

Delegated Authority

Change in Approach to Approvals and Oversight

October 2022

DA Business Strategy

Oversight model is being developed to support our wider DA strategy

Our ambition

Is to be the market of choice for sustainable, profitable delegated business partnerships where interests are aligned. Provide products and services that deliver good customer outcomes, and use data effectively to oversee and manage performance. Lloyd's infrastructure and shared services support and facilitate the ease of doing business for Coverholders and Syndicates making Lloyd's an attractive place for new and innovative business opportunities.

Our Offer

Allows Syndicates and Lloyd's approved Coverholders to leverage the benefits of:

- access to Lloyd's Global Licenses and business insights through our Global Network
- the strength of our Brand and Reputation
- our prudential Rating
- our unrivalled Breadth of Expertise
- range of services and support - designed to facilitate the ease of doing DA business in the Lloyd's market

Eligible Business Supported that meet these criteria

To ensure Lloyd's Business Outcomes are achieved, DA business should meet the following **criteria**.

- ✓ **Aligns with Lloyd's Distribution Strategy**
- ✓ **Third party firms uphold Lloyd's values, protect the brand and provide good value for policyholders**
- ✓ **Business proposals are proven and/or plans will realistically achieve sustainably profitable business**
- ✓ **New business to Lloyd's promotes innovation through products, distribution models and services**
- ✓ **Commissions are fair and reasonable, link between remuneration and profitability is strong and interests are aligned**
- ✓ **Third party firms have capability to accurately capture and share meaningful data and MI**
- ✓ **Managing Agent operational models reflect delegation outside their firms in lower internal operating expenses**

Why are we making changes to DA Oversight?

- **The changes we are announcing today support the wider DA strategy by ensuring our focus is on *supporting profitability and managing higher risk arrangements*.**
- Currently Lloyd's approves all new coverholders and all changes in permission... approx 3000 applications per year. Many very low risk. Lloyd's checks may add little "value".
- Rio assessments mean that we now have the evidence to "trust" managing agents that meet our expected maturity assessments (primarily via the Customer Outcomes principle & its DA sub-principle)
- But we will also "verify" that trust (via our new QA sampling checks).
- Lloyd's should only prior "check" an application or intervene where a clear high-risk reason.
- This risk based approach is also in line with 2019 DA oversight market-wide consultation
 - **87%** of responses agreed that Lloyd's should adopt a risk-based approach (focusing on high risk only)
 - **77%** thought that such an approach would benefit their firms.

What is the relevant RIO principle?

The Customer Outcomes Principle (principle 5)

Managing Agents should embed a culture and associated behaviours throughout their business to ensure they consistently focus on good customer outcomes and that products provide fair value

The DA Sub-principle

Managing agents should... engage, manage and oversee third party service providers in accordance with the outsourcing strategy and the service of standard set by the managing agent

MA's RIO assessment dependent upon "materiality" criteria



Foundational (ie
commercial/RI)

Intermediate (moderate
DA/consumer/SME)

Advanced (High volume
DA/Consumer/SME)

What will the complete Oversight Process Look like?

2. Ongoing Compliance Oversight

- Lloyd's administered and monitored
- System supported where required
- Managing agent determined assessments – leader only
- Reduced duplication
- Minimum level for ongoing compliance checks (entity level)
- Monitoring MI

1. Approvals Process

- Managing agent's attest to completion of thorough due diligence
- Early engagement with Lloyd's Country Managers/Reps provide added insights and assurances
- Lloyd's preapproval referrals by exception only for Rio compliant managing agents *
- Lloyd's 5 Day approvals process (for qualifying applications) - we are aiming to cut this down to 24hrs once process is embedded



3. Co-ordinated Audits

- Well established co-ordinated audit process
- Alignment to ongoing compliance required

4. Performance Management & Oversight

- Lloyd's to hold internal record of poor performing coverholders as mechanism to avoid persistence in the market
- Risk assessed operational management oversight of Third-Party risks
- Quality control covering applications & ongoing compliance
- Third party material issues investigated
- Insights to inform Lloyd's risk appetite and ongoing assessment of managing agent capabilities

**All applications for managing agents not meeting the expected level of maturity for Lloyd's Principle 5 will require decision paper approval*

WHAT DOES THIS MEAN IN PRACTICE FOR YOU?

Approvals

Changes in
Permission

Ongoing Compliance

Approvals

How will coverholder approval (onboarding) change?

- 1 **Simplification of current process:** No decision paper is required
- 2 **Country Manager engagement upfront:** Liaise upfront when due diligence is started. Discuss the business case and any regulatory expectations.
- 3 **Referral risk criteria will be available on lloyds.com:** To be checked when due diligence is started
- 4 **MA attestation to be submitted to Lloyd's:** Attestation will replace the decision paper
- 5 **Formal Lloyd's registration process (based on attestation):** 5 day turnaround. No double checking the MA's due diligence
- 6 **MA not meeting expected maturity rating will follow current decision paper process:** Normal SLA's remain
- 7 **1/1 application deadline not applicable:** as per published SLA's



New

Change of permissions

How will change of permissions for existing coverholders work?

- 1 **Simplification of current process:** No rationale or checklist is required to be provided
- 2 **Referral risk criteria will be available on [lloyds.com](https://www.lloyds.com):** To be checked when due diligence is started
- 3 **MA attestation to be submitted to Lloyd's:** Attestation will replace the rationale or checklist
- 4 **Formal Lloyd's registration process (based on attestation):** 5 day turnaround time
- 5 **MA not meeting expected maturity rating will continue to provide supporting information:** Normal SLA's remain



Managing Agent Attestation

Receipt of the attestation will be the trigger for Lloyd's granting formal approval



- 1 Confirm ATLAS is correct and includes the relevant classes and regions
 - 2 Confirm the business will support high performance
 - 3 Confirm the firm uphold Lloyd's values, protects the brand and provides good value for policyholders
 - 4 Confirm that the application has been discussed with the Country Manager
 - 5 Confirm that the referral criteria has been reviewed and any appropriate conversations have happened
 - 6 Slightly different attestation for Lloyd's Europe
 - 7 Managing agent internal processes and broker processes stay the same
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Delegated Authorities Quality Assurance oversight

...to verify reliance



Attestation process



Periodic checks



Support for improvements



Outcomes feed RIO

Following the attestation process Lloyd's will carry out periodic sample checks on MA's coverholder due diligence.

If Lloyd's identify areas of improvement this will be raised and support provided.

The outcome of the periodic checks will feed into the syndicate Rio ratings against the Customer Outcome Principles.

Lloyd's will liaise with market participants to finalise the periodic checks process in early 2023.

Lloyd's Audit & OCO Processes

Market Engagement Team

Coverholder Coordinated Audits

446

• Coordinated Audits in 2022

862

• PINs to be audited

2,033

• Managing Agent Relationships to be audited

7,582

• Potential MA relationships to have been audited

Ongoing Compliance Oversight Reviews

1,486

• Scoped OCO Reviews

1,956

• Compliance Groups

3,418

• LIVE PINs

13,466

• Number of MA Permitted Lead relationships

Ongoing Coverholder Compliance

How will this change (Next steps during 2023)

- 1 Lloyd's will continue to host the core compliance information centrally for all relevant parties to access
- 2 Lloyd's has already stopped undertaking centralised compliance checks, removing the duplication between Lloyd's and Managing Agents
- 3 Lloyd's will work alongside the LMA, in 2023, in an attempt to simplify and standardise the due diligence processes across the market
- 4 Want to get to a position where the lead syndicate will lead the ongoing entity level compliance checks for their coverholders
- 5 Remove the need for followers having to undertake duplicate checks, a major source of current friction and inefficiency
- 6 Align with and build upon the process that we have already developed for centralised coverholder audits

Continuous Contracts

Key Benefits

Managing Agents

- Shift to ongoing compliance, annual checks no longer linked to renewal
- Flexibility to monitor performance and compliance in alignment with internal risk appetite
- Competes with non-Lloyd's carriers who can already grant 'evergreen' contracts

Brokers

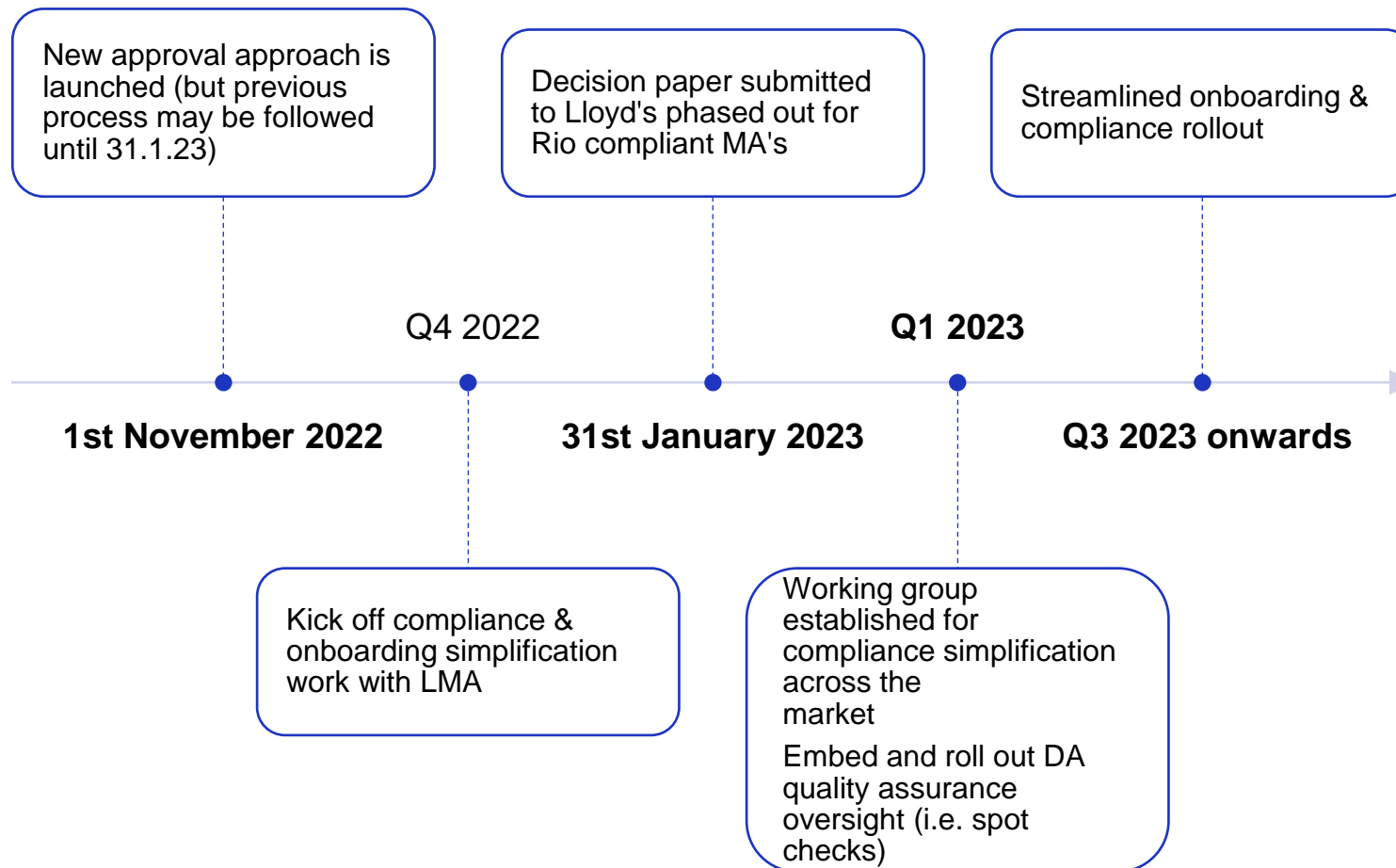
- No longer required to create endorsement for each annual period
- Time saved as DCOM and admin processes involved in renewal no longer required
- Able to offer coverholders greater levels of continuity and predictability, which promotes long term relationship

Coverholders

- No longer reliant 'positive decision' from managing agents, removes uncertainty which is a major concern for our coverholders
- Shift in focus from renewal cycles means removal of duplication, blockers and downtime

- Current annual renewal process a key source of uncertainty for coverholders
- Communication released to the market 29/9 along with important guidance on Lloyds.com
- Currently available for singleton (BAA Contracts which are 100% supported by a single managing agent) and service company agreements
- Continue to work with market participants to develop best practice and how this can work for subscription binders (Please contact us if you would like to join working group to pilot subscription continuous contracts)
- DCOM functionality will be released within 1.5 release
- **Any Managing Agent who would like to enter in a continuous contract - get in touch with us via Coverholders@lloyds.com**

Timeline of oversight changes



Continued Commitment

- **Simplification of market process for onboarding & compliance:** work with LMA and market to review entity level due diligence for onboarding & ongoing compliance oversight for coverholders/DCA's
- **Continued alignment to DA data strategy:** working towards one strategic solution
- **System solutions:** following process simplification agree any central systems that need to be enhanced or created
- **Continued advancements of Continuous Contracts:** work with market participants to review subscription binder roll out. We will continue providing market guidance around continuous contracts as adoption rates advance.

Summary

If you are meeting Rio Principles (Customer Outcomes & DA Sub-Principle) we will **Trust** you to appoint coverholders – we will ask for an "attestation" from you but no other checks of your due diligence.

You should still do the same checks as you do today – no change for MA internal checks

In limited circumstances you will still need to refer certain "high risk" features to Lloyd's for prior checking – those "referral criteria" will be available on lloyds.com

Lloyd's role will be to **Advise** (via early Country Manager engagement), **Check** (but only the highest risk applications) and **Verify** (via new QA sample checking)

Our quality assurance sample checks on MAs will be used to validate your Rio rating assessments

All of which means.... quicker onboarding of coverholders, greater clarity of responsibilities and increased focus of Lloyd's oversight on higher risk arrangements and poor performance

Questions?

Helpful contacts



Lloyd's DA team: Coverholders@lloyds.com



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



Delegated Claims Administrators team: Delegatedauthorities@lloyds.com



Coverholder compliance queries: coverholdercompliance@lloyds.com



Market support centre: <https://marketsupport.lloyds.com/>