

Requirements for the Writing of Master Policies

Managing Agents should only write insurance schemes as master policies where the arrangement is compliant with the following requirements. These requirements set out what Lloyd's considers to be an appropriate approach to the use of master policies. Where a scheme does not meet these requirements a different arrangement should be used for the distribution of the product such as a binding authority.

These requirements should be read in conjunction with the Lloyd's Thematic Review Report on Master Policies dated June 2018. The Report provides additional guidance and best practice.

Throughout this document we refer to both master and group policies as master policies and the term customer refers to the end customer that has the benefit of the cover under the master policy.

This guidance is applicable to employer schemes except where the employer has the benefit of the insurance and any related obligations to the employees are independent of the insurance purchased. That is, where the operation of the insurance policy will not impact on the experience of the employees and any claim will be made by the employer.

1. The customers must belong to a clearly identifiable and genuine group, for example by virtue of common employment, association, occupation or activity and that connection must exist other than by reason of having the benefit of the master policy. Customers whose only connection is that they purchased the same product from a vendor will not satisfy this requirement unless there is a genuine ongoing customer relationship (through the continuing provision of a non-insurance service) arising from that group of customers purchasing the product such that a clearly defined group can be identified.

Examples which would be considered a group:

- (a) An employer holding a master policy to provide coverage for its employees;
- (b) A sports club or other social club where members come together for an activity unrelated to insurance (e.g. rugby clubs, horse riding association);
- (c) A bank or other investment service with an ongoing, long term relationship with its customers for the provision of a service other than insurance e.g. a bank account, an investment product; or
- (d) A professional association which predominantly provides services to its members (such as training, publications, events) which are not related to insurance e.g. an association for local architects.

Examples which would not be considered a group:

- (a) Individuals who have booked a holiday through the same travel agent;
- (b) An association that exists only to provide special offers and insurance products to customers (e.g. a supermarket association) where the members do not otherwise have a common interest and common reason for membership;
- (c) Individuals who have purchased a product or service from the same company where there is no ongoing relationship (e.g. extended warranty sold by a household appliance retailer, personal accident cover sold alongside the purchase of a concert ticket);
- (d) An airline or hotel loyalty scheme;
- (e) An association where the predominant purpose or activity is to provide access to insurance products and other services are ancillary; or
- (f) An insurance entity wishing to offer an add-on to customers purchasing a primary insurance product.

2. The master policyholder must have a legitimate interest in providing cover for the defined group of members. Lloyd's would not regard the ability of the master policyholder to generate a fee, commission or other payment for providing cover to the members as being, a sufficient "legitimate interest" for these purposes. The master policyholder should not have as its principal purpose or as a core part of its business the procurement of insurance for its members. Implicit in this requirement is that the policyholder provides substantial non-insurance benefits to its members.

3. Master policyholders may receive some form of remuneration for administering the master policy. Ordinarily this should be limited to a sum to cover the reasonable costs of administering the policy. A master policy should not be used as a vehicle for the master policyholder to generate profit.

Careful consideration should be given to appropriate remuneration and managing agents should document the rationale for the remuneration arrangements taking into account the policyholder's actual costs in administering the policy. We would generally expect to see remuneration by way of either:

- A percentage commission commensurate with the work performed; or
- A fixed administration fee commensurate with the work performed.

Master policyholders should not be given profit commissions.

Where the master policyholder's remuneration does go beyond meeting expenses managing agents should clearly document why this is appropriate. Consideration should also be given to the potential conflict of interest for the master policyholder and this must be addressed appropriately, for example through a full declaration of such benefits to the customers under the master policy.

Note that in some jurisdictions master policyholders may require approval to carry out regulated activities before they are able to receive remuneration. For more information please see the international section below.

4. The master policyholder or other administrator of the master policy should have no discretion as to who can be declared to the policy or as to the premium charged or terms of coverage, nor should they provide any advice regarding the insurance coverage. This, however, does not prevent master policies providing different options to members of the group. For example, a group health scheme may offer different options for family and individual cover with the rates varied according to the package adopted or a travel policy may offer different options for European and worldwide travel.

Premium should be calculated in the same way for all customers and rating tables with multiple factors should not be used. The only exception to this is health and life policies where it is acceptable to have different premiums for different age bands.

In general all members of the group should be eligible to receive the coverage offered under the master policy. There must not be any discretion in determining eligibility. For life and health coverage it is acceptable for the customer to be required to sign a declaration of health as a prerequisite of cover.

5. The master policyholder should not produce insurance documentation on behalf of underwriters. However, appropriate confirmation or details of the cover that has been purchased must be provided to the customers. Subject to any local licensing requirements, these details may be provided by the master policyholder or an alternative administrator. It is good practice for the customer documentation to set out all the terms and conditions relevant to the coverage so the customer has everything they need to understand the cover they are receiving. Where the customer is opting in to the cover details of the coverage should be provided at an

appropriate time for the customer to make an informed decision. The documentation must refer to the master policy as the insuring document and customers must be able to access the full master policy wording on request.

In the case of corporate travel policies purchased by employers it is not necessary for all staff to be provided with evidence of cover. However, the employers should be obligated to provide employees with access to the policy wording. For the avoidance of doubt this does not include personal travel policies distributed via employers e.g. as part of flexible benefits, which remain subject to the requirements above.

6. The master policy wording should satisfy all contract certainty requirements as for any other insurance contract. Particular attention should be given to ensuring the following are clearly set out:

- (a) The roles and responsibilities of each party (managing agent, master policyholder and any broker, coverholder or other administrator) including in relation to:
 - Issuance of documentation
 - Calculation and collection of premium
 - Claims handling
 - Complaints handling
 - Production of bordereaux or other data
- (b) The terms and conditions of coverage. This may be in an Appendix.
- (c) The remuneration agreement

7. Master policies must not be subject to shared aggregate limits or deductibles.

This requirement does not apply to corporate travel policies purchased by employers. For the avoidance of doubt this does not include personal travel policies distributed via employers e.g. as part of flexible benefits which remain subject to the requirement.

8. Master policyholders must not have claims handling authority but they may be responsible for receiving claims notifications for onward transmission to underwriters. Any responsibility in this regard should be clearly stipulated in the Master Policy. Customer documentation must clearly set out how the customer can make a claim and should include an option to submit claims directly to the managing agent (or its coverholder or third party administrator).

9. Master Policyholders must not have complaints handling authority. It may be that master policyholders receive complaints initially and the master policy should therefore set out expectations with regard to recognising complaints along with instructions for referral. Customer documentation must clearly set out how the customer can make a complaint directly to the managing agent (or its coverholder or third party administrator).

10. Managing agents must ensure they are able to obtain appropriate data from master policyholders or other administrators to enable them to monitor the business. At a minimum this should be customer numbers. In determining the appropriate level of data to collect managing agents should have regard to the importance of claims handlers being able to determine whether a claimant has coverage in a timely way.

11. Master policies should be subject to annual review including a review of performance, value, regulatory compliance, conduct risk factors and due diligence. Value to the customer should be monitored taking into account gross premium, acquisition costs, loss ratios, claims frequency, claims denials and any other relevant data.

12. Where a coverholder has authority to write master policies the extent of the authority should be clearly articulated in the binding authority. It is the managing agent's responsibility to implement procedures to ensure the coverholder only writes master policies in line with its authority and that are compliant with all Lloyd's and local rules.

Procedures

In order to manage the writing of master policies managing agents are expected to have appropriate procedures in place. Such procedures should be designed to ensure compliance with the rules above and should at a minimum provide for:

- All master policies to be subject to a Conduct Risk Assessment (in line with all other business). Customer risk should be assessed in relation to the customer, not the master policyholder. An assessment of the value of the product to the customer and other conduct considerations should be recorded.
- Documentation of the reasons for writing the business as a master policy and how the managing agent has satisfied itself that all the requirements of a master policy are met.
- Appropriate due diligence to be conducted and recorded to determine that the master policyholder and any other administrator is capable of performing their responsibilities under the contract.
- Appropriate internal sign off of master policies. For HPR master policies it is good practice that they go through the Product Oversight Group (POG).
- A record of all master policies to be maintained.
- The regular review of master policies.
- A proportionate approach to be taken where a managing agent follows on a master policy.

The record of all master policies should at a minimum include:

- Name of the master policyholder
- Description of the master policy group/association
- Name of the coverholder writing the policy, if applicable
- Binder UMR, if applicable
- Master policy UMR
- Date the master policy was last reviewed
- Inception date
- Expiry date
- Class(es) of business
- Lloyd's risk code(s)
- Description of product
- Name of leader (including where you follow)
- Product risk assessment rating
- Number of master policy beneficiaries (estimated if actual numbers are not available)
- Location of master policyholders (including state/province where relevant e.g. US/Canada/Australia)
- Location of master policy beneficiaries
- Lloyd's Insurance Company (LIC) business – yes/no

This record may be requested by Lloyd's periodically.

International Regulatory and Tax Matters

The rules above apply to all master policies written at Lloyd's. Managing agents should be aware that, in addition, different territories have their own rules and regulations. It is the managing agent's responsibility to ensure these are complied with at all times. We recommend that legal advice is obtained.

Some areas to consider include:

- The type of cover provided must be permitted to be written under relevant local regulations. Managing Agents should have regard to the location of the master policyholder and customers as a relevant factor to consider in ensuring compliance. Where customers come from multiple jurisdictions more difficult questions can arise and where appropriate suitable legal advice should be obtained.
- Local tax requirements must be satisfied. Managing agents should refer to Crystal, or seek professional advice, to determine the relevant local tax requirements. Consideration should be given to the location(s) of the customers as well as the location of the master policyholder.
- The master policy must comply with local conduct of business requirements. Such requirements could include filing of wordings, approval of sales literature, provision of policy information in the local language and complaints handling. Consideration should be given to the location of the master policyholder as well as the location(s) of the customers.
- Managing agents must take particular care as to whether the activities of the master policyholder in administering the master policy constitute regulated intermediary activity in the relevant territories. If the activities of the master policyholder could constitute a regulated activity, the managing agent should ensure that the master policyholder has the necessary regulatory authorisations. Whether the master policyholder is carrying on regulated activities will depend on the rules of the local territory and the activities that the master policyholder will be required to perform to administer the master policy.
- Managing agents should take steps to ensure that any business underwritten or arranged by or under the master policy does not result in coverage being arranged or any claim paid or benefit provided to or for any party that would expose the managing agent or underwriters to any sanction, prohibition or restriction under any applicable international trade or economic sanctions, laws or regulations.
- Where the tax or regulatory rules of more than one jurisdiction may apply it is important that the managing agent ensures that risks are coded appropriately to ensure there is compliance with Lloyd's reporting and statutory tax requirements.

In two territories, particular attention needs to be given to the requirements that apply to the underwriting of master policy programmes. These are:

1. **The United States** – The rules that govern master policies in the US are particularly detailed and differ between States. Particular restrictions apply to the writing of master policies in New York, Indiana and Tennessee. It is expected that managing agents writing master policies in the US are familiar with the relevant requirements and where external legal advice is not sought that they can demonstrate an appropriate level of expertise. The obligation to ensure that the master policy complies with relevant US requirements resides with the managing agent and responsibility should not be delegated to the broker.

Insurance underwritten to US Risk Purchasing Groups (RPG) is permitted and these arrangements are governed by the US *Federal Liability Risk Retention Act (1986)*. Guidance should be sought from

a law firm with appropriate expertise where an RPG is being established. Insurance underwritten to an RPG does not have to be referred to Lloyd's where it does not meet all the requirements in this guidance. Managing agents should still, however, be mindful of the principles in this guidance and ensure customers are treated fairly. It is the managing agent's responsibility to ensure all federal and local rules are satisfied.

Further information regarding master policies in the US can be found on Crystal.

Australia - Master policies cannot be written in Australia without approval from Lloyd's Australia. This is to ensure that Australian master policies are constructed and issued in such a manner to be in compliance with all Australian regulatory obligations. Underwriters should ensure that when placing their lines on such contracts that they have had sight of the approval from Lloyd's Australia confirming that the contract of insurance is in order. Further information and details of the information required by Lloyd's Australia can be found on Crystal.