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# Independent Review Guidance and Terms of Reference

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# Disclaimer

This paper is intended to provide additional guidance to that contained within the Lloyd's Minimum Standards, available via [www.lloyds.com](http://www.lloyds.com). Whilst all care has been taken to ensure the accuracy of the information herein, Lloyd's does not accept any responsibility for any errors or omissions. Lloyd's does not accept any responsibility or liability for any loss to any person acting or refraining from action as the result of, but not limited to, any statement, fact, figure, expression of opinion or belief contained in this paper.

# Independent Review Guidance and Terms of Reference

## Background

Lloyd's Minimum Standards (as set out on lloyds.com) require that Managing Agents have effective systems and controls over each managed syndicate's underwriting, ensuring that a representative range of risks underwritten by the syndicate is reviewed and assessed regularly by an appropriately qualified individual who is independent of the underwriter of those risks.

The role of the Independent Reviewer is to provide the Managing Agent's Board and management with regular (at least quarterly) reports to provide independent assurance as to the extent to which the syndicate's strategies and pricing/ underwriting policies are being applied correctly and consistently based on the review of a selection of risks written recently by the underwriters.

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**The Lloyd's Minimum Standards MS2 Underwriting and Controls and MS3 Pricing and Rate Monitoring refer directly to Independent Review as follows -**

**UWC 1.3.4 Managing Agents shall ensure that a representative range of risks underwritten by the Syndicate is reviewed and assessed regularly by an appropriately qualified Independent Reviewer.**

**PRM 3.2.4 Managing Agents shall ensure that terms of reference for Independent Reviewers include a requirement to review pricing and rate monitoring to ensure consistency of approach with stated policies of the syndicate.**

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This guidance document will build on this description, providing good practice for: reviews, reporting and Independent Reviewer Terms of Reference (TOR).

## Who is an Independent Reviewer?

An Independent Reviewer, unlike a peer reviewer, is an individual who is separate from the day to day underwriting of the specific class of business under review. Independent Reviewers therefore can be an internal employee or an externally contracted expert. As a minimum it is expected that an Independent Reviewer will have the necessary skill and experience to conduct a review of underwriting and pricing.

Note – there may be areas and procedures where the Managing Agent/syndicate carries out checks elsewhere within the organization, and in such cases Independent Reviewers would not need to revisit areas already tested.

## Good Practice

The following are indicators of good practice for a robust independent review.

### General

- The independent review process should be owned and directed by the Active Underwriter or Director of Underwriting (or another director of equivalent rank), with full engagement from the Managing Agent's Board.
- The Independent Reviewer should have a terms of reference which specify review criteria, review scope, review frequency, access to information and reporting requirements.
- The Independent Reviewer should have access to all underwriting records, the general underwriting staff involved and the leadership of the Managing Agent, including Directors and Committees.

- To ensure that the background and nature of issues is understood, it is good practice for the Independent Reviewer to meet with the Managing Agent's Board and/or relevant board committee, periodically.

## **Risk Selection**

- Risks can be selected by either the Independent Reviewer or the Managing Agent.
- Risks should be selected using a risk-based approach and should include a randomised element.
- The selection of risks to be reviewed must include all classes and all underwriters.
- An appropriate sample of recent risks must be selected.

## **Regularity**

- Each class of business should be regularly reviewed, ideally at least once a year.
- Reports should be produced regularly, and at least quarterly.
- Independent review and reporting should be completed in a timely manner in accordance with appropriate Terms of Reference.

## **Reports & Content**

To ensure that messages are clearly delivered Independent Reviewers should report to a consistent standard within each Managing Agent, using a pre-determined format (recognising that more than one person may undertake the process).

### **Executive summary**

This should provide a summary of the key findings of the specific review and highlight any issues which the Managing Agent needs be made aware of and/or address.

### **Detailed review findings**

This should provide detail behind the executive summary and identify specific accounts with appropriate recommendations and/or requirements. It may be helpful within this section of the report to divide the detailed findings into the specific key areas of the review as determined within the terms of reference of the Independent Reviewer.

### **Management response to recommendations in this report**

Where relevant, include a summary of the Managing Agent's response to any recommendations or requirements made in this or previous reports. Alternatively, such a document may be provided separately to supplement documentation being provided to the Managing Agent's Board and/or the relevant Board committee.

### **Listing of risks reviewed for this report**

Brief details of each risk reviewed should be included as an appendix to the report, with core underwriting data and conclusions per risk.

### **Recommendations outstanding from previous reports**

Any outstanding recommendations within previous reports should be detailed with information as to when and how these will be addressed.

## Terms of Reference

Lloyd's would expect each Independent Reviewer to produce their own Terms of Reference with due consideration of their specialisations and work with the Managing Agent to incorporate their requirements and the scope and details of the actual review. Lloyd's recognises that individual Managing Agents will want to reflect their own language and presentational style within documentation and may provide their own Terms of Reference, Letter of Appointment or Consultancy Agreement.

Lloyd's recommends that the following be included when constructing a 'Terms of Reference' document for an Independent Reviewer. This is not intended to be an exhaustive list and some suggestions will be more appropriate depending on the particular review and the specific requirements of the Managing Agents.

## Objective

This section confirms the intended purpose of the review role and provides a summary of the key activities and requirements, within the context of the Managing Agent's intention to deliver its agreed plans and to meet Lloyd's Minimum Standards regarding underwriting controls. The process will be expected to provide assurance and advice to underwriting management and the Managing Agent's Board regarding the achievement of syndicate strategies and pricing, and underwriting policies, while also seeking the reviewer's own perspective based upon recent relevant experience.

## Reporting Lines

This section should provide clarity regarding the reporting lines of the Independent Reviewer. Ownership of the process should be explicit and good practice indicates that the independent review process be owned and directed by the Director of Underwriting/ Active Underwriter (or another director of equivalent rank), and should involve personal engagement with the Managing Agent's Board and/or the Board's committee to whom the oversight of underwriting has been delegated. Reports are also likely to be shared with those managing the Risk/ Compliance functions and should include who is responsible for any recommendations.

## Review Scope and Criteria for the Independent Review Activity

This section should identify the review scope and criteria to be applied. It is likely to include the following:

- The extent to which the stated underwriting policies have been applied in the underwriting and recording of each risk reviewed, highlighting deviations.
- The extent to which the stated pricing policies have been applied in the pricing and recording of each risk reviewed, i.e. addressing benchmark price and actual price for each risk reviewed, highlighting deviations and commenting on the validity of benchmark prices where necessary.

For renewal business ensuring the appropriate calculation and accurate recording of risk adjusted price as required within Lloyd's PMDr return.

- Review of pricing and rate monitoring to ensure consistency of approach with stated policies of the syndicate
- The appropriate recording of individual exposures and aggregations in line with the Managing Agent's stated requirements.
- Compliance with the recorded Underwriting Authority for each underwriter reviewed.
- The extent to which the Managing Agent's requirements for contract certainty and Lloyd's requirements regarding tax/ regulatory issues have been applied pre-bind and post-bind (such as contract quality checks including compliance with treaty reinsurance terms and conditions, and ensuring that facultative reinsurance adequately reflects the underlying insurance coverage).
- Taking into account of all of the above, adherence to Managing Agent's strategies, plans, procedures and risk appetite.
- Class of Business/Risk Selection: This section should identify the classes of business to be reviewed (including their Lloyd's risk codes) and the method, frequency and other requirements of risk selection.

## Reporting

This section should identify the frequency and scope of required reporting as well as identifying the Board, Committee and individuals involved in the review. For each risk reviewed the findings should be recorded to a consistent standard and any outstanding issues followed up to reach a satisfactory conclusion. Good practice indicates that a written report should be provided in a predetermined format at least quarterly and used by the Director of Underwriting/ Active Underwriter (or another director of equivalent rank) to assess the extent to which underwriting and pricing is in line with the Managing Agent's strategies and plans. The reported findings should also be shared with the Managing Agent's Board and/or relevant Board committee, with issues recorded in minutes and actions taken as necessary.

## Access/ information to be supplied by the Managing Agent

This section should identify the information and access to be provided to the Independent Reviewer in order that the role can be completed effectively. It is likely to include, but not be limited to, the following:

- Current syndicate business plans/ strategies and performance reports vs. plan (including Lloyd's PMDr feedback and Quarterly Performance Information for the syndicate) to provide context for review regarding expected targets and the syndicate's relative performance to date.
- Underwriting & Pricing policies and procedures.
- Underwriting Authorities.
- Access to all relevant underwriting records and systems.
- Access to underwriting staff and the leadership of the Managing Agent.
- Requirements regarding exposure data capture and aggregations.
- Syndicate risk appetite statement, RDS & other limits as set out in the business plan approval letter.
- Current reinsurance programme details relevant to the portfolio under review.
- Copies of any previous review reports.

## Confidentiality

This section should state that all information acquired is confidential and will not be released without prior clearance from the Managing Agent.

## Timescales

It is important that Managing Agents ensure that Independent Reviewers have adequate time and access to complete the required process. This should include the start date, duration and an estimation of the time needed to carry out the review.

# Appendix 1 Independent Reviewers Terms of Reference - Example

(Synopsis only - see full details in the Guidance above)

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<b>Objective</b>	Summary of <ul style="list-style-type: none"><li>• Intended purpose / reason for review</li><li>• Key activities and requirements</li><li>• Parameters on what is not included in the review, if necessary</li></ul>
<b>Reporting Lines</b>	Clarity regarding <ul style="list-style-type: none"><li>• Who owns and directs the process</li><li>• Who does Independent Reviewer report to during the review – if different</li><li>• For whom or for what Committee is the report ultimately being prepared</li></ul>
<b>Review Scope &amp; Criteria for IR Activity</b>	This section is likely to include the following <ul style="list-style-type: none"><li>• Application of underwriting policies</li><li>• Application of stated pricing policies in the pricing and recording of each risk reviewed</li><li>• Review of pricing and rate monitoring to ensure consistency of approach with stated policies of the syndicate</li><li>• Appropriate recording of individual exposures and aggregations</li><li>• Compliance with the recorded Underwriting Authority</li><li>• Process around application of contract certainty and Lloyd's requirements regarding tax/regulatory issues have been applied</li><li>• pre-bind and post-bind</li><li>• Adherence to strategies, plans, procedures and risk appetite</li></ul>
<b>Class of Business/Risk Selection</b>	<ul style="list-style-type: none"><li>• Class of business including risk codes</li><li>• Method, frequency and other requirements of risk selection</li></ul>
<b>Reporting</b>	<ul style="list-style-type: none"><li>• Frequency and scope of required reporting</li><li>• Identify the Board, Committees and individuals involved in the review</li><li>• Findings should be recorded to a consistent standard</li><li>• Any outstanding issues followed up to conclusion</li><li>• Written report should be provided in a predetermined format</li></ul>
<b>Access/ Information to be supplied by the Managing Agent</b>	In order that the role can be completed effectively, the Independent Reviewer, should have access to: <ul style="list-style-type: none"><li>• all underwriting records</li><li>• the underwriting staff involved</li><li>• current syndicate business plans/ strategies and performance reports vs. plan (including Lloyd's PMDr feedback and Quarterly Performance Information)</li><li>• Underwriting &amp; Pricing policies and procedures</li></ul>

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- Underwriting Authorities
- all relevant underwriting records and systems
- requirements regarding exposure data capture and aggregations
- Syndicate risk appetite statement, RDS & other limits as set but in the business plan approval letter
- current reinsurance programme details relevant to the portfolio under review.

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**Confidentiality**

All information acquired is confidential and will not be released without prior clearance from the Managing Agent.

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**Timescales**

- Start Date
  - Duration
  - Hours Allotted
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