are approved as coverholders.

Checks are completed on the prospective coverholder's website to ensure it's of a suitable standard, any information is correct, and Lloyd's branding is not being used (until fully approved)

Underwriting and Claims - considered the level of underwriting authority being granted and can provide clear evidence stating why you are comfortable granting this level of authority.

For claims to be able to provide evidence to show you have carried out your due diligence and considered the following points:

- Level of authority that the applicant/DCA will have. If there is a limit, who
- Will be handling claims after this limit?
- Process and system capabilities are satisfactory
- A sufficient quality control/peer review programme exists
- A claims assessment has been carried out and you (the managing agent) are satisfied with the applicant's/DCA's claims handling process.
- You have no concerns about their abilities or resources to handle claims on our behalf. Or if you do have concerns, state how you have mitigated them.
- If you are aware of the applicant ever having claims authority under a binder cancelled by underwriters.
- The level of claims service expected on all claims (expectations and requirements) will be set out in a formal way in an appendix or in the BAA
- How regular monitoring of performance against claims service expectations will be achieved.

Business plan – if this includes an on-line trading the following items need to be considered:

- It meets the relevant local regulations
- There are sufficient arrangements in place to protect data and provide security
- SLAs with the service provider are up to date
- There is regular site maintenance
- It is clear who has overall control of the system
- It is clear who sets the rates and who can change these in the system?
- It is clear who has the ability to turn the system off

Ownership – review and assess the ownership details of the entity, ensure the shareholdings reach 100%. You may wish to view an organisational chart if this entity sits within a group organisation.

Key staff – assess the key individuals and their experience to handle the responsibilities they are assigned to carry out.

If there is only one key individual, assess how this will work in practice and if there is a robust succession plan in place.

Employment structure of these key individuals and any conflicts of interest are reviewed and mitigated. Reputation and standing – review any declarations made under the reputation and standing section and have evidence to state why you are comfortable these do not cause concern.

Are there any concerns around previous binding authorities being terminated or non-renewed? And has the entity ever applied to be a coverholder previously and was rejected.

Professional Indemnity – The entity has an active PI policy in place, with the applicant named as insured, the policy has the appropriate level of cover for their activities as a Lloyd’s coverholder and covers binding authority activities. You have reviewed the full PI certificate and wordings, with any policies being translated if required.

This should not be a quote for a PI policy.

Financials – We would expect a managing agent to review the last two accounting years as a minimum. If the applicant is a start-up this would be an opening balance sheet and 3 year forecast profit and loss accounts.

Bank accounts - As a minimum, it is a requirement for coverholders to hold insurance monies in a separate account to non-insurance monies. Ideally these will be in trust accounts if recognised in the country the entity is domiciled. If not, a managing agent will need to assess if they are comfortable these monies are not held in sweep accounts.

Please note - It is unacceptable for the account(s) to be a sweep account, as the monies will be transferred into another account on a regular basis and this account may not be recognised or segregated for insurance monies. It is preferred that the account(s) are trust accounts (or the equivalent if located in a territory where trust accounts are not recognised), as it is then acknowledged that the money in this account is held on behalf of underwriters and does not belong to the coverholder, which provides a level of security should the coverholder come into financial trouble.

Lloyd’s requires a minimum of two account signatories on any account for insurance or claims monies.

Systems and controls – items to consider:

- Is this an Excel based system? The applicant should have a fully integrated end to end underwriting system. Excel based systems are not sufficient.
- How the data flows through each touch point
- Is their system already in place? If not, is this coming into force soon? How long will this take? What controls do they have in place instead? How will it work in practice? Have underwriters reviewed the system? Are they happy with the system?
- Does the applicant host the data on the system? If not, review who hosts the data and where it is hosted. Is this sufficient?
- Has the applicant’s ‘yes’ to all questions listed on Atlas, under the systems and controls section? If ‘no’ has been checked, review how these requirements will be met.

Review any documents provided and ensure you are satisfied they comply with all local requirements.

These documents can include:

- Business continuity plan
- Anti-money laundering
- Succession plan
- TCF
- Conflict of interest policy
- Data privacy/data protection policy
- Financial crime procedures
- Complaint’s procedure

Licenses – ensure the entity has all the necessary licenses, permits and other authorisations in all jurisdictions where they are domiciled, trade in, provide services or do business under the binding

authority. These need to be in place prior to your due diligence being completed and the application approved.

Crystal should be utilised for any licensing or regulatory issues

Class of business - Review the referral criteria and check if any of the classes or risk codes require further review in Lloyd's. If so, please contact the Delegated Authorities Team, via coverholders@lloyds.com, with a completed Underwriting Information form.

If the binder is rated High Product Risk, please provide a copy of the completed Consumer Product Binder Questionnaire (CPBQ) or equivalent unless you have been told this is not required. Applicant is aware of all regulatory and tax obligations it has for the territories in which it is doing business in.

Policy wordings to be issued by the applicant need to be review and agreed by the managing agent.

Regions – review the referral criteria and assess if any regional extensions require further referral within Lloyd's.

Lloyd's requires further information for certain regions.

Please review Crystal and ensure you are aware of any regulatory requirements

Onboarding coverholders for Syndicates not meeting the expected maturity rating

Where a managing agent has not met the expected level of maturity for the relevant principle then Lloyd's will need to separately approve the coverholder as it does today and Lloyd's SLA will remain at 20 working days. However, it is expected that the conversations with the relevant Lloyd's Country Managers are still carried out prior to completing due diligence.

Coverholder change of permissions on ATLAS for Syndicates meeting the expected maturity rating

Where a proposed change of permission falls into the published referral criteria the sponsoring syndicate should contact Lloyd's DA team before submitting the change of permission attestation via coverholders@lloyds.com . Managing Agents must therefore check the referral criteria list this whilst completing their own due diligence.

If a referral is triggered it also details what additional information you need to provide for certain regional extensions. If you are submitting a class of business task that falls within one of the underwriting referrals, please submit the completed Underwriting Information form

Subject to the above, for the following change of permissions tasks on ATLAS, you will need to provide a completed attestation for the following tasks:

- Permitted Relationship (inc, DDMA)
- Ownership
- Class of Business
- Underwriting & Claims
- Regions

The attestation should be signed by the individual who has been given authority by the syndicate/managing agent to make delegated authority submissions to Lloyd's.

For all other change of permission tasks, you will not need to submit an attestation and the process remains unchanged.

Lloyd's will place reliance on the sponsoring syndicate to carry out due diligence and will rely upon the attestation provided as confirmation that due diligence has been completed and that the change of permission is appropriate. Lloyd's will cease conducting its own separate assessment of the syndicate's checks. Lloyd's SLA for this type of submission is 5 working days, however, this is dependent on all applicable referrals/engagement being completed prior to submitting the attestation.

Coverholder change of permissions on ATLAS for Syndicates not meeting the expected maturity rating

Where a syndicate has not met the expected level of maturity for the relevant principle then Lloyd's will need to separately approve the change of permissions as it does today and any previously advised SLA's remain.

As a minimum, Lloyd's expects the following information to be provided for the following tasks:

Class of business

Please review the referral criteria to confirm if the class(es) of business being requested require further review within Lloyd's. The Underwriting Information form will need to be provided via the task on ATLAS or via email to coverholders@lloyds.com.

Regions

There are certain regions that require referral to our Country Managers, due to regulatory requirements or additional information that needs to be reviewed. This information can be found within the referral criteria.

Relationships

For restricted (permitted lead) and Direct Dealing MA relationships, the following points will also need to be provided in the supporting comments on ATLAS:

- Confirmation that due diligence has been performed by the Managing Agent on the Coverholder.
- The syndicate number the business will be written by.
- Provide a rationale as to why the Managing Agent wishes to grant a binding authority to this Coverholder.
- Confirm whether the Managing Agent has had a relationship with this Coverholder before and whether they will require new classes of business for your binder.
- Provide the risk codes to be written and the syndicate business forecast classes the risks will be written into.
- In addition to this, please confirm whether this will be a Consumer Product Binding Authority (CPB). If so, as the Managing Agent, a consumer products binder questionnaire will need to be provided - as per Market Bulletin Y4739 unless you are exempt. If you are exempt, please confirm this.

Section lead relationships for DCOM - where you require these relationships to be added on ATLAS please submit a permitted/restricted lead relationship and confirm the following when submitting the task:

'We are requesting a Permitted/Restricted lead relationship to allow us to register as a section lead on DCOM. We confirm that we have been a section lead previously on this binder and this is existing business to us.'

Underwriting and claims

If you are requesting a change to the underwriting authority of a coverholder, please provide a rationale as to why you are comfortable granting the new level of authority

If you are requesting Claims handling authority, please provide the following information on the task in ATLAS:

- Level of authority that the applicant/DCA will have. If there is a limit, who
- will be handling claims after this limit?
- Process and system capabilities are satisfactory
- A sufficient quality control/peer review programme exists
- A claims assessment has been carried out and you (the managing agent) are satisfied with the applicant's/DCA's claims handling process.

- You have no concerns about their abilities or resources to handle claims on our behalf. Or if you do have concerns, state how you have mitigated them.
- If you are aware of the applicant ever having claims authority under a binder cancelled by underwriters.
- The level of claims service expected on all claims (expectations and requirements) will be set out in a formal way in an appendix or in the BAA
- How regular monitoring of performance against claims service expectations will be achieved.

Lloyd's Europe

Most of the process will remain the same for Lloyd's Europe business. Where you are looking to appoint a Lloyd's Europe coverholder you must liaise with the Lloyd's Europe Delegated Authorities team when you commence due diligence. This will enable Lloyd's Europe to undertake their own checks to satisfy their own regulatory obligations at the same time as you are completing your due diligence. Therefore, Lloyd's Europe will provide final sign off based upon the attestation submitted and any other discussions. To reach out to the Lloyd's Europe Delegated Authorities team please use LloydsEurope.DelegatedAuthority@lloyds.com

Lloyd's Quality Assurance Oversight

Lloyd's Delegated Authorities Team will be introducing a sample checking approach of Syndicate's due diligence checks. Periodic checks will be carried out to review a Syndicates coverholder due diligence. Lloyd's will liaise with market participants to finalise this approach in early 2023.

Lloyd's in turn will provide support and guidance to managing agents and intervene where we see poor performance or risks to Lloyd's brand. The outcome of these checks will then feed into the syndicate ratings for the Customer Outcome Principle.

Future ongoing oversight changes

Lloyd's ambition is to get to a position in future where the lead syndicate will lead the ongoing compliance checks for the coverholder. This will avoid followers having to undertake duplicate checks, a major source of current friction and inefficiency. This will align with and build upon the process that we have already developed for centralised coverholder audits.

Lloyd's will continue to host the core compliance information centrally for all relevant parties to access via ATLAS. Should you need support in relation to coverholder annual compliance please reach out to the Market Engagement team via coverholdercompliance@lloyds.com

Lloyd's alongside the LMA will be working across 2023 to simplify and standardise due diligence processes across the market. This document will therefore be updated in due course to cover guidance for ongoing compliance checking.

Useful contacts & links

London DA team - coverholders@lloyds.com

Coverholder compliance - coverholdercompliance@lloyds.com

Lloyd's Europe DA team - LloydsEurope.DelegatedAuthority@lloyds.com

[Country Managers list](#)

[Referral Criteria](#)

[Risk code mapping document](#)

[Referral underwriting information](#)

[Onboarding new coverholders attestation](#)

[Change in permissions attestation](#)

[Lloyd's Europe attestation](#)