

## *Market Bulletin*

**LLOYD'S**

One Lime Street London EC3M 7HA

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**SUBJECT:** **CONSULTATION ON DELEGATED UNDERWRITING  
AT LLOYD'S**

**SUBJECT AREA(S):** Lloyd's Coverholders

**ATTACHMENTS:** [Code of Practice](#)  
[Coverholder Application Form](#)  
[Definitions Byelaw](#)  
[Delegated Underwriting Byelaw](#)  
[Handbook for Coverholders](#)  
[Handbook for Managing Agents and Brokers](#)  
[Underwriting Requirements](#)  
[Coverholder Undertaking \(part of Application Form\)](#)

**ACTION POINTS:** **For comment by recipient**

**DEADLINE:** **14 November 2003**

### **EXECUTIVE SUMMARY**

This bulletin attaches Lloyd's proposals for a new approach to delegated underwriting in final draft form for market consultation, prior to making the necessary changes to existing rules. To view specific proposals please click on the relevant blue link above. Comments on this consultation should be sent to Matthew Chandler, Head of Admissions by no later than 14 November 2003.

Should you have any questions on the content of the attached document please direct them to Matthew Chandler (ext 5743, [matthew.chandler@lloyds.com](mailto:matthew.chandler@lloyds.com)), John Thompson (ext. 6164, [john.f.thompson@lloyds.com](mailto:john.f.thompson@lloyds.com)) or Steve Draper (ext.6064, [steve.e.draper@lloyds.com](mailto:steve.e.draper@lloyds.com)).

Matthew Chandler  
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Risk Management

## INTRODUCTION

In 2003, Lloyd's premium income from delegated underwriting is expected to exceed £2bn (after commissions). This represents 22% of Lloyd's expected overall 2003 premium income. The coverholders, to whom Lloyd's syndicates delegate authority to enter into contracts of insurance, to issue insurance documents, to market and advertise the Lloyd's insurance they offer and to handle claims from policyholders, have a vital role to play in the future success of the Lloyd's market. Presently, Lloyd's has more than 2,000 approved coverholders operating in 60 countries around the world.

If the Lloyd's market is to achieve the Franchise goal of creating and maintaining a commercial environment at Lloyd's in which the long term return to all capital providers is maximised, then it is clearly essential that the delegated underwriting arrangements which Lloyd's syndicates have with coverholders are successful.

As Franchisor, Lloyd's recognises that delegated underwriting potentially poses a number of prudential risks both at a Franchisee level (e.g. underwriting risk and operational risk) and at a Franchisor level (e.g. licensing, regulatory and reputational risk). As a Franchise we want to manage these potential risks better.

In addition, Lloyd's wants managing agents to delegate underwriting only to well managed and financially secure coverholders. This will ensure that policyholders interests are properly protected and will also protect and enhance Lloyd's reputation in the local territory. In certain overseas jurisdictions, coverholders are considered by the local regulators to be branch offices of Lloyd's.

With these aims of ensuring proper prudential supervision of these risks, the Coverholders Department at Lloyd's has been working over the past 18 months with managing agents, leading binding authority underwriters, Lloyd's brokers and coverholders to develop a new approach to delegated underwriting at Lloyd's. These measures should also enable managing agents to develop long-term/profitable relationships with their coverholders.

In creating the new approach we have sought to modernise and simplify Lloyd's approach to delegated underwriting wherever possible. The main components of the new approach are:

- a Delegated Underwriting Byelaw and Rules;
- a Code of Practice for Delegated Underwriting Arrangements;
- a Lloyd's Coverholder Application Form;
- a Coverholder Handbook (for coverholders);
- a Handbook on Delegated Underwriting at Lloyd's (for managing agents & brokers); and
- an internet based binding authority registration system.

Having completed this work, we are now publishing all of the component parts of the new approach in "final draft" before we make the legislative changes later this year. The new arrangements will supersede all previous documents concerning delegating underwriting.

We welcome comments on the new approach. All of these proposals have been worked on in detail by the Lloyd's Market Association's Delegated Underwriting Committee and have the support of the Lloyd's Market Association ("LMA") and the London Market Insurance Brokers' Committee ("LMBC"). Comments on this consultation should be sent to Matthew Chandler, Head of Admissions by no later than 14 November 2003.

The remainder of this commentary provides an overview of the new approach to delegated underwriting and covers:

- creating long term, profitable delegated underwriting partnerships;
- risk management across the Franchise; and
- transitional arrangements.

### **CREATING LONG TERM, WELL MANAGED DELEGATED UNDERWRITING PARTNERSHIPS**

In the last 18 months the Coverholders Department has lapsed more than 1,200 approved coverholders because they no longer have a current binding authority subscribed to by a Lloyd's syndicate. This represents a reduction of almost 1/3 in the number of approved coverholders, from a peak of 3,200. Historically, the concept of long term partnership has not been universally adopted by one or both of the principal parties, often resulting in relatively short term relationships between managing agents, coverholders and unsatisfactory underwriting results.

To seek to create long term, well managed delegated underwriting partnerships to ensure that the interests of policyholders and capital providers are protected, we will therefore be:

- *raising standards of coverholders admission*

In particular, the Coverholders Department will;

- not approve a coverholder until a Lloyd's syndicate is prepared to delegate underwriting to it;
- involve the Lloyd's broker and the prospective lead Lloyd's managing agent in the coverholder approval process at the same time;
- develop a more sophisticated coverholder admissions policy for the Franchise over the next 18 months; and
- make better use of conditions of approval on new coverholders and, more specifically, review with Lloyd's brokers and lead syndicates new coverholders after their first year of operation.

- ***providing resources specifically for coverholders***

The three key developments in this area are:

- producing a Coverholder Handbook for the first time. This publication is targeted at coverholders and seeks to explain to coverholders how Lloyd's operates and their part in the Lloyd's Franchise;
- creating a Coverholder Undertaking for all Lloyd's coverholders. This sets out for the first time Lloyd's expectations of coverholders when dealing with the Lloyd's market. Additionally, it gives Lloyd's reserve powers to step in to protect policyholders and Lloyd's reputation in the event that the contract of delegation between the coverholder and the Lloyd's syndicate breaks down; and
- making better use of our Lloyd's overseas representatives in our coverholder relationships. Lloyd's representatives will play a more involved role in all new coverholder applications in those territories where we have representatives. This will involve making sure new coverholders are fully aware of our licensing obligations in the local territory.

- ***simplifying the business process for new coverholders and binding authority registration***

The key developments in this area are:

- creating a new coverholder application form to be used by the entire Lloyd's market. This will bring to an end the use of different forms for Lloyd's and for Lloyd's syndicates. Lloyd's brokers will be able to use a single application form for Lloyd's and for all Lloyd's syndicates;
- creating an internet based binding authority registration system. This system, which was launched in July 2003, allows for a speedy registration of binding authorities. It also allows Lloyd's to dispense with the paper based and time-consuming CD4 and CD6 forms. Future system developments will allow this system to act as a confidential "real-time" document repository for general non binding authority specific coverholder information such as licenses, audited accounts, E&O insurance and coverholder audits.

- ***providing practical solutions to structural issues which cause tension in Lloyd's coverholder relationships***

We recognise that the Lloyd's annual venture places great strain on our coverholder relationships every year. This is never more the case than in the area of renewals. We, the LMA and the LMBC are working with the LMP office to produce LMP slips for all forms of delegated underwriting, which contains full contractual detail. Additionally, we are working with the LMA to develop a clause which allows the leading underwriter to provide a limited extension to the contract of delegation in territories where there is a

statutory renewal requirement. Both of these measures will allow both managing agents and coverholders to have contractual certainty before they enter into contracts of insurance on behalf of Lloyd's syndicates.

- ***creating a new forum for Delegated Underwriting at the Lloyd's Market Association ("LMA") to work in partnership with the Franchisor.***

A Delegated Underwriting Committee was established at the LMA in January 2003 and contains specialists from all sectors of the Lloyd's market and representatives of the Franchise. This group has worked tirelessly in reviewing and suggesting practical improvements to all aspects of the new approach. This group will continue to have an important role to play as Lloyd's takes forward further developments such as a new delegated underwriting agreement for the marine market to operate the LPO228, reviewing how Lloyd's can better co-ordinate the use of external coverholder audits, reviewing the provision of technical training for Franchisees in the area of delegated underwriting and reviewing the proposals for UK retail coverholders.

- ***refocusing the Coverholders Department***

To enable the Coverholders Department to become a centre of excellence where managing agents and Lloyd's brokers can discuss all issues relating to delegated underwriting, the Department has recruited a number of staff with particular skills in the field of delegated underwriting. The Department will continue to liaise closely with the LMA and LMBC to ensure it is fully abreast of current thinking and during 2004 intends, to become much more proactive in its dealings with the market.

## **RISK MANAGEMENT ACROSS THE FRANCHISE**

Risk Management standards have improved significantly since Lloyd's first began raising awareness of the risks associated with coverholders and binding authorities in 1998. Since this time we have seen:

- increased awareness amongst the senior management of Lloyd's managing agencies, who have all now developed their own protocols to manage and control coverholders and binding authorities;
- moves by managing agents to appoint binding authority oversight managers to co-ordinate the effective management of coverholders across the managing agency and more realistic assessment of the optimum number of binding authority contracts to support (lead and follow) given the need for syndicates to service and manage their binding authorities efficiently and effectively;
- better use of internet technology to manage delegated underwriting; and
- a better awareness of risk and control amongst underwriters, including making increased use of external coverholder audits.

Whilst this step-change in risk management standards has been occurring, Lloyd's has also had an opportunity to learn lessons from some problem coverholder situations over the past few years in order to manage delegated underwriting risks better across the Franchise.

To seek to achieve the objective of improving the management of delegated underwriting, Lloyd's will be:

- using the internet based binding authority registration system to obtain confirmation that the contract of delegation has been agreed between the coverholder and the underwriters and that therefore the binding authority is fully placed before contracts of insurance can be entered into;
- providing clear definitions of entities to which Lloyd's managing agents can delegate authority to enter into contracts of insurance or to issue insurance documents. Additionally, and for the first time, all other forms of delegated underwriting are clearly explained and guidance provided as to how they are treated under the new approach. This guidance covers lineslips, consortiums, marine open cargo covers, group policies, master policies, service companies and fronted binding authorities;
- approving UK coverholders for the first time. Additionally, a new class of "restricted coverholder" has been created, which can operate restricted binding authorities in the UK (see Code of Practice for definition). Restricted coverholders do not need Lloyd's approval, but are likely to require FSA approval before 15 January 2005; and
- introducing a new Code of Practice for Delegated Underwriting. The Code replaces two Codes of Practice and the best practice guidance published by the Business Conduct Review Department covering consortium arrangements, lineslips and marine open cargo covers, service companies and direct dealing with coverholders. Additionally, the Code provides new or improved guidance in the following areas:
  - contractual certainty;
  - tacit renewals;
  - delegation to other parties under binding authorities;
  - certificate controls; and
  - cancellation and termination arrangements.
- improving insurance documentation standards in the area of delegated underwriting. With effect from 1 January 2005, all Lloyd's insurance documentation will contain a reference which will enable immediate identification of the binding authorities under which the documentation has been issued. We will also be in a position by that date to have a register of all entities in the UK which are authorised to issue insurance documentation (we already have these outside of the UK);
- introducing a Coverholder Undertaking between Lloyd's and each approved Lloyd's coverholder. This sets out clearly what is expected of Lloyd's coverholders.

## **TRANSITIONAL ARRANGEMENTS**

The changes involved in Lloyd's new approach to delegated underwriting are wide-ranging. However, we are seeking to make these changes with a minimum of disruption to all parties involved (i.e. managing agents, Lloyd's brokers and coverholders). Our aim is to migrate to

the new approach over the course of the remainder of 2003 and during 2004 with the objective of completing this migration by 31 December 2004.

The key transitional arrangements are set out below:

### **1) Coverholders in the UK**

- Once the new rules come into force, all new coverholders in the UK (with the exception of restricted coverholders) will need to be approved by Lloyd's as coverholders.
- All existing UK coverholders (with the exception of restricted coverholders) will be "grandfathered" in as approved Lloyd's coverholders.
- All UK coverholders which are already approved by Lloyd's because they handle marine business or non-UK business, will remain as approved Lloyd's coverholders.
- The Coverholders Department needs the assistance of Lloyd's brokers and managing agents to identify these coverholders so they can be recorded as approved coverholders on the internet based binding authority registration system.
- The Coverholders Department will write separately (after having liaised with the LMA and LMBC) with specific instructions on these grandfathering arrangements in October 2003.

### **2) Restricted coverholders**

- There will be no immediate impact for restricted coverholders. Lloyd's will wait for the FSA's regulatory approach to intermediaries in the UK to become clearer. Once this happens, we will work with the LMBC, LMA and LMUA to develop the internet based binding authority registration system to give it the functionality to record restricted coverholders.
- We will also work with the LMBC, LMA and LMUA to design a Lloyd's branded form which managing agents can use to perform due diligence on restricted coverholders.

### **3) Lloyd's brokers acting as coverholder**

- Once the new rules come into force, all Lloyd's brokers acting as coverholders will need to be approved by Lloyd's as coverholders.
- All existing Lloyd's brokers acting as coverholders will be "grandfathered" in as approved Lloyd's coverholders.
- The Coverholders Department will write separately (after having liaised with the LMBC) with specific instructions on these grandfathering arrangements in November 2003.



#### 4) **Marine open cargo covers**

- The definition of a marine open cargo cover has been narrowed under the new approach. As a result marine open cargo arrangements where there is not an insurable interest on the part of the entity operating the marine open cargo cover, will need to be approved by Lloyd's as a coverholder.
- Once the new rules come into force, all new marine open cargo arrangements where the entity operating the marine open cargo cover does not have an insurable interest, will need to be approved by Lloyd's as coverholders (unless it operates a restricted binding authority only). All existing marine open cargo arrangements where the entity operating the marine open cargo cover does not have an insurable interest, will be "grandfathered" in as approved Lloyd's coverholders. We do not anticipate that many entities will fall into this category of coverholder.
- The Coverholders Department will need the assistance of Lloyd's brokers and managing agents to identify these coverholders so they can be recorded as approved coverholders on the internet based binding authority system. The Coverholders Department will write separately (after having liaised with the LMA and LMBC) with specific instructions on the "grandfathering" arrangements in November 2003.
- We will also work with the LMBC, LMA and LMUA to design a Lloyd's branded form which managing agents and Lloyd's can use to perform due diligence on these entities as part of the approval process.

#### 5) **Lloyd's Coverholder Undertaking**

- All new coverholders will sign up to the Lloyd's Coverholder Undertaking as part of the Application Form.
- The Coverholders Department will need the assistance of Lloyd's brokers and managing agents to get existing coverholders to sign the Lloyd's Coverholders Undertaking. Ideally, we will be able to achieve this as part of the forthcoming renewal of the binding authorities with effect from 1 January 2004. Where this is not possible, we will work with managing agents and Lloyd's brokers to complete this exercise by the middle of 2004.
- Where more than one Lloyd's broker has a binding authority for an approved coverholder, only one undertaking needs to be signed by the coverholder.
- All signed undertakings will need to be lodged with the Coverholders Department.

#### 6) **Contractual certainty**

- Once the new rules come into force, all new contracts of delegation must have contractual certainty for all new binding authorities incepting on 1 January 2004 or after.
- We recognise that for renewals of existing contracts of delegation it is not practical for this rule to “bite” with immediate effect. It will therefore come into force for all binding authorities renewing on or after 1 January 2005.
- We expect this to allow for the development of LMP slips for all forms of delegated underwriting. In fact, we are hopeful that there will be an LMP slip available for renewals at 1 January 2004 which can be used for contracts of delegation in the USA.

#### **7) Role of Xchanging Insure Services (“XIS”)**

- The Code of Practice states that XIS will not process a contract of delegation unless there is clear evidence of contractual certainty.
- This will apply to all new binding authorities with immediate effect and for renewals of existing binding authorities on or after 1 January 2005.
- The Code of Practice also states that XIS will not perform checking services after the contract of delegation has been agreed between the coverholder and the lead managing agent, but may provide contract checking services for managing agents before the contract is finalised. Again, this change will not take place with immediate effect. Instead, we expect it to happen during 2004.
- All changes in this area will be co-ordinated with XIS, the LMA and LMBC.

#### **8) Lloyd’s Coverholder Application Form**

- Once the new rules come into force, all new Lloyd’s coverholder applications will need to be made using this Form. The Form is intended to be used across the Lloyd’s market when performing due diligence on prospective coverholders. All managing agents will be expected to use this Form during their due diligence exercise. This will remove the unnecessary duplication of Lloyd’s brokers and coverholders providing the same information to managing agents in different formats.
- The use of a standard form does not rule out supplementary questions which relate to a particular coverholder. These will continue to be asked in the normal way on a case by case basis.

#### **9) Insurance documentation**

- The Code of Practice states that all insurance documentation will need to contain a contract of delegation reference number. In some cases, this is already happening, whilst in others it is not. It is not practical for this rule to “bite” with immediate effect. It will therefore not come into force until 31 December 2004.

- We expect this to allow for a review of the Lloyd's recommended insurance documentation formats to take place in conjunction with the LMA, LMBC and LMUA.
- Additionally, it allows the internet based binding authority registration system to be enhanced to allow the contract of delegation reference numbers to be recorded. We expect to start working with the LMA, LMBC and LMUA shortly to commence this development.

#### **10) Backloading 2003 binding authorities**

- All binding authorities registered since 28 July 2003 have been registered via the internet based binding authority registration system.
- We wish to have all 2003 binding authorities recorded on the new system, rather than a part year. We will therefore be working with the LMA and LMBC to "backload" all binding authorities registered since 1 January 2003 to 27 July 2003.
- The Coverholders Department will write separately (after having liaised with the LMA and LMBC) with specific instructions on the backloading exercise in December 2003.

#### **11) Role of Lloyd's Overseas Representatives**

- The role played by the Lloyd's overseas representatives in respect of new Lloyd's coverholder applications will not change with immediate effect.
- In conjunction with Worldwide Markets, the Coverholders Department has developed some initial thoughts on the future role of the Lloyd's representatives in new coverholder approvals.
- We expect to discuss these proposals with the LMA and LMBC in order to implement these changes during 2004.

#### **12) Direct contractual relationships**

- Once the new rules come into force, the Lloyd's syndicates will need to be a party to all sub-contract arrangements for new binding authorities to existing coverholders and for new coverholders with immediate effect. In practice, this is more likely to cover circumstances where a coverholder delegates underwriting authority to another coverholder or delegates authority for claims handling or contract administration to a third party administrator.
- For existing contracts of delegation, this rule will not "bite" with immediate effect, but will come into force from 31 December 2004.
- We expect this to allow time for the LMA and LMBC to develop a suitable wording which coverholders can incorporate into existing contracts making underwriters a party to them, without the need to draw up new contracts.

# **CODE FOR MANAGING AGENTS**

## **DELEGATED UNDERWRITING ARRANGEMENTS**

October 2003  
Final draft

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# 1 INTRODUCTION

## 1.1 *What is delegated underwriting?*

Delegated underwriting is any arrangement under which a managing agent delegates its authority to enter into contracts of insurance on behalf of a syndicate it manages to another entity.

A managing agent may delegate its authority to enter into contracts of insurance under a binding authority or a lineslip.

## 1.2 *What is a Lloyd's Coverholder?*

A Lloyd's coverholder is an entity that is authorised to enter into a contract of insurance to be underwritten by Lloyd's syndicates in accordance with the terms of a binding authority.

In addition, a Lloyd's coverholder may also have authority delegated to it by a managing agent to issue insurance documentation<sup>1</sup> evidencing contracts of insurance underwritten on behalf of Lloyd's syndicates.

## 1.3 *What is a Binding Authority?*

A binding authority is an agreement between one or more managing agents and a coverholder under which the managing agent delegates its authority to enter into contracts of insurance on behalf of Lloyd's syndicates managed by Lloyd's managing agents.

The binding authority may also delegate authority to the coverholder to issue insurance documentation. Additionally, the binding authority will set out other responsibilities of the coverholder, including any authority to collect premiums or to handle claims.

## 1.4 *What are Lloyd's arrangements for Coverholders and Binding Authorities?*

Lloyd's has 2 categories of coverholder and binding authority.

1. Approved coverholder operating a registered binding authority
2. Restricted coverholder operating a restricted binding authority

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<sup>1</sup> Insurance documentation includes certificates of insurance, temporary cover notes and other documentary evidence of contracts of insurance signed by a coverholder on behalf of underwriters.

An **approved** coverholder is an entity which:

- is authorised to operate a **registered** binding authority; and
- may be domiciled anywhere in the World; and
- must be approved by Lloyd's.

An **approved** coverholder may also operate a **restricted** binding authority.

A **registered** binding authority is an agreement between a managing agent and an **approved** coverholder which authorises the coverholder to enter into contracts of insurance on behalf of a Lloyd's syndicate. The **registered** binding authority will set out the scope and extent of the **approved** coverholder's authority. It may also delegate authority to the approved coverholder to issue documentation evidencing contracts of insurance.

### **Restricted coverholders/restricted binding authorities:**

A **restricted** coverholder is an entity which;

- must be either a company whose registered office is in the UK or is a partnership based in the UK; and
- with effect from 14 January 2005, has permission from the Financial Services Authority to carry on insurance mediation; and
- is only permitted to operate **restricted** binding authorities.

A **restricted** binding authority is a binding authority –

- (a) where the coverholder's authority under the *binding authority* is restricted to entering into contracts of insurance where;
  - a. the contract will be concluded between the coverholder and the insured in the UK; and
  - b. the insured has his habitual residence in the UK or, in the case of a company, the company is registered in the UK; and
  - c. either –
    - i. the contract is in respect of travel or holiday risks and the duration of the contract is four months or less;
    - or
    - ii. the property to be insured is situated in the UK or where the property is a motor vehicle, it is registered in the UK;
- (b) where the terms and conditions of each contract of insurance are prescribed in the binding authority; and which either –
  - a. prescribes the premium to be charged in respect of each contract of insurance;
  - or
  - b. prescribes a formula, method or system for calculating the premium to be charged in respect of each contract of insurance provided that the formula, method or system does not provide the coverholder with any material discretion to determine the premium or adjust the premium so calculated.



A **restricted** coverholder must contract directly with the policy holder or issue insurance documentation [to] the policy holder. This does not prevent a **restricted** coverholder using an "introducor" to refer the business or to distribute insurance documentation on the restricted coverholder's behalf.

For the avoidance of doubt, if a coverholder does not so deal directly, then it does not qualify as a restricted coverholder and must be approved by Lloyds.

If the relevant eligibility criteria are met then a **restricted** coverholder will not require Lloyd's approval. Lloyd's also does not register **restricted** binding authorities. However, their details must be recorded on the register of restricted coverholders. In addition, managing agents are expected to maintain complete and up to date records of all **restricted** coverholders to which they have delegated underwriting authority.

## 1.5 **Other Forms of Delegated Authority**

The Delegated Underwriting Byelaw also sets out the other permitted methods by which a managing agent may delegate its authority to enter into contracts of insurance. The key method, besides the delegation to coverholders, is the delegation of authority under a line slip. Set out below is a description of the key features of a line- slip.

A **lineslip** is an arrangement whereby one or more managing agents delegate their authority to enter into contracts of insurance in respect of risks introduced by a named *Lloyd's broker* to another managing agent or to an authorised insurance company.

Typically, a **lineslip** will operate in specified classes of business (subject to compliance with local regulation). Once a contract of insurance has been entered into, the Lloyd's broker will issue evidence of insurance (e.g. cover note) supported by a full policy or slip policy and will also allow the managing agent(s) or authorised insurance company(ies) to agree claims.

Managing agents do not need approval from Lloyd's to operate a **lineslip**. Where authority to enter into contracts of insurance under a **lineslip** is delegated to an authorised insurer, then this entity does not need approval from Lloyd's to operate a **lineslip**.

In addition, there are various other methods by which managing agents have traditionally delegated their authority. This section of the Code reviews them and explains how they fit into Lloyd's approach for delegated underwriting.

As a general principle, all methods of delegated underwriting are expected to:

- have contractual certainty before contracts of insurance are entered into; and
- have contractual certainty, in which the obligations of all parties are clearly defined; and
- be reviewed at regular intervals.

### 1.5.1 Consortium

A **consortium** is an arrangement where a managing agent is authorised to act as a coverholder and enter into contracts of insurance on behalf of other managing agents or insurance companies. Typically, a consortium will operate in specified classes of business, produced from more than one source (which is the key difference to a lineslip).

**Consortium** arrangements have to be registered with Lloyd's each year in order to obtain a **consortium** processing reference. Aside from this, managing agents do not need approval from Lloyd's to operate a consortium where a managing agent acts as coverholder.

Where authority to enter into contracts of insurance under a **consortium** arrangement is delegated to any entity, other than a managing agent, then that entity will need to be approved by Lloyd's as a coverholder (unless it operates a restricted binding authority).

### 1.5.2 Service Companies

A **service company** is an entity within the same group as, or owned by the Lloyd's managing agent to which the managing agent delegates authority to enter into contracts of insurance or to issue documentation evidencing contracts of insurance.

All such **service companies** will need to be approved by Lloyd's as a coverholder.

### 1.5.3 Marine Open Cargo Covers

A **marine open cargo cover** is an arrangement under which Lloyd's syndicate(s) provide the Assured with a general grant of marine cargo insurance relevant to the Assured's business activities and which is in respect of the Assured's own property or property in which the Assured has, had or is expected to acquire an insurable interest. An insurable interest is an interest which under the Law of England and Wales would exist if the entity were domiciled or present in England or Wales. Typically, declarations are made during the year by the Assured using pre-determined rates, terms and conditions.

The term **marine cargo open cover** includes contracts to insure issued to freight forwarders, shipping agents, carriers or other parties acting on behalf of their principals and/or bailees.

Managing Agents must make sure they are aware of and comply with local licensing and regulatory requirements if they grant **marine open cargo covers**. Insurers do not need approval from Lloyd's to operate a **marine open cargo cover**.

### 1.5.4 Group Policies

A **group policy** is a single policy issued to an entity which is the policyholder, but not the insured. Insurance is mandatory for all members or employees (if the entity is an employer) belonging to that entity while they remain members or employees and premiums are paid on a group basis (not a member or employee basis). Under a **group policy** there is a single underwriting decision for the whole policy and all terms and conditions are pre-determined. The offer of insurance is made to the

entire group at the inception of cover and to new members or employees when they join the group. There is no variation in the cover given to any individual employee or member and no discretion as to which employees or members are insured.

In those US territories where Lloyd's operates under a surplus lines licence, insurance cover under a **group policy** must not be made mandatory and must be offered separately to each member or employee of the group. A separate premium must be identified. Each member or employee has the right to accept or decline the insurance.

Under a **group policy**, there is a single policy which constitutes the insuring document which is issued to the policyholder (i.e. the group). Additionally, members or employees of the group are given details of the cover evidencing the insurance. Documents given to members and employees must state clearly that they are not policies of insurance, merely evidence of cover granted to the group.

Managing agents must make sure they are aware of and comply with local licensing and regulatory requirements if they issue group policies.

**Group policies** are not considered by Lloyd's to be a binding authority nor is the policyholder considered to be a coverholder. Lloyd's approval is not required for **group policies** except in the United States, where no **group policy** or any other form of mass merchandising programme may be bound by a coverholder or underwritten at Lloyd's without prior consultation with Lloyd's US General Counsel.

### 1.5.5 Master Policies

A **master policy** is a contract of insurance issued to an association, organisation or club granting insurance cover to its individual members. These entities issue their members with a document known as an Evidence of Cover which sets out full details of the insurance or includes a full copy of the policy wording. It is mandatory in the USA to provide a full copy of the policy wording. These documents must state that the only insuring document is the **master policy** held by the association, organisation or club and that the individual member has the right to inspect the **master policy** at their offices.

Managing agents must make sure they are aware of and comply with local licensing and regulatory requirements if they issue **master policies**.

**Master policies** are not considered by Lloyd's to be a binding authority, nor is the association, organisation or club considered to be a coverholder. Lloyd's approval is not required for **master policies** except in the United States, where no **master policy** or any other form of mass merchandising programme may be bound by a coverholder or underwritten at Lloyd's without prior consultation with Lloyd's US General Counsel.

Examples of business which may not be accepted under **master policies** include, but are not limited to, extended warranty, guarantee and travel insurance, as well as arrangements where a manufacturer or supplier provides free insurance with its product or service.

## **1.6 What is the legal position of the parties involved in a contract of delegation?**

It is important that managing agents have a clear understanding of each of the parties' legal obligations in all contracts of delegation. The following section provides a simple overview of the legal position. However, it is important to note that the exact relationship between the relevant parties will depend upon the individual circumstances of a case, and be in accordance with the terms of the binding authority.

Risks are insured in the Lloyd's market by the members of Lloyd's who provide the supporting underwriting capital. Members can be either individual members (often known as "Names") or corporate entities.

Members of Lloyd's underwrite insurance through forming groups of members known as syndicates. Syndicates are annual ventures and operate as independent business units within the Lloyd's market. Syndicates are managed by managing agents. The managing agent has authority to accept risks on behalf of the members of the syndicate and it appoints the underwriting team. Each member grants this authority to the managing agent in accordance with a standard agency agreement.

Where a managing agent delegates its authority to a coverholder, the general principle is that the coverholder acts as agent of the managing agent (rather than as agent of the insured). Accordingly, a coverholder acts as agent of the managing agent when, in accordance with the terms of a binding authority, it enters into contracts of insurance to be underwritten by members of a syndicate or issues insurance documentation evidencing the contracts of insurance

The coverholder may also act as agent for the managing agent in respect of the collection of premiums or the handling of claims. The coverholder's authority to act for the managing agent will be set out in binding authority.

In the context of binding authorities, the Lloyd's broker usually acts as the agent of the coverholder. However, the Lloyd's broker also acts as the interface between the coverholder and managing agent during the entirety of the life of the binding authority. In this role, the Lloyd's broker has a duty to the stewardship of the binding authority and in performing this role may have responsibilities to both the coverholder and managing agents.

In certain circumstances, the Lloyd's broker may also be appointed to act as a coverholder and enter into contracts of insurance on behalf of a managing agent with insureds. When a broker is acting as coverholder, it will be acting as agent of the managing agent.

## 2 APPLICATION OF THIS CODE OF PRACTICE

### 2.1 *What is the purpose and scope of the Code of Practice (“the Code”)?*

The Code highlights the key risks associated with delegated underwriting and provides managing agents with practical guidance to assist in managing these risks.

The Code covers:

- Assessment of new coverholders
- Formation of the contract of delegation
- Key contractual provisions
- Monitoring contracts of delegation
- Non-renewal and cancellation of contracts of delegation

The Code applies to all arrangements where there is a delegation of authority to enter into contracts of insurance. It also covers arrangements where there has been delegation of authority to issue documents evidencing contracts of insurance.

This Code is aimed principally at managing agents whose syndicates lead binding authorities. Throughout the Code, these are referred to as lead managing agents. Similarly, managing agents whose syndicates follow on binding authorities are referred to as following managing agents.

### 2.2 *What does Lloyd’s expect of managing agents in relation to delegated underwriting?*

The managing agent sets the underwriting policy of its managed syndicate(s). Where it delegates authority to enter into contracts of insurance, the managing agent is responsible for setting both the strategy and the control environment within which its underwriting staff are expected to operate.

Lloyd’s expects managing agents to have clear, written procedures for each of their managed syndicates for delegated underwriting arrangements. These procedures should be ratified by the board, operated on a consistent basis across managed syndicates and be subject to regular review.

The competencies needed to lead a delegated underwriting arrangement are therefore different to those for other forms of underwriting. In consequence, it is important that the managing agent is therefore satisfied that it has adequate resources (both people and systems) to ensure that it is competent to act as the lead managing agent for delegated underwriting arrangements and to manage successfully such contracts. This will usually be reflected in the underwriting authorities given to individual underwriters.

In addition, where the delegation of underwriting authority is to a coverholder under a binding authority then the lead managing agent must assess the coverholder, set up the binding authority, and determine the limits of delegation allowed to the coverholder.

In relation to following managing agents, they should feel free to ask the lead managing agent or Lloyd’s broker for any additional information that they require.

Where authority has been delegated to a coverholder under a binding authority it is important that all following managing agents on the relevant binding authority consider:

- whether the lead managing agent has sufficient experience in the class of business to lead the binding authority
- the experience of the Lloyd's broker (if applicable), the proposed business and the coverholder
- the suitability and adequacy of the terms and conditions of the binding authority
- the arrangements for reviewing binding authorities subscribed to during the year.

## **3 ASSESSMENT OF NEW COVERHOLDERS**

### **3.1 Key considerations**

This section highlights some of the important areas that a lead managing agent will wish to consider as part of its assessment of a new coverholder.

A binding authority permits a coverholder to enter into contracts of insurance to be underwritten on behalf of Lloyd's syndicates. It is of the utmost importance that sufficient assessment is performed on new coverholders by the lead managing agent. This will normally include a visit to the coverholder's offices and meeting the key coverholder personnel. In some cases, it will also involve commissioning coverholder review experts to perform an audit of the new coverholder. Where the lead managing agent is not able to visit the coverholder, a visit by an experienced Lloyd's broker may also provide assurance.

To assist in the assessment of new coverholders, Lloyd's has developed a Coverholder Application Form which can be used to gather key coverholder information. This Form contains the majority of information that lead and following managing agents should require. The completion of this Form for the new coverholder will be co-ordinated by the Lloyd's broker. Lloyd's also has representative offices in a number of territories around the World, which can provide managing agents with local information about new coverholders.

Once the lead syndicate and Lloyd's broker are satisfied that the new coverholder is suitable, then an application can be made to Lloyd's for approval by submitting the fully completed Coverholder Application Form.

Where a syndicate wishes to lead a binding authority to a coverholder which has already been approved, it is important that appropriate assessment is also performed by the new lead managing agent on the coverholder.

### **3.2 Coverholder suitability**

In assessing whether a coverholder is suitable a managing agent should always have regard to the criteria for coverholder suitability as set out at paragraph 7 of Chapter 2 of the Underwriting Requirements.

These criteria are reproduced at Appendix 1. Set out below is guidance on specific areas that the managing agent should consider when assessing a coverholder's suitability.

#### **3.2.1 Persons authorised to enter into contracts of insurance and agree claims**

Key considerations when assessing the coverholder's suitability include:

- the quality and adequacy of the underwriting function, including the extent of the named individual's (individuals') knowledge and experience in each of the class(es) of business for which they are to be delegated authority to enter into contracts of insurance

- the quality and adequacy of the coverholder's controls over underwriting, particularly where a number of individuals are authorised to enter into contracts of insurance
- the limits of the coverholder's underwriting authority. Where a new coverholder is given full underwriting authority it will be essential for the lead managing agent to monitor closely its activities because they may be given responsibility not only for risk selection, but also for pricing. Even when a coverholder operates to pre-determined rates, terms and conditions, the lead syndicate will need to pay close attention to the coverholder's risk selection
- where only one named individual can accept risks or agree claims, what alternative procedures will be followed in the event that the individual is unavailable
- the quality and adequacy of the claims function

### **3.2.2 *The coverholder's reputation and standing***

Key considerations in assessing whether a coverholder is of appropriate reputation and standing include:

- regulatory status and current licenses
- membership of recognised professional bodies
- standing in the insurance industry
- association with any problems or disputes (e.g. with Lloyd's, other insurers or regulators)
- other classes of business handled
- binding authorities operated for other insurers and their performance (where such information is available)
- current owners or shareholders
- potential conflicts of interest.

### **3.2.3 *The ability of the coverholder to service a binding authority***

Key considerations in assessing whether a coverholder is capable to service a binding authority include:

- the competence of the coverholder's management and how they propose to manage the contract. This will include the ability to monitor premium income and aggregate exposure limits (where applicable)
- the capabilities of the coverholder's IT and accounting systems to record and process insurance transactions and to produce required reports and documentation
- the quality and adequacy of the coverholder's human resources
- the strength of the coverholder's financial management, including credit control
- other business activities (e.g. premium financing, real estate, loss adjusters, auto repairers) and the extent they might divert the coverholder's attention from the contract
- the coverholder's understanding of Lloyd's and the Lloyd's market.



### **3.2.4 The financial standing of the coverholder**

Key considerations in assessing the capital and financial position of the coverholder include:

- the financial position (e.g. the coverholder's assets and liabilities, as well as profitability)
- the coverholder's involvement in any current litigation or the existence of significant contingent liabilities which may affect its ability to continue to operate (e.g. E&O claim)
- the adequacy of errors and omissions/professional indemnity insurance, and fidelity insurance, where applicable

### **3.3 Underwriting plan**

It is sound practice for managing agents to ask a new coverholder to prepare an underwriting plan for the proposed binding authority. The lead managing agent will specify the precise content of the plan. The plan allows the performance of the coverholder to be monitored during the contract and allow a better overall understanding of the coverholder's proposals.

Key matters that should be addressed in the underwriting plan include:

- sources of business
- target profitability and historical profitability, including the reasons for any previous insurer(s) declining to renew
- details of other contracts of delegation managed
- market place analysis (including opportunities and competition)
- basis for risk selection
- basis for risk pricing (if applicable)
- monthly target performance and volume information
- business fit with the coverholder's other areas of business.

The Lloyd's franchise objective is to produce consistent profits over the insurance cycle. The lead managing agent will need to use suitable tools (e.g. profit commission) to focus the coverholder on underwriting profit.

### **3.4 Licensing issues**

In certain jurisdictions Lloyd's is authorised to operate as a single entity, with a single collective licence. As a consequence, any transgression by a coverholder in this area has potential adverse implications for the entire Lloyd's market. It is therefore essential that particular attention is paid to licencing compliance.

It is therefore essential that the lead managing agent takes reasonable steps to ensure that the coverholder is aware of all relevant laws and other regulatory requirements relevant to the binding authority in any jurisdiction where the coverholder is domiciled or resident or transacts the business of insurance in all territories where the risks are domiciled. Where Lloyd's has a local representative, then the lead managing agent or Lloyd's broker is recommended to discuss the proposed binding authority with the Lloyd's representative.

If a coverholder operates in more than one territory where Lloyd's is licensed, Lloyd's approval is required for each such territory. In territories where Lloyd's

does not hold a licence, the lead managing agent will need to satisfy itself that the coverholder will meet all relevant local regulatory requirements

### **3.5 *Binding authorities arranged with the involvement of a Lloyd's broker***

In circumstances where a managing agent intends to enter into a binding authority that is arranged or broked by a Lloyd's broker then the managing agent should consider the Lloyd's broker's:

- experience of operating and administering binding authorities
- knowledge and experience in the jurisdictions, where the coverholder is to operate
- ability to administer and service the binding authority.

An experienced Lloyd's broker will usually contribute to the assessment of a new coverholder by the lead managing agent. This contribution may include visiting the coverholder, sharing the due diligence performed and providing expert knowledge of the territory where the coverholder operates.

### **3.6 *Binding authorities arranged without the involvement of a Lloyd's broker***

Whilst many managing agents will wish to use a Lloyd's broker to arrange or broke a binding authority, Lloyd's does permit managing agents to deal direct with a coverholder and arrange and administer all forms of delegated underwriting covering any class of business, without the involvement of a Lloyd's broker.

If a managing agent is considering dealing directly with an existing coverholder which is being broked, arranged and administered by a Lloyd's broker, the managing agent will need to consider any legal risks which may arise from the removal of the existing Lloyd's broker.

A managing agent wishing to do this must notify Lloyd's of its intention to do so before entering into the contract of delegation.

More detailed guidance on the key considerations in this area is attached at Appendix 4.

## **4 FORMATION OF THE CONTRACT OF DELEGATION**

### **4.1 *Contractual certainty***

The binding authority entered into between the coverholder and the managing agent sets out the obligations of both parties.

There must be contractual certainty between the managing agent and the coverholder to whom it is delegating authority. Before a coverholder is authorised to act on behalf of Lloyd's syndicates whether on new binding authorities or the renewal of these contracts, the lead managing agent must have received written confirmation from the coverholder agreeing to the terms and conditions of the binding authority. The binding authority registration process cannot be finalised until this confirmation is received.

The need for contractual certainty extends to all other third parties to which authority is sub-delegated (e.g. other coverholders, or claims administrators). It is essential that where a coverholder's authority is to be "sub-delegated" to such a third party that the sub-delegation is effected by the managing agent itself and that the managing agent enters into a direct contractual relationship with that third party as this ensures that the managing agent can exercise appropriate control over all aspects of the contract of delegation. Where it is expected that a third party will play an immediate role under the contract, then it is vital that such contractual certainty is achieved before the coverholder is authorised to operate the binding authority.

It is particularly important for the lead managing agent to define clearly and comprehensively the responsibilities of a new coverholder and for the coverholder to fully understand them. If the new coverholder is clear about its responsibilities and the manner in which a binding authority operates, there is less room for misunderstanding.

### **4.2 *The role of Xchanging Insure Services ("XIS") in contracts of delegation***

Historically, XIS has checked contracts of delegation. This review has usually taken place after the coverholder has been given authority to act by Lloyd's managing agents. In future, XIS will not process a contract of delegation unless there is clear evidence of contractual certainty before the coverholder is authorised to operate a binding authority. Additionally, XIS will not perform checking services after the agreement of the contract of delegation between the coverholder and the lead syndicate. It is the lead managing agent's responsibility to agree the contract of delegation with the coverholder prior to the contract's inception. In doing so, the lead managing agent may use any service provider it wishes (including XIS) to review the contract.

### **4.3 *Model contracts of delegation***

The Lloyd's Market Association ("LMA") has developed a series of "model" contracts of delegation for use by managing agents. However, managing agents are free to agree different terms and conditions for contracts of delegation.

## **5 KEY CONTRACTUAL PROVISIONS**

In finalising the contract of delegation, the managing agent must include those provisions included at paragraph 10 of Chapter 2 of the Underwriting Requirements. These provisions are reproduced at Appendix 2. Set out below is guidance on specific areas the managing agent should consider when preparing the contract of delegation.

### **5.1 *Prudent underwriting***

The binding authority should require the coverholder to act at all times in a prudent and professional manner with due care and skill.

### **5.2 *Authorised Persons***

The lead managing agent must make clear which individuals at the coverholder have authority to enter into contracts of insurance. In some lines of business (e.g. personal lines where there are telephone sales) it is not practical to name every individual with this authority. In these cases, the contract will need to identify a suitably senior and experienced officer of the coverholder, who is responsible for the overall operation and control of the contract of delegation.

### **5.3 *Duration***

The contract of delegation will not usually last for more than 12 months from inception (plus the ability to extend the contract by up to a maximum of 6 months). If a contract of delegation is allowed for a period of more than 12 months, then the contract will need to have a provision allowing the lead managing agent to review the contract at 12 months.

### **5.4 *Contracts of insurance***

Both the coverholder and managing agent must be clear which classes and types of contracts of insurance can be entered into on behalf of Lloyd's syndicates. The managing agent will usually wish to specifically exclude certain classes or types of business, to reduce the potential for misunderstanding by the coverholder.

Additionally, the binding authority will usually specify:

- territories and locations of acceptable and excluded risks
- maximum limits of indemnity / minimum deductibles
- aggregate limits of exposure (if applicable)
- maximum policy periods (which will usually be 12 months plus extension)

Where the coverholder operates with a rating schedule, basis or guide, the lead managing agent will need to approve its content before the coverholder is given authority. Additionally, the binding authority will need to set out clear procedures to amend, update or replace these underwriting criteria during the life of the contract.

In general, coverholders are not authorised to arrange specific reinsurance to protect underwriters on a contract of delegation. However, in those exceptional cases where a coverholder is authorised to arrange reinsurance, the lead

managing agent will need to specifically approve the reinsurance before its purchase. Additionally, all following managing agents will expect to be provided with copies of reinsurance cover notes.

Special acceptance provisions are common on lineslips and also appear on some binding authorities. This provision usually allows the binding underwriter blanket authority to accept declarations outside the defined lineslip terms without reference to the following syndicates. It is vital that special acceptance provisions are clearly defined, otherwise the binding underwriter has a significant widening of authority which may expose following managing agents to business they had not intended to be written and may give rise to a dispute.

## **5.5 *Selling arrangements***

In most territories there are requirements governing how the insurance should be marketed or sold to policyholders. For example, in the UK there is FSA and ABI guidance to comply with, where applicable. It is essential that the lead syndicate is satisfied that the insurance to be marketed and sold by the coverholder is being done so in compliance with any such local territorial requirements.

Additionally, if the coverholder is intending to offer insurance (provided under the contract of delegation) via the internet, the lead syndicate will need to be satisfied that this is permitted locally. The lead syndicate is expected to have approved the relevant aspects of the coverholder's web-site which relates to the contract of delegation before the coverholder offers the insurance.

## **5.6 *Renewals of Contracts of Insurance***

Some local licensing requirements impose a tacit renewal on contracts of insurance, unless a Notice of Non-Renewal is provided by or on behalf of the lead managing agent to policyholders within a specified time before the contract of insurance renews. If the lead managing agent is not intending to renew the binding authority, it is essential that the lead managing agent tells the Lloyd's broker in good time so an alternative market can be found or Notice of Non-Renewal given to the coverholder.

## **5.7 *Premium income limits***

A contract of delegation must specify both a gross premium income limit. This is an important control for managing agents and, used effectively, can prevent a coverholder from writing more business than is wanted by the lead managing agent. For this reason, it is essential that the limit is set at a realistic level. It may also be appropriate, in some cases (e.g. multi-class or multi-coverholder contracts with significant premium income limits) to specify a premium income limit by sub-class of business or by coverholder.

Additionally, it is recommended that the coverholder be required to notify the lead managing agent once overall written premium income exceeds a certain pre-determined, realistic control percentage of the overall gross annual premium limit

stated in the binding authority<sup>2</sup> (e.g.75% of the agreed Gross Premium Limit). This allows early warning of any potential overwriting on the contract.

Lastly, where there is a provision for a portfolio transfer at the end of the period, due consideration should be given to the premium income limit and aggregate exposures should the transfer not take place.

## **5.8 Premium collection responsibilities**

In the majority of binding authorities, the coverholder is responsible for collecting premiums from the policyholders on behalf of the managing agent. It is essential that the lead managing agent specifies clearly the coverholder's responsibilities and sets appropriate service standards in relation to premium collection.

## **5.9 Insurance Monies**

It is essential that the coverholder is clear that insurance monies are held on behalf of underwriters. Insurance monies must be held by the coverholder in a separate segregated account for insurance monies. In many jurisdictions, insurance monies are required to be held in a trust account. Even where this is not required it is strongly recommended that insurance monies are held in a trust account. This is an important safeguard of policyholders funds in the event of the insolvency of the coverholder.

## **5.10 Insurance documentation**

It is absolutely essential for the lead managing agent to be satisfied with the format and content of the insurance documentation evidencing contracts of insurance which will be issued by the coverholder under the contract of delegation. Good quality insurance documentation reflects well on managing agents and Lloyd's. It is also essential that the lead managing agent specifies clearly the coverholder's responsibilities and sets appropriate service standards covering the production and issuance of insurance documentation.

In particular the managing agents must ensure that the insurance documentation complies with the provisions in Chapter 2 of the Underwriting Requirements regarding the contents of insurance documentation. These state that the managing agent should ensure that insurance documentation issued by the coverholder includes the following:

- the name and address of the coverholder;
- all relevant terms and conditions that relate to the contract of insurance entered into by the coverholder including:
  - a) relevant wordings, exclusions and limitations;
  - b) the maximum period or duration of cover; and
  - c) the limits of liability.
- the amount of the premium and any discount

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<sup>2</sup> Any decrease/increase to the agreed premium income limit or where the broker refers back to the lead underwriter because the control percentage has been reached should also be reported to the following market.

- information relating to the procedure to be followed for the handling of claims arising under the contract of insurance and for the resolution of complaints;
- the law and jurisdiction applicable to the contract of insurance
- any other provisions required under the laws or requirements of the jurisdiction in which the contract was concluded, where the insured is domiciled or of any other relevant jurisdiction and any other provisions as required by the relevant local Lloyd's representative.

In addition, the coverholder must not be authorised to issue joint certificates, unless they comply with the requirements stated in paragraph 14 of chapter 2 of the Underwriting Requirements. These requirements are reproduced at Appendix 3.

Finally, the lead managing agent must make sure that each document evidencing a contract of insurance issued by the coverholder contains a contract reference number. The reference number will then allow all parties involved in the contract, as well as Lloyd's to identify without difficulty the relevant binding authority in the event of receiving policyholder questions.

### **5.11 *Claims handling responsibilities***

The efficient handling of claims under a contract of delegation is vital. A failure to handle claims effectively may cause complaints from policyholders to Lloyd's or local regulators. This may in turn cause significant reputational damage to both the managing agent and to Lloyd's.

It is therefore essential that the lead managing agent specifies clearly the coverholder's responsibilities and sets appropriate service standards in relation to claims handling. The lead managing agent must identify a suitably senior and experienced officer of the coverholder to have overall responsibility for claims handling.

### **5.12 *Claims agreement authority***

The lead managing agent may wish to delegate authority to a coverholder to agree claims arising in respect of contracts of insurance entered into in accordance with the terms of the binding authority.

Where this is the case, key considerations include:

- setting this authority at limits which are appropriate to the class of business and the coverholder's knowledge and experience of claims
- defining service standards for the coverholder (e.g. claims file documentation)
- setting out clearly how recoveries or salvage are to be handled (if applicable)
- making sure that the coverholder refers all claims which might be denied or could be settled ex-gratia or without prejudice back to the lead managing agent promptly. It is essential that such claims are dealt with by the lead managing agent, otherwise managing agents might find they have potential involvements in lawsuits without their knowledge.

### **5.13 Claims fund**

Lastly, in some cases, a coverholder is advanced a sum of money by managing agents to hold as a claims fund. This is done to allow the coverholder to pay routine claims promptly. Where the coverholder is allowed to hold a claims fund, it is essential that the claims fund is held in a separate, segregated trust account in the name of the trustees of the relevant premiums trust fund (unless Lloyds permits otherwise). Additionally, the lead managing agent will need to define the circumstances in which the claims fund is to be used and specify the signatories to the claims fund account (which must be authorised by the lead syndicate). Finally, the contract will need to set out the arrangements for the return of claims fund monies upon request by the lead managing agent.

### **5.14 Reporting Responsibilities**

It is essential that the binding authority sets out clear provisions to require the coverholder to report in respect of all premiums, paid claims, outstanding claims and expenses in respect of contracts of insurance entered into by class or category by the coverholder under the binding authority. The reporting provisions enable the lead managing agent to ensure that the contract of delegation is performing in line with expectations.

It is essential that the lead managing agent clearly defines the coverholder's responsibilities and sets out appropriate service standards in relation to reporting.

The reports which a lead managing agent may use to monitor a binding authority include:

- risk report, which will provide details of all contracts of insurance entered into by the coverholder
- claims report, which will provide details of all settled and advised claims under the contract
- earned to incurred report, which will provide details of the coverholder's profitability
- claims fund report, which will provide details of all movements on the claims fund held by the coverholder
- aggregate exposure report, which will allow underwriters to monitor the accumulation of risks assumed by the coverholder in a particular territory or zone
- other reports to demonstrate adherence to key service standards by the coverholder.

### **5.15 Sub-contracted claims handling and administration**

Some contracts of delegation allow the coverholder to sub-contract responsibility for handling claims and performing certain administrative functions (other than entering into contracts of insurance or issuing insurance documentation) to another entity. Where this is the case, it is essential that:

- underwriters are a party to the contract with the sub-contractor
- the sub-contractor is competent to perform its responsibilities
- the terms of the sub-contract contract are consistent with the binding authority



- the sub-contractor's responsibilities are clearly defined and they are subject to appropriate service standards
- the sub-contract contract should allow managing agents or their agents and regulators rights of inspection and audit, as well as providing for immediate notification of complaints or potential litigation.

The LMA has prepared a model sub-contract agreement which may assist managing agents in these circumstances.

### **5.16 Complaints**

The lead managing agent will need to be satisfied with the coverholder's complaints handling procedure. Policyholder complaints represent a significant reputational risk for managing agents and Lloyd's. It is vital that the contract requires the coverholder to promptly notify the lead managing agent of any complaint, and, in particular, of any matter that could result in a complaint to any regulatory authority or give rise to litigation or proceedings against managing agents or the coverholder.

### **5.17 Lawful instructions**

The contract of delegation should allow managing agents to issue instructions to the coverholder when appropriate, in the form of reasonable requests or requirements relating to the operation of, risks bound under or claims arising from the contract.

### **5.18 Cancellation provisions**

It is essential that the lead managing agent considers carefully the cancellation and termination provisions in the contract of delegation. These provisions will be relied on by managing agents to cancel the contract quickly (if necessary) and to ensure that the coverholder does not abuse the contract after notice of cancellation has been given.

Key features that should be included in the cancellation provisions include:

- immediate cancellation upon fraud or dishonesty by the coverholder
- cancellation for any reason by managing agents after 30 days (or longer if required by local legislation)
- additional controls over the coverholder during the notice period. For example, the contract of delegation may revert to a more restricted form of delegation (e.g. lead managing agent to agree each risk to be accepted)
- duties of the coverholder once notice of cancellation has been given by managing agents (e.g. return of insurance documentation, access to underwriting and claims records).

Additionally, the lead syndicate will need to consider the inclusion of a suspension provision in the contract of delegation. This provision will allow underwriters to stop the coverholder immediately from entering into contracts of insurance, issuing insurance documentation or paying claims on behalf of underwriters for a specified period of time. The provision is likely to be of most use when serious irregularities at the coverholder are brought to the attention of the lead syndicate and will allow sufficient time for them to be investigated.

### **5.19 Use of Lloyd's name**

The binding authority must make it clear that the coverholder should refer only to Lloyd's in any publicity, letterheads, directories or advertising material in accordance with Lloyd's guidelines (as published on the Lloyd's website – [www.lloyds.com](http://www.lloyds.com)). In practice, this will mean obtaining the agreement of the lead managing agent or Lloyd's broker.

### **5.20 Inspection and ownership of Records**

It is essential that the binding authority requires the coverholder to establish and maintain on behalf of managing agents, complete records relating to all related business which will be held by the coverholder on behalf of underwriters. It should also make clear that managing agents retain full title to and ownership of all such records.

Additionally, it is essential for managing agents, their representatives and regulators to have the right at any time, without restriction or limitation, to inspect, audit and copy any records relating to contracts of insurance accepted by the coverholder.

### **5.21 Jurisdiction and choice of law**

The contract of delegation should be subject to UK law and UK jurisdiction wherever possible.

## 6 MONITORING CONTRACTS OF DELEGATION

It is absolutely essential for all lead managing agents to monitor closely all of their contracts of delegation. The lead managing agents must be satisfied that where a syndicate that it manages leads a contract of delegation that it has:

- sufficient resources devoted to monitoring the contract of delegation regularly during the year
- appropriate management information systems are in place to enable the contract of delegation to be monitored effectively.

### 6.1 *Monitoring*

Effective monitoring can be achieved via a combination of:

- reporting
- visits
- audits

### 6.2 *Reporting*

Coverholders are expected to report regularly on the activities delegated to them by managing agents. Increasingly, however, internet based coverholder management and reporting systems are being used to manage delegated underwriting arrangements. These make it much easier for the lead managing agent to enforce the limits of delegation for a coverholder and much quicker to review the coverholder's performance.

The lead managing agent will need to specify the reporting requirements and frequency of reporting. This will depend on the specific contract of delegation and its materiality.

Key considerations when determining the scope of the reporting requirements include:

- profitability against plan / budget
- quantity and quality of business, including risk selection
- rating adequacy
- claims, reserves and salvage (where appropriate)
- aggregate exposures (where appropriate)
- completeness of premium received
- reinsurance recoveries (where appropriate)
- coverholder's adherence to contractual service standards
- adherence to terms of trade by the coverholder and Lloyd's broker

During the first year of a new contract of delegation, it is particularly important that the lead managing agent monitors the coverholder extremely closely. The first year of any contract of delegation is higher risk because it will take time for managing agents and the coverholder to work in partnership together. For this reason, it is strongly recommended that during this first year, the coverholder is visited by the lead managing agents and that an audit by a coverholder review specialist is also performed.

### 6.2.1 Visits and audits

It is essential for managing agents which lead contracts of delegation to develop a clear approach to both visits and coverholder audits. Used in combination, these monitoring tools allow lead managing agents to be satisfied that the coverholder's activities are subject to an effective on-site review. Visits and audits of coverholders will need to be co-ordinated with the Lloyd's broker and coverholder.

Key considerations in this area include:

- developing a clear overall approach for syndicate visits and audits of coverholders
- the frequency of visits / audits is determined based on the lead managing agent's own risk assessment of the contract of delegation. In practice, material binding authorities will normally be subject to periodic audits by coverholder review specialists
- visits are performed by staff with adequate experience (e.g. underwriter, claims manager, internal auditor)
- clear consideration is given to the areas which should be covered by any visit<sup>3</sup> / audit. For example:
  - underwriting, rating and aggregate exposures (if applicable)
  - claims and reserving
  - management and financial
  - reporting, documentation and IT systems
  - licensing, regulatory, taxes and compliance
- documenting visits and ensuring that all visits / audits are subject to review upon return by the managing agent.

It is reasonable that visit notes and audits remain confidential to the syndicate. However, audits performed by coverholder review specialists, the cost of which is shared by all supporting managing agents, will need to provide to following managing agents and the Lloyd's broker in a timely manner after their completion. Where the managing agent of the lead syndicate itself performs all the reports and audits, the lead managing agent will need to agree with following managing agents which reports will be made available to them.

### 6.2.2 Renewal of contracts of delegation

When deciding whether or not to renew a contract of delegation, key considerations for all managing agents will include:

- the current and historical profitability/performance of the binding authority
- class, quantity and quality of business accepted under the binding authority in the previous year
- changes in market conditions, adequacy of rating and the potential profitability of the binding authority in the coming year
- the coverholder's continuing maintenance of relevant licenses and permits, adequate errors and omissions cover, segregated accounts for insurance monies and its ongoing financial standing

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<sup>3</sup> A "walkthrough" test is a quick and effective way of gaining comfort on the adequacy of the operation of the coverholder during any syndicate visit. In practice, this means that two or more transactions (premiums and claims) are walked through from first recording of a policy by the coverholder to the premium and claims reports, with third party evidence being sought to support the transactions.

- the way in which the coverholder has administered and operated the binding authority (including any rating or documentation errors, or processing delays)
- material changes in circumstances at the coverholder and the Lloyd's broker (if applicable)
- other problems or potential issues (e.g. arising from any audit or underwriting visits, complaints or potential litigation; regulatory issues)

### **6.2.3 Serious irregularities**

The lead managing agent should have clearly defined procedures to be followed upon notification of serious irregularities (e.g. fraud, dishonesty and significant regulatory concerns) at one of its coverholders.

Lloyd's and following managing agents should be informed promptly of any such problems.

### **6.2.4 Record keeping**

The lead managing agent is expected to maintain adequate records of all contracts of delegation which it leads. Some of the key records that it should maintain include:

- a copy of the Lloyd's Coverholder Application Form
- relevant information obtained during the new coverholder assessment process (and details of subsequent changes in circumstances) relating to the:
  - Lloyd's broker (if applicable)
  - business proposed
  - coverholder
  - information relating to the operation of the contract of delegation such as:
    - any rating basis, schedule or guide
    - details of certificate wording and additional clauses
    - format of evidence of cover
    - proposal and claims forms
    - slip copies and any endorsement(s)
- a copy of the agreed contract of delegation, including any addenda
- copies of relevant statistics, premiums and claims reports<sup>4</sup> and any other relevant underwriting information
- details of any complaints, potential litigation or other potential problems
- copies of any reports by coverholder review specialists, if applicable
- copies of visit reports arising from syndicate visits or provided by the Lloyd's broker (if applicable)
- details of any complaint, potential litigation or other potential problems.

Following managing agents should as a minimum retain copies of the slip, and any other information appropriate to them (e.g. aggregate exposure reports)

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<sup>4</sup> It is accepted that some syndicates may not retain copies of all premiums and claims reports because they are retained by the Lloyd's broker and can be recalled at short notice.

## **7 NON-RENEWAL AND CANCELLATION OF CONTRACTS OF DELEGATION**

This section of the Code sets out some of the key considerations when cancelling a contract of delegation.

### **7.1 *Non-renewal***

There may be many reasons for a lead managing agent to decide not to renew a coverholder's binding authority including:

- the coverholder does not meet its business plan targets or service the binding authority effectively
- underwriters withdraw from a class of business or jurisdiction
- there are significant changes at the coverholder (e.g. human resources or ownership)
- that the relevant syndicate managed by the managing agent has or will become a run-off syndicate (i.e. no longer accept new or renewal insurance business).

In the event that a binding authority is not renewed, it is essential that the lead syndicate closely monitors the run-off of the binding authority.

### **7.2 *Cancellation***

The cancellation of a binding authority is a significant event. A binding authority will usually only be cancelled mid-term if there are serious problems with the coverholder (e.g. licensing breaches, regulatory breaches, issuing insurance documentation without insurance cover, fraud or dishonesty).

It is essential that the lead managing agent handles the cancellation effectively. Poorly handled cancellations of binding authority have the ability to consume disproportionate amounts of management time and may increase operational and reputational risks for managing agents and Lloyd's. The majority of binding authorities empower the lead managing agent to cancel the contract. A lead managing agent wishing to cancel a binding authority must adhere to any notice requirements and any other relevant limitations or conditions specified in the binding authority. Typically, a binding authority is cancelled by giving the coverholder written Notice of Cancellation which takes effect within the period stated in the binding authority.

#### **7.2.1 *Before giving Notice***

Key considerations to bear in mind before a lead managing agent gives notice of cancellation include:

- Identifying who needs to be informed and when. This may include (in no set order):
  - following managing agents
  - Lloyd's broker
  - Lloyd's

- Lloyd's local representative
- professional advisers or coverholder review experts
- other Lloyd's managing agents with binding authorities to the coverholder
- Identifying who needs to be given Notice. Some binding authorities have more than one coverholder or have delegated authority. Additionally, other key parties involved in the contract may need to be informed (e.g. sub-contracted claims handlers).
- Identifying how the Notice is to be delivered to the coverholder
- Preparing the Written Notice. This is vital because not only will it give notice of cancellation, it will set out precisely what the coverholder is expected to do during the period of Notice and once the Notice has expired. Particular attention is needed to ensure that the coverholder is clear about how amendments to existing contracts of insurance and new contracts of insurance will be treated.
- Identifying potential substitute coverholder run-off providers. It is advisable to identify these at an early stage in case it is necessary to transfer the responsibility for run-off away from the coverholder. Considering whether it is necessary to put a representative of the managing agents in the coverholder's offices to supervise the coverholder during the notice period.
- Identifying who to speak to at the coverholder to explain the reasons for the Written Notice and what will be happening. Wherever possible, the lead managing agent will wish to keep a good professional working relationship with the coverholder.
- Requiring the coverholder to return any unused insurance documentation or other materials in its possession in connection with the binding authority, which might be used as evidence of insurance and bears the name of, or refers to, Lloyd's. Where certificates are printed by the coverholder, the coverholder should be instructed not to print any further certificates.

### **7.2.2 Giving Notice**

The lead managing agent will need to be satisfied that the coverholder has received and fully understood the Written Notice. Where a Lloyd's broker is used the Notice will usually be passed to the coverholder via the Lloyd's broker. The lead managing agent will need to make sure that the Lloyd's broker obtains written confirmation directly from the coverholder that the Written Notice has been received. This confirmation from the coverholder can then be given to the lead managing agent. Until this confirmation has been received, the lead managing agent should operate on the basis that the coverholder still has full delegated authority. If the coverholder refuses to acknowledge receipt of the Written Notice, the lead managing agent may need to take legal advice.

### **7.2.3 After giving Notice**

After the Notice has been given the managing agent should bear in mind the following key considerations:

- monitoring closely the contracts of insurance which may be entered into by the coverholder binds during the Notice period and ensuring the coverholder does not bind any contracts of insurance after the Notice period ends
- visiting or sending coverholder review experts to visit the coverholder periodically to ensure the run off is being handled effectively

- requesting appropriate reports from the coverholder in order to monitor the handling of the run-off by the coverholder. Particular attention will need to be given to claims handling and reporting of any difficulties or complaints
- ensuring that the coverholder is in receipt (where necessary under the terms of the binding authority of adequate funds to settle claims on behalf of underwriters
- being satisfied that the coverholder has sufficient finances and can keep the key personnel necessary to handle the run off
- ensuring managing agents retain possession of and have access to all key documentation relevant to the run-off (e.g. policyholder files, claims files).

### **7.3 *The transfer of run-off responsibilities from a coverholder***

In some circumstances where a binding authority has been cancelled or non-renewed, it may not be possible for the coverholder to maintain a level of service which is acceptable to the lead managing agent. This may be for a variety of reasons, but is often connected to a deterioration in the financial standing of the coverholder.

If the inadequacies cannot be speedily resolved, the lead managing agent (usually in conjunction with the following managing agents and the Lloyd's broker) will need to take steps for the transfer of the run-off functions to another entity

Where a transfer to another entity occurs, the lead managing agent will need to ensure that:

- there is a transfer of all relevant insurance and claims documentation
- it appoints a suitably experienced replacement entity to handle the run-off and defining clearly the new entity's responsibilities and service standards
- it considers any reputational issues for managing agents / Lloyd's in such a decision to transfer the run-off functions and making sure that where appropriate the local Lloyd's representative and / or local regulator are properly briefed.



## APPENDIX 1: CRITERIA FOR COVERHOLDER SUITABILITY

Paragraph 6 of Chapter 2 of the Underwriting Requirements sets out the following criteria for coverholder suitability:

"In deciding whether an *applicant* is suitable to be an *approved coverholder* the *Franchise Board* shall have regard to the following criteria and all other relevant matters –

- (a) whether the *applicant* is a competent, proficient and capable organisation. In considering this the *Franchise Board* may have regard to the following matters –
  - (i) the *applicant's* compliance with appropriate principles of good corporate governance;
  - (ii) the *applicant's* membership of any body, group or organisation that the *Franchise Board* considers to be necessary or desirable;
  - (iii) the quality and adequacy of the *applicant's* human resources including–
    - (i) the competence, reputation, character and suitability of the *applicant's* directors, officers and staff; and
    - (ii) the knowledge and experience of the *applicant's* directors, officers and staff of the conduct and regulation of insurance business in the Lloyd's insurance market and in any other relevant jurisdiction.
  - (iv) the quality and adequacy of the *applicant's* other resources including–
    - (i) the quality and adequacy of the *applicant's* systems, procedures, protocols and arrangements for the conduct of its business;
    - (ii) the quality and adequacy of the *applicant's* resources to comply with appropriate service standards for its customers;
    - (iii) the quality and adequacy of the *applicant's* resources to comply with such principles and standards for the conduct or administration of insurance business in the Lloyd's insurance market as the *Franchise Board* may from time to time prescribe, recognise or endorse; and
    - (vi) the quality and adequacy of the *applicant's* resources and systems for *underwriting* administration and for the administration and agreement of claims.
  - (v) the quality and adequacy of the *applicant's* controls and procedures to manage its business including–
    - (i) the *applicant's* arrangements for identifying, resolving or managing conflicts of interest and

- (ii) the quality and adequacy of the *applicant's* controls and procedures for the management of *underwriting* risk and for the management of the administration, agreement and compromise of claims.
- (vi) the nature of the *applicant's* business including its past, present and forecast *underwriting* performance;
- (b) whether the *applicant* is of appropriate reputation and standing;
- (c) whether any person who *controls* the *applicant* or who is connected or associated with the *applicant* is of appropriate reputation and standing;
- (d) whether the *applicant* has adequate capital and financial resources;
- (e) whether the *applicant* has adequate professional indemnity insurance;
- (f) whether the applicant is capable and willing to comply with the terms of any undertaking given by it to the *Franchise Board*; and
- (g) whether the applicant possesses all relevant licences, approvals or authorisations in order to act as an *approved coverholder* wherever it will conduct insurance business in that capacity”.

## APPENDIX 2: REQUIREMENTS FOR CONTRACTS OF DELEGATION

Paragraph 10 of Chapter 2 of the Underwriting Requirements sets out the following requirements for contracts of delegation:

”Every binding authority shall contain the following terms and conditions and comply with the following requirements –

- (a) in respect of every *registered* and *restricted binding authority* –
  - (i) an agreement number by which the agreement can be identified and referred to;
  - (ii) the name and address of each *coverholder*;
  - (iii) the name and address of each *Lloyd’s broker* which is a party to the *binding authority* or which arranged or broked the *binding authority*;
  - (iv) the syndicate or syndicates on whose behalf each *managing agent* is delegating authority to enter into contracts of insurance (the “*syndicates*”);
  - (v) the period of the *binding authority* save that the period shall ordinarily be no greater than 12 months from the date of inception of the *binding authority* and must not exceed 18 months from the date of inception of the *binding authority* in total;
  - (vi) the director, partner or employee of the *coverholder* who is directly responsible, on behalf of the *coverholder*, for the overall operation and control of the *binding authority*;
  - (vii) the names of the directors, partners or employees of the *coverholder* who will have authority to enter into contracts of insurance under the *binding authority*;
  - (viii) the names of the directors, partners or employees (if any) of the *coverholder* who will have authority to issue documents evidencing contracts of insurance under the *binding authority*;
  - (ix) the name of any person who will have authority to agree claims made on contracts of insurance underwritten by the *coverholder* under the *binding authority*;
  - (x) a list of the terms and conditions which must be incorporated in contracts of insurance underwritten under the *binding authority* including
    - (i) relevant wordings, exclusions and limitations;
    - (ii) the maximum period or duration of cover;
    - (iii) the limits of liability; and
    - (iv) any applicable territorial wordings or general cover conditions as prescribed or endorsed by the *Franchise Board*. These may be found at [].
  - (xi) the maximum premium income in respect of all contracts of insurance that the *coverholder* may enter into under the *binding authority*;
  - (xii) the maximum limits of liability in respect of contracts of insurance that the *coverholder* may enter into under the *binding authority*;
  - (xiii) the territorial limitations on the *coverholder’s* authority under the *binding authority*;

- (xiii) provisions requiring the *coverholder* to report in respect of all premiums, paid claims, outstanding claims and expenses in respect of contracts of insurance entered into by class or category by the *coverholder* under the *binding authority*;
  - (xv) provisions setting out how and when the payment and settlement of monies due from each of the parties to the *binding authority* should be made;
  - (xvi) provisions for the cancellation and termination of the *binding authority* including a provision that the *binding authority* shall be cancelled if the *Franchise Board* so directs;
  - (xvii) provisions relating to the on-going obligations of the *coverholder* in the event that the *binding authority* expires or is terminated or cancelled for any reason.
  - (xviii) provisions setting out the jurisdiction and governing law for the settlement of disputes arising from the binding authority.
- (b) in respect of every *registered binding authority* –
- (i) a precise description of the nature or classification of the contracts of insurance that the *approved coverholder* will be authorised to enter into under the *registered binding authority* and any relevant exclusions and limitations;
  - (ii) the manner or basis for the calculation of premiums, discounts, commissions, brokerages, fees, charges and expenses;
- (c) in respect of every *restricted binding authority* –
- (i) provisions to restrict the *restricted coverholder* to only enter into contracts of insurance -
    - (a) where the contract will be concluded between the *restricted coverholder* and the insured in the UK;
    - (b) where the insured has his habitual residence in the UK or, in the case of a insured that is a company, the company is registered in the UK;
    - (c) where the contract is in respect of travel or holiday risks and the duration of the contract is four months or less; or where the contract is in respect of property to be insured that is situated in the UK or where the property is a motor vehicle, it is registered in the UK;
  - (ii) subject to paragraph 10(c)(i), a precise description of the nature or classification of the contracts of insurance that the *approved coverholder* will be authorised to enter into under the *registered binding authority* and any relevant exclusions and limitations;
  - (iii) provisions which either prescribe the premium to be charged in respect of each contract of insurance or prescribe a formula, method or system for calculating the premium to be charged in respect of each contract of insurance provided that the formula, method or system does not provide the coverholder with any material discretion to determine the premium or adjust the premium so calculated; and
  - (iv) provisions to require the *restricted coverholder* to produce to the *Franchise Board* any information, documents, books, records and other materials which, in the opinion of the *Franchise Board* relate or purport to relate to the operation of

the restricted binding authority and to give to the *Franchise Board* or its agent or general representative all reasonable facilities in its premises for the purpose of examining such materials”.

## APPENDIX 3: JOINT CERTIFICATES

A joint certificate is a certificate or other document evidencing insurance accepted on behalf of Lloyd's syndicates under a contract of delegation, on which a proportion of the insurance is also shown as being accepted by insurers which are not Lloyd's syndicates.

Paragraph 14 of the Underwriting Requirements sets out the following requirements for joint certificates:

*"An approved coverholder under a registered binding authority or restricted coverholder under a restricted binding authority may only issue insurance documentation evidencing contracts of insurance in which a proportion of the risk is to be accepted by insurers other than members (a "joint certificate") provided that:*

- i) each *managing agent* that is a party to the *binding authority* has agreed to the issue of *joint certificates*;
- ii) the *joint certificate* includes all the details that are required to be included in insurance documentation evidencing contracts of insurance that are issued by an *approved coverholder* under a *registered binding authority* or by a *restricted coverholder* under a *restricted binding authority*;
- iii) the proportion or amount of risk accepted by Lloyd's underwriters is expressly stated on the *joint certificate* and is specified separately from the proportion or amount of risk accepted by other insurers;
- iv) the *joint certificate* contains the following statement:  
*"The insurers named hereon bind themselves each for their own part and not one for another. Each insurer's liability under this certificate shall not exceed the percentage of the risk shown against that insurer's name";* and
- v) the issuance of *joint certificates* has been confirmed as an acceptable practice by the general representative in the country in which issuance is required or, in the absence of such a general representative, by the *Franchise Board*.

Save that nothing in this paragraph shall permit a *joint certificate* to be issued in circumstances where that would contravene any relevant territorial general cover condition or would contravene any requirements of the jurisdiction in which the *coverholder* is domiciled, or any other jurisdiction in which the *coverholder* trades, provides services or does business".

## **APPENDIX 4: MANAGING AGENTS DEALING DIRECTLY WITH COVERHOLDERS**

The Lloyd's Brokers Byelaw (No.17 of 2000) includes the provision that managing agents will be able to appoint a coverholder and arrange and administer a binding authority covering any class of business, without the mandatory involvement of a Lloyd's Broker. This applies to both 100% and subscription arrangements.

### **Key Considerations**

Where a managing agent deals directly with a coverholder without the involvement of a Lloyd's broker, it is important that the managing agent considers:

- the placing of binding authorities with a following market
- the production of documentation
- the responsibility of premiums and claims
- the adequacy of written procedures.

#### ***Placing binding authorities with a following market***

If the members of a syndicate or syndicates managed by the managing agent do not write the binding authority 100%, the managing agent will be responsible for placing the remainder of the contract with a following market. In these circumstances, the managing agent will have to fulfil the role of a broker.

Managing agents will need to be aware of the importance of:

- ensuring that all relevant information is disclosed to the following market;
- documenting and retaining the information which was presented to the following market when the binding authority was placed (and retaining evidence of its agreement, where required);
- record keeping relating to the operation of the binding authority (e.g. changes to the terms of cover); and
- ensuring that any outstanding issues are fully resolved before the inception of the binding authority.

Managing agents should also be aware that where a Lloyd's broker is not involved there is the potential for disputes or litigation to arise with the following market, for example, as a result of an error made by one of the managing agent's staff, or due to a potential misrepresentation, either at placement or during the term of the contract. Managing agents may consider it appropriate to purchase errors and omissions insurance to cover these exposures.

#### ***Production of documentation***

Managing agents will be responsible for the production of binding authority agreements and their subsequent signing through XIS<sup>5</sup>.

Managing agents will also be responsible for ensuring that satisfactory arrangements have been made for the use of Lloyd's certificates by their coverholders.

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<sup>5</sup> This may be achieved by managing agents drafting the binding authority agreements themselves for submission to XIS or, instead, agreeing with XIS that the agreement is to be based on a standard form and requesting XIS to prepare the binding authority agreement.

## ***Responsibility for premiums and claims***

Managing agents will need to be satisfied that it will be able to perform the processing functions normally carried out by a Lloyd's broker<sup>6</sup>. In particular, managing agents need to be aware that:

- they will be responsible for ensuring that premiums and claims are processed to the following market;
- if the following market includes non-Lloyd's insurers, the managing agent will need to have established the appropriate methods for processing and settling premiums and claims directly with these entities;
- if the following market includes Lloyd's syndicates, the managing agent will be responsible for providing claims details to XIS or Xchanging Claims Services ("XCS"), as applicable;
- premium and claim bordereaux must be provided to XIS or XCS<sup>7</sup>, on at least a quarterly basis. This also applies where the managing agent's syndicate writes a binding authority 100% and does not use XIS or XCS to process the premiums and claims; and
- such bordereaux<sup>8</sup> must contain sufficient information to facilitate reporting to regulatory and tax authorities.

Managing agents wishing to initiate discussions with XIS are requested to contact their XIS account manager. Managing agents wishing to initiate discussions with XCS are requested to contact the appropriate XCS head of claims.

## ***Adequacy of written procedures***

Managing agents will need to extend their written procedures covering the management and control of binding authority arrangements to include provisions for dealing directly with coverholders.

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<sup>6</sup> Upon receipt of "pre-notification", Lloyd's will inform XIS that a dummy broker number may be issued to the managing agent for the purpose of dealing directly with its coverholders.

<sup>7</sup> Unless it is motor or personal lines business which is not processed through the XIS or XCS.

<sup>8</sup> Preferably in electronic format.



## APPENDIX 5: DELEGATED UNDERWRITING: RISKS AND CONTROLS

WHAT COULD GO WRONG?	POSSIBLE RISK REVENTION / DETECTION CONTROLS
<b>(A) UNDERWRITING</b>	
1. Coverholder operates outside its scope of authority in relation to: <ul style="list-style-type: none"> <li>- risk limit</li> <li>- classes of business</li> <li>- type of business (e.g. reinsurance)</li> <li>- territories</li> <li>- unlicensed jurisdictions</li> <li>- length of policy period</li> </ul>	1. <b>Contract of delegation</b> clearly defines the arrangements in each of these areas 2. <b>Risk report</b> identifies class(es) of business, type of business, periods, limits and territories 3. <b>Periodic</b> visits or audits are performed by lead managing agent 4. <b>Reporting</b> identifies written premium by class, type and territory 5. <b>External</b> coverholder audit is performed
2. Coverholder writes risks where rates are below those anticipated	1. <b>Periodic</b> visits or audits are performed by lead managing agent 2. <b>Risk report</b> identifies the sums insured and premium for each risk 3. <b>External</b> coverholder audit is performed
3. Coverholder writes too much/too little premium income	1. <b>Contract of delegation</b> clearly states the premium income limit and estimate 2. <b>Reporting</b> to underwriters identifies written premium income, as well as signed premium income
4. Coverholder does not control sub-delegated underwriting authority to other coverholders	1. <b>Contract of delegation</b> clearly states the authorisation for each coverholder 2. <b>Risk report</b> identifies premium by type of business (e.g. binding authority, line slip) for each coverholder 3. <b>Periodic</b> visits or audits are performed by lead managing agent 4. <b>External</b> coverholder audit is performed
5. Coverholder writes a different mix of business to that expected by underwriters	1. <b>Contract of delegation</b> or underwriting plan establishes premium income by class and sub-class 2. <b>Reporting</b> to underwriters shows how written premium income compares to business plan

WHAT COULD GO WRONG?	POSSIBLE RISK REVENTION / DETECTION CONTROLS
6. Coverholder writes business produced by “bad” brokers/producers	<ol style="list-style-type: none"> <li>1. <b>Risk report</b> identifies the broker/producer</li> <li>2. <b>Periodic</b> visits or audits are performed by lead managing agent</li> <li>3. <b>Reporting</b> to underwriters identifies written premium derived from main producing brokers</li> <li>4. <b>External</b> coverholder audit is performed</li> </ol>
7. Risks are accepted on behalf of the members by a non-named underwriter/ inexperienced underwriter	<ol style="list-style-type: none"> <li>1. <b>Contract of delegation</b> states the authorised individuals</li> <li>2. <b>Periodic</b> visits or audits are performed by lead managing agent</li> <li>3. <b>External</b> coverholder audit is performed</li> </ol>
<b>(B) REINSURANCE</b>	
<ol style="list-style-type: none"> <li>1. The coverholder purchases inappropriate reinsurance for e.g. <ul style="list-style-type: none"> <li>- non-approved reinsurance security</li> <li>- high deductible</li> <li>- too many / not enough reinstatements</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. <b>Contract of delegation</b> specifies how reinsurance purchase is to be handled, (if permitted at all)</li> <li>2. <b>Reporting</b> to underwriters identifies all reinsurance (including facultative) effected</li> <li>3. <b>Copies</b> of reinsurance cover notes are provided to all underwriters</li> </ol>
<b>(C) AGGREGATE EXPOSURES</b>	
1. The coverholder fails to maintain aggregate exposures	<ol style="list-style-type: none"> <li>1. <b>Contract of delegation</b> states that aggregate exposures must be maintained</li> <li>2. <b>Reporting</b> to underwriters includes aggregate exposures</li> <li>3. <b>Periodic</b> visits or audits are performed by lead managing agent</li> <li>4. <b>External</b> coverholder audit is performed</li> </ol>
2. The aggregate exposures maintained on behalf of underwriters are inaccurately maintained (e.g. incomplete aggregates in relevant zone)	<ol style="list-style-type: none"> <li>1. <b>Periodic</b> visits or audits are performed by lead managing agent</li> <li>2. <b>External</b> coverholder audit is performed</li> </ol>

WHAT COULD GO WRONG?	POSSIBLE RISK REVENTION / DETECTION CONTROLS
3. The coverholder assumes a too-high exposure in a particular territory ; or in an area that makes underwriters over-exposed in a particular territory	<ol style="list-style-type: none"> <li>1. <b>Contract of delegation</b> specifies a maximum aggregate exposure per territory</li> <li>2. <b>Reporting</b> to underwriters includes aggregate exposures</li> </ol>
<b>(D) CLAIMS / RESERVES</b>	
1. The coverholder settles claims above the settling authority granted to him	<ol style="list-style-type: none"> <li>1. <b>Reporting</b> to underwriters includes details of significant claims and claims issues</li> <li>2. <b>Periodic</b> visits or audits are performed by lead managing agent</li> <li>3. <b>External</b> coverholder audit is performed</li> </ol>
2. Without prejudice / ex-gratia claims are made without informing underwriters	<ol style="list-style-type: none"> <li>1. <b>Contract of delegation</b> specifies the procedures to be followed for Without prejudice / ex gratia claims</li> <li>2. <b>Reporting</b> to underwriters includes details of significant claims and claims issues</li> <li>3. <b>Periodic visits</b> or audits are performed by lead managing agent</li> <li>4. <b>External</b> coverholder audit is performed</li> </ol>
3. Coverholder overpays claims, pays claims twice or does not use loss adjusters	<ol style="list-style-type: none"> <li>1. <b>Periodic visits</b> or audits are performed by lead managing agent</li> <li>2. <b>External</b> coverholder audit is performed</li> </ol>
4. Inaccurate / out of date reserves are held	<ol style="list-style-type: none"> <li>1. <b>Reporting</b> to underwriters includes specific details of significant claims and reserves</li> </ol>
<b>(E) OTHER</b>	
1. Managing agents are not informed of a complaint or potential litigation	<ol style="list-style-type: none"> <li>1. <b>Contract of delegation</b> specifies the procedures to be followed in the event of a complaint or potential litigation</li> <li>2. <b>Reporting</b> to underwriters includes details of any complaints</li> </ol>

WHAT COULD GO WRONG?	POSSIBLE RISK REVENTION / DETECTION CONTROLS
2. There are concerns about the coverholder, Underwriters wish to terminate contract of delegation	<ol style="list-style-type: none"> <li>1. <b>Contract of delegation</b> contains a cancellation clause</li> <li>2. <b>External</b> coverholder audit is performed</li> </ol>
3. The coverholder accepts risks / operates in a way which breaches Lloyd's licence in a jurisdiction.	<ol style="list-style-type: none"> <li>1. <b>Contract of delegation</b> defines classes of business and licencing issues</li> <li>2. Periodic visits or audits are performed by lead managing agent</li> <li>3. <b>External</b> coverholder audit is performed</li> </ol>

APPLICATION FOR COVERHOLDER APPROVAL

**Please read these notes carefully before proceeding**

1. This form should be completed in accordance with the guidance contained within the Coverholder Handbook. This can be obtained from your sponsor or downloaded from the Lloyd's web site: [www.lloyds.com/.....](http://www.lloyds.com/)
2. In the event that you or your *sponsor* is in any doubt as to whether any fact or matter is relevant then that fact or matter should be disclosed.
3. Words and terms which are shown in *bold italics* throughout this form are defined in the "guidance notes for completing this form" which is part of the Handbook.
4. The form may either be printed from this site and completed by hand (please answer in English and in BLOCK CAPITALS) or completed on screen and then printed for signature.
5. Please submit a copy of the form to the Coverholders Department, signed by both the *applicant firm* (referred to as "you", "your" or "we" throughout Part A of this form) your *sponsor* and/or a representative of the managing agent that intends to enter into a binding authority with you, to the Coverholders Department at Lloyd's.

**Who should complete this form?**

**Part 'A'** (including the Coverholder's undertaking at section 11) should be completed by the *applicant firm (you)* with help from your *sponsor*, if required.

**Part 'B'** needs to be completed by the Lloyd's broker/managing agent who is *sponsoring* the application

**Part 'C'** needs to be signed by an authorised representative of the lead managing agent who intends to enter into a binding authority contract with you.

**OCTOBER 2003**

**APPLICATION FOR COVERHOLDER APPROVAL**

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**PART A - Section 1 - The *Applicant Firm* ("You")**

- 1.1 Your full legal name
- 1.2 Your trading name(s) (if different) which may be used in connection with your Lloyd's business. Separate firms (e.g. subsidiaries) are subject to approval in their own right
- 1.3 Please state, in full, any other names (legal and/or trading) by which you have been known in the past 10 years
- 1.4 Your trading office address  
**This is the address that will be considered for approval unless otherwise requested**
- 1.5 Postal address for the trading office (if different from 1.4)
- 1.6 Registered address (if different from 1.4)
- 1.7 Telephone number   
Fax number   
e-mail address   
Web-site address

**PART A - Section 1 - The Applicant Firm ("You") - continued**

1.8 Have you previously made an application to be approved by Lloyd's as a coverholder, or, where applicable, as an open market correspondent? Yes  No

1.9 Year of your incorporation/establishment?

1.10 Your company registration number (or equivalent), if applicable

French applicants please enter your fiscal number – numero SIREN/SIRET

Belgian applicants please provide a copy of your Registration with the OCA (Office de Controle des Assurances)/CDV (Controledienst voor de Verzekeringen

1.11 Do you transact only insurance / reinsurance business? Yes  No

If "No", please state your other business activities

1.12 Please provide below details of your ownership or shareholdings.  
If you are part of a group of firms please provide a group structure chart showing details of the shareholdings/controlling interests of the other firms in you (and brief descriptions of the type of business carried on by each firm in the group structure). Please also provide details (on a separate sheet if necessary) of any guarantees from the parent company to support your solvency.



**PART A - Section 1 - The *Applicant Firm* ("You") – continued**

1.13 Is any other group member already an approved coverholder?

Yes

No

If 'Yes' please provide name and address.



**PART A - Section 2 – Details about your Personnel - continued**

2.2 Please provide the name and position of the individual who performs the following roles.

Please also provide the name and position of an alternate individual who would perform the role in the event of the absence of the primary individual.

ROLE	PRIMARY		ALTERNATE	
	FULL NAME	POSITION	FULL NAME	POSITION
Will act as Lloyd's contact on all matters relating to this application and any further enquiries.				
Will have overall responsibility for the operation of Lloyd's binding authorities				
Will have overall responsibility for the issuance of certificates under Lloyd's binding authorities (if applicable)				
Will have overall responsibility for underwriting decisions under Lloyd's binding authorities (if applicable).				
Will have overall responsibility for the administration of claims (if applicable).				

CURRICULA VITAE (CV's) OR RESUMÉS FOR ALL THE PERSONS REFERRED TO IN 2.1 AND 2.2 MUST BE INCLUDED WITH THIS APPLICATION.

2.3 Please provide a breakdown of the total number of staff employed you. (If you are a local office of an entity, the numbers required are those for the office and NOT the whole entity).

TOTAL NUMBER OF STAFF	BREAKDOWN – INCLUDING DIRECTORS, OFFICERS, PARTNERS AND EMPLOYEES				
	Underwriting and document issuance	Sales and Marketing	Administrative/Technical	Claims	Others (e.g. non-executive directors)

### **SECTION 3 – Reputation and Standing**

3.1 Lloyd's regards as extremely important the good reputation, character and financial standing of its coverholders and their *principal personnel*. Consequently, Lloyd's requires disclosure by you of any material information that may be relevant to Lloyd's consideration of your application.

An indication of where Lloyd's would expect disclosure are where you or your principal personnel have:

- i) criminal convictions (or proceedings pending) for dishonesty or breach of trust;
- ii) disqualifications under company legislation;
- iii) been found liable for negligence, fraud, misfeasance or wrongful trading;
- iv) been declared insolvent or bankrupt (or similar);
- v) in respect of any insurance industry, trade association or regulatory body, been refused membership, had membership revoked, been censured, fined, disciplined, suspended, expelled or had a licence suspended, revoked or renewal refused;
- vi) been asked to resign (other than by reason of redundancy) or been dismissed from any prior office or employment;

**Please provide details below or on a separate sheet of paper.**

**PART A – Section 4 – Your Professional Indemnity (PI) or Errors & Omissions (E&O) Insurance**

4.1	Do you currently have PI/E&O insurance in place which will cover all of your activities in connection with your Lloyd’s binding authority business (including any non-domicile business)?	<b>Yes</b> <input type="checkbox"/>	<b>No</b> <input type="checkbox"/>	<b>Expiry Date</b> <input type="text"/>
-----	---	--	---------------------------------------	--

**PLEASE PROVIDE A COPY OF THE POLICY SCHEDULE**

If “No” please explain why below

4.2	Limit of PI/E&O insurance (Please show currency used).	Each & Every Claim £ or currency <input type="text"/>	In the Aggregate £ or currency <input type="text"/>
-----	--	---	---

4.3	Deductible amount, each and every loss:	Each & Every Claim £ or currency <input type="text"/>	In the Aggregate £ or currency <input type="text"/>
-----	---	---	---

4.4	Does the PI/E&O insurance cover acts of dishonesty in respect of your directors or employees?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
-----	---	---------------------------------	--------------------------------

If “Yes”, please show the limit and deductible	LIMIT £ or currency <input type="text"/>	DEDUCTIBLE £ or currency <input type="text"/>
--	--	---

4.5	If the PI/E&O insurance does not cover acts of dishonesty in respect of your directors or employees do you have separate insurance that would cover such acts?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
-----	--	---------------------------------	--------------------------------

If “Yes”, please show the limit and deductible in respect of that insurance.	LIMIT £ or currency <input type="text"/>	DEDUCTIBLE £ or currency <input type="text"/>
--	--	---

4.6 Insurer's Name's and Address(es) for PI/E&O and, if insured separately, for dishonesty.

--

4.7 If you have in the past 5 years made a claim under a PI/E&O policy of insurance please provide details.

Not Claimed	Details Enclosed

4.8 Are you located in any one of the following Canadian provinces:  
Newfoundland, Nova Scotia, Ontario or Saskatchewan?

Yes                      No

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

If 'Yes', does your Professional Indemnity cover include dishonesty of directors? Or

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

Is there separate cover for dishonesty of directors?

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

**PART A – Section 5 – Your Accounts**

**Please note that if you are part of a group of companies, questions 5.1 to 5.7 are to be answered in respect of the company itself rather than the group.**

**COPIES OF YOUR ACCOUNTS FOR THE PAST TWO YEARS SHOULD ACCOMPANY THIS APPLICATION. (If you have less than 2 years of account please provide all available accounts.)**

Please summarise your latest accounts as follows:

5.1 Date of accounts

D	D	M	M	Y	Y
---	---	---	---	---	---

£ or currency

5.2 **Profit (or loss)** for the year

--

If a loss, please give reasons for the loss and what the projections are for the current financial year

--

5.3 **Working capital:**

£ or currency

Current assets, including debtors (less bad debts) and cash at bank and in hand

--

£ or currency

Current liabilities, (ie amounts falling due within one year)

--

If current liabilities exceed current assets (i.e. there is a working capital deficiency), please give reasons for this

--

5.4 **Insurance transactions assets/ liabilities (payables and receivables)**

£ or currency

**Insurance transactions assets** (including cash or equivalent) held by or due to you in respect of insurance business or transactions. This must:-

--

- a) include premiums, claims monies, brokerage / commissions policy and other fees (including interest earned on those monies);
- b) exclude bad or doubtful debts.

£ or currency

**Insurance transactions liabilities** – all debts and obligations for the time being due, owing or incurred (whether actually or contingently) by you in respect of insurance transactions. (ie creditors in respect of insurance transactions)

--

5.5 **Equity:**

£ or currency

Paid up share capital

Other reserves / retained earnings

Profit and loss account

Total assets

5.6 **Intangible assets**

Value of intangible assets such as goodwill, which have been included in the above figures.

5.7 **Bank Details:**

Name and address of the your principal bankers



**PART A – Section 6 – Your Systems and Administration**

**6.1 Internal Systems:**

Do your systems currently enable you to:

	Yes	No
6.1.1 Record premiums and claims for individual insurances?	<input type="checkbox"/>	<input type="checkbox"/>
6.1.2 Record and control the issuance of certificates?	<input type="checkbox"/>	<input type="checkbox"/>
6.1.3 Produce premium/underwriting and claims bordereaux?	<input type="checkbox"/>	<input type="checkbox"/>
6.1.4 Perform credit control checks with bad debt procedures?	<input type="checkbox"/>	<input type="checkbox"/>
6.1.5 Where applicable, record and monitor individual risks underwritten against any zonal aggregate limitations, and provide notice when limits are close to being fully utilized?	<input type="checkbox"/>	<input type="checkbox"/>
6.1.6 Record and monitor premium written against premium limits and provide notice when any limit is close to full usage?	<input type="checkbox"/>	<input type="checkbox"/>
6.1.7 Produce statistics as required by regulators in jurisdictions in which you trade, provide services or do business?	<input type="checkbox"/>	<input type="checkbox"/>
6.1.8 To back up your data on a daily basis to an off-site storage facility?	<input type="checkbox"/>	<input type="checkbox"/>

If you have answered “No” to any of questions 6.1.1 to 6.1.8, please explain why and state how these requirements will be met.

**6.2 Internet**

Do you, with underwriters agreement, intend to market or enter into contracts of insurance on behalf of Lloyd’s underwriters via the internet?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

If “Yes” please give details of the nature and extent of the proposed use of the internet and provide details of the site’s privacy policy.

**PART A – Section 6 – Your Systems and Administration - continued**

**6.3 Disaster Recovery:**

Please provide details of your disaster recovery arrangements.

**PART A – Section 7 – Your Insurance Business**

**IT WOULD ASSIST IN THE CONSIDERATION OF YOUR APPLICATION IF YOU ATTACH A COPY OF YOUR UNDERWRITING PLAN FOR PROPOSED LLOYD’S BUSINESS.**

**In this section, “licences” means licences, permits or other authorisations which are required by the jurisdiction in which you are domiciled (and/or in other jurisdictions in which you trade, provide services or do business or any other jurisdiction in which you are required to hold such a licence) in order to enable you to enter into contracts of insurance on behalf of Lloyd’s underwriters, to act as an insurance intermediary and act as a Lloyd’s coverholder.**

**Licences**

**A COPY OF THE RELEVANT LICENCE(S), INCLUDING, FOR US APPLICANTS, ALL NECESSARY SURPLUS LINES LICENCES, MUST BE ATTACHED TO THIS APPLICATION.**

- 7.1 a) Do you and your personnel hold all the necessary licences to enable you to enter into contracts of insurance on behalf of Lloyd’s underwriters, to act as an insurance intermediary and act as a Lloyd’s coverholder? Yes  No

If no, please explain

- b) If you are a US applicant, do you have a surplus lines licence in every state from which you expect to receive business for handling under your Lloyd’s binding authority?

If you are a US applicant and answer ‘No’ please explain how you propose to deal with fiscal and regulatory reporting requirements in the states concerned.

- 7.2 Do you intend to accept business from, and/or issue insurance documentation, to insureds resident in jurisdiction(s) other than in your own domicile? Yes  No

If “Yes”, please complete the following table:

Jurisdiction of insured and/or risk	Will you enter into contracts of insurance with the insured directly (i.e. other than through an intermediary)?	Will you receive business from intermediary(ies)? If yes, please state jurisdiction of the intermediary(ies)

**PART A – Section 7 – Your Insurance Business - continued**

7.3 If you have answered “Yes” to 7.2, what arrangements are in place to ensure that any other jurisdictions’ local requirements (e.g. reporting of business, taxation, export of business, licensing requirements) will be complied with?

**Nature of Business**

		Wholesale	Retail	Both
7.4	Do you conduct <i>wholesale</i> insurance business or <i>retail</i> insurance business or both?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7.5 If you handle *wholesale* business, please state the name(s) of any producer or sub-agent from which 20% or more of the business that is expected to be placed with Lloyd’s underwriters, is obtained.

Producer or sub-agent	%
<div style="border: 1px solid black; width: 430px; height: 45px;"></div>	<div style="border: 1px solid black; width: 120px; height: 45px;"></div>

7.6 What is your approximate annual gross premium income?

£ or currency
<div style="border: 1px solid black; width: 200px; height: 55px;"></div>

**PART A – Section 7 – Your Insurance Business - continued**

**Please complete both columns**

7.7 In the left-hand column, please allocate as a percentage the annual gross premium income stated in 7.6.

In the right hand column, please state the percentage gross premium income it is proposed will be placed with Lloyd’s underwriters.

Total gross premium income stated in 7.6	Anticipated gross premium income placed under Lloyd’s under binding authorities
%	%
Direct business	
Reinsurance business	
Total	

Direct business

Reinsurance business

Total

Please allocate by class

Marine

Non-marine-  
All Classes-  
Property & Short Tail

Non-Marine-  
All Classes-  
Liability / E&O / D&O

Aviation

Motor / Automobile

Other – please specify

Total


**Underwriting/Document issuance/Claims**

7.8 Which of the following functions do you intend to undertake on underwriters behalf

Please tick

7.8.1 accept risks

7.8.2 issue documents evidencing contracts of insurance

7.8.3 administer claims

7.9 Are your underwriting and claims settling departments separate?

Yes

No

Not  
Applicable

**PART A – Section 7 – Your Insurance Business - continued**

7.10 Are you familiar with the requirements governing claims handling in the jurisdiction in which you trade, provide services or do business?

Yes

No

Not  
Applicable

If you have answered “No” to questions 7.9 or 7.10 please explain.

7.11 Have you previously transacted business directly with any Lloyd’s broker?

Yes

No

7.12 Have you previously held binding authorities on behalf of Lloyd’s underwriters?

7.13 Have you been authorised in the past 10 years to underwrite for any non-Lloyd’s insurer?

7.14 Have you ever had a binding authority from Lloyd’s underwriters or any insurance company cancelled or terminated?

If you have answered “Yes” to questions 7.11, 7.12, 7.13 or 7.14 please give full details (eg class, Lloyd’s broker (if one involved), periods). In respect of questions 7.12 and 7.13 if you are able to provide details of loss ratios and/or profit commission statements this would assist in processing your application.

**PART A – Section 8 – Additional information in respect of HONG KONG**

Underwriters are required to ensure that they comply with the Code of Practice for the Administration of Insurance Agents (Code of Practice) and that the Hong Kong intermediary complies with Part X of the Insurance Companies Ordinance.

All syndicate service companies are deemed to be insurance agents for the purposes of the Insurance Companies Ordinance, the Code of Practice and this form.

		Broker	Insurance Agent	
HK 8.1	Are you a broker or an insurance agent	<input type="checkbox"/>	<input type="checkbox"/>	
	If you are an "insurance agent" please proceed to 8.6			
		CIB	PIB	Individually Approved
HK 8.2	Are you a member of CIB, PIBA or individually approved by The Hong Kong Insurance Authority?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	If you are a member of "CIB" or "PIBA" please provide the membership/registration number			
		<input style="width: 100%; height: 20px;" type="text"/>		
		Yes	No	
HK 8.3	Will your professional indemnity insurance cover any binding authority likely to be issued now or in the foreseeable future?	<input type="checkbox"/>	<input type="checkbox"/>	
	If "No", please provide details at the end of this section of what measures you are taking to separate coverholder activities from other broking activities (eg by setting up a separate legal entity).			
		Yes	No	
HK 8.4	Are you registered with the Insurance Agents Registration Board (IARB)?	<input type="checkbox"/>	<input type="checkbox"/>	
	If "Yes", please provide the firm's BR number			
		<input style="width: 100%; height: 20px;" type="text"/>		
		Yes	No	
HK 8.5	If approved as a Lloyd's coverholder will you be representing more than four principals? ("Principal" is defined as an insurer or Lloyd's. For the purposes of the Insurance Companies Ordinance, the Code of Practice and this application form all Lloyd's syndicates will collectively (for each coverholder) be deemed to be a single principal regardless of how many separate binding authorities a coverholder may hold and how many syndicates subscribe to each binder.)	<input type="checkbox"/>	<input type="checkbox"/>	
	If "Yes", what action is being taken to rectify this?			
	<input style="width: 100%; height: 100px;" type="text"/>			

HK 8.6 Have your technical representatives and chief executive passed (or obtained exemptions from) the Qualifying Examination of the Insurance Intermediates Quality Assurance Scheme (IIQAS)? YES  NO

If "No", please explain at the end of this section what action is being taken to rectify this?

**PART A – Section 8 – Additional information in respect of AUSTRALIA**

**Code of Practice** – The General Insurance Code of Practice came into effect on 1 July 1995, and has been adopted by Lloyd's and all other authorised insurers in Australia. The code implies that certain additional questions must be answered. The code applies to: Motor vehicles (comprehensive, third party property damage only or extended third party property damage policies); Home buildings; Home contents; Sickness and Accident; Consumer credit; Travel; Contracts of insurance which insure personal and domestic property (including movables, valuables, caravans, on-site mobile homes and marine pleasure craft).

AU 8.1 Is any business that is likely to be placed under any binding authority now, or in the foreseeable future, of a type which is subject to the General Insurance Code of Practice? Yes  No

**If the answer to 8.1 is "Yes", please answer the following:**

AU 8.2 Names of the person(s) who will be arranging insurance, handling claims and resolving disputes

**The following questions apply in respect of the:**

- principals and others listed under question 2.1 and 2.2; and
- those listed under 8.2 above

AU 8.3 What training have they undertaken? (You may wish to refer to your answer to question 2.8)

AU 8.4 What insurance qualifications do they hold?



AU 8.5 What instructions and documentation have been provided so that they can competently arrange insurance contracts and provide insurance services to consumers?

AU 8.6 If you are a registered **insurance broker**, do you maintain an insurance broking account in accordance Part 7.8 of the Corporations Act 5981A & B?

	Yes	No
	<input type="checkbox"/>	<input type="checkbox"/>

AU 8.7 If you are an **underwriting agency** (not being a registered insurance broker), do you maintain a trust account for moneys paid in relation to a contract of insurance or proposed contract of insurance?

	<input type="checkbox"/>	<input type="checkbox"/>
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AU 8.8 Is an Australian Financial Services Licence (AFSL) licence required by the Australian Securities Investment Commission (ASIC) provided with this application?

	<input type="checkbox"/>	<input type="checkbox"/>
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	Exemption Application	Licence Application Pending
If "No", please tick relevant box	<input type="checkbox"/>	<input type="checkbox"/>

If you have ticked the 'Exemption Applicable' box then by signing the undertaking at Section 11 of this form, you are confirming that as an underwriting agent you act only for APRA regulated bodies and you only provide services to wholesale clients. You confirm that you do not require an AFSL and qualify for an exemption from the licence requirement in accordance with 5911A(2) of the Financial Services Reform Act 2001.

**PART A – Section 8 – Additional information in respect of GREECE**

G 8.1 Are you entered in the Chamber of Professionals

	Yes	No
	<input type="checkbox"/>	<input type="checkbox"/>

**"YES", PLEASE ATTACH A COPY OF THE CURRENT ENTRY**

If "No" please explain why at the end of this section.

G 8.2 Does an active member of your staff management have a licence of Insurance Broker or Agent?

	Yes	No
	<input type="checkbox"/>	<input type="checkbox"/>

**"YES", PLEASE ATTACH A COPY**

If "No" please explain why at the end of this section

G  
8.3 Please enter Registration Number in the case of a Societe Anonyme (ARMAE)  
or  
Type, General and Special Registration No./Year of establishment of the firm from the Competent Court

**PART A – Section 8 – Additional information in respect of SPAIN**

SP  
8.1 Are you entered in the Mercantile Register?

Yes No

**IF “YES”, PLEASE PROVIDE A COPY OF THE ENTRY IN THE REGISTER**

If “No”, please explain why at the end of this section

SP  
8.2 Are you registered in the Special Register of Insurance Brokers at the General Directorate of Insurance?

Yes No

**IF “YES” PLEASE PROVIDE A COPY OF THE ENTRY IN THE REGISTER**

If “No”, please explain why at the end of this section

SP  
8.3 Please enter Fiscal Identification Code (C.I.F.)

**PART A – Section 8 – Additional information in respect of NETHERLANDS**

N  
8.1 Are you entered in the Chamber of Commerce Register (Handelregister)?

Yes No

**IF “YES”, PLEASE PROVIDE A COPY OF THE CURRENT ENTRY**

If “No”, please explain why at the end of this section

N  
8.2 Does an active member of your staff have a General Agents Diploma (Gevolmachtigd Agent)?

Yes No

**“YES”, PLEASE PROVIDE A COPY**

If “No”, please explain why at the end of this section

**PART A – Section 8 – Additional information in respect of ITALY**

IT  
8.1 Are you entered on the Agents’ or Brokers’ Roll

Yes No

**IF “YES”, PLEASE PROVIDE A COPY OF THE OFFICIAL AUTHORISATION LETTER**

If “No”, please explain why at the end of this section

**PART A – Section 8 – Additional information in respect of IRELAND**

IR 8.1 Are you a member of either the Irish Brokers Association or the Insurance Intermediaries Compliance Bureau? Yes  No

**“YES”, PLEASE ATTACH PROOF OF MEMBERSHIP**

If “No”, please explain why at the end of this section.

**PART A – Section 8 – Additional information in respect of PORTUGAL**

P 8.1 Are you entered in the Mercantile Register? Yes  No

**IF “YES”, PLEASE PROVIDE A COPY OF THE ENTRY IN THE REGISTER**

If “No”, please explain why at the end of this section.

P 8.2 Are you registered in the Special Register of Insurance Brokers at the General Directorate of Insurance? Yes  No

**IF “YES”, PLEASE PROVIDE A COPY OF THE ENTRY IN THE REGISTER**

If “No”, please explain why at the end of this section

P 8.3 Please enter Fiscal Identification Code (C.I.F.)

Explanations for NO answers must be provided here or on a separate sheet.

Question	Explanation

**PART A – Section 9 – References**

9.1 It would assist your application if you are able to provide the name and address of two insurers with which you conduct or have recently conducted business as a broker, administrator or coverholder together with the name of a senior officer whom we could contact, if necessary.

Name and address	
Postcode	Contact name
Tel. No.	E-mail

Name and address	
Postcode	Contact name
Tel. No.	E-mail

**PART A - Section 10 – Other Matters**

10.1 Please set out below any other facts or matters which are relevant or would assist us in processing this application

**PART A - Section 11 – The Coverholder’s Undertaking to Lloyd’s (“The Undertaking”)**

**THE UNDERTAKING MUST BE GIVEN BY THE APPLICANT FIRM.**

- A. In consideration of Lloyd’s considering this application we, the **applicant firm**, undertake and confirm to Lloyd’s that after having conducted reasonable enquiries the information provided in this application form is accurate and complete to the best of our knowledge and belief and we acknowledge that the provision of any false or misleading information provided in connection with it may lead to the rejection of the application; and
- B. In the event that Lloyd’s approves us as an **approved coverholder**, then in consideration of being approved, we undertake and confirm to Lloyd’s that -
1. General
    - 1.1 We will deal with Lloyd’s in good faith and in an open and co-operative way.
    - 1.2 We will comply with and act in accordance with the rules and requirements made from time to time by Lloyd’s relating to binding authorities and coverholders (the “Requirements”).
    - 1.3 We will conduct our business with integrity and with due care and skill and will take all reasonable steps to avoid causing harm to the name, reputation and standing of Lloyd’s. This will include complying at all times with the guidelines issued from time to time by Lloyd’s on the use of Lloyd’s name.
    - 1.4 We will only describe or hold ourselves out as a Lloyd’s “**coverholder**” for so long as we remain on the register of approved coverholders and are a party to a **registered binding authority**.
  2. Underwriting authority
    - 2.1 We will only enter into contracts of insurance on behalf of members of a **syndicate** managed by a **Lloyd’s managing agent**, or issue quotations or insurance documentation, in accordance with the terms of a **registered binding authority**
    - 2.2 We will not exercise any authority conferred upon us under a **binding authority**, including entering into contracts of insurance and issuing quotations or insurance documentation, until the **binding authority** has been registered at Lloyd’s.
    - 2.3 We will not sub-delegate to any third party our authority to underwrite contracts of insurance or our authority to issue documents evidencing contracts of insurance.
  3. Administrative arrangements (including insurance monies)
    - 3.1 We will take reasonable care to organise and control our affairs responsibly and effectively.
    - 3.2 We will ensure that all monies received or payable by us, from or on behalf of the **Lloyd’s managing agent**, (“insurance monies”) are held in accordance with the requirements as set out in the **registered binding authority**. We will also comply with any other requirements Lloyd’s may issue from time to time regarding the manner by which insurance monies are to be held.
    - 3.3 We will also comply with any requirements of the jurisdiction in which we are domiciled, or any other jurisdiction in which we trade, provide services or do business or any other jurisdiction as required, which relate to the manner by which insurance monies are to be held.
  4. Dealings with customers
    - 4.1 We will deal with customers and clients (including policyholders and prospective policyholders) (“customers”) openly and in good faith.

- 4.2 We will only charge premiums, fees, and retain any commissions, discounts or brokerage in accordance with the terms of a **registered binding authority** or in accordance with any relevant regulatory requirements.
- 4.3 We will pay due regard to the information needs of our customers and communicate information to them in a way which is clear, fair, prompt and not misleading. We will also handle all complaints made by our customers in a fair, prompt and orderly manner.
- 4.4 Where we have authority under the terms of a **registered binding authority** to handle claims we will do so in a fair, prompt and orderly manner.
- 4.5 We will manage conflicts of interest fairly, between ourselves, our customers and **Lloyd's managing agents**.
5. Dealings with the Lloyd's market
- 5.1 We will deal with **Lloyd's managing agents** and **Lloyd's brokers** openly and in good faith and will report to them, and account for all monies, accurately, fairly and promptly and, where relevant, account in accordance with any local settlement systems.
- 5.2 We will comply at all times with the terms of the **binding authorities** that we enter into with **Lloyd's managing agents** unless otherwise directed by Lloyd's.
6. Compliance with local requirements
- 6.1 We will at all times comply with all relevant local insurance, fiscal and taxation laws, regulations and requirements of the jurisdiction in which we are domiciled, or any other jurisdiction in which we trade, provide services or do business or of any other jurisdiction where necessary. This will include the maintenance of any necessary local licences, permits or other authorisations.
- 6.2 If we cease to comply with any relevant laws, regulations or requirements, or cease for whatever reason to maintain any necessary local or required licences, permits or other authorisations, we will immediately take all appropriate action and notify Lloyd's, our **sponsor** and the lead **Lloyd's managing agent** that delegated its authority to us under a **registered binding authority**.
7. Deregistration or Immediate Suspension of the Firm
- 7.1 In the event of any of the following events occurring-
- a) the revocation of approval or immediate suspension of us by Lloyd's in accordance with the Requirements; or
  - b) an instruction, condition or direction made or issued by Lloyd's that the **Lloyd's managing agent** or we cease accepting business under the **registered binding authority**;
- we will, subject to any specific instruction, condition or direction made or issued by Lloyd's:
- i) immediately cease to exercise any authority conferred upon us under a **registered binding authority**;
  - ii) promptly return to Lloyd's, **Lloyd's managing agent(s)** or **Lloyd's broker(s)** or destroy as appropriate all unused documents that would indicate or imply, if used, that contracts of insurance accepted by us are entered into on behalf of **members** of Lloyd's;
  - iii) promptly remove from our computer, back-up and printing systems any ability to use any stamp, mark or other thing that would indicate or imply that contracts of insurance to be accepted by us are underwritten on behalf of **members** of Lloyd's;
  - iv) handle the run-off of the business (including claims) in a fair, prompt and orderly manner (save where a third party has been appointed by the **Lloyd's managing agent** or by Lloyd's to handle the run-off (the "third party"));
  - v) co-operate fully with any third party and provide the third party access to our premises and provide relevant books, records and other documentation; and
  - vi) comply with the provisions in the **registered binding authority** regarding the effect of expiry, cancellation or termination of the **registered binding authority**.
8. Lloyd's powers
- 8.1 When requested by Lloyd's or its representative(s) or agent(s) we will-

- i) answer any questions and produce any information, documents, books, records and other materials which, in the opinion of Lloyd's or its representative(s) or agent(s) relates or purports to relate to the operation of our insurance business under a **registered binding authority**; and
- ii) give Lloyd's or its representative(s) or agent(s) all reasonable facilities in its premises for the purpose of examining such materials.

9. Miscellaneous

9.1 We will immediately notify Lloyd's, **Lloyd's managing agent(s)** and **Lloyd's broker(s)** as appropriate of any material changes to the information supplied in this application form and of any other matters which relates to us and of which Lloyd's, **Lloyd's managing agent(s)** and **Lloyd's broker(s)** would reasonably expect notice.

9.2 We acknowledge that any failure by us to comply with the terms of the Requirements or of this Undertaking may affect our continuing suitability to be a registered coverholder.

Data Protection

By entering this undertaking we confirm that we are applying for approval as a coverholder with Lloyd's and that we have read and accepted the terms regarding the use of personal and business sensitive data as set out in Part D of this form. We confirm that we are authorised by our employees or other individuals to provide their personal data as necessary, and to make statements on their behalf. We also verify that the information provided is true and accurate, and is up-to-date as at the time of the application and that we will inform Lloyd's if there are any changes in the information given in this application form before the application is approved.

We acknowledge that if approved by Lloyd's our name, address and details of the jurisdiction(s) in which we are domiciled will be included in the public register of approved coverholders (in accordance with the Requirements).

Governing Law

We irrevocably agree that this undertaking and all matters relating to its application to be an approved coverholder shall be subject to the laws of England and irrevocably agree that the courts of England shall have exclusive jurisdiction to settle any dispute and/or controversy of whatever nature arising out of or relating to this undertaking or the application for approval. Accordingly, any suit, action or proceeding arising out of or relating to such matters shall be brought in such courts. The foregoing shall apply save where Lloyd's in its absolute discretion elects that the governing law/applicable courts shall be those of the jurisdiction in which we are domiciled or do business.

Signed .....

Name in capitals .....

Position in your firm .....

Date .....

For and on behalf of .....  
(Name of your firm)



**PART B - Section 12– Your Sponsor’s Assessment to be completed by the *sponsoring Lloyd’s broker/Lloyd’s managing agent (“the sponsor”)***

12.1 How long has *the sponsor* known:-

a) the applicant firm?

b) its principal personnel?

12.2 When was the last time *the sponsor* visited the *applicant firm*?

**A copy of *the sponsor’s* report on its visit to the *applicant firm* attached to this application will assist the approval process**

Yes No

12.3 Are the premises of the *applicant firm* adequate?

12.4 Are the systems, procedures, protocols & arrangements of the *applicant firm* adequate for the conduct of insurance business at Lloyd’s?

12.5 Is the *sponsor* satisfied that the *applicant firm* is of sufficient reputation and standing to conduct insurance business on behalf of Lloyd’s underwriters?

Yes No

12.6 If *the sponsor* has underwritten, broked or otherwise conducted business in the London market for the *applicant firm* please enter for how long,

How many Not  
years Applicable

12.7 In respect of question 12.6, were the transactions handled to the satisfaction of both *the sponsor* and the insurers, including the timely settlement of premiums and claims ?

Yes	No	Not Applicable
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you have answered "No" to questions 12.3, 12.4, 12.5 or 12.7 please explain.

12.8 Is *the sponsor* aware of any previous delegated authorities that the *applicant firm* failed to handle satisfactorily?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

12.9 Is *the sponsor* satisfied as to the financial standing of the *applicant firm*?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

12.10 Is *the sponsor* aware of any professional indemnity circumstances or potential claims that could significantly impair the *applicant firm's* financial standing?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

If *the sponsor* has answered "yes" to question 12.8, 12.9 or 12.10, please provide details:

12.11 Representative of *the sponsor* who is dealing with this application

Name

Telephone No

Title / Position

**Part B – Section 13 – Your Sponsor’s Statement**

**THIS STATEMENT MUST BE SIGNED BY AN AUTHORISED PERSON\*.**

*The sponsor* confirms that:

- 13.1 to the best of its knowledge and belief and having undertaken appropriate enquiries, it is satisfied that the information contained in this application form, and any attachments hereto, is complete and correct;
- 13.2 it understands that any false or misleading information provided in this application form or any attachments hereto, may lead to the rejection of this application or the subsequent termination of the **applicant firm’s** coverholder status. *The sponsor* also understands that any false or misleading information provided by it may be reported to the appropriate department within Lloyd’s, and may affect its status as an accredited Lloyd’s broker (or its ability, as a managing agent, to sponsor coverholder applications) and may lead to action by Lloyd’s against it.
- 13.3 it will advise the lead Lloyd’s underwriter and the Coverholders Department at Lloyd’s of any material changes, that are brought to its attention, as stated in the Handbook; and
- 13.4 it will notify the Coverholders Department at Lloyd’s of any circumstance that may call into question the ongoing suitability of the **applicant firm** as a coverholder.

Data Protection

By signing this statement the *sponsor* confirms that it has read and accepts the terms regarding the use of personal data as set out at the information page at page [ ] of this form. The *sponsor* confirms that it is authorised by its employees or other individuals to provide their personal data as necessary, and to make statements on their behalf. The *sponsor* also verifies that the information provided is true and accurate, and is up-to-date as at the time of the application and that it will inform Lloyd’s if there are any changes in the information it has given in this application form before the application is approved.

The *sponsor* acknowledges that the information contained in Part B of this application form, any enclosures and any other information obtained by Lloyd’s at any time relating to the *sponsor*, may be divulged by Lloyd’s for its supervisory purposes.

Governing Law

The *sponsor* irrevocably agrees that all matters relating to the application it is sponsoring shall be subject to the laws of England and irrevocably agrees that the courts of England shall have exclusive jurisdiction to settle any dispute and/or controversy of whatever nature arising out of or relating to this undertaking or the application for approval. Accordingly, any suit, action or proceeding arising out of or relating to such matters shall be brought in such courts save where Lloyd’s otherwise elects.

(Signed\*) .....

Name in capitals .....

Position/Title .....

Date .....

For and on behalf of .....  
(Name of *the sponsor*)

**\*All declarations must be signed by a director or senior employee that has been authorised to do so at a board meeting of the sponsor.**

**Part C– Section 14 – Managing agent’s declaration**

**THIS DECLARATION MUST BE SIGNED BY AN AUTHORISED PERSON OF THE MANAGING AGENT THAT PROPOSES TO ENTER INTO A BINDING AUTHORITY CONTRACT WITH THE *APPLICANT FIRM***

[ \_\_\_\_\_ ] confirms that:  
(enter name of managing agent)

1. an assessment has been carried out on the *applicant firm* in accordance with the Code of Practice: Managing and Controlling Delegated Underwriting Arrangements;
2. to the best of our knowledge and belief the *applicant firm* is suitable to be entered on Lloyd’s register of approved coverholders;
3. we support this application and are prepared to lead a binding authority contract to the *applicant firm*;
4. that hawse have taken all reasonable steps to ensure that the *applicant firm* complies with all relevant local insurance, fiscal and taxation laws, regulations and requirements of the jurisdiction in which the *applicant firm* is domiciled, or any other jurisdiction in which the *applicant firm* intends to trade, provide services or do business in respect of any binding authority subscribed to by us, and
5. that we will notify to the Coverholders Department at Lloyd’s any circumstance that may call into question the ongoing suitability of the *applicant firm* as a coverholder.

Signed\* \_\_\_\_\_

Name in Capitals \_\_\_\_\_

Position/Title \_\_\_\_\_

Date \_\_\_\_\_

For and on behalf of \_\_\_\_\_  
(Name of Managing Agent)

**\* All declarations must be signed by a director or senior employee who has been authorised to do so at a board meeting of the managing agent.**

## Part D -IMPORTANT INFORMATION FOR THE *APPLICANT FIRM* AND THE *SPONSOR*

### Data Protection Notice

#### 1. Data Controller

- 1.1 As Lloyd's and its requirements for Coverholders are subject to English law, and any processing of data will occur within the United Kingdom, all personal data will be protected by the Data Protection Act 1998. Lloyd's is a data controller for the purposes of this Act and holds information for the purposes specified in its notification made to the Data Protection Commissioner, which is available for viewing at <http://www.dpr.gov.uk/search.html>.

#### 2. Proposed uses of personal information

- 2.1 Lloyd's will classify information provided to it by way of this application and subsequent disclosures as either:
- Class A information (which may be business sensitive or personal information which will only be used by Lloyd's in accordance with the terms set out below); or
  - Class B information (which will be made publicly available as per paragraph 3 below).
- 2.2 Class A information supplied to Lloyd's by the *applicant* and the *sponsor* will be used by the following
- the Society of Lloyd's (including the Society's general representatives, attorneys of fact and agents);
  - interested third parties such as XIS, XCS, and the LMA Coverholders Committees (among others);
  - any managing agent and any Lloyd's broker which is a party to a *registered binding authority* or which arranged or broked that *registered binding authority*; and
  - any other managing agent or Lloyd's broker which has the express consent of the *applicant*
- for the purpose of processing the application and for the continuing monitoring of the *applicant's* role as coverholder.
- 2.3 Lloyd's may use all information provided in this form or elsewhere, or which is provided by Lloyd's brokers or underwriters on the Coverholder and Binding Authority Registration web-site for any of the purposes set out in the Delegated Underwriting Byelaw, the Underwriting Requirements, the Handbook or the Delegated Underwriting Regime and subject to the Information and Confidentiality Byelaw (No 21 of 1993) .
- 2.4 Lloyd's may check all information received about the *applicant* or *sponsor* with what is already held in Lloyd's records. In order to check the information Lloyd's may need to contact the *applicant*, the *sponsor* and any other relevant managing agents or Lloyd's brokers.

#### 3. Registers of coverholders

- 3.1 Lloyd's will maintain a password protected register of Class A information which will be made available on a limited basis to any managing agent and any Lloyd's broker which is a party to a *registered binding authority* or which arranged or broked that *registered binding authority* in accordance with terms set out in the Delegated Underwriting Byelaw and the Underwriting Requirements..
- 3.2 Lloyd's will maintain a public register of Class B non-sensitive business information in respect of approved coverholders. This register will give the following details - the name and address of the approved coverholder and details of the jurisdiction in which the approved coverholder is domiciled.. This public register will be available without restriction on the Internet via lloyds.com website.

#### 4. **Security and confidentiality of information**

- 4.1 All information obtained from the *applicant* or the *sponsor* or any information about the *applicant* or the *sponsor* as a result of this or any other application the *applicant* or the *sponsor* has made to, or any other agreement the *applicant* or the *sponsor* may have with Lloyd's or authorised parties, will be securely held by Lloyd's and its agents in paper and/or electronic form.
- 4.2 All information may be stored on a secure password protected database which can be accessed through the Internet/and or Intranet. By virtue of the Internet, the database may be accessed world-wide by authorised parties.
- 4.3 All information may also be passed to the lead managing agent(s) and the Lloyd's broker(s) which is a party to a *registered binding authority* or which arranged or broked that *registered binding authority* who will be obliged to hold your information in a secure environment.
- 4.4 Lloyd's will treat personal information as confidential, even if the *applicant* should cease to be a coverholder save that information that appears on the Lloyd's register of coverholders (in accordance with the Delegated Underwriting Byelaw and Coverholder Rules) will be publicly available (as explained at paragraph 3 above).

#### 5. **Disclosure**

- 5.1 Save for the foregoing, nothing about the application for coverholder approval will be disclosed to anyone other than the parties listed above other than:
- i. Where the Information and Confidentiality Byelaw (No 21 of 1993) permits such disclosure;
  - ii. Where disclosure is made at the request or with the consent of the *applicant* or *sponsor* as appropriate.

#### 6. **Access to information held**

- 6.1 *Applicants*, Coverholders, *sponsors* and their directors, partners and employees have the right of access to the personal data held about them by Lloyd's and its associates, and the right to prevent its use for direct marketing purposes.
- 6.2 Enquiries relating to the use of personal data should be addressed to the Data Protection Officer at the following address:

Data Protection Officer  
Compliance  
Lloyd's of London  
One Lime Street  
London EC3M 7HA  
United Kingdom.

## CHECKLIST

### **Part E - IT WILL ASSIST THE PROCESSING OF YOUR APPLICATION IF THE FOLLOWING ARE ATTACHED.**

- group structure chart (if part of a group) (Q 1.12)
- any guarantees from the parent company (if part of a group) (Q 1.12)
- curricula vitae (CV's) or resumés of all persons referred to in Questions 2.1 and 2.2
- copy of PI / E&O policy Schedule (Q 4.1)
- accounts for the past two years, or all available accounts (Section 5)
- underwriting plan for proposed Lloyd's business (Section 7)
- copies of licence(s) [including surplus lines licence(s)] (Section 7)
- Details of loss ratios and/or profit commission statements (Q7.12 and 7.13)
- Copy of sponsor's report on visit to the *applicant firm* (Q 12.2)

## **DEFINITIONS BYELAW**

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### **- PROPOSED AMENDMENTS TO THE DEFINITIONS BYELAW IN BOLD**

Purpose:

The purpose of this Byelaw is to define terms and expressions used in the *requirements of the Council*.

Words and terms shown in italics have the meaning set out elsewhere in this Byelaw.

This byelaw was made by the *Council* on 4 June 2003 in exercise of its powers under section 6(2) Lloyd's Act 1982 and may be referred to as the Definitions Byelaw (No. 3 of 2003).

Definition of terms and expressions

1. In every byelaw and regulation made under Lloyd's Act 1982, save where that byelaw or regulation expressly provides to the contrary or the context otherwise requires –

“active underwriter” means, in relation to a *syndicate*, the individual at or deemed by the *Council* to be at, the underwriting box with principal authority to accept risks on behalf of the *members* of the *syndicate*;

“administrative and processing functions” means, in relation to an *approved run-off company*, the functions prescribed by the *Franchise Board* in accordance with paragraph 86 of the Underwriting Byelaw (No. 2 of 2003);

“agreed business plan” means a *business plan*, as amended from time to time, agreed by the *Franchise Board* pursuant to paragraph 17 of the Underwriting Byelaw (No. 2 of 2003);



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“agreed run-off closure plan” means a *run-off closure plan*, as amended from time to time, agreed by the *Franchise Board* pursuant to paragraph 81 of the Underwriting Byelaw (No. 2 of 2003);

“agreed run-off contingency plan” means a *run-off contingency plan*, as amended from time to time, agreed by the *Franchise Board* pursuant to paragraph 81 of the Underwriting Byelaw (No. 2 of 2003);

“annual financial return” means a return prepared by an *underwriting agent* in accordance with paragraph 51 of the Underwriting Byelaw (No. 2 of 2003);

“Appeal Tribunal” means the appeal tribunal established pursuant to section 7(1)(b) of Lloyd’s Act 1982;

**“approved coverholder” means a company or partnership which the *Franchise Board* has approved to act as a *coverholder* in accordance with paragraph [11] the Delegated Underwriting Byelaw (No [ ] of 2003).**

“approved run-off company” means a company with the *Franchise Board’s* permission to perform *executive functions, insurance functions* or *administrative and processing functions* on behalf of a *managing agent* or a *substitute agent*;

“approved transfer agreement” has the meaning given in paragraph 2(2) of the Conversion and Related Arrangements Byelaw (No. 22 of 1996);

**“binding authority” means an agreement between a managing agent and a coverholder under which the managing agent delegates its authority to enter into a contract or contracts of insurance on behalf of the *members* of a syndicate or syndicates managed by it to the *coverholder* in accordance with the terms of the agreement;**

“business plan” means a business plan prepared by a *managing agent* in accordance with paragraph 14 of the Underwriting Byelaw (No. 2 of 2003);

“codes of practice” means the codes of practice from time to time made and issued by the *Franchise Board* under paragraph 31 of the Underwriting Byelaw (No. 2 of 2003);

“commercial life business” means *life business* which is not *personal lines business*;

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“commercial motor business” means *motor business* which is not *personal lines business*;

“compliance officer” means the individual appointed by an *underwriting agent* or an *approved run-off company* in accordance with paragraph 40 of the Underwriting Byelaw (No. 2 of 2003);

“controller” shall have the meaning given in section 422 of the Financial Services and Markets Act 2000 and control shall be construed accordingly;

“corporate adviser” means a *members’ agent* which acts solely on behalf of a *corporate member*;

“corporate member” means a *member* of the *Society* which is a body corporate or a Scottish limited partnership;

**“coverholder” means a person authorised to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate or syndicates in accordance with the terms of a binding authority;**

“Council” means the council constituted by section 3 of Lloyd’s Act 1982;

“executive functions” means, in relation to an *approved run-off company*, the functions prescribed by the *Franchise Board* in accordance with paragraph 86 of the Underwriting Byelaw (No. 2 of 2003);

“Financial Services Authority” means the body corporate known by that name with the functions conferred on it by or under the Financial Services and Markets Act 2000;

“Financial Services Authority’s requirements” means any rule, direction, requirement, principle, evidential provision, code or guidance made, given or issued by the *Financial Services Authority*;

“former member” means any *person* who was a *member* of the *Society* but who has ceased to be a *member* of the *Society*;

“Franchise Board” means the board established by the *Council* with that name;

“General Insurance Standards Council” means the company limited by guarantee with the registered number 3705388;

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“independent non-executive directors of the Franchise Board” means the directors for the time being of the *Franchise Board* designated by the *Council* as being the independent non-executive directors of the *Franchise Board*;

“individual member” means a *member* of the *Society* who is an individual;

“insurance functions” means, in relation to an *approved run-off company*, the functions prescribed by the *Franchise Board* in accordance with paragraph 86 of the Underwriting Byelaw (No. 2 of 2003);

“life business” means contracts of insurance on human life or contracts to pay annuities on human life;

**“line slip” means an agreement whereby one or more managing agents delegate their authority to enter into contracts of insurance on behalf of members of a syndicates or syndicates managed by it or them in respect of risks introduced by a named Lloyd’s broker to another managing agent or authorised insurance company;**

“Lloyd's broker” means a *person* which is listed in the register of Lloyd's brokers maintained under the Lloyd's Brokers Byelaw (No. 17 of 2000);

“LPSO” shall, as the context requires, mean Lloyd's Policy Signing Office and/or any service provider (as that expression is defined in the Lloyd's Policy Signing Office Byelaw (No. 11 of 2000)) for the time being carrying on or out (under whatever name) all or any of the services and operations formerly carried on or out by the *Society* under the name of Lloyd's Policy Signing Office or the acronym LPSO;

“managing agent” means an *underwriting agent* which carries on *underwriting* for a *member*;

“managing agent’s trustee” means, in regard to a *managing agent*, any trustee of one or more *premiums trust deeds* designated under the terms of that deed or those deeds as the managing agent’s trustee in respect of that *managing agent*;

“MAPA” means an arrangement of the kind described in paragraph 10 of the Agency Agreements Byelaw (No. 8 of 1988) operated by a *members' agent*;

“member” means a *person* admitted to membership of the *Society*;

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“members’ agent” means an *underwriting agent* which is appointed by a *member* to provide services and perform duties of the same kind and nature as those set out in the standard members’ agent’s agreement;

“member’s syndicate premium income” means *premium income* of a *member* of a *syndicate* arising out of insurance business underwritten through that *syndicate*;

“member’s syndicate premium limit” means –

- (a) the limit prescribed by or on behalf of a *member* of a *syndicate* on the amount of insurance business allocable to a year of account which is to be underwritten on his behalf through that *syndicate* (such limit being expressed as the maximum permissible amount of his *member’s syndicate premium income* allocatable to that year of account); or
- (b) where a limit lower than that referred to in (a) above is prescribed by the *Council* that lower limit;

“motor business” means insurance business of any one or more of the following classes –

- (a) risks of bodily injury to or the death of the person insured while driving or travelling as a passenger (which expression shall include a person getting into, onto, out of or off a motor vehicle) in or on a motor vehicle;
- (b) risks of loss of or damage to property or of bodily injury to or the death of any party caused by, or arising out of, the use of motor vehicles including third-party risks and carrier’s liability;
- (c) risks of loss of or damage to –
  - (i) vehicles used on land, including motor vehicles but excluding railway rolling stock or
  - (ii) such vehicles as are referred to in sub-paragraph (c)(i) while in the course of transportation by land, rail, air, sea or inland waterway;
- (d) risks of loss of or damage to merchandise, baggage and all other goods in transit by motor vehicle or trailer; or
- (e) risks of loss arising out of or in connection with the mechanical or electrical breakdown or failure of a motor vehicle, or any part thereof, under which insurance the purchaser of the motor vehicle is the assured;

“New Central Fund” means the fund held, managed and applied by the *Society* pursuant to the New Central Fund Byelaw (No. 23 of 1996);

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“notifiable event” has the meaning given in paragraph 4 of the Premiums Trust Fund and Regulating Trustee Byelaw (No. 22 of 1998);

“performance report” means either a *quarterly monitoring report* or a *supplementary monitoring report*;

“person” shall include any natural person, firm, partnership, corporation, association, or other body of persons (whether corporate or unincorporate);

“personal lines business” means insurance business of any nature in relation to which the insured has an insurable interest which satisfies both of the following requirements –

- (a) the insured must be an individual (which expression shall exclude any body whether corporate or unincorporate or any other legal person not being a natural person); and
- (b) the insured in concluding the contract of insurance must be acting –
  - (i) on his own behalf and (where appropriate) in his private capacity; or
  - (ii) on behalf of any member of his family ordinarily residing in his household; or
  - (iii) in furtherance of a business (other than the underwriting business of a *member*) carried on by him as a sole trader;

“premium income” means, in relation to a *member*, the aggregate of the premiums credited to him less, or net of, *qualifying reinsurance premiums*, brokerage, discount, commission, *premium tax* and returns;

“premium tax” means any tax charged upon or any monies withheld from a premium by or on behalf of any statutory, governmental, state, provincial or local governmental authority, body or official;

“premiums trust deed” means a trust deed, in the form for the time being required by the *Council*, constituting a premiums trust fund;

“qualifying quota share contract” means a reinsurance contract which satisfies the requirements specified by the *Franchise Board* in accordance with paragraph 36 of the Underwriting Byelaw (No. 2 of 2003);

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“qualifying reinsurance premiums” means premiums paid by a *member* of a *syndicate* under a reinsurance arrangement which is a *qualifying quota share contract*;

“quarterly monitoring report” means a report prepared by a *managing agent* in accordance with paragraph 20 of the Underwriting Byelaw (No. 2 of 2003);

“quasi-individual member” means a *corporate member* whose members consist only of, or of nominees for, a single individual or a group of connected individuals (together with, in the case of a Scottish limited partnership, another person who is the general partner in that partnership) and for the purposes of this definition only –

- (a) a “group of connected individuals” means a group of individuals each of whom is a director or manager of, or a partner in, the *corporate member* or a close relative of any such person;
- (b) “close relative” means an individual's spouse, his children and step-children, his parents and step-parents, his brothers and sisters and his step-brothers and step-sisters;

“recognised accountant” means an individual or firm entitled to act as a recognised accountant in accordance with the Audit Arrangements Byelaw (No. 7 of 1998);

**“registered binding authority” means a *binding authority* under which the *managing agent* delegates its authority to enter into a contract or contracts of insurance on behalf of the members of a *syndicate* or *syndicates* managed by it to an *approved coverholder* and which –**

- (a) includes such terms and conditions and complies with such requirements as the *Franchise Board* may from time to time prescribe under the Delegated Underwriting Byelaw (No [ ] of 2003) in relation to *registered binding authorities*; and**
- (b) has been registered with the *Franchise Board* in accordance with the Delegated Underwriting Byelaw (No [ ] of 2003).**

“registered individual” means an individual registered in accordance with paragraph 1 of the Individual Registration Byelaw (No. 3 of 1998);

“reinsurance to close” has the meaning given in paragraph 1 of Schedule 1 to the Syndicate Accounting Byelaw (No. 18 of 1994);

**“restricted binding authority” means a *binding authority* under which the *managing agent* delegates its authority to enter into a contract or contracts of**

insurance on behalf of the members of a *syndicate* or *syndicates* managed by it to a *restricted coverholder* and –

- (a) where the *coverholder's* authority under the *binding authority* is restricted to entering into contracts of insurance where –
- a. the contract will be concluded between the *coverholder* and the insured in the UK; and
  - b. the insured has his habitual residence in the UK or, in the case of a company, the company is registered in the UK; and
  - c. either –
    - i. the contract is in respect of travel or holiday risks and the duration of the contract is four months or less;
    - or
    - ii. the property to be insured is situated in the UK or where the property is a motor vehicle, it is registered in the UK;
- (b) where the terms and conditions of each contract of insurance are prescribed in the *binding authority*; and
- (c) which either –
- a. prescribes the premium to be charged in respect of each contract of insurance;
  - or
  - b. prescribes a formula, method or system for calculating the premium to be charged in respect of each contract of insurance provided that the formula, method or system does not provide the *coverholder* with any material discretion to determine the premium or adjust the premium so calculated;

“restricted coverholder” – means any company or partnership whose name has been entered in the register of *restricted coverholders* by the *Franchise Board* in accordance with the Delegated Underwriting Byelaw (No [ ] of 2003);

“requirements of the Council” means any requirement imposed by any byelaw or regulation made under Lloyd’s Acts 1871 to 1982 or under the authority given by any *premiums trust deed*, any code of practice, *underwriting guideline*, condition or requirement made or imposed or direction given under any such byelaw regulation or authority and any direction given under section 6 of Lloyd’s Act 1982, any requirement imposed by or under any agreement, deed or other instrument between Lloyd’s or the *Council* and any *member*, *underwriting agent*, or any trustee of any *premiums trust deed*, or by or under any undertaking in favour of Lloyd’s or the *Council* given by a *member*, any *underwriting agent* or any trustee of any *premiums*

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*trust deed*, and any other direction or requirement given or made by the *Council* under Lloyd's Acts;

“run-off account” means a year of account which has not been closed as at the date at which it would normally have been closed in accordance with the policies and practices generally adopted in respect of the *syndicate* concerned;

“run-off closure plan” means a plan prepared by a *managing agent* in accordance with paragraph 77 of the Underwriting Byelaw (No. 2 of 2003);

“run-off contingency plan” means a plan prepared by a *managing agent* in accordance with paragraph 76 of the Underwriting Byelaw (No. 2 of 2003);

“run-off manager” means, in relation to a *run-off syndicate*, the *person* who has principal authority to negotiate or place contracts of reinsurance or negotiate and settle the payment of claims on contracts of insurance or reinsurance on behalf of the *members* of the *syndicate*;

“run-off monitoring report” means a report prepared by a *managing agent* which manages a *run-off syndicate* or a *run-off account* in accordance with paragraph 85 of the Underwriting Byelaw (No. 2 of 2003);

“run-off syndicate” means a *syndicate* which no longer accepts new or renewal insurance business (other than the variation or extension of risks previously underwritten, or *reinsurance to close* of an earlier year of account of that *syndicate*);

the “Society” means the Society incorporated by Lloyd's Act 1871 by the name of Lloyd's;

“substitute agent” means a person or body appointed in accordance with the Substitute Agents Byelaw (No. 20 of 1983) or in accordance with part K of the Underwriting Byelaw;

“supplementary monitoring report” means a report prepared by a *managing agent* in accordance with paragraph 21 of the Underwriting Agents Byelaw;

“syndicate” means a *member* or group of *members* underwriting insurance business at Lloyd's through the agency of a *managing agent* or a *substitute agent* to which a syndicate number is assigned by the *Council*. Except where it is expressly otherwise provided the several groups of *members* to which in different years a particular syndicate number is assigned by or under the authority of the *Council* shall be treated



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as the same *syndicate*, notwithstanding that they may not comprise the same *members* with the same individual participations;

“syndicate allocated capacity” means, in relation to a *syndicate*, the aggregate of the *member’s syndicate premium limits* of all the *members* for the time being of the *syndicate*;

“syndicate premium income” means, in relation to a *syndicate*, the aggregate of the *member’s syndicate premium income* of all the *members* for the time being of the *syndicate*;

“transferor” has the meaning given in relation to an *approved transfer agreement* in the Conversion and Related Arrangements Byelaw (No. 22 of 1996);

“underwriting” shall, unless the context otherwise requires, mean the business of underwriting and all related activities including the acceptance of risks, the purchasing of reinsurance and the settlement and payment of claims and the word “underwrite” shall be construed accordingly;

“underwriting agent” means a *managing agent* or a *members’ agent*;

“underwriting guidelines” means the guidelines made and issued by the *Franchise Board* under paragraph 24 of the Underwriting Byelaw (No. 2 of 2003).

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Underwriting Agents Byelaw

2. Every reference in the *requirements of the Council* to a definition set out in the Underwriting Agents Byelaw (No. 4 of 1984) shall be deemed to be a reference to this Byelaw.

Revocation

3. The Glossary Byelaw (No. 8 of 2001) is revoked.

Commencement

4. This byelaw shall come into force on 1 July 2003.

Notes

These notes, the note setting out the purpose of this Byelaw and the paragraph headings are for guidance only and do not form part of the Byelaw.

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## **DELEGATED UNDERWRITING BYELAW**

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**Purpose:**

The purpose of this Byelaw is to -

1. permit the acceptance of business at Lloyd's through coverholders;
2. specify to whom a managing agent may delegate its authority to underwrite contracts of insurance and issue insurance documentation;
3. require that certain coverholders are approved by the Franchise Board;
4. provide for the registration of all approved and restricted coverholders;
5. provide for the registration of certain binding authorities; and
6. provide for the Franchise Board to prescribe conditions and requirements relating to insurance documentation issued by coverholders.

The Byelaw also revokes –

1. The Binding Authorities Byelaw (No 9 of 1990);
2. The Binding Authorities Regulation (No 5 of 1990);
3. The Binding Authorities Registration Scheme (4 October 1990); and
4. The Approval of Correspondents Regulation (No 4 of 1990).

Words and terms shown in italics have the meaning set out in the Definitions Byelaw (No 3 of 2003).

This Byelaw was made by the *Council* on [ ] 2003 in exercise of its powers under section 6(2) and 8(3) of, and paragraph (41) of Schedule 2 to, Lloyd's Act 1982 and may be referred to as the Delegated Underwriting Byelaw (No. [ ] of 2003).

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**Part A – Delegation of authority**

Delegation of authority to underwrite contracts of insurance

1. A *managing agent* shall not delegate its authority to enter into contracts of insurance to be underwritten by the *members* of a *syndicate* managed by it to any person other than –
  - (a) a director, partner or employee of the *managing agent* or, with the consent of the Franchise Board, to any other individual engaged to provide services to the *managing agent*;
  - (b) another *managing agent* in accordance with the terms of a *line slip*;
  - (c) another *managing agent* in accordance with the terms of a *registered binding authority* or a *restricted binding authority*;
  - (d) an *approved coverholder* in accordance with the terms of a *registered binding authority* or a *restricted binding authority*;
  - (e) a *restricted coverholder* in accordance with the terms of a *restricted binding authority*;
  - (f) the Society or a general representative of the Society having authority of the *managing agent*; or
  - (g) in accordance with any other of the *requirements of the Council*.
2. Any person, other than the Society or a *managing agent*, with authority to enter into contracts of insurance to be underwritten by *members* of a *syndicate* in accordance with paragraph 1 shall not sub-delegate that authority other than to a director, partner or employee of that person in accordance with the terms of the *binding authority* or *line slip* in question.

Delegation of authority to issue insurance documentation

3. A *managing agent* shall not delegate its authority to issue documents evidencing contracts of insurance underwritten by the *members* of a *syndicate* managed by it to any person other than to –
  - (a) the *LPSO*;
  - (b) a director, partner or employee of the *managing agent* or, with the consent of the Franchise Board, to any other individual engaged to provide services to the *managing agent*;
  - (c) another *managing agent* in accordance with the terms of a *line slip*;

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- (d) another *managing agent* in accordance with the terms of a *registered binding authority* or a *restricted binding authority*;
  - (e) an *approved coverholder* in accordance with the terms of a *registered binding authority* or a *restricted binding authority*;
  - (f) a *restricted coverholder* in accordance with the terms of a *restricted binding authority*;
  - (g) the Society, including for the purpose of issuing or otherwise making available marine insurance certificates in accordance with the Marine Insurance Certificates Byelaw (No. 3 of 2002), or a general representative of the Society having authority of the managing agent;
  - (h) such other person or category or class of person as prescribed in any of the *requirements of the Council* or as the *Franchise Board* may from time to time prescribe.
4. Any person, other than the Society, *LPSO* or a *managing agent*, with authority to issue documents evidencing contracts of insurance underwritten on behalf of the *members of a syndicate* shall not sub-delegate that authority other than to a director, partner or employee of that person in accordance with the terms of the *binding authority* or *line slip* in question.

**Part B – Registers of coverholders and certain binding authorities**

5. The *Franchise Board* shall establish and maintain registers of –
  - (a) *approved coverholders*;
  - (b) *restricted coverholders*; and
  - (c) *registered binding authorities*.
6. The registers shall be in such form and contain such information as the *Franchise Board* may prescribe.
7. The *Franchise Board* may prescribe which persons or categories or classes of person may inspect all or any part or parts of each register referred to in paragraph 5.



**Part C - Approved coverholders**

Applications

8. Any company or partnership that wishes to be approved as an *approved coverholder* (an “*applicant*”) may apply to the *Franchise Board* . Applications shall be made in accordance with such procedures and shall be accompanied by such documents and information as the *Franchise Board* may from time to time prescribe.
9. The *Franchise Board* may require an *applicant*, other than a *Lloyd’s broker*, to be sponsored by a *Lloyd’s broker* or a *managing agent* (the “*sponsor*”).
10. At any time after receiving an application, the *Franchise Board* may, in connection with the consideration of the application, require -
  - (a) the *applicant*;
  - (b) any *sponsor*; or
  - (c) any *managing agent* which proposes to enter into a *binding authority* with the *applicant*

or any of the directors, partners and employees of any such person to –

- (i) provide information, documents, books, records and other materials;
- (ii) answer questions;
- (iii) give undertakings or make declarations to the *Franchise Board*;
- (iv) attend before the *Franchise Board* or any representative or agent of the *Society*;
- (v) permit the *Franchise Board* or any representative or agent of the *Society* to attend at the *applicant’s* business premises for the purposes of inspecting, reviewing or assessing the *applicant’s* business operations and to pay or contribute to the costs of that inspection, review or assessment;
- (vi) provide funds or other security (including, but not limited to letters of credit, charges or guarantees) for the settlement and payment of insurance transactions incurred by it.

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Approval

11. The *Franchise Board* may consider applications for approval as an *approved coverholder* and grant or refuse any such application. Upon granting any such application the name of the *applicant* shall be entered into the register of *approved coverholders*.
12. The *Franchise Board* shall not approve an *applicant* as an *approved coverholder* unless the *applicant* has demonstrated to the *Franchise Board* that it is suitable to be an *approved coverholder*.
13. In deciding whether an *applicant* is suitable to be approved as an *approved coverholder* the *Franchise Board* shall have regard to such criteria as it shall from time to time prescribe.
14. A person shall not hold itself out as being an *approved coverholder* unless its name appears in the register of *approved coverholders*.
15. The approval of a person as an *approved coverholder* may be –
  - (a) subject to that person entering into a *binding authority* to be registered in accordance with this byelaw within such period as the *Franchise Board* may specify;
  - (b) subject to the submission of such undertakings or declarations from such person as the *Franchise Board* may require;
  - (c) for a specific or an indefinite period.

Directions, conditions and requirements

16. The *Franchise Board* may at any time give such directions to or impose such conditions or requirements on an *approved coverholder* (or any class or group thereof) as it thinks necessary or appropriate. A direction, condition or requirement given or imposed under this paragraph may include a direction, condition or requirement for the purposes of ensuring that the *approved coverholder* –
  - (a) is or will continue to be suitable to be an *approved coverholder*;
  - (b) will only act in that capacity in accordance with a binding authority which has such parties, or which was arranged or broked by such person or persons, as the *Franchise Board* may specify;
  - (c) will only act in that capacity in respect of certain classes or categories of insurance business as specified by the *Franchise Board*.

Review of approval

17. The *Franchise Board* may at any time conduct a review of an *approved coverholder's* approval under this Byelaw for the purpose of determining –
- (a) whether the *approved coverholder* continues to be suitable to be an *approved coverholder*;
  - (b) whether there are or may be any ground for exercising any power of the *Franchise Board*.
18. In connection with any review conducted by the *Franchise Board* under paragraph 17, the *Franchise Board* may require the *approved coverholder*, any *managing agent* which is or has been a party to a *binding authority* with the *approved coverholder* and any *Lloyd's broker* which arranged, broked or is a party to any such *binding authority* and any of their directors, partners or employees to –
- (a) provide information, documents, books, records and other materials;
  - (b) answer questions;
  - (c) attend before the *Franchise Board* or any representative or agent of the *Society*;
  - (d) permit the *Franchise Board* or any representative or agent of the *Society* to attend at the *approved coverholder's* business premises for the purposes of inspecting, reviewing or assessing the *approved coverholder's* business operations and to pay or contribute to the costs of that inspection, review or assessment.

Revocation of approval

19. The *Franchise Board* may at any time revoke the approval of an *approved coverholder* and remove its name from the *register of approved coverholders* if the *Franchise Board* considers that –
- (a) the *approved coverholder* is not suitable to be an *approved coverholder*;
  - (b) the *approved coverholder* has failed to or has ceased to comply with any direction, condition or requirement given or imposed upon it under paragraph 16;
  - (c) the *approved coverholder* has failed to or has ceased to comply with the terms of any undertaking that it has given to the *Franchise Board*;

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- (d) the *approved coverholder* has not been party to a *registered binding authority* for a period of 3 months, or such longer period as the *Franchise Board* may permit, since the expiry of the last *registered binding authority* to which it was party; or
  - (e) it is necessary or desirable in order to protect the name, reputation or standing of the *Society* and of its *members* or their authorisation to conduct insurance business.
20. Where the *Franchise Board* considers that there are grounds for revoking the approval of an *approved coverholder* the *Franchise Board* may if it considers that there is good reason to do so –
- (a) postpone that revocation for such period or periods as the *Franchise Board* may specify from time to time or until the *Franchise Board* shall otherwise determine; and
  - (b) in connection with such postponement, at any time give such directions as it may think fit including without limitation directions for the purpose of ensuring that –
    - (i) the *approved coverholder* does not or does not continue to underwrite or purport to underwrite any further contracts of insurance on behalf of *members*; and
    - (ii) any contracts of insurance underwritten by the *approved coverholder* on behalf of *members* are properly administered.

**Part D – Restricted coverholders**

Candidates

21. A *managing agent* may request that the *Franchise Board* enter the name of a company or partnership (the “*candidate*”) in the register of *restricted coverholders* in accordance with this Byelaw. Requests shall be made in accordance with such procedures and shall be accompanied by such documents and information as the *Franchise Board* may from time to time prescribe.

Registration

22. If the *Franchise Board* considers that the *candidate* is eligible to be entered in the register of *restricted coverholders* it may enter its name in that register.
23. The *Franchise Board* may from time to time prescribe the criteria for eligibility to be entered in the register of *restricted coverholders*.
24. The *Franchise Board* may, in its absolute discretion, return a request made in accordance with paragraph 21 and require a *candidate* to make an application in accordance with Part C of this Byelaw.
25. The registration of a *restricted coverholder* may be –
- (a) subject to the *restricted coverholder* entering into a *restricted binding authority* within such period as the *Franchise Board* may specify;
  - (b) for a specific or an indefinite period.
26. A person shall not hold itself out as being a *restricted coverholder* unless its name appears in the register of *restricted coverholders*.

Power to require a restricted coverholder to seek approval

27. The *Franchise Board* may require a *restricted coverholder* to seek the approval of the *Franchise Board* in accordance with Part C of this Byelaw at any time and within such period as the *Franchise Board* may specify.

Revocation of registration

28. The *Franchise Board* may at any time revoke the registration of a *restricted coverholder* if –
- (a) the *Franchise Board* considers that it has ceased to be eligible to be a *restricted coverholder*;
  - (b) the *restricted coverholder* has not been approved by the *Franchise Board* within the period specified by it in accordance with paragraph 27; or
  - (c) it has not been party to a *restricted binding authority* for a period of 3 months, or such longer period as the *Franchise Board* may permit, since the expiry of the last *registered binding authority* to which it was party; or
  - (d) it appears that it is necessary or desirable in order to protect the name, reputation or standing of the *Society* and of its members or their authorisation to conduct insurance business.
29. Where the *Franchise Board* considers that there are grounds for revoking the registration of an *restricted coverholder* the *Franchise Board* may if it considers that there is good reason to do so –
- (a) postpone that revocation for such period or periods as the *Franchise Board* may specify from time to time or until the *Franchise Board* shall otherwise determine; and
  - (b) in connection with such postponement, at any time give such directions as it may think fit including without limitation directions for the purpose of ensuring that –
    - (i) the *restricted coverholder* does not or does not continue to underwrite or purport to underwrite any further contracts of insurance on behalf of *members*; and
    - (ii) any contracts of insurance underwritten by the *restricted coverholder* on behalf of *members* are properly administered.

**Part E - Binding authorities**

Requirements relating to binding authorities

30. The *Franchise Board* may from time to time prescribe conditions and requirements with which all *binding authorities* or any class or category of *binding authority* must comply including provisions to be included in a *binding authority*.
31. A *coverholder* shall not underwrite or purport to underwrite a contract of insurance under a *binding authority* unless the *binding authority* complies with the terms, conditions and requirements prescribed by the *Franchise Board* in accordance with paragraph 30.

Registration of binding authorities

32. An *approved coverholder* shall not underwrite or purport to underwrite a contract of insurance under a *binding authority*, other than a *restricted binding authority*, until that *binding authority* has been registered in accordance with the requirements and procedures prescribed by the *Franchise Board*.
33. The *Franchise Board* may from time to time prescribe –
  - (a) which classes and categories of persons may register a *binding authority* and
  - (b) prescribe requirements and procedures which must be complied with in order to register a *binding authority*.
34. The person who registers a *registered binding authority* shall ensure that the information contained in the register relating to that binding authority is kept up-to-date.

**Part F - Requirements for insurance documentation**

35. The *Franchise Board* may from time to time prescribe such conditions and requirements as it considers appropriate regarding insurance documentation issued by *coverholders* which may include conditions and requirements relating to –
- (a) the content, form and style of the insurance documentation;
  - (b) service standards for the issuance and distribution of the insurance documentation;
  - (c) arrangements to ensure that a policyholder can verify the authority of a *coverholder* to enter into contracts of insurance underwritten by *members* and the authenticity of the insurance documentation issued by it; and
  - (d) arrangements for the proper control of the issuance and distribution of the insurance documentation.



**Part G – Third party administrators**

36. Where under the terms of a *registered binding authority* or a *restricted binding authority* a person, other than a Lloyd's settling agent, may be appointed to agree claims arising under contracts of insurance entered into under that *binding authority* (a "*third party administrator*") each *managing agent* that is a party to that *binding authority* shall enter into an agreement with the *third party administrator* where that agreement specifies the nature and extent of the third party administrator's authority to settle claims. The agreement shall comply with such requirements as the *Franchise Board* may prescribe.

**Part H - Suspension**

37. The *Franchise Board* may make a direction of suspension in respect of any *coverholder* on such terms and subject to such requirements as it may specify when in its opinion such a direction appears to be necessary or desirable in the interests of the Society, its *members* or policyholders.
38. The terms of a direction made by the *Franchise Board* under paragraph 37 may include requirements that the *coverholder* –
- (a) ceases to enter into contracts of insurance on behalf of *members* of a *syndicate* in respect of all or any *binding authorities*;
  - (b) ceases to administer or run-off any contract of insurance entered into by it on behalf of *members* of a *syndicate*;
  - (c) ceases to issue documents evidencing contracts of insurance entered into by it on behalf of a *members* of a *syndicate*.

**Part I – Miscellaneous and transitional provisions**

Acceptance of business

39. A *member* may, in the course of his underwriting business at Lloyd's, accept business through a *coverholder* in accordance with the terms of a *binding authority* either –
- (a) from a broker or any other intermediary; or
  - (b) directly from a policyholder.

The Franchise Board

40. All references in this byelaw to the *Franchise Board* shall be deemed to also be references to the *Council*. The *Franchise Board* may exercise all of the powers, discretions and functions set out in this byelaw as the agent of the *Council*.

Managing agent's obligations

41. A *managing agent* shall not authorise, permit or cause a *coverholder* to act in contravention of any of the *requirements of the Council*.
42. A *managing agent* shall immediately notify the *Franchise Board* in writing in the event that it knows or believes or has reason to believe that any *coverholder* is acting or has acted in contravention of any provision of this byelaw or of any of the *requirements of the Council*.
43. A *managing agent* shall take all reasonable steps to satisfy itself that an *approved coverholder* remains suitable to be an *approved coverholder* or that a *restricted coverholder* remains eligible to be a *restricted coverholder* in accordance with this byelaw and any requirements as prescribed by the *Franchise Board* prior to the *managing agent* delegating its authority to underwrite a contract or contracts of insurance to that *approved coverholder* or *restricted coverholder*.
44. A *managing agent* shall immediately notify the *Franchise Board* in writing in the event that it knows or believes or has reason to believe that any of the events at paragraph 19 (a) to (e) or paragraph 28 (a),(c) or (d) has occurred or is likely to occur.

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45. Nothing in this byelaw shall permit a *managing agent* to delegate its authority to underwrite a contract of insurance on behalf of a *member* or to delegate its authority to issue documents evidencing contracts of insurance underwritten on behalf of a *member* where such delegation would be contrary to the laws, regulations or requirements in the territory in which the business will be transacted.

Publication

46. The *Franchise Board* may, where appropriate, publish any decision made under this byelaw in such terms as it sees fit.

Revocations

47. The following byelaw, regulations and scheme are revoked -
- (a) The Binding Authorities Byelaw (No 9 of 1990)
  - (b) The Binding Authorities Regulation (No 5 of 1990)
  - (c) The Binding Authorities Registration Scheme (4 October 1990)
  - (d) The Approval of Correspondents Regulation (No 4 of 1990)
48. Every reference in the *requirements of the Council* to the byelaw, regulations and scheme referred to at paragraph 47 shall, save where the context otherwise requires, be deemed to be a reference to this byelaw or, in the case of a definition, to the Definitions Byelaw (No 3 of 2003).

Transitional arrangements

49. The *Franchise Board* may on [date] enter in the register of *approved coverholders*, maintained in accordance with this byelaw, the name of any person who on [date] –
- (a) was approved as a *coverholder* in accordance with the Approval of Correspondents Regulation (No 4 of 1990); or
  - (b) was a *Lloyd's broker*.
50. The *Franchise Board* may on [date] enter in the register of *approved coverholders*, maintained pursuant to this byelaw, the name of any *coverholder* who did not require approval in accordance with the Approval of Correspondents Regulation (No 4 of 1990), but who on [date] requires approval in accordance with this byelaw.
51. Entry into the register of *approved coverholders* pursuant to the terms of paragraphs 49 and 50 may be subject to the provisions of paragraphs 15 and 16 of this Byelaw

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and the *Franchise Board* may require that person to seek the approval of the *Franchise Board* in accordance with Part C of this byelaw at any time and within such period as the *Franchise Board* may specify.

Supplementary directions, conditions and requirements

52. The *Franchise Board* may at any time give such directions or impose such conditions or requirements as may be necessary in order to clarify or supplement the matter set out in paragraphs 49 to 51 of this Byelaw.

Commencement

53. This Byelaw shall come into force on 1 January 2004.

## **Coverholder Handbook**

### **Introduction**

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This handbook is a guide to the coverholder procedures at Lloyd's which became effective on [ ]. The handbook is designed to assist any company or partnership ("you")<sup>1</sup> that wishes to enter into contracts of insurance or issue insurance documentation on behalf of a Lloyd's syndicate.

The handbook also contains copies of the forms that you may need when dealing with Lloyd's.

Whilst it is intended that this handbook will deal with many of the main issues relating to being a coverholder at Lloyd's it is not intended to be a substitute for the Delegated Underwriting Byelaw or the relevant sections of the Underwriting Requirements.

Should you have any queries arising from the Lloyd's arrangements for coverholders please address those to your sponsor in the first instance. Up-to-date information about Lloyd's is available from Lloyd's website, [www.lloyds.com](http://www.lloyds.com).

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<sup>1</sup> Any reference to "company" in this handbook shall also include a "partnership"

## **Coverholder Handbook**

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## **1. Introduction to the Lloyd's market**

### **1.1 How underwriting is carried out at Lloyd's?**

Risks are insured in the Lloyd's market by the **members** of Lloyd's who provide the supporting underwriting capital. Members can be either individual members (often known as "Names") or corporate entities.

Members of Lloyd's underwrite insurance through forming groups of members known as **syndicates**. Syndicates are annual ventures and operate as independent business units within the Lloyd's market. A syndicate may have several members or one corporate member.

Syndicates are managed by **managing agents** who are approved by Lloyd's. The managing agent has authority to accept risks on behalf of the members of the syndicate and it appoints the underwriting team. Each member grants this authority to the managing agent in accordance with a standard agency agreement. Managing agents are regulated by the UK Financial Services Authority ("FSA") and are also subject to Lloyd's requirements.

The role of **Lloyd's brokers** is to place risks in the Lloyd's market on behalf of clients (although in certain circumstances the managing agent may deal directly with clients) and in effect acts as the interface between its clients and the insurer. Lloyd's brokers use their specialist knowledge to negotiate competitive terms and conditions for clients. There are over 163 firms of Lloyd's brokers<sup>2</sup> working at Lloyd's, all of whom have a good understanding of the Lloyd's market and many of whom specialise in particular risk categories.

### **1.2 What is a coverholder? What is a binding authority?**

Whilst a managing agent has authority to enter into contracts of insurance on behalf of a syndicate it manages, the managing agent may wish to delegate that authority to another company. At Lloyd's, such a company is referred to as a **coverholder** and the document setting out the terms of the coverholder's delegated authority is referred to as a **binding authority**.

Where a managing agent delegates its authority to a coverholder then the general principle is that the coverholder acts as agent of the managing agent (rather than as agent of the insured). Accordingly a coverholder acts as agent of the managing agent



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when, in accordance with the terms of a binding authority, it enters into contracts of insurance on behalf of Lloyd's underwriters or issues insurance documentation evidencing the acceptance of risks.

It may also act as agent for the managing agent in respect of the collection of premiums or the handling of claims. The extent of the coverholder's authority to act for the managing agent is set out in the binding authority.

In certain circumstances a company that acts as an insured's broker may also be appointed to act as a coverholder and enter into contracts of insurance on behalf of a managing agent with insureds. Normally an insurance broker is the agent of the insured. However, when the broker is acting as a coverholder, it is acting as agent of the managing agent.

The role of the Lloyd's broker, as far as coverholders are concerned, is to place binding authorities in the Lloyd's market on behalf of the prospective coverholder.

*Coverholders*

Lloyd's, coverholders need to be approved. Such "approved coverholders" may be based almost anywhere in the world (including in the United Kingdom) and may enter into contracts of insurance under the terms of a "registered binding authority".

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<sup>2</sup> figures as at September, 2003 [Source – Broker Services Department]

## **2. The Role of Lloyd's**

### **2.1 The Lloyd's franchise**

#### *Legislative background*

Lloyd's itself is not an insurer and does not insure risks. As described above, it is the managing agents that enter into contracts of insurance on behalf of syndicates.

Lloyd's has the statutory responsibility to manage and supervise the Lloyd's market and those who operate in it. The Council of Lloyd's is the statutory governing body under the terms of the relevant UK Act of Parliament, Lloyd's Act 1982.

In order to carry out its functions the Council can make “**byelaws**”. One such byelaw is the Delegated Underwriting Byelaw (No [ ] of 2003) under which the current scheme for supervising coverholder and binding authority arrangements at Lloyd's is set. In addition, the Underwriting Requirements set out certain fundamental requirements regarding the Lloyd's coverholder and binding authority arrangements.

#### *The Lloyd's franchise*

In September 2002, Lloyd's Members voted in favour of a series of proposals made by the Chairman's Strategy Group (CSG) to implement a new franchise system for the market. The Lloyd's Franchise Board was established on 1 January 2003 with the goal “to create and maintain a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised”.

Lloyd's has set the franchise the following strategic imperatives:

- to ensure franchise profitability consistently outperforms the competition
- to have an outstanding risk management capability throughout the franchise
- to be the market of choice for policyholders and brokers
- to have a competitive international trading platform
- to protect, strengthen and promote the Lloyd's brand
- to have a high-quality, cost-effective business process within the franchise
- to attract, retain and develop the best people throughout the franchise

The Lloyd's Franchise Board is primarily responsible for decisions relating to strategic and policy issues but also has some key operational responsibilities. It guides the commercial management of the market as well as setting market supervision and solvency policy in compliance with the requirements of the FSA. The Lloyd's Franchise Board oversees the admission and removal of organisations

operating under the Lloyd's brand and works to ensure that the market's business processes are much more attractive to policyholders, brokers and capital providers.

## **2.2 Why does Lloyd's supervise coverholders?**

Lloyd's supervises coverholders as part of its statutory role in managing and supervising the Lloyd's market. This supervision is carried out through the approval process and thereafter through Lloyd's on-going supervision of all approved coverholders.

The separate supervision by Lloyd's itself is important. It is through this that Lloyd's can seek to ensure that all coverholders it approves comply with the highest standards of professional conduct. Through this supervision, Lloyd's will seek to ensure that business written by coverholders on behalf of managing agents will add value to the Lloyd's franchise.

In addition, Lloyd's coverholders represent the Lloyd's market and sometimes use Lloyd's name for the promotion of particular products. As such, the conduct and reputation of any coverholder can reflect on Lloyd's own standing and reputation internationally.

Lloyd's also supervises coverholders since in many jurisdictions Lloyd's is authorised to operate as a single entity, with a single collective licence. Local regulators may require Lloyd's to demonstrate that it has control over and responsibility for the business carried out under the terms of Lloyd's authorisation in that jurisdiction. Local regulators will often look to Lloyd's centrally to assist with the resolution of any problems. Lloyd's central supervision can help to avoid such problems arising and facilitate their speedy and effective resolution if they do.

However, the primary responsibility to supervise coverholders and binding authorities on a day to day basis rests with managing agents. Lloyd's firmly believes that the best way of achieving the objective of promoting the profitability of the Lloyd's market in this area of business relies on the co-operation and partnership between Lloyd's and managing agents.

### **3. Applications - coverholders**

#### **3.1 What can you do as an approved coverholder?**

Where a managing agent has delegated its authority to you under the terms of a binding authority then you may enter into contracts of insurance and issue documents evidencing that contracts of insurance have been accepted.

You will normally also be permitted to collect premiums. In addition you may also be permitted to handle claims or perform other functions. The scope of your authority will be set out in the binding authority.

#### **3.2 Who makes the application for approval?**

Accordingly, you may apply to Lloyd's to become an approved coverholder. The application for a company to be an approved coverholder is made by you as the proposed coverholder although in practice you will do so via your sponsor.

#### **3.3 Guidance on completing the application form**

The application form is attached at [ ] to this handbook and guidance notes on completing the form is attached at [ ]. The application form itself is in three sections -

Part A is for completion by you. This includes completing the Coverholder's Undertaking to Lloyd's

Part B is completed by your "sponsor". The role of the sponsor is described at 3.5 below.

Part C is completed by a managing agent that intends to delegate its authority to you under a binding authority. If that managing agent has sponsored your application it will still need to complete Part C.

When completing the form it is essential that you try to provide full and accurate answers to all the questions. If you have any doubt as to whether any fact or matter is relevant then it should be disclosed. You should bear in mind that you will need to demonstrate to Lloyd's that you are suitable to be an approved coverholder.

### **3.4 Explanation of the Coverholder's Undertaking to Lloyd's**

An important part of the application form is the Coverholder's Undertaking to Lloyd's (the "undertaking") in section A-[ ] of the form.

The primary purpose of the undertaking is to set out in clear terms the basic expectations with which Lloyd's expects you to act when dealing with Lloyd's, your customers and clients and also with managing agents and Lloyd's brokers.

By signing the undertaking you will agree to act in accordance with the terms of its binding authority and in accordance with any local requirements of the territory in which you are based or in which you will trade, provide services or do business. You will also agree to certain conditions that would apply if Lloyd's took the step of revoking your approval or otherwise preventing you from accepting business under a binding authority.

In addition, by signing the undertaking you will agree that you will answer any questions and produce any information to Lloyd's when requested where that information relates to the operation of your Lloyd's binding authorities and also to permit Lloyd's (or its agents including its local representative) to attend at your premises to inspect such documents. In practice, Lloyd's would normally expect managing agents, rather than Lloyd's itself, to request such information from you as part of the routine monitoring of their binding authorities. However, there may be occasions where Lloyd's (or its agents including its local representative) may wish to obtain information relating to the operation of the binding authority from you directly. This may be where the managing agent is unable, for whatever reason to act, or where Lloyd's has decided to conduct a review of your approved status. Where Lloyd's exercises these rights under the undertaking it will act reasonably and will seek to co-operate with you, and also with your sponsor and the lead managing agent as far as possible.

### **3.5 Role of the sponsor**

Your application must be sponsored by either a Lloyd's broker or a managing agent. The sponsor must verify the accuracy of your answers in Part A of the application form and it will also need to complete Part B of the application form. In addition to its formal role in sponsoring the application, the sponsor will no doubt wish to provide you with advice on the Lloyd's market and the application process.

The role of the sponsor is extremely important in the application process. Lloyd's will place reliance on the assessment of the applicant by the sponsor, as the sponsor

will have used its knowledge of you, as well as its expertise in the relevant type of business, when providing its assessment of you.

For this reason Lloyd's will normally expect that the sponsor will have known you for a sufficient period in order for the sponsor to have satisfied itself as to your suitability. Ideally the sponsor will have had some insurance dealings with you although this is not always required.

### **3.6 What Lloyd's will do once it receives the application**

On receipt of your completed application form, Lloyd's will allocate a member of the Lloyd's executive (usually a member of the Coverholders Department at Lloyd's) to handle your application.

Lloyd's will check to ensure that your application form has been completed correctly and ensure that all necessary attachments have been provided (e.g. accounts, licences, career details of relevant personnel etc).

Submission of an incomplete application form will delay the application process.

The information provided on the application form will be assessed and verified. As a result, Lloyd's may ask you, your sponsor or the lead managing agent to provide further information.

In addition, Lloyd's will usually make independent local enquiries as to your suitability. Such enquiries are usually made on behalf of the Coverholders Department by Lloyd's local representative or, where there is no local representative, by a firm appointed by Lloyd's for this purpose.

### **3.7 Additional information that may be requested**

On occasions, there may be a need to contact you or your sponsor or the lead managing agent or others for further information in respect of matters that may have come to light as of result of Lloyd's enquiries.

The most common requests for further information arise where:-

- (a) an underwriting plan has not been provided in respect of the proposed Lloyd's business, and where such a plan would assist Lloyd's in considering your application;
- (b) the potential risks associated with a single or a limited number of business sources have not been fully explained;
- (c) your professional indemnity cover appears to be inadequate;
- (d) there is inadequate information in respect of necessary licences;
- (e) there is lack of written support from a managing agent; or
- (f) there are questions arising from the financial information submitted.

It may also be desirable or necessary for any of the parties to meet with representatives from the Coverholders Department or with the relevant local Lloyd's representative. This is often an effective way to facilitate resolution of outstanding issues.

### **3.8 How will Lloyd's reach its decision ?**

Before approving an application Lloyd's will want to be sure that any areas of concern identified when considering your application have been satisfactorily addressed, that you will be adding value to the Lloyd's franchise and that there is a reasonable prospect that the business to be written by you will be profitable.

Lloyd's will take into account the following matters when determining whether you are suitable:

- (a) whether you are a competent, proficient and capable organisation. In considering this Lloyd's may have regard to the following matters –
  - (i) your compliance with appropriate principles of good corporate governance;
  - (ii) whether you are a member of any body, group or organisation that the Lloyd's considers to be necessary or desirable;
  - (iii) the quality and adequacy of your human resources including –
    - the competence, reputation, character and suitability of your directors, officers and staff; and

- the knowledge and experience of your directors, officers and staff of the conduct and regulation of insurance business in the Lloyd's insurance market and in any other relevant jurisdiction.
- (iv) the quality and adequacy of your other resources including –
- the quality and adequacy of your systems, procedures, protocols and arrangements for the conduct of its business;
  - the quality and adequacy of your resources to comply with appropriate service standards for its customers;
  - the quality and adequacy of your resources to comply with such principles and standards for the conduct or administration of insurance business in the Lloyd's insurance market as the Lloyd's may from time to time prescribe, recognise or endorse; and
  - the quality and adequacy of your resources and systems for underwriting administration and for the administration, agreement of claims.
- (v) the quality and adequacy of your controls and procedures to manage your business including –
- your arrangements for identifying, resolving or managing conflicts of interest and
  - the quality and adequacy of your controls and procedures for the management of underwriting risk and for the management of the administration and agreement of claims.
- (vi) the nature of your business including its past, present and forecast underwriting performance;
- (b) whether you are of appropriate reputation and standing;
- (c) whether any person who controls you or who is connected or associated with you is of appropriate reputation and standing;
- (d) whether you have adequate capital and financial resources;
- (e) whether you have adequate professional indemnity insurance;
- (f) whether you are capable and willing to comply with the terms of any undertaking given by you to Lloyd's; and
- (g) whether you possess all relevant licences, approvals or authorisations in order to act as an approved coverholder wherever it will conduct insurance business in that capacity.



### **3.9 Where your application for approval is successful**

If Lloyd's approves your application, then you will be notified via your sponsor and you will be advised if your approval is for a limited or an unlimited period of time. Lloyd's normally imposes a condition that you must be granted authority under a binding authority within 3 months from the date of approval, otherwise the approval will lapse. However, the Coverholders Department may be prepared to extend this period to suit your individual circumstances.

In addition, Lloyd's may set certain conditions on your approval. These may include conditions that your approval is -

- (a) restricted to particular classes of business.
- (b) restricted to certain types of binding authority.
- (c) restricted to contracts led by a particular managing agent.
- (d) restricted to contracts written 100% by a particular managing agent.
- (e) subject to a pre-audit carried out to the department's specifications.
- (f) subject to an audit carried out to the department's specifications within a specified period.
- (g) subject to territorial limitations.

Approval for insurance business does not automatically include reinsurance business. If you intend to operate a binding authority for reinsurance as well as insurance business, then this should be made clear in your application.

In some jurisdictions additional regulatory approval is required from local authorities coverholders can transact business under the binding authority.

### **3.10 Where your application for approval is rejected**

If Lloyd's rejects your application, then you will be notified via your sponsor.

If an application is rejected then you must not hold yourself out in any way as being approved by Lloyd's as a coverholder. Nor may a managing agent delegate its authority to you under a binding authority.

Where appropriate, Lloyd's may give you an indication as to the reasons for the rejection. Lloyd's may also give an indication of the necessary remedial steps that it would expect to take place before you make any future application for approval.

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## **4. Content of binding authorities**

### **4.1 Your agreement to the terms and conditions in a binding authority**

An important part of Lloyd's rules relates to the prescribed contents of every binding authority contract. Establishing the exact terms and conditions of the delegation of authority ensures that all parties understand exactly what a coverholder may do – and how it must act. Clarity of these terms at the outset reduces the possibility of subsequent misunderstandings or disputes between the parties.

It is for this reason that a binding authority cannot be registered at Lloyd's until the you have been provided with, and agreed in writing to, its terms and conditions. A binding authority cannot therefore incept until all the parties have agreed to the terms and conditions. This applies to both new and renewal business.

## **5. Content of insurance documentation**

### **5.1 Contents to be included in insurance documentation issued by coverholders to policyholders**

Lloyd's has prescribed certain items that must appear in all insurance documentation issued by all coverholders evidencing contracts of insurance. These are intended to ensure that policyholders are aware of all the key terms of their policy and to ensure that they have the necessary contact information so they can check the validity of the policy or make a claim. Where a coverholder does not issue insurance documentation that includes the prescribed information then Lloyd's may take steps to remove that coverholder's approval.

In order to assist you your sponsor and managing agents will clearly explain to you what information needs to go in insurance documentation that you may issue.

## **6 Key issues to bear in mind**

There are a number of key standards that Lloyd's expects from all coverholders. These are conveniently set out together in the undertaking.

However, particular care must always be had in respect of the following -

### **6.1 Local territorial requirements**

All coverholders must comply at all times with relevant laws, regulations and requirements of the territory in which it is domiciled, or in any other jurisdiction in which it trades, provides services or does business. This includes complying with all relevant insurance, fiscal and taxation requirements. Failure to do so, will not only cause the coverholder to be in breach of those requirements, but may also cause the relevant managing agent to be in breach of those requirements. In addition, any such breaches by a Lloyd's coverholder may jeopardise Lloyd's own licences.

All coverholders must comply with any requirements, guidelines or service standards set by the relevant Lloyd's representative for that territory. For example, the Lloyd's representative may issue requirements relating to settlement standards.

Should a coverholder have any queries regarding the standards expected of them in any particular territory then it should in the first instance contact the relevant local Lloyd's representative. Contact details may be found by selecting the relevant country on the "Lloyd's Worldwide" area on the [www.lloyds.com](http://www.lloyds.com) website.

### **6.2 Prohibition on Sub-Delegation**

Sub-delegation by a coverholder of its authority to another party undermines Lloyd's supervisory requirements for coverholders. Such sub-delegation may also lead to the managing agent being unable to monitor properly its binding authority. Instead, only a managing agent itself can delegate the authority it has granted to a coverholder under a binding authority to another party<sup>3</sup>.

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<sup>3</sup> In such circumstances the managing agent is also required to have a direct contractual relationship with the "sub-delegate" and the sub-delegate itself will need to be an approved coverholder.

Where a coverholder is found to have sub-delegated such authority, Lloyd's will normally seek to revoke the approval of the coverholder.<sup>4</sup>

Accordingly, under no circumstances are you permitted to delegate to a third party your authority to enter into contracts of insurance or to issue documents evidencing contracts of insurance.

### **6.3 Use of the Lloyd's name and brand**

Lloyd's issues guidelines to ensure that the Lloyd's brand is used consistently and to protect the Lloyd's trademark, which has been registered worldwide. You must comply with these guidelines which may be found on the Lloyd's website<sup>5</sup>. Please note that the guidelines may be updated from time to time, therefore you should consult the guidelines on the web-site as necessary.

However, it should be noted that these guidelines do not address local insurance regulatory requirements including advertising restrictions and prohibitions which are imposed on intermediaries in some jurisdictions. Certain uses of the Lloyd's name and/or logo, which might be permissible under the general guidelines below, might nevertheless constitute a violation of local law. You should accordingly consult with Lloyd's<sup>6</sup> or the relevant local Lloyd's representative regarding such requirements.

You should comply with all local requirements relating to advertising (in whatever form e.g. in literature and on websites) and comply with all local requirements prohibiting solicitation from selling insurance. Again you should contact Lloyd's or the Lloyd's local representative in the relevant jurisdiction for further details.

#### *Use of the Lloyd's name*

You may use Lloyd's name for advertising or on insurance documentation which the coverholder issues where that advertising or documentation relates to contracts of insurance underwritten at Lloyd's. However, the Lloyd's name cannot be incorporated into your registered company name or trading title.

Once approved you may describe yourself as a "Lloyd's coverholder".

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<sup>4</sup> A coverholder may, of course, delegate its authority to its own directors, partners or employees. However sub-delegation by the coverholder to anyone else is prohibited.

<sup>5</sup> [www.lloyds.com/index.asp?ItemId=2425](http://www.lloyds.com/index.asp?ItemId=2425)

<sup>6</sup> These queries may be addressed to your sponsor or to the Communications team in Worldwide Markets Department at Lloyd's.

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Lloyd's name may also be used by you to promote an insurance product or be used on insurance documentation issued by the coverholder where that product or documentation relates to a contract of insurance underwritten at Lloyd's. However, the name "Lloyd's" cannot be used as part of the product name itself.

If a contract is not underwritten 100% at Lloyd's the identity of the actual insurers must be made clear by using the appropriate statement as set out in Lloyd's guidelines and the proportion of the risk being accepted by Lloyd's underwriters and other insurers must be stated.

For those products which are not 100% underwritten at Lloyd's, it must be made clear that should any other subscribing insurers become insolvent, each underwriter at Lloyd's is liable for the portion of the risk which it has underwritten and is not liable for the portion of any other insurer either at Lloyd's. Again reference must be made to Lloyd's guidelines as published on Lloyd's website.

*Use of the Lloyd's logo*

You may only use the Lloyd's logo for advertising, on your web-site, on brochures and on insurance documentation in limited circumstances. These circumstances are detailed in Lloyd's guidelines as published on Lloyd's website.

## **Guidance Notes on Completing the Application Form for Coverholder Approval**

A firm that seeks coverholder approval from Lloyd's is required to complete an application form.

The application form is in three main parts, the first being for completion by the firm who wishes to become a Lloyd's coverholder ("you"), and the second by the accredited Lloyd's broker or a Lloyd's managing agent that wishes to support your application (your "sponsor"). The third part is a letter of support from the managing agent that intends to lead the binding authority to be granted to you.

The application form is necessarily comprehensive because firstly the approval process is carried out in London without the full benefit of knowledge and on-site inspection of your business. It is therefore essential that you provide full information to Lloyd's in order that a proper assessment of your application may be made and to allow Lloyd's to obtain the information required.

Secondly, the form is designed to obtain the information required by Lloyd's and by the lead managing agent that proposes to grant you a binding authority.

The application form is a very important part of Lloyd's coverholder approval process. If you are successful in becoming an approved coverholder, you and your clients will know that you have met the high standards required to be approved as a Lloyd's "approved coverholder".

### **Some points to bear in mind when completing the application form**

- Always answer the questions truthfully. If you believe that you or your personnel have been involved in a matter which may affect your suitability, then please ensure that:
  - you give full details of any such matter at the time the application is made;
  - you explain what action you or the individual took to remedy the matter;



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- explain what action you have taken to ensure that it does not happen again; and
- if you are in any doubt as to whether any fact or matter is relevant, then you have disclosed it.

We will then be in a position to take all the relevant points into consideration. If you fail to mention such matters, we may reject your application on the grounds of non-disclosure.

- Please do not be tempted to alter any question in order to provide a more convenient answer. The questions in respect of individual countries have been specifically worded and should require no alteration. However, if you find that the question is not relevant or needs to be modified in order for you to answer, then please state this clearly on the form or in a covering letter.
- If you are unable to answer the questions in English, your sponsor should be asked to attach an English translation and confirm the accuracy of the translation
- Please verify your answers and the completeness of any attachments. Incomplete applications will cause delays.

## **Part ‘A’ of the Application form**

Part ‘A’ is to be completed and signed by you. Part ‘B’ by your sponsor and Part ‘C’ by the lead managing agent that intends to enter into a binding authority contract with you.

You may find the comments over the next few pages helpful when completing Part ‘A’.

## **Definitions**

The following words which are show in ***bold italics*** in the application form have the following meanings:

***“applicant firm”*** means you, the company or partnership that is applying to be added to Lloyd’s list of ***approved coverholders***;

“***approved coverholder***” means a company or partnership which Lloyd’s has approved to act as a ***coverholder*** in accordance with the Delegated Underwriting Byelaw (No [ ] of 2003);

“***binding authority***” means an agreement between a managing agent and a ***coverholder*** under which the managing agent delegates its authority to enter into a contract or contracts of insurance on behalf of a ***syndicate*** or ***syndicates***.

“***coverholder***” means a person authorised to enter into a contract or contracts of insurance to be underwritten by the ***syndicate*** or ***syndicates*** in accordance with the terms of a ***binding authority***;

“***Lloyd’s broker***” means a person which is listed in the register of Lloyd’s brokers maintained under the Lloyd’s Brokers Byelaw (No 17 of 2000);

“***Lloyd’s managing agent***” means an underwriting agent which carries on underwriting for a ***member***;

“***member***” means a person admitted to membership of the Society;

“***principal personnel***” means all directors, partners and all senior individuals employed by the ***applicant firm***;

“***registered binding authority***” means a ***binding authority*** under which the ***Lloyd’s managing agent*** delegates its authority to enter into a contract or contracts of insurance on behalf of the ***syndicate*** or ***syndicates*** managed by it to an ***approved coverholder*** and which -

- (a) includes such terms and conditions and complies with such requirements as Lloyd’s may from time to time prescribe under the Delegated Underwriting Byelaw (No [ ] of 2003) in relation to ***registered binding authorities***; and
- (b) has been registered with Lloyd’s in accordance with the Delegated Underwriting Byelaw (No [ ] of 2003);

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“*retail*” means insurance business received directly from the insured;

“*sponsor*” means the *Lloyd’s broker* or *Lloyd’s managing agent* that is supporting the *applicant firm’s* application to become an *approved coverholder*;

“*syndicate*” means a *member* or group of *members* underwriting insurance business at Lloyd’s through the agency of a *Lloyd’s managing agent* or substitute agent to which a syndicate number is assigned by the Council. Except where it is expressly otherwise provided the several groups of *members* to which in different years a particular syndicate number is assigned by or under the authority of the Council shall be treated as the same *syndicate*, notwithstanding that they may not comprise the same *members* with the same individual participations;

“*wholesale*” means insurance business received via an intermediary and not directly from the insured.

**Part A - Section 1 – The applicant firm (“You”)**

*Question 1.2 – Trading names*

We are interested only in any trading names that you may use in connection with the business you will transact under any Lloyd’s binding authorities, including any name that may appear on the insurance documentation you may be issuing.

Please note that if any of the trading names are legal entities in their own right and you require them to be able to accept business and / or issue insurance documentation in their own right then a separate application for their approval as a coverholder must be made.

*Questions 1.4 and 1.5 – Address*

If you have more than one office that will accept business and / or issue insurance documentation, then a separate application must be made for each office.

*Question 1.9 – Year of incorporation / establishment*

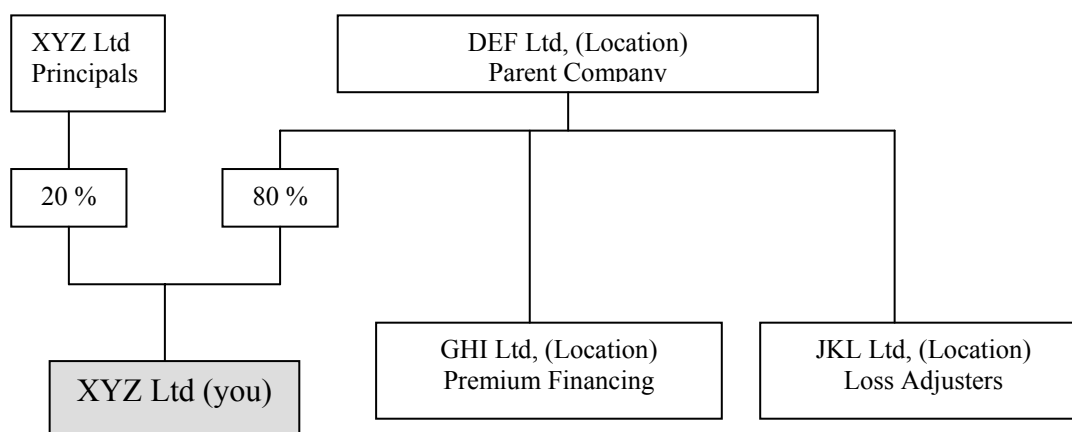
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The purpose of this question is to inform us as to the number of years the firm has been in operation. So for example, if ABC Ltd was formed in 1990, but changed its name to XYZ Ltd in 2000, then it is the 1990 date that should be shown.

**Question 1.12 – Group Structure chart**

The purpose of the structure chart is to show your relationship to the firms with which you are connected.

For ease of reference, we prefer structure charts to be displayed in a format similar to this:



In some cases the structure may be unusually complex. If this is the case, please explain why the group has been structured as it is.

*Part A - Section 2 – Details about your personnel*

**Question 2.1, 2.2 and 2.3 – Details of personnel, CVs and résumés**

The date of birth of your personnel is needed to identify correctly the individual(s) concerned and is not recorded on our database.

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CVs or résumés must include the following:

- a list of all insurance organisations for whom the person has been a director or employee, with relevant dates. This should include any partnerships and / or directorships; and
- a list of all insurance organisations in which the person has had an ownership or controlling interest, with relevant dates.

Failure to disclose any of the above may give us cause to reject your application on the grounds of non-disclosure.

If there are any known problems with any of the organisations identified in CVs, it is suggested that the person concerned provides an explanation of his / her role, if any, in connection with the problem.

It is recommended that all CVs and résumés contain sufficient detail concerning insurance experience to allow a proper assessment to be made.

We reserve the right to take up references or to make enquiries of previous employers.

Many firms have a sufficient number of directors / persons in senior management positions to ensure the continued running of the firm when those individuals are absent for short periods (e.g. illness, holidays etc).

However, where the firm is reliant upon one key individual, then even a short absence may render a firm unable to carry out its duties under a binding authority (for example, that person may be the only person who is authorised to carry out certain underwriting or claims functions). It is therefore important that such firms have proper arrangements in place.

### **Part A - Section 3 – Reputation and Standing**

This Section is very important in our assessment of your suitability. We therefore strongly recommend that all principal personnel referred to in Section 2 of the application form take great care in reading and approving your answers to the questions in this Section.

## **Part A - Section 4 – Your professional indemnity (PI) or Errors & Omissions (E & O) insurance**

The existence of professional indemnity cover is a basic requirement for coverholder approval.

Minimum levels of cover are not prescribed by Lloyd's. The answers to the questions will help managing agents assess the adequacy and security of cover depending on the authority it intends to grant you.

In particular, we draw your attention to point 4.1 where we ask if your professional indemnity cover extends to your activities in connection with Lloyd's binding authorities.

## **Part A - Section 5 – Your Accounts**

We recognise that whilst audited accounts are common in the UK, this is not always the case elsewhere. The minimum standard that we look for is a set of accounts that have been audited or reviewed, including a profit and loss account and a balance sheet, and have at least been compiled by a suitably qualified person. We will usually accept CPA compiled accounts from applicants domiciled in the USA.

We will not usually accept your own internal management accounts unless:

- they show an improvement in your financial position since your last formal accounts (in which case both the last formal accounts and your latest management accounts should be supplied); or
- for some reason, you cannot provide formal accounts, in which case you should explain why, and provide verification of the figures in the management accounts by providing a copy of your tax return.

## **Questions 5.2 to 5.5**

In view of the different accounting practices that apply throughout the world, we have not laid down any minimum criteria for capital, equity, or liquidity ratios. We do, however, expect you to be able to show that you are financially sound, and therefore would expect you to demonstrate, as a minimum, that you are a profitable company with a positive working capital and a positive equity.

## **Question 5.6 – Intangible assets**

We are aware that the treatment of intangible assets (such as goodwill, or customer lists) varies throughout the world. In some cases they are written off immediately; in others over a number of years. In the UK intangible assets are normally written off straight away and thus our assessment of your application will be made on the basis that such assets are of no financial value.

We therefore recommend that if you list any intangible assets that appear high in relation to your equity, you explain how your financial position is affected should those intangible assets prove to be of a far lesser value.

## **Segregated accounts**

Please note that requirements relating to the manner in which your insurance funds are held are included in Section 9 of the application form.

## **Part A - Section 6 – Your systems and administration**

### **Question 6.1 – Internal systems**

Please note that ‘systems’ can be manual or electronic but if they are manual then we would need to be assured that service levels especially in respect of quality of data and speed of production are achievable.

## **Underwriting Plan**

The provision to us of an underwriting plan will enable us to evaluate the business you will be bringing to Lloyd's and hence speed our consideration of your application.

### **Question 7.3 – Arrangements to ensure compliance with overseas requirements**

We have a need to protect Lloyd's reputation and brand name throughout the world. It is very important that, if you plan to handle insurance or reinsurance from assureds domiciled outside your territory, you are fully aware of the exporting, regulatory and taxation requirements of those countries.

#### *Questions 7.7 to 7.14*

The answers to these questions assist us in assessing the role of Lloyd's in your overall business.

## **Part A - Section 9 – References**

Should we decide to take up references it will permit us to receive confirmation of your business and suitability.

## **Part A - Section 10 – Other matters**

There may be other matters which you consider should be brought to our or underwriters' attention and such matters should be explained here or on a separate sheet of paper.



## **Part A - Section 11 – The Coverholder’s Undertaking to Lloyd’s**

This undertaking is a most important permanent document, and represents a contract between you and Lloyd’s. You will note from item 9.2 that failure to comply with any part of the undertaking may lead to withdrawal of your coverholder status.

We regret that it will not be possible to accept an application for coverholder approval without this undertaking.

## **Handbook on Delegated Underwriting at Lloyd's**

### **Introduction**

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This handbook is a guide to the coverholder procedures at Lloyd's which became effective on [ ]. The handbook is designed to assist any company or partnership<sup>1</sup> that wishes to enter into contracts of insurance or issue insurance documentation on behalf of a Lloyd's syndicate. Guidance is also given to managing agents or brokers sponsoring applications for coverholder approval and in respect of the registration of binding authorities.

The handbook also contains copies of all the forms that coverholders, managing agents and Lloyd's brokers may need when dealing with Lloyd's.

Whilst it is intended that this handbook will deal with many of the main issues relating to being a coverholder at Lloyd's (and also provide guidance to Lloyd's brokers and managing agents) it is not intended to be a substitute for the Delegated Underwriting Byelaw or the relevant sections of the Underwriting Requirements. Nor is this handbook a substitute for the "Code of Practice for Managing Delegated Authority" which sets out detailed guidance for managing agents on assessing coverholders and operating and monitoring binding authorities.

Copies of the Byelaw, Underwriting Requirements and Code of Practice are attached as [ ] to this handbook and should be carefully read and consulted as necessary.

Up-to-date information about Lloyd's is available from Lloyd's website, [www.lloyds.com](http://www.lloyds.com).

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<sup>1</sup> Any reference to "company" in this handbook shall also include a "partnership"

## **Coverholder Handbook**

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### **Annexes to the handbook**

Documents applicable to coverholders, managing agents and Lloyd's brokers:

1. Delegated Underwriting Byelaw (No [ ] of 2003).
2. Underwriting Requirements
3. Application Form for Coverholder Approval
4. Guidance for an applicant and its sponsor  
when completing the Application Form for Coverholder Approval
5. Definitions Byelaw (No. 3 of 2003)

Documents applicable to managing agents only:

6. Code of Practice for Managing Delegated Authority
7. Restricted coverholder application form

Documents applicable to managing agents/Lloyd's brokers:

8. CD2 [new name??]

## **1. Coverholders**

### **1.1 What is a coverholder? What is a binding authority?**

Whilst a managing agent has authority to enter into contracts of insurance on behalf of a syndicate it manages, the managing agent may wish to delegate that authority to another company. At Lloyd's, such a company is referred to as a **coverholder** and the document setting out the terms of the coverholder's delegated authority is referred to as a **binding authority**.

Where a managing agent delegates its authority to a coverholder then the general principle is that the coverholder acts as agent of the managing agent (rather than as agent of the insured). Accordingly a coverholder acts as agent of the managing agent when, in accordance with the terms of a binding authority, it enters into contracts of insurance on behalf of Lloyd's underwriters or issues insurance documentation evidencing the acceptance of risks.

It may also act as agent for the managing agent in respect of the collection of premiums or the handling of claims. The extent of the coverholder's authority to act for the managing agent is set out in the binding authority.

In certain circumstances a company that acts as an insured's broker may also be appointed to act as a coverholder and enter into contracts of insurance on behalf of a managing agent with insureds. Normally an insurance broker is the agent of the insured. However, when the broker is acting as a coverholder, it is acting as agent of the managing agent.

The role of the Lloyd's broker, as far as coverholders are concerned, is to place binding authorities in the Lloyd's market on behalf of the prospective coverholder.

#### *Coverholders*

At Lloyd's there are two categories of coverholder: **Approved coverholders** and **restricted coverholders**. Both types of coverholder require registration by Lloyd's before they can hold a Lloyd's binding authority.

- (a) approved coverholder - may be based almost anywhere in the world (including in the United Kingdom) and may enter into contracts of insurance under a registered binding authority.

- (b) restricted coverholder – because of Lloyd’s overseas licensing arrangements a restricted coverholder may only be based in the UK and may only enter into contracts of insurance under the terms of a restricted binding authority. This includes requirements that the contracts must be concluded in the UK and for insureds domiciled in the UK on rates and terms that have been pre-determined by the managing agent<sup>2</sup>.

*Binding authorities*

There are two categories of binding authorities by which managing agents may delegate their authority to coverholders: **Registered binding authorities and restricted binding authorities.**

- (a) registered binding authority – any binding authority, other than a restricted binding authority, must be registered with Lloyd’s. Such a binding authority may only be held by an approved coverholder<sup>3</sup>.
- (b) restricted binding authorities - this is the only category of binding authority that may be granted to restricted coverholders.

Full definitions of each type of binding authority are contained in the Definitions Byelaw.

## **1.2 Other forms of delegated underwriting**

The byelaw provides a definitive list of all the other circumstances in which a managing agent can delegate its authority to enter into contracts of insurance. Unless the proposed delegation of authority falls within one of the categories as set out at paragraph 1 of the byelaw then the managing agent cannot delegate its authority to enter into contracts of insurance.

For example, the byelaw specifically permits a managing agent to delegate authority to enter into contracts of insurance to its own directors, partners or employees and to other persons who are engaged to provide services to the managing agent<sup>4</sup>. This latter category would cover the situation where an individual was actually employed by a related company to the managing agent (eg the managing agent’s holding company) but where that individual’s role was in effect to work for the managing agent.

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<sup>2</sup> For definition of a restricted binding authority please see the Definitions Byelaw

<sup>3</sup> or by a managing agent. DU Byelaw (paragraphs 1(c) and 3(c)).

<sup>4</sup> DU Byelaw (paragraph 1(a)). In addition, that person may also need to be registered in accordance with the Individual Registration Byelaw.

The byelaw also permits a managing agent to delegate to another managing agent its authority to enter into contracts of insurance. This may be either through a line slip or through a binding authority.<sup>5</sup>

Where authority is delegated to a service company or to a “consortium manager” Lloyd’s regards that service company or consortium manager as a coverholder and the usual coverholder requirements apply. These include the need for such coverholders to be approved and for the relevant binding authorities to be registered.

*Delegation of authority to issue insurance documentation*

The byelaw also provides at paragraph 3 the definitive list of the persons to whom a managing agent may delegate its authority to issue documents evidencing contracts of insurance.

The categories of persons to whom such delegation may be granted are similar to those discussed above relating to the delegation of authority to enter into contracts of insurance. In addition, the byelaw permits managing agents to delegate authority to issue documents evidencing contracts of insurance to X-Changing Ins-sure Services and to the Society of Lloyd’s itself for certain specific purposes (such as issuing marine insurance certificates).

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<sup>5</sup> DU Byelaw (paragraph 1(b)(c))

## **2. The Role of Lloyd's**

### **2.1 The Lloyd's franchise**

Lloyd's itself is not an insurer and does not insure risks. As described above, it is the managing agents that enter into contracts of insurance on behalf of syndicates.

Lloyd's has the statutory responsibility to manage and supervise the Lloyd's market and those who operate in it. The Council of Lloyd's is the statutory governing body under the terms of the relevant UK Act of Parliament, Lloyd's Act 1982.

In order to carry out its functions the Council can make **byelaws**. One such byelaw is the Delegated Underwriting Byelaw (No [ ] of 2003) under which the current scheme for supervising coverholder and binding authority arrangements at Lloyd's is set. A copy of that byelaw is attached to this handbook. In addition, the Underwriting Requirements set out certain fundamental requirements regarding the Lloyd's coverholder and binding authority arrangements.

In September 2002, Lloyd's Members voted in favour of a series of proposals made by the Chairman's Strategy Group (CSG) to implement a new franchise system for the market. The Lloyd's Franchise Board was established on 1 January 2003 with the goal "to create and maintain a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised".

Lloyd's has set the franchise the following strategic imperatives:

- to ensure franchise profitability consistently outperforms the competition
- to have an outstanding risk management capability throughout the franchise
- to be the market of choice for policyholders and brokers
- to have a competitive international trading platform
- to protect, strengthen and promote the Lloyd's brand
- to have a high-quality, cost-effective business process within the franchise
- to attract, retain and develop the best people throughout the franchise

The Lloyd's Franchise Board is primarily responsible for decisions relating to strategic and policy issues but also has some key operational responsibilities. It guides the commercial management of the market as well as setting market supervision and solvency policy in compliance with the requirements of the FSA. The Lloyd's Franchise Board oversees the admission and removal of organisations

operating under the Lloyd's brand and works to ensure that the market's business processes are much more attractive to policyholders, brokers and capital providers.

## **2.2 Why does Lloyd's supervise coverholders?**

Lloyd's supervises coverholders as part of its statutory role in managing and supervising the Lloyd's market. This supervision is carried out through the approval process and thereafter through Lloyd's on-going supervision of all approved coverholders.

The separate supervision by Lloyd's itself is important. It is through this that Lloyd's can seek to ensure that all coverholders it approves comply with the highest standards of professional conduct. Through this supervision, Lloyd's will seek to ensure that business written by coverholders on behalf of managing agents will add value to the Lloyd's franchise.

In addition, Lloyd's coverholders represent the Lloyd's market and sometimes use Lloyd's name for the promotion of particular products. As such, the conduct and reputation of any coverholder can reflect on Lloyd's own standing and reputation internationally.

Lloyd's also supervises coverholders since in many jurisdictions Lloyd's is authorised to operate as a single entity, with a single collective licence. Local regulators may require Lloyd's to demonstrate that it has control over and responsibility for the business carried out under the terms of Lloyd's authorisation in that jurisdiction. Local regulators will often look to Lloyd's centrally to assist with the resolution of any problems. Lloyd's central supervision can help to avoid such problems arising and facilitate their speedy and effective resolution if they do.

However, the primary responsibility to supervise coverholders and binding authorities on a day to day basis rests with managing agents. Lloyd's firmly believes that the best way of achieving the objective of promoting the profitability of the Lloyd's market in this area of business relies on the co-operation and partnership between Lloyd's and managing agents.



### **3. Applications - coverholders**

#### **3.1 What an approved coverholder can do**

Where a managing agent has delegated its authority to an approved coverholder under the terms of a binding authority then the approved coverholder may enter into contracts of insurance and issue documents evidencing that contracts of insurance have been accepted.

An approved coverholder will normally also be permitted to collect premiums. In addition it may also be permitted to handle claims or perform other functions. The scope of its authority will be set out in the binding authority.

#### **3.2 Who makes the application for approval?**

Accordingly, a company (“an applicant”) may apply to Lloyd’s to become an approved coverholder. The application for a company to be an approved coverholder is made by the applicant itself (ie the proposed coverholder itself) although it will do so via its sponsor.

#### **3.3 Guidance on completing the application form**

The application form is attached at [ ] to this handbook and guidance notes on completing the form is attached at [ ]. The application form itself is in three sections -

Part A is completed by the applicant itself. This includes completing the Coverholder’s Undertaking to Lloyd’s

Part B is completed by the applicant’s “sponsor”. The role of the sponsor is described at 3.5 below.

Part C is completed by a managing agent that intends to delegate its authority to the coverholder under a binding authority. If that managing agent has sponsored the application it will still need to complete Part C, as that section serves a distinct function. By this declaration the managing agent confirms to Lloyd’s that it has carried out an assessment in accordance with the Code of Practice for Managing Delegated Authority.

When completing the form it is essential that an applicant and the sponsor provides full and accurate answers to all the questions. If there is any doubt as to whether any fact or matter is relevant then it should be disclosed. The applicant and its sponsor should remember that they will need to demonstrate to Lloyd's that the applicant is suitable to be an approved coverholder.

### **3.4 Explanation of the Coverholder's Undertaking to Lloyd's**

An important part of the application form is the Coverholder's Undertaking to Lloyd's (the "Undertaking") in section A-[ ] of the form.

The primary purpose of the undertaking is to set out in clear terms the basic expectations in accordance with which Lloyd's expects coverholders to act when dealing with Lloyd's, the coverholder's customers and clients and also with managing agents and Lloyd's brokers.

By signing the undertaking the applicant agrees to act in accordance with the terms of its binding authority and in accordance with any local requirements of the territory in which it is based or in which it will trade, provide services or do business. The applicant also agrees to certain conditions that would apply if Lloyd's took the step of revoking its approval or otherwise preventing it from accepting business under a binding authority.

In addition, by signing the undertaking the applicant agrees that it will answer any questions and produce any information to Lloyd's when requested where that information relates to the operation of its Lloyd's binding authorities and also to permit Lloyd's (or its agents including its local representative) to attend at its premises to inspect such documents.

In practice, Lloyd's would normally expect managing agents, rather than Lloyd's itself, to request such information from coverholders as part of its routine monitoring of their binding authorities. However, there may be occasions where Lloyd's (or its agents including its local representative) may wish to obtain information relating to the operation of the binding authority from the coverholder directly. This may be where the managing agent is unable, for whatever reason to act, or where Lloyd's has decided to conduct a review of the coverholder's approved status. Where Lloyd's exercises these rights under the undertaking it will act reasonably and will seek to proceed in co-operation with the coverholder, the sponsor and lead managing agent as far as possible.

### **3.5 Role of the sponsor**

An application must be sponsored by either a Lloyd's broker or a managing agent. The sponsor must verify the accuracy of the answers provided by the applicant in Part A of the application form and will also need to complete Part B of the application form. In addition to its formal role in sponsoring the application, the sponsor will no doubt wish to provide the applicant with advice on the Lloyd's market and the application process.

The role of the sponsor is extremely important in the application process. Lloyd's will place reliance on the assessment of the applicant by the sponsor, as the sponsor will have used its knowledge of the applicant, as well as its expertise in the relevant type of business, when assessing the applicant.

For this reason Lloyd's will normally expect that the sponsor will have known the applicant for a sufficient period in order for the sponsor to have satisfied itself as to the applicant's suitability. Ideally the sponsor will have had some insurance dealings with the applicant. Where this is not the case, Lloyd's will expect the sponsor to explain the assessment that it has carried out in order to satisfy itself as to the nature of the applicant's dealings with other insurers.

When completing Part B of the application form, the sponsor should feel free to expand upon any answers it gives. This will assist Lloyd's in considering the application in a timely manner.

The sponsor should –

- ensure that a potential applicant for coverholder approval reads the Coverholder's Handbook and understand the duties and responsibilities of a Lloyd's coverholder.
- advise the applicant to take particular notice of the Undertaking (Section [ ] of Part A of the application form).
- ideally provide a sample binding authority wording to the applicant for its information.

### **3.6 The managing agent's declaration**

A managing agent that intends to grant the binding authority to the applicant must submit to Lloyd's a completed Managing Agent's Declaration to Lloyd's. This is included at Part C of the application form. This applies whether or not that managing

agent has also sponsored the application. Where it is intended that the binding authority is to be written on a subscription basis then the managing agent of the proposed lead syndicate should complete the declaration.

This declaration reflects obligations that have existed on managing agents for some time. It confirms that the managing agent has carried out an assessment of the applicant in accordance with the Code of Practice and believes that the applicant should be approved by Lloyd's as an approved coverholder. By making the declaration the managing agent is also confirming that it is prepared to enter into a binding authority contract with the applicant.

The managing agent is not required as a matter of course to submit to Lloyd's details of its assessment of the applicant (e.g. by providing a copy of any audit report). However, depending on the circumstances of the application, Lloyd's may wish to ask the managing agent to provide such details.

### **3.7 What Lloyd's will do once it receives the application**

On receipt of a completed application form, Lloyd's will allocate a member of the Lloyd's executive (usually a member of the Coverholders Department at Lloyd's) to handle the application. The allocated member of the Lloyd's executive will be the main contact between Lloyd's, the applicant, and its sponsor.

The application form will be checked to ensure that the application form has been completed correctly and ensure that all necessary attachments have been provided (e.g. accounts, licences, career details of relevant personnel etc).

Submission of an incomplete application form will delay the application process.

The information provided on the application form will be assessed and verified, as a result, Lloyd's may ask the applicant, sponsor or the managing agent to provide further information.

In addition, Lloyd's will usually make independent local enquiries as to the suitability of the applicant. Such enquiries are usually made on behalf of the Coverholders Department by Lloyd's local representative or, where there is no local representative, by a firm appointed by Lloyd's for this purpose.

### **3.8 Additional information that may be requested**

On occasions, there may be a need to contact the sponsor, the applicant, managing agents or others for further information in respect of matters that may have come to light as a result of Lloyd's enquiries.

The most common requests for further information arise where:-

- (a) an underwriting plan has not been provided in respect of the proposed Lloyd's business, and where such a plan would assist Lloyd's in considering the application;
- (b) the potential risks associated with a single or a limited number of business sources have not been fully explained;
- (c) the applicant's professional indemnity cover appears to be inadequate;
- (d) there is inadequate information in respect of necessary licences;
- (e) there is lack of written support from a managing agent; or
- (f) there are questions arising from the financial information submitted.

It may also be desirable or necessary for any of the parties to meet with representatives from the Coverholders Department or with the relevant local Lloyd's representative. This is often an effective way to facilitate resolution of outstanding issues.

Finally, as part of the application process the applicant may be asked to provide funds or other security (eg letters of credit, charges, guarantees etc) for the settlement and payment of insurance transactions. If Lloyd's believes that such funds or security may be necessary, Lloyd's will discuss the matter with the applicant before making any decision.

### **3.9 How will Lloyd's reach its decision**

Before approving an application Lloyd's will want to be sure that any areas of concern identified when considering the application have been satisfactorily addressed, that the prospective coverholder will be adding value to the Lloyd's franchise and that there is a reasonable prospect that the business to be written by the coverholder will be profitable.

Under the Underwriting Requirements<sup>6</sup>, Lloyd's will take into account the following matters when determining whether an applicant is suitable:

- (a) whether the applicant is a competent, proficient and capable organisation. In considering this the Lloyd's Franchise Board may have regard to the following matters –
- (i) the applicant's compliance with appropriate principles of good corporate governance;
  - (ii) the applicant's membership of any body, group or organisation that the Lloyd's Franchise Board considers to be necessary or desirable;
  - (iii) the quality and adequacy of the applicant's human resources including –
    - the competence, reputation, character and suitability of the applicant's directors, officers and staff; and
    - the knowledge and experience of the applicant's directors, officers and staff of the conduct and regulation of insurance business in the Lloyd's insurance market and in any other relevant jurisdiction.
  - (iv) the quality and adequacy of the applicant's other resources including –
    - the quality and adequacy of the applicant's systems, procedures, protocols and arrangements for the conduct of its business;
    - the quality and adequacy of the applicant's resources to comply with appropriate service standards for its customers;
    - the quality and adequacy of the applicant's resources to comply with such principles and standards for the conduct or administration of insurance business in the Lloyd's insurance market as the Lloyd's Franchise Board may from time to time prescribe, recognise or endorse; and
    - the quality and adequacy of the applicant's resources and systems for underwriting administration and for the administration and agreement of claims.
  - (v) the quality and adequacy of the applicant's controls and procedures to manage its business including –

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<sup>6</sup> Underwriting Requirements (chapter 2, paragraph 6)

- the applicant's arrangements for identifying, resolving or managing conflicts of interest and
  - the quality and adequacy of the applicant's controls and procedures for the management of underwriting risk and for the management of the administration, agreement and compromise of claims.
- (vi) the nature of the applicant's business including its past, present and forecast underwriting performance;
- (b) whether the applicant is of appropriate reputation and standing;
- (c) whether any person who controls the applicant or who is connected or associated with the applicant is of appropriate reputation and standing;
- (d) whether the applicant has adequate capital and financial resources;
- (e) whether the applicant has adequate professional indemnity insurance;
- (f) whether the applicant is capable and willing to comply with the terms of any undertaking given by it to the Lloyd's Franchise Board; and
- (g) whether the applicant possesses all relevant licences, approvals or authorisations in order to act as an approved coverholder wherever it will conduct insurance business in that capacity.

Should a coverholder not conduct itself in accordance with high professional standards there may be a risk to Lloyd's franchise, brand, reputation and licences. If Lloyd's has doubts regarding the suitability of the applicant it will not be approved.

The risk to Lloyd's of an approved coverholder becoming insolvent or unable to pay its insurance or other debts is an important consideration. Therefore, the financial standing of the applicant is thoroughly assessed. As mentioned above, such a risk may be mitigated by requesting that appropriate financial safeguards are put in place prior to approval.

Lloyd's and managing agents will want to be sure that individuals given either underwriting or claims authority have the necessary experience, reputation and ability.

### **3.10 Where the application for approval is successful**

If Lloyd's approves the application, then the applicant via its sponsor will be notified and will be advised if the approval is for a limited or an unlimited period of time. Usually the coverholder must be granted authority under a binding authority within 3 months from the date of approval, otherwise the approval will lapse. However, the

Coverholders Department may be prepared to extend this period to suit individual circumstances.

In addition, Lloyd's may set certain conditions on the approval. These may include conditions that the approval is-

- (a) restricted to particular classes of business.
- (b) restricted to certain types of binding authority.
- (c) restricted to contracts led by a particular managing agent.
- (d) restricted to contracts written 100% by a particular managing agent.
- (e) subject to a pre-audit carried out to the department's specifications.
- (f) subject to an audit carried out to the department's specifications within a specified period.
- (g) subject to territorial limitations.

Approval for insurance business does not automatically include reinsurance business. If it is intended that the applicant should operate a binding authority for reinsurance as well as insurance business, then this should be made clear in the application form.

In some jurisdictions additional regulatory approval is required from local authorities before the coverholder can transact business under the binding authority.

Where Lloyd's has approved a coverholder, the managing agent is under an ongoing obligation to take all reasonable steps to satisfy itself that it remains suitable. If a managing agent has any reason to believe that the applicant no longer complies with any of those criteria, the managing agent must immediately notify the Coverholders Department.

### **3.11 Where the application for approval is rejected**

If Lloyd's rejects the application, then the applicant via its sponsor will be notified.

If an application is rejected then the applicant must not hold itself out in any way as being approved by Lloyd's as a coverholder. Nor may a managing agent delegate its authority to the applicant under any category of binding authority.

Where appropriate, Lloyd's may give an indication as to the reasons for the rejection, although it should be noted that there is no right of appeal against Lloyd's decision to the Lloyd's Appeal Tribunal. Lloyd's may also give an indication of the necessary remedial steps that it would expect to take place before the applicant seeks to make any future application.



#### **4. Requests – restricted coverholders (applies to certain UK coverholders only)**

##### **4.1 What a restricted coverholder can do**

A restricted coverholder may enter into contracts of insurance and issue documents evidencing that contracts of insurance have been accepted under the terms of a restricted binding authority.

That coverholder must be based in the United Kingdom and may only enter into contracts of insurance or issue documents evidencing contracts of insurance where the relevant business is to be accepted under a restricted binding authority. This means a binding authority –

- (a) where the coverholder’s authority under the binding authority is restricted to entering into contracts of insurance where –
- the contract will be concluded between the coverholder and the insured in the UK;
  - the insured has his habitual residence in the UK or, in the case of a company, the company is registered in the UK;
  - either –
    - i. the contract is in respect of travel or holiday risks and the duration of the contract is four months or less; or
    - ii. the property to be insured is situated in the UK or where the property is a motor vehicle, it is registered in the UK;
- (b) where the terms and conditions of each contract of insurance are prescribed in the binding authority; and
- (c) which either –
- prescribes the premium to be charged in respect of each contract of insurance; or
  - prescribes a formula, method or system for calculating the premium to be charged in respect of each contract of insurance provided that the formula, method or system does not provide the coverholder with any material discretion to determine the premium or adjust the premium so calculated.

In addition as from 14 January 2005 the restricted coverholder must also comply with the requirements of the FSA that relate to insurance intermediaries.<sup>7</sup>

A restricted coverholder does not need to go through the full approval process and the binding authorities do not need to be registered at Lloyd's. Instead, prior to entering into the binding authority, the managing agent need only request that Lloyd's enter the name of the coverholder in the register of restricted coverholders.

#### **4.2 Who makes the request ?**

The request for a company to be entered in the register of restricted coverholders is made by a managing agent that intends to enter into a restricted binding authority with the company. It does this by completing an application form, a copy of which is attached to this handbook at []. If the binding authority is to be written by several managing agents, the request is made by the lead managing agent.

Where a managing agent confirms that the relevant criteria for being a restricted coverholder are met then Lloyd's may, unless Lloyd's has any specific concerns, enter the name of the company in the register of restricted coverholders.

Lloyd's relies upon the managing agent to ensure that the eligibility criteria are met. The obligation remains on the managing agent to ensure that the eligibility criteria are met. Lloyd's regards it as a serious breach of Lloyd's rules if a managing agent attempts to enter a company in the register of restricted coverholders when the eligibility criteria are not met.

#### **4.3 Where the request is successful**

If Lloyd's accepts a request for a company to be a restricted coverholder, the company must not describe itself in any other way other than as a "Lloyd's restricted coverholder". It must not hold itself out in any way other than as a "restricted coverholder."

A managing agent may delegate its authority under a restricted binding authority to the restricted coverholder.

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<sup>7</sup> See Underwriting Requirements (chapter 2, paragraph 9) and definition of restricted coverholder in the Definitions Byelaw.

Where a coverholder is entered in the register of restricted coverholders then the managing agent is under an ongoing obligation to take all reasonable steps to satisfy itself that it remains eligible to be a restricted coverholder.

If a managing agent has any reason to believe that a restricted coverholder ceases to comply with any of those eligibility criteria then the managing agent must immediately notify the Coverholders Department.

#### **4.4 Where the request is declined**

Lloyd's has an absolute discretion to decline a request by a managing agent to enter a company in the register of restricted coverholders. Instead Lloyd's may require the company to seek Lloyd's full approval as described at section 3 of this handbook above. In those circumstances until the company is approved it must not describe itself as either an approved or a restricted coverholder and must not be a delegated authority under any type of binding authority.

## **5. Registration of binding authorities**

### **5.1 Registered binding authorities – for approved coverholders**

Once a company has been approved by Lloyd's as an approved coverholder, managing agents may delegate their authority to enter into contracts of insurance (ie to accept risks) and/or to issue documents evidencing contracts of insurance to that approved coverholder. Managing agents will set out the terms and conditions of that authority in the binding authority agreement between the managing agent and the coverholder.

Until the approved coverholder has been provided with, and agreed in writing to, the terms and conditions of the binding authority then that binding authority cannot be registered at Lloyd's. It is only when it has been registered that the coverholder may begin to exercise its authority under the terms of the binding authority.

### **5.2 The website**

Lloyd's maintains a secure electronic registration system for binding authority registration. Registration may be completed by either the Lloyd's broker that arranged the binding authority or by the lead managing agent that intends to delegate authority under a binding authority.

The registration system is found at <https://www.coverholders.lloyds.com> . For full details, reference should be made to the web-site user manual which is available from the Coverholders Department.

All Lloyd's binding authorities need to be registered on the website (with the sole exception of restricted binding authorities).

The key items for those registering binding authorities are:

- (a) always have the coverholder's PIN to hand. In most cases it is easier to use the PIN than the name search facility.
- (b) when registering a binding authority, the user is always be asked to confirm that the details shown on the coverholder details screen are correct.
- (c) when registering a binding authority, the user is confirming that the coverholder meets the minimum criteria for continued coverholder approval.
- (d) binding authorities must be registered in draft before being presented to underwriters.
- (e) for a binding authority to be registered, the user must confirm, on-line, that:

- the facility has been placed 100%; and
- the coverholder has agreed in writing to the terms and conditions of the binding authority.

Ins-sure (LPSO) have instructions from Lloyd's not to allocate signing numbers and dates until binding authorities are registered.

Please note that binding authorities that delegate authority to a Lloyd's broker must be registered.

### **5.3 Duty to keep registration details up to date**

Where a binding authority is registered on the website then the person that registered that binding authority has an on-going obligation to ensure that the registration details are accurate and up-to-date.

### **5.4 Ongoing confirmation of suitability**

By registering a binding authority the broker or managing agent is confirming that the coverholder meets the criteria for continued coverholder approval. In particular the person registering the binding authority is confirming that the coverholder remains suitable to be an approved coverholder.

### **5.5 Maintenance of a "living file"**

To assist assessment of the on-going suitability of an approved coverholder the sponsor should maintain a "living file" of key reference material for that coverholder. The "living file" should contain:

- (a) the coverholder's PIN.
- (b) up-to-date information concerning the coverholder (perhaps in the same format as the application form) and any changes to that information over at least, the last year.
- (c) the firm's accounts for the last 2 years and business plan.
- (d) a copy of the firm's relevant licences.

- (e) a copy of the firm's E&O / D&O cover and claims history.

Some coverholders may deal with more than one Lloyd's broker or managing agent. The coverholder and its broker(s)/managing agent(s) will no doubt liaise as to the most efficient means of keeping this information, whilst maintaining appropriate confidentiality.

## **5.6 New Lloyd's brokers/managing agents registering details for an existing coverholder**

If a Lloyd's broker or managing agent wishes to register a binding authority for a coverholder where they did not sponsor the coverholder's original application, then that Lloyd's broker/managing agent ("the new user") must ensure that the coverholder has been approved by Lloyd's.

It can do this by asking the coverholder for its PIN and then accessing the web-site, using the PIN to confirm the coverholder's status.

At this stage the new user will only be able to see the name and address of a coverholder. No further details will be available until the new user has registered its relationship with the coverholder. It does this by completing the form attached to this handbook at [ ].

By registering its interest, the new user confirms that it has obtained the coverholder's agreement that they may view details and that the new user has conducted its own assessment of the coverholder's suitability. If Lloyd's agrees to register the new user's interest then the new user will be able to register binding authorities for the coverholder. The new user will not, however, be able to view details of binding authorities registered by other brokers/managing agents. In addition, by registering its interest the new user confirms that the coverholder meets the criteria for continued coverholder approval.

## **5.7 Restricted binding authorities – for restricted coverholders**

Restricted binding authorities do not need to be registered at Lloyd's. However, before a restricted coverholder may enter into contracts of insurance or issue documents evidencing contracts of insurance, it must agree in writing to the terms and conditions of the binding authority.

## **6. Content of binding authorities**

### **6.1 The coverholder's agreement to the terms and conditions in a binding authority**

An important part of Lloyd's rules relates to the prescribed contents of every binding authority contract. The wording of a binding authority is of critical importance to enable the managing agent to monitor the coverholder and the binding authority. Establishing the exact terms and conditions of the delegation of authority ensures that all parties understand exactly what the coverholder may do – and how it must act. Clarity of these terms at the outset reduces the possibility of subsequent misunderstandings or disputes between the parties. It is not acceptable for key terms and conditions to be left unresolved or unclear until after the coverholder has begun accepting business.

It is for this reason that a binding authority cannot be registered at Lloyd's until the coverholder has been provided with, and agreed in writing to, its terms and conditions. A binding authority cannot therefore incept until all the parties have agreed to the terms and conditions. This applies to both new and renewal business. (The binding authority contract does not need to be formally signed through X- Changing Ins-sure Services prior to inception although it is good practice for that to have been done).

Similarly in respect of renewal business, Lloyd's expects there to be contractual certainty before the inception of the renewed binding authority.

### **6.2 Information and terms in a binding authority**

Lloyd's has set out terms, conditions and requirements that must be included in binding authorities<sup>8</sup> and which the coverholder must agree prior to inception. It is open to the parties to include other terms and conditions so long as they do not conflict with the matters set out below.

#### *Registered Binding Authorities – for approved coverholders*

Paragraph 10 of Chapter 2 of the Underwriting Requirements provide for the information and terms that must be included in all registered binding authorities. The coverholder must agree to these in writing prior to inception.

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<sup>8</sup> DU Byelaw (paragraph 30) and Underwriting Requirements (chapter 2, paragraph 10)

Coverholders should be asked to indicate their agreement to the terms and conditions of the binding authority wording by being provided with the relevant wordings and requesting that the Coverholder sign and return that wording.

*Restricted Binding Authorities – for restricted coverholders*

Paragraph 10 also provides for the information and terms that must appear in all restricted binding authorities and which the coverholder must agree prior to inception.

This includes stating the necessary pre-determined rates and terms that the coverholder must use. Also, since restricted coverholders do not sign the “undertaking” with Lloyd’s the binding authority wording gives Lloyd’s rights so that in exceptional circumstances Lloyd’s may ask for information from the restricted coverholder or to attend at the restricted coverholder’s premises. Lloyd’s intends to use these powers in exceptional circumstances only.

Restricted coverholders should be asked to indicate their agreement to the terms and conditions of the binding authority wording by being provided with the relevant wordings and requesting that the coverholder sign and return that wording.



## **7. Content of insurance documentation**

### **7.1 Contents to be included in insurance documentation issued by coverholders to policyholders**

Lloyd's has prescribed certain items that must appear in all insurance documentation issued by all coverholders (ie approved and restricted)<sup>9</sup> evidencing contracts of insurance. These are intended to ensure that policyholders are aware of all the key terms of their policy and to ensure that they have the necessary contact information so they can check the validity of the policy or make a claim.

Managing agents should ensure that insurance documentation issued by their coverholders fulfil these requirements. If a coverholder does not issue insurance documentation that includes the prescribed information then Lloyd's may take steps to remove that coverholder's approval. Action may also be taken against the managing agent.

### **7.2 Joint certificates.**

The Underwriting Requirements deal with the use of joint certificates<sup>10</sup>. It is important to ensure that the use of such certificates does not breach any requirements of the jurisdictions governing the arrangement of the insurance contract. This may be the jurisdiction in which the policyholder is domiciled and/or the jurisdiction in which the coverholder is located.

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<sup>9</sup> DU Byelaw (paragraph 35) and the Underwriting Requirements, (chapter 2, paragraph 13)

<sup>10</sup> Underwriting Requirements, (chapter 2, paragraph 14)

## **8. Sub-delegation**

### **8.1 Sub-delegation of authority to enter into contracts of insurance or issue insurance documentation**

Only a managing agent may delegate its authority to enter into contracts of insurance or to issue insurance documentation. Sub-delegation by a coverholder to another party undermines Lloyd's supervisory requirements for coverholders. Such sub-delegation may also lead to the managing agent being unable to monitor properly its binding authority.

Therefore, a managing agent cannot give authority to a coverholder to sub-delegate its authority to another coverholder. The sub-delegation to a third party may only be granted by the managing agent itself. In those circumstances the managing agent would need to enter into a direct contractual relationship with the third party (although there may also exist a concurrent contractual relationship between the two coverholders as well).

Any delegation, or sub-delegation, not expressly permitted in accordance with paragraph 2 of the byelaw will be misconduct<sup>11</sup> and will be treated extremely seriously by Lloyd's.

### **8.2 Sub-delegation of authority to handle claims – “third party administrators”**

Some binding authorities provide for the appointment of “third party administrators” for agreeing claims.

Where this is the case, then the managing agent must enter into a direct agreement with the third party administrator<sup>12</sup>. Lloyd's has prescribed certain matters which must be dealt with in that agreement<sup>13</sup>.

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<sup>11</sup> DU Byelaw (paragraphs 2 and 4)

<sup>12</sup> DU Byelaw (paragraph 36)

<sup>13</sup> Underwriting Requirements (chapter 2, paragraph 15)

## **9. Use of the Lloyd's name and brand**

Lloyd's issues guidelines to ensure that the Lloyd's brand is used consistently and to protect the Lloyd's trademark, which has been registered worldwide. All coverholders must comply with these guidelines. The current version of these guidelines may be found on the Lloyd's website<sup>14</sup>. Please note that the guidelines may be updated from time to time, therefore the guidelines on the website must be consulted as necessary.

However, it should be noted that these guidelines do not address local insurance regulatory requirements including advertising restrictions and prohibitions which are imposed on intermediaries in some jurisdictions. Certain use of the Lloyd's name and/or logo, which might be permissible under the general guidelines below, might nevertheless constitute a violation of local law. Coverholders should accordingly consult with Lloyd's<sup>15</sup> or the relevant local Lloyd's representative regarding such requirements.

Coverholders must comply with all local requirements relating to advertising (in whatever form e.g. in literature and on websites) and must comply with all local requirements prohibiting solicitation from selling insurance. Again coverholders should contact Lloyd's or the Lloyd's local representative in the relevant jurisdiction for further details.

### *Use of the Lloyd's name*

Coverholders may use Lloyd's name for advertising or on insurance documentation which the coverholder issues where that advertising or documentation relates to contracts of insurance underwritten at Lloyd's. However, the Lloyd's name cannot be incorporated into the coverholder's registered company name or trading title.

An approved coverholder may describe itself as a "Lloyd's coverholder". A restricted coverholder may describe itself as a "Lloyd's restricted coverholder".

Lloyd's name may also be used by a coverholder to promote an insurance product or be used on insurance documentation issued by the coverholder where that product or documentation relates to a contract of insurance underwritten at Lloyd's. However, the name "Lloyd's" cannot be used as part of the product name itself.

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<sup>14</sup> [www.lloyds.com/index.asp?ItemId=2425](http://www.lloyds.com/index.asp?ItemId=2425)

<sup>15</sup> These queries may be addressed to the Communications team in Worldwide Markets Department at Lloyd's.

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If a contract is not underwritten 100% at Lloyd's the identity of the actual insurers must be made clear by using the appropriate statement as set out in Lloyd's guidelines and the proportion of the risk being accepted by Lloyd's underwriters and other insurers must be stated.

For those products which are not 100% underwritten at Lloyd's, it must be made clear that should any other subscribing insurers become insolvent, each underwriter at Lloyd's is liable for the portion of the risk which it has underwritten and is not liable for the portion of any other insurer either at Lloyd's. Again reference must be made to Lloyd's guidelines as published on Lloyd's website.

In addition, there are separate rules regarding the use of "joint certificates"<sup>16</sup>. In those circumstances the managing agent or Lloyd's broker will advise the coverholder on the appropriate rules relating to the use of joint certificates.

*Use of the Lloyd's logo*

Coverholders may only use the Lloyd's logo for advertising, on the coverholder's web-site, on brochures and on insurance documentation in limited circumstances. These circumstances are detailed in Lloyd's guidelines as published on Lloyd's website.

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<sup>16</sup> the Underwriting Requirements (chapter 2, paragraph 14)

## **10. Notification obligations on the managing agent and Lloyd's broker**

### **10.1 Duty to inform Lloyd's of key events**

In order for Lloyd's to supervise coverholders and binding authorities it is important that Lloyd's is provided with comprehensive and timely material information. To this end Lloyd's requires managing agents to inform Lloyd's where they know or have reason to believe that certain specific notifiable events, as set out below, may have occurred. Lloyd's also expects to be notified by the Lloyd's broker/sponsor of any of the following matters. Notification should always be in writing or by e-mail, or where relevant, by using the coverholders' web-site.

Where notification is made in writing managing agents and sponsors should write to the Coverholders Department at Lloyd's (marking the letter for the attention of the Manager, Coverholders Department). Where notification is made by e-mail the message should be sent to [e-mail address].

If it is unclear as to whether a matter needs to be notified, then the managing agent/Lloyd's broker is encouraged to discuss the matter with the Coverholders Department in the first instance.

All notifications should be made "immediately". Unless the matter is obviously more urgent, Lloyd's would expect to be notified within 2 working days of the managing agent/Lloyd's broker becoming aware of the event, or having reason to believe that the event has occurred.

### **10.2 Duty to inform Lloyd's of any breaches of Lloyd's requirements**

Where a managing agent/Lloyd's broker knows or has reason to believe that any coverholder is acting or has acted in breach of any of Lloyd's requirements relating to coverholders or binding authorities, then they must notify Lloyd's of that matter.<sup>17</sup>

The provision of such information is vital to the effective operation of the Lloyd's arrangements for coverholders and binding authorities.

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<sup>17</sup> DU Byelaw (paragraph 42)

### **10.3 Duty to inform Lloyd's if an approved coverholder is not suitable**

The managing agent has a duty under the byelaw to take all reasonable steps to satisfy itself that an approved coverholder remains suitable, prior to the managing agent delegating its authority to an approved coverholder. There is an ongoing requirement for all approved coverholders to remain "suitable" for so long as they remain on the register of approved coverholders.

Similarly any Lloyd's broker or managing agent that registers a binding authority must take all reasonable steps to satisfy itself that an approved coverholder remains suitable.

Accordingly, where a managing agent or Lloyd's broker knows, or has reason to believe, that an approved coverholder has or may have ceased to comply with any of the criteria for suitability then they must notify Lloyd's.<sup>18</sup>

This duty on a managing agent to notify Lloyd's applies to any managing agent, whether or not that managing agent currently has a binding authority contract with the coverholder.

### **10.4 Duty to inform Lloyd's if a restricted coverholder is not eligible**

The managing agent/Lloyd's broker should take all reasonable steps to satisfy itself that a restricted coverholder remains eligible in accordance with the eligibility criteria at Underwriting Requirements, paragraph 6. There is an ongoing requirement for all restricted coverholders to comply with the eligibility criteria to be a restricted coverholder for so long as they remain on the register of restricted coverholders.

Where a managing agent/Lloyd's broker knows or has reason to believe that a restricted coverholder has or may have ceased to comply with any of the eligibility criteria then the managing agent must notify Lloyd's.<sup>19 20</sup>

This duty on the managing agent to notify Lloyd's applies to any managing agent whether or not that managing agent currently has a binding authority contract with the coverholder.

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<sup>18</sup> DU Byelaw (paragraphs 43 and 43)

<sup>19</sup> DU Byelaw (paragraphs 43 and 44 )

<sup>20</sup> For example Lloyd's would need to be informed if the restricted coverholder had been provided with greater authority than that permitted under a restricted binding authority.

**10.5 Duty to inform Lloyd's if a coverholder is in breach of any directions, conditions or requirements imposed by Lloyd's**

Lloyd's may impose directions, conditions or requirements on the registration of an approved or restricted coverholder. Where this occurs the managing agent and Lloyd's broker must make sure it is aware of those directions, conditions or requirements. The managing agent/Lloyd's broker can make itself aware by checking the registration details on the Lloyd's coverholders' website.

Where a managing agent/Lloyd's broker knows or has reason to believe that any coverholder fails or ceases to comply with any condition required by Lloyd's then it must notify Lloyd's of that event.<sup>21</sup>

**10.6 Duty to inform Lloyd's if a coverholder no longer has a current binding authority**

Lloyd's wishes to ensure that only those coverholders that have authority under at least one current binding authority remain registered as approved or restricted coverholders. However, Lloyd's is aware that there may be good reasons why for short periods of time coverholders may not have authority under a current binding authority.

Where a coverholder is without a Lloyd's binding authority for a period of more than 3 months then Lloyd's will consider whether it should remove the name of the coverholder from the relevant register. Where this concerns an approved coverholder then the coverholder would need to make a fresh application for approval before its name may be re-entered in the register of approved coverholders. Lloyd's will notify the coverholder and sponsor where it takes such action.

In order to enforce these requirements Lloyd's needs to be aware of whether a coverholder has authority under a current binding authority.<sup>22</sup> This will happen as follows -

- (a) Approved Coverholders - Lloyd's will normally be aware of whether an approved coverholder currently operates a binding authority as a result of the operation of the web-based binding authority registration scheme. As part of the registration process, the duration of all binding authorities are recorded on the Lloyd's coverholders' website.

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<sup>21</sup> DU Byelaw (paragraph 44)

<sup>22</sup> DU Byelaw (paragraph 44)

However, the system does not automatically detect if a binding authority is cancelled early. Accordingly the managing agent/Lloyd's broker should notify Lloyd's of the cancellation or termination of a binding authority.

- (b) Restricted Coverholders - Restricted binding authorities are not registered with Lloyd's. Therefore, Lloyd's will not be aware of whether a restricted coverholder is currently party to a Lloyd's binding authority. Accordingly, a managing agent/Lloyd's broker must inform Lloyd's when it no longer delegates its authority to a restricted coverholder.

#### **10.7 General duty to inform Lloyd's of any matters of concern**

Where a managing agent or Lloyd's broker knows or has reason to believe that there are any other matters of concern relating to a coverholder or the operation of a binding authority then they should notify Lloyd's of that matter.



## **UNDERWRITING REQUIREMENTS**

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### Chapter 2 Requirements made under the Delegated Underwriting Byelaw (No. [] of 2003)

#### **Registers of coverholders and certain binding authorities – Part B of the Delegated Underwriting Byelaw**

Format and content of the registers - paragraph 6 of the Delegated Underwriting Byelaw

1. The registers of *approved coverholders*, *restricted coverholders* and *registered binding authorities* shall be held electronically on the system operated and maintained by the *Franchise Board* for that purpose.

Inspection of the registers - paragraph 7 of the Delegated Underwriting Byelaw

2. Any person may inspect the registers of *approved coverholders* and *restricted coverholders*.
3. Any *approved coverholder*, *managing agent* and any *Lloyd's broker* which is a party to a *registered binding authority* or any *Lloyd's broker* which arranged or broked that *registered binding authority* may inspect that part of the register of *registered binding authorities* which relates to that *registered binding authority*.

**Approved Coverholders - Part C**  
**of the Delegated Underwriting Byelaw**

Applications - paragraphs 8 and 9 of the Delegated Underwriting Byelaw

4. An *applicant* shall apply to the *Franchise Board* for its name to be entered in the *register of approved coverholders* by completing and submitting the relevant parts of the appropriate form of application attached at annex [ ] to these requirements.
5. An *applicant*, other than an *applicant* which is a *Lloyd's broker*, must be sponsored by a *Lloyd's broker* or a *managing agent* ("*the sponsor*"). *The sponsor* shall complete the relevant part of the appropriate form of application attached at annex [ ] to these requirements and shall submit it to the *Franchise Board*.

Approval – paragraph 13 of the Delegated Underwriting Byelaw

6. In deciding whether an *applicant* is suitable to be an *approved coverholder* the *Franchise Board* shall have regard to the following criteria and all other relevant matters—
  - (a) whether the *applicant* is a competent, proficient and capable organisation. In considering this the *Franchise Board* may have regard to the following matters –
    - (i) the *applicant's* compliance with appropriate principles of good corporate governance;
    - (ii) the *applicant's* membership of any body, group or organisation that the *Franchise Board* considers to be necessary or desirable;
    - (iii) the quality and adequacy of the *applicant's* human resources including –
      - (i) the competence, reputation, character and suitability of the *applicant's* directors, officers and staff; and
      - (ii) the knowledge and experience of the *applicant's* directors, officers and staff of the conduct and regulation of insurance business in the Lloyd's insurance market and in any other relevant jurisdiction.

- (iv) the quality and adequacy of the *applicant's* other resources including –
  - (i) the quality and adequacy of the *applicant's* systems, procedures, protocols and arrangements for the conduct of its business;
  - (ii) the quality and adequacy of the *applicant's* resources to comply with appropriate service standards for its customers;
  - (iii) the quality and adequacy of the *applicant's* resources to comply with such principles and standards for the conduct or administration of insurance business in the Lloyd's insurance market as the *Franchise Board* may from time to time prescribe, recognise or endorse; and
  - (vi) the quality and adequacy of the *applicant's* resources and systems for *underwriting* administration and for the administration and agreement of claims.
  
- (v) the quality and adequacy of the *applicant's* controls and procedures to manage its business including –
  - (i) the *applicant's* arrangements for identifying, resolving or managing conflicts of interest and
  - (ii) the quality and adequacy of the *applicant's* controls and procedures for the management of *underwriting* risk and for the management of the administration, agreement and compromise of claims.
  
- (vi) the nature of the *applicant's* business including its past, present and forecast *underwriting* performance;
  
- (b) whether the *applicant* is of appropriate reputation and standing;
- (c) whether any person who *controls* the *applicant* or who is connected or associated with the *applicant* is of appropriate reputation and standing;
- (d) whether the *applicant* has adequate capital and financial resources;
- (e) whether the *applicant* has adequate professional indemnity insurance;
- (f) whether the applicant is capable and willing to comply with the terms of any undertaking given by it to the *Franchise Board*; and
- (g) whether the applicant possesses all relevant licences, approvals or authorisations in order to act as an *approved coverholder* wherever it will conduct insurance business in that capacity.

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7. A managing agent that intends to enter into a binding authority with the applicant shall, in accordance with paragraph 15(b) of the Delegated Underwriting Byelaw, give a declaration by completing the relevant form attached to the application form at Annex [ ] to these requirements.

**Restricted Coverholders – Part D of the Delegated Underwriting Byelaw**

Applications - paragraphs 21 and 23 of the Delegated Underwriting Byelaw

8. A *managing agent* shall make a request to the *Franchise Board* that a *candidate's* name be entered in the register of *restricted coverholders* by completing and submitting the form of application attached at annex [ ] to these requirements (a "*request*").
9. The criteria for eligibility to entered in the register of *restricted coverholders* are where –
  - (a) the *candidate* is either a company whose registered office is in the United Kingdom or is a partnership based in the United Kingdom;
  - (b) the *candidate* will be a party to a *binding authority* which is a *restricted binding authority*; and
  - (b) with effect from 14 January 2005 the *candidate* has permission to carry on insurance mediation in accordance with the Financial Services and Markets Act 2000 and the *Financial Services Authority's requirements* applicable to it.

**Binding Authorities - Part E of the Delegated Underwriting Byelaw**

Requirements relating to binding authorities - paragraph 30 of the Delegated Underwriting Byelaw

10. Every *binding authority* shall contain the following terms and conditions and comply with the following requirements –
- (a) in respect of every *registered* and *restricted binding authority* –
- (i) an agreement number by which the agreement can be identified and referred to;
  - (ii) the name and address of each *coverholder*;
  - (iii) the name and address of each *Lloyd's broker* which is a party to the *binding authority* or which arranged or broked the *binding authority*;
  - (iv) the syndicate or syndicates on whose behalf each *managing agent* is delegating authority to enter into contracts of insurance (the “*syndicates*”);
  - (v) the period of the *binding authority* save that the period shall ordinarily be no greater than 12 months from the date of inception of the *binding authority* and must not exceed 18 months from the date of inception of the *binding authority* in total;
  - (vi) the director, partner or employee of the *coverholder* who is directly responsible, on behalf of the *coverholder*, for the overall operation and control of the *binding authority*;
  - (vii) the names of the directors, partners or employees of the *coverholder* who will have authority to enter into contracts of insurance under the *binding authority*;
  - (viii) the names of the directors, partners or employees (if any) of the *coverholder* who will have authority to issue documents evidencing contracts of insurance under the *binding authority*;
  - (ix) the name of any person who will have authority to agree claims made on contracts of insurance underwritten by the *coverholder* under the *binding authority*;
  - (x) a list of the terms and conditions which must be incorporated in contracts of insurance underwritten under the *binding authority* including
    - (i) relevant wordings, exclusions and limitations;
    - (ii) the maximum period or duration of cover;

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- (iii) the limits of liability; and
    - (iv) any applicable territorial wordings or general cover conditions as prescribed or endorsed by the *Franchise Board*. These may be found at [].
  
  - (xi) the maximum premium income in respect of all contracts of insurance that the *coverholder* may enter into under the *binding authority*;
  - (xii) the maximum limits of liability in respect of contracts of insurance that the *coverholder* may enter into under the *binding authority*;
  - (xiii) the territorial limitations on the *coverholder's* authority under the *binding authority*;
  - (xiii) provisions requiring the *coverholder* to report in respect of all premiums, paid claims, outstanding claims and expenses in respect of contracts of insurance entered into by class or category by the *coverholder* under the *binding authority*;
  - (xv) provisions setting out how and when the payment and settlement of monies due from each of the parties to the *binding authority* should be made;
  - (xvi) provisions for the cancellation and termination of the *binding authority* including a provision that the *binding authority* shall be cancelled if the *Franchise Board* so directs;
  - (xvii) provisions relating to the on-going obligations of the *coverholder* in the event that the *binding authority* expires or is terminated or cancelled for any reason.
  - (xviii) provisions setting out the jurisdiction and governing law for the settlement of disputes arising from the binding authority.
- (b) in respect of every *registered binding authority* –
- (i) a precise description of the nature or classification of the contracts of insurance that the *approved coverholder* will be authorised to enter into under the *registered binding authority* and any relevant exclusions and limitations;
  - (ii) the manner or basis for the calculation of premiums, discounts, commissions, brokerages, fees, charges and expenses;
- (c) in respect of every *restricted binding authority* –
- (i) provisions to restrict the *restricted coverholder* to only enter into contracts of insurance -

- (a) where the contract will be concluded between the *restricted coverholder* and the insured in the UK;
  - (b) where the insured has his habitual residence in the UK or, in the case of a insured that is a company, the company is registered in the UK;
  - (c) where the contract is in respect of travel or holiday risks and the duration of the contract is four months or less; or where the contract is in respect of property to be insured that is situated in the UK or where the property is a motor vehicle, it is registered in the UK;
- (ii) subject to paragraph 10(c)(i), a precise description of the nature or classification of the contracts of insurance that the *approved coverholder* will be authorised to enter into under the *registered binding authority* and any relevant exclusions and limitations;
  - (iii) provisions which either prescribe the premium to be charged in respect of each contract of insurance or prescribe a formula, method or system for calculating the premium to be charged in respect of each contract of insurance provided that the formula, method or system does not provide the coverholder with any material discretion to determine the premium or adjust the premium so calculated; and
  - (iv) provisions to require the *restricted coverholder* to produce to the *Franchise Board* any information, documents, books, records and other materials which, in the opinion of the *Franchise Board* relate or purport to relate to the operation of the restricted binding authority and to give to the *Franchise Board* or its agent or general representative all reasonable facilities in its premises for the purpose of examining such materials.

Registration of registered binding authorities - paragraphs 32 and 33 of the Delegated Underwriting Byelaw

- 11. A *binding authority* may only be registered by –
  - (a) a *Lloyd's broker* which is a party to the *binding authority* or which arranged or broked the *binding authority*; or
  - (b) a *managing agent* which is a party to the *binding authority*.
  
- 12. Registration of a *binding authority* shall be in accordance with the dedicated web-site operated and maintained by the *Franchise Board* for that purpose. The address of that web-site is [ ].



**Requirements for insurance documentation – Part F  
of the Delegated Underwriting Byelaw**

Paragraph 35 of the Delegated Underwriting Byelaw

13. Insurance documentation evidencing contracts of insurance issued by an *approved coverholder* under a *registered binding authority* or by a *restricted coverholder* under a *restricted binding authority* must include the following contents:
- (a) the name and address of the *coverholder*;
  - (b) all relevant terms and conditions that relate to the contract of insurance entered into by the *coverholder* including:
    - (i) relevant wordings, exclusions and limitations;
    - (ii) the maximum period or duration of cover; and
    - (iii) the limits of liability.
  - (c) the amount of the premium and any discount;
  - (d) information relating to the procedure to be followed for the handling of claims arising under the contract of insurance and for the resolution of complaints;
  - (e) the law and jurisdiction applicable to the contract of insurance; and
  - (f) any other provisions required under the laws or requirements of the jurisdiction in which the contract was concluded, where the insured is domiciled or of any other relevant jurisdiction and any other provisions as required by the relevant representative of the *Society*.
14. An *approved coverholder* under a *registered binding authority* or *restricted coverholder* under a *restricted binding authority* may only issue insurance documentation evidencing contracts of insurance in which a proportion of the risk is to be accepted by insurers other than members (a “*joint certificate*”) provided that:
- i) each *managing agent* that is a party to the *binding authority* has agreed to the issue of *joint certificates*;
  - ii) the *joint certificate* includes all the details that are required to be included in insurance documentation evidencing contracts of insurance that are issued by an *approved coverholder* under a *registered binding authority* or by a *restricted coverholder* under a *restricted binding authority*;

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- iii) the proportion or amount of risk accepted by Lloyd's underwriters is expressly stated on the *joint certificate* and is specified separately from the proportion or amount of risk accepted by other insurers;
- iv) the *joint certificate* contains the following statement:  
“*The insurers named hereon bind themselves each for their own part and not one for another. Each insurer's liability under this certificate shall not exceed the percentage of the risk shown against that insurer's name*”; and
- v) the issuance of *joint certificates* has been confirmed as an acceptable practice by the general representative in the country in which issuance is required or, in the absence of such a general representative, by the *Franchise Board*.

Save that nothing in this paragraph shall permit a *joint certificate* to be issued in circumstances where that would contravene any relevant territorial general cover condition or would contravene any requirements of the jurisdiction in which the *coverholder* is domiciled, or any other jurisdiction in which the *coverholder* trades, provides services or does business.

**Third party administrators – Part G of the  
Delegated Underwriting Byelaw**

Paragraph 36 of the Delegated Underwriting Byelaw

15. The terms of the agreement entered into between a managing agent and a *third party administrator* must comply with the following -
- (a) it shall not conflict with the terms of the relevant *registered binding authority* or the *restricted binding authority*; and
  - (b) it shall contain the following information and terms -
    - (i) provisions to require the *third party administrator* to produce to each *managing agent* that is a party to the relevant *registered binding authority* or the *restricted binding authority* any information, documents, books, records and other materials which, in the opinion of the *managing agent* relate or purport to relate to the operation of the *binding authority* and to give to the *managing agent* all reasonable facilities in its premises for the purpose of examining such materials;
    - (ii) provisions to require the *third party administrator* to produce to the *Franchise Board* any information, documents, books, records and other materials which, in the opinion of the *Franchise Board* relate or purport to relate to the operation of the *registered binding authority* or the *restricted binding authority* and to give to the *Franchise Board* or its agent or general representative all reasonable facilities in its premises for the purpose of examining such materials;
    - (iii) provisions to require the *third party administrator* to notify each *managing agent* that is a party to the relevant *registered binding authority* or the *restricted binding authority* of any complaint or of any actual, pending or potential litigation.

**The Coverholder's Undertaking to Lloyd's ("The Undertaking")**

**THE UNDERTAKING MUST BE GIVEN BY THE COVERHOLDER THAT WISHES TO BE ENTERED IN THE REGISTER OF APPROVED COVERHOLDERS IN ACCORDANCE WITH THE TRANSITIONAL PROVISIONS AT PARAGRAPHS 49 AND/OR 50 OF THE DELEGATED UNDERWRITING BYELAW (No [ ] of 2003)**

- A. In consideration of Lloyd's entering our name in the register of *approved coverholders*, maintained by Lloyd's in accordance with the Delegated Underwriting Byelaw (No [ ] of 2003) ("the Byelaw"); and
- B. As a condition of our entry in the register of *approved coverholders* in accordance with paragraphs 15 and 51 of that Byelaw -

We, [ ], undertake and confirm to Lloyd's that -

1. General

- 1.1 We will deal with Lloyd's in good faith and in an open and co-operative way.
- 1.2 We will comply with and act in accordance with the rules and requirements made from time to time by Lloyd's relating to binding authorities and coverholders (the "**Requirements**").
- 1.3 We will conduct our business with integrity and with due care and skill and will take all reasonable steps to avoid causing harm to the name, reputation and standing of Lloyd's. This will include complying at all times with the guidelines issued from time to time by Lloyd's on the use of Lloyd's name.
- 1.4 We will only describe or hold ourselves out as a Lloyd's "**coverholder**" for so long as we remain on the register of approved coverholders and are a party to a **registered binding authority**.

2. Underwriting authority

- 2.1 We will only enter into contracts of insurance on behalf of members of a **syndicate** managed by a **Lloyd's managing agent**, or issue quotations or insurance documentation, in accordance with the terms of a **registered binding authority**
- 2.2 We will not exercise any authority conferred upon us under a **binding authority**, including entering into contracts of insurance and issuing quotations or insurance documentation, until the **binding authority** has been registered at Lloyd's.
- 2.3 We will not sub-delegate to any third party our authority to underwrite contracts of insurance or our authority to issue documents evidencing contracts of insurance.

3. Administrative arrangements (including insurance monies)

- 3.1 We will take reasonable care to organise and control our affairs responsibly and effectively.
- 3.2 We will ensure that all monies received or payable by us, from or on behalf of the **Lloyd's managing agent**, ("**insurance monies**") are held in accordance with the requirements as set out in the **registered binding authority**. We will also comply with any other requirements Lloyd's may issue from time to time regarding the manner by which **insurance monies** are to be held.
- 3.3 We will also comply with any requirements of the jurisdiction in which we are domiciled, or any other jurisdiction in which we trade, provide services or do business or any other jurisdiction as required, which relate to the manner by which **insurance monies** are to be held.

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4. Dealings with customers
  - 4.1 We will deal with customers and clients (including policyholders and prospective policyholders) (“customers”) openly and in good faith.
  - 4.2 We will only charge premiums, fees, and retain any commissions, discounts or brokerage in accordance with the terms of a **registered binding authority** and in accordance with any local relevant regulatory requirements.
  - 4.3 We will pay due regard to the information needs of our customers and communicate information to them in a way which is clear, fair, prompt and not misleading. We will also handle all complaints made by our customers in a fair, prompt and orderly manner.
  - 4.4 Where we have authority under the terms of a **registered binding authority** to handle claims we will do so in a fair, prompt and orderly manner.
  - 4.5 We will manage conflicts of interest fairly, between ourselves, our customers and **Lloyd’s managing agents**.
5. Dealings with the Lloyd’s market
  - 5.1 We will deal with **Lloyd’s managing agents** and **Lloyd’s brokers** openly and in good faith and will report to them, and account for all monies, accurately, fairly and promptly and, where relevant, account in accordance with any local settlement systems.
  - 5.2 We will comply at all times with the terms of the **binding authorities** that we enter into with **Lloyd’s managing agents** unless otherwise directed by Lloyd’s.
6. Compliance with local requirements
  - 6.1 We will at all times comply with all relevant local insurance, fiscal and taxation laws, regulations and requirements of the jurisdiction in which we are domiciled, or any other jurisdiction in which we trade, provide services or do business or of any other jurisdiction where necessary. This will include the maintenance of any necessary local licences, permits or other authorisations.
  - 6.2 If we cease to comply with any relevant laws, regulations or requirements, or cease for whatever reason to maintain any necessary local or required licences, permits or other authorisations, we will immediately take all appropriate action and notify Lloyd’s, our **sponsor** and the lead **Lloyd’s managing agent** that delegated its authority to us under a **registered binding authority**.
7. Deregistration or Immediate Suspension of the Firm
  - 7.1 In the event of any of the following events occurring-
    - a) the revocation of approval or immediate suspension of us by Lloyd’s in accordance with the **Requirements**; or
    - b) an instruction, condition or direction made or issued by Lloyd’s that the **Lloyd’s managing agent** or we cease accepting business under the **registered binding authority**;  
we will, subject to any specific instruction, condition or direction made or issued by Lloyd’s:
      - i) immediately cease to exercise any authority conferred upon us under a **registered binding authority**;
      - ii) promptly return to Lloyd’s, **Lloyd’s managing agent(s)** or **Lloyd’s broker(s)** or destroy as appropriate all unused documents that would indicate or imply, if used, that contracts of insurance accepted by us are entered into on behalf of **members** of Lloyd’s;
      - iii) promptly remove from our computer, back-up and printing systems any ability to use any stamp, mark or other thing that would indicate or imply that contracts of insurance to be accepted by us are underwritten on behalf of **members** of Lloyd’s;
      - iv) handle the run-off of the business (including claims) in a fair, prompt and orderly manner (save where a third party has been appointed by the **Lloyd’s managing agent** or by Lloyd’s to handle the run-off (the “**third party**”));

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- v) co-operate fully with any **third party** and provide the **third party** access to our premises and provide relevant books, records and other documentation; and
- vi) comply with the provisions in the **registered binding authority** regarding the effect of expiry, cancellation or termination of the **registered binding authority**.

8. Lloyd's powers

8.1 When requested by Lloyd's or its representative(s) or agent(s) we will-

- i) answer any questions and produce any information, documents, books, records and other materials which, in the opinion of Lloyd's or its representative(s) or agent(s) relates or purports to relate to the operation of our insurance business under a **registered binding authority**; and
- ii) give Lloyd's or its representative(s) or agent(s) all reasonable facilities in premises for the purpose of examining such materials.

9. Miscellaneous

9.1 We will immediately notify Lloyd's, **Lloyd's managing agent(s)** and **Lloyd's broker(s)** as appropriate of any **material changes** to the information supplied in this application form, and of any other matters which relates to us and of which Lloyd's, **Lloyd's managing agent(s)** and **Lloyd's broker(s)** would reasonably expect notice.

9.2 We acknowledge that any failure by us to comply with the terms of the **Requirements** or of this Undertaking may affect our continuing suitability to be a registered coverholder.

Data Protection

By entering this undertaking we confirm that we are applying for our name to be entered and/or maintained in the register of *approved coverholders*, in accordance with the transitional provisions at paragraphs 49 and/or 50 of the Byelaw, and that we have read and accepted the terms regarding the use of personal and business sensitive data as set out in the Annex to this form. We confirm that we are authorised by our employees or other individuals to provide their personal data as necessary, and to make statements on their behalf. We also verify that the information provided is true and accurate, and is up-to-date as at the time of the application and that we will inform Lloyd's if there are any changes in the information.

We acknowledge that if our name is entered and maintained in the register of *approved coverholders* our name, address and details of the jurisdiction(s) in which we are domiciled will be included in the public register of approved coverholders (in accordance with the **Requirements**).

Governing Law

We irrevocably agree that this undertaking and all matters relating to our application for our name to be entered and/or maintained in the register of *approved coverholders* shall be subject to the laws of England and irrevocably agree that the courts of England shall have exclusive jurisdiction to settle any dispute and/or controversy of whatever nature arising out of or relating to this undertaking or our application for our name to be entered and/or maintained in the register of *approved coverholders*. Accordingly, any suit, action or proceeding arising out of or relating to such matters shall be brought in such courts. The foregoing shall apply save where Lloyd's in its absolute discretion elects that the governing law/applicable courts shall be those of the jurisdiction in which we are domiciled or do business.

Interpretation

Words or expressions in *italics* in this undertaking shall have the meanings as given in the Delegated Underwriting Byelaw (No [ ] of 2003) or the Definitions Byelaw (No 3 of 2003).

(Signed\*) .....

Name in capitals .....

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Position in your firm .....

Date .....

For and on behalf of .....

(Name of your firm)

Signed on behalf of Lloyd's .....

(Authorised Signatory)

**A COPY OF THIS UNDERTAKING SIGNED BY LLOYD'S WILL BE SENT TO YOU IF YOU ARE APPROVED AS A COVERHOLDER**

ANNEX

Data Protection Notice

**1. Data Controller**

- 1.1 As Lloyd's and its requirements for Coverholders are subject to English law, and any processing of data will occur within the United Kingdom, all personal data will be protected by the Data Protection Act 1998. Lloyd's is a data controller for the purposes of this Act and holds information for the purposes specified in its notification made to the Information Commissioner, which is available for viewing at <http://www.dpr.gov.uk/search.html>.

**2. Proposed uses of personal information**

- 2.1 Lloyd's will classify information provided to it by way of this application and subsequent disclosures as either:
- Class A information (which may be business sensitive or personal information which will only be used by Lloyd's in accordance with the terms set out below); or
  - Class B information (which will be made publicly available as per paragraph 3 below).
- 2.2 Class A information supplied to Lloyd's by the *coverholder*, or the *sponsor*, and will be used by the following
- the Society of Lloyd's (including the Society's general representatives, attorneys of fact and agents);
  - interested third parties such as XIS, XCS, and the LMA Coverholders Committees (among others);
  - any managing agent and any Lloyd's broker which is a party to a *registered binding authority* or which arranged or broked that *registered binding authority*; and
  - any other managing agent or Lloyd's broker which has the express consent of the *coverholder*
- for the purpose of processing the application and for the continuing monitoring of the *coverholder's* role.
- 2.3 Lloyd's may use all information provided in this form or elsewhere, or which is provided by Lloyd's brokers or underwriters on the Coverholder and Binding Authority Registration web-site for any of the purposes set out in the Delegated Underwriting Byelaw, the Underwriting Requirements, the Handbook or the Delegated Underwriting Regime and subject to the Information and Confidentiality Byelaw (No 21 of 1993).
- 2.4 Lloyd's may check all information received about the *coverholder* or *the sponsor* with what is already held in Lloyd's records. In order to check the information Lloyd's may need to contact the *coverholder*, *the sponsor* and any other relevant managing agents or Lloyd's brokers.

**3. Registers of coverholders**

- 3.1 Lloyd's will maintain a password protected register of Class A information which will be made available on a limited basis to any managing agent and any Lloyd's broker which is a party to a *registered binding authority* or which arranged or broked that *registered binding authority* in accordance with terms set out in the Delegated Underwriting Byelaw and the Underwriting Requirements.
- 3.2 Lloyd's will maintain a public register of Class B non-sensitive business information in respect of approved coverholders. This register will give the following details - the name and address of the approved coverholder and details of the jurisdiction(s) in which the approved coverholder is domiciled.. This public register will be available without restriction on the Internet via lloyds.com website.



**4. Security and confidentiality of information**

- 4.1 All information obtained from the *coverholder* or *the sponsor* or any information about the *coverholder* or *the sponsor* as a result of this or any other application the *coverholder* or *the sponsor* has made to, or any other agreement the *coverholder* or *the sponsor* may have with Lloyd's or authorised parties, will be securely held by Lloyd's and its agents in paper and/or electronic form.
- 4.2 All information may be stored on a secure password protected database which can be accessed through the Internet/and or Intranet. By virtue of the Internet, the database may be accessed world-wide by authorised parties, even to countries that may not have the same level of protection as in the UK.
- 4.3 All information may also be passed to the lead managing agent(s) and the Lloyd's broker(s) which is a party to a *registered binding authority* or which arranged or broked that *registered binding authority* who will be obliged to hold your information in a secure environment.
- 4.4 Lloyd's will treat personal information as confidential, even if the *coverholder* should cease to be a coverholder save that information that appears on the Lloyd's registers of coverholders (in accordance with the Delegated Underwriting Byelaw and Underwriting Requirements) will be publicly available (as explained at paragraph 3 above).

**5. Disclosure**

- 5.1 Save for the foregoing, nothing about the application for the coverholder's name to be entered in the register of *approved coverholders* will be disclosed to anyone other than the parties listed above other than:
- i. Where the Information and Confidentiality Byelaw (No 21 of 1993) permits such disclosure;
  - ii. Where disclosure is made at the request or with the consent of the *coverholder* or *the sponsor* as appropriate.

**6. Access to information held**

- 6.1 Coverholders, *sponsors* and their directors, partners and employees have the right of access to the personal data held about them by Lloyd's and its associates, and the right to prevent its use for direct marketing purposes.
- 6.2 Enquiries relating to the use of personal data should be addressed to the Data Protection Officer at the following address:

Data Protection Officer  
Compliance  
Lloyd's of London  
One Lime Street  
London EC3M 7HA  
United Kingdom.