

Catlin Group

Delegated Authority

Key Rules – The basics

Developing a Risk Based Approach

The new audit scope

Charles Rowley – Head of Delegated Authority - Catlin

Contents

- The Basics - What went wrong and how to avoid it!
 - ◆ A Contract problem – How we stop this.
 - ◆ A Coverholder payment problem – Not reported!
 - ◆ A Governance and run off issue – Cost

- How to develop a risk based approach
 - ◆ The start
 - ◆ Developing metrics
 - ◆ A holistic view?

- The New Delegated Authority Audit Scope
 - ◆ Starting use
 - ◆ Communication
 - ◆ Explaining to auditors

Mining Risk - Slip ambiguity

Scene

- Commercial Property Binder
- Limit on Binder EUR 10 million
- Wrote 4 x EUR 10 M limits – Property, BI, Machinery and Stock.
- Same Location

Damage

- 2 x limits claim presented and paid
- CH wrote primary EUR 10M
- E&O claim against CH
- Time to resolve – 4 years.
- E&O recovery approx. EUR 5M

Lessons Learned

- Define – Limits – Any one location.
- Define – Exclusions – Mines...
- Define - TSI limits.
- Require annual special acceptances
- Audit largest risk and agg.
- Review bordereaux closely.



Slip & Contract Review - New and Renewal

- All Binding Authorities new & renewal, Lead or Follow, written by all our offices worldwide, peer reviewed and signed off; with Underwriters being informed of any additional requirements or amendments to ensure Contract Certainty.
- Standard Contracts used based upon 40 years London Market experience:

New - **LMA/CAT 3114 for USA, 3115 for Canada, 3113 for ROW; etc..**
- The initial check:-
 - Limits
 - Classes and business definition
 - Exclusions
 - Territories
 - Wordings
 - TIV
 - ...

H – Premium Checks

Scene

- Premium was being off set by claims
- Excess premium was funding a dispute with previous carrier
- U/w's signed off appropriate bdx
- Audit revealed accounting anomalies

Damage

- Reputational
- Premium lost in excess Euro500k
- Legal costs excess Euro 200k to-date
- Cost of run-off

Lesson learned

- Payment performance procedure updated
- Trust accounts established where possible
- Improve communication with U/W's



Binder Account Management (BAM) report

Purpose

- To monitor the premium expectations against actual received
- As credit control function
- To highlight high loss ratios

Reports

1) Coverholder Profile

- Compares EPI with actual accounted.
- To track EPI expectations and high light where falling short or exceeding expectations so that Underwriters can take action to change the EPI

2) Payment Performance

- This report highlights those months in the last 4 where the premium accounted show as nil or negative.

3) High loss ratio

- This is an exception report traffic light coloured to highlight large loss ratios.

A.T.E. - Run-off / Sub-delegation

Scene

- Growth £ 1m in 1999, £ 5m in 2000, £ 25m in 2001.
- New class – After The Event Legal Expenses.
- Insuring the cost of lawyers fees and expenses if Personal Injury claim lost.
- 300 to 800 solicitors ‘running’ the cases

Damage

- Managing the run off for 20,000 plus ‘PI claims’
£ x millions
- Controlling solicitors whose fees are insured and run the claim?
- Run off time period 3 to 10 years

Lessons Learned

- Alignment of interest.
- Monitor growth of new products
- Be aware of types of sub-delegation
- Consider reserves for run off expenses.
- Access to data for run off.



The Basic Rules

Function	Description
Due Diligence	Internal assessment of Coverholder business plan Consider the quality and reputation of the applicant Evaluate data supplied including licences, financial status etc Evaluate processes to manage risk (including financial crime)
Binding Authority Agreement	Construct and agree terms and conditions Compliance to an often intrusive regulatory regime and legal parameters are adhered to Consider and utilise market templates where appropriate Prepare endorsements and amendments where applicable
Contract Monitoring	Ensure compliance with binding authority Assess and manage data supplied Instruct third party audits in accordance with audit strategy Implement and ensure audit recommendations are complied with
Annual Review	Ensure treating customers fairly agreements are fulfilled Review and ensure continuing regulatory and legal status Review ongoing financial stability Ensure profile meets expectations
Governance	Escalate priority TPA (inc claims) issues and audit recommendations to the Group Delegated Authority Committee (DAC) Continuous monitoring of problem binders Monthly review of BAM including payment performance reports Focal and escalation point for Global Binder Operations including European Operations, Asia , Australia, Canada and North America

Where next? - A Risk Based Approach

A recent McKinsey report titled "Managing third party risk in a changing regulatory environment" May 2013.

- Lists the following key points –
 1. A comprehensive inventory of all third parties
 2. A comprehensive catalogue of specific risks to which the third party can expose the firm.
 3. Rules base due diligence testing
 4. A disciplined governance and escalation framework
 5. A risk based segmentation of the supplier base
 6. Integrating technology and MIS workflow process and tools.

Rules to Risk Assessment

Rules Based	Risk Weighted	Risk and Data driven
GWEPI Financial status Authority Type Last audit performance	+ + Location Trading area Claims Authority Class of business Consumer or SME Volume of policies Complaints numbers Loss Ratio Internet trading Payment performance	+ + Complaint ratio Speed of claim payment Renewal Ratio Decline ratio Customer Satisfaction scores Service Levels Data security rating Rate change Cancellation ratio Credit Rating Rate of local regulatory change

- Assess the risks inherent in each coverholder.
- Develop their risk profile which drives activity.

Next ?



Next - A Holistic approach?



The Coverholder Audit Scope

Update

Initial Analysis

- LMA Survey indicated “**strong interest from the respondents to review and update the scope and to improve the way in which audits are conducted.**”

Key suggestions were:

- Split between Core Modules and Appendices
- Split between General and Contract Specific
- Updates to Underwriting Claims and Compliance sections
- Add guidance on ‘risk rating’ recommendations possibly using RAG str.
- Structure should aid audit coordination.

All 56 managing agents were surveyed, 22 - 40% replied.

18% of those who replied used the audit scope, a further 55% used a variant.

Objectives of the review

- Update the Coverholder Audit Scope to ensure that it is used by many more stakeholders.
- To improve the value of audits
- To minimise duplication.
- To ensure the Audit Scope reflects the changing regulatory environment
- To make the scope flexible to address the different risks faced by widely varying types of Coverholder relationship.
- To bring the scope up to date to meet the challenges of market and technology changes.

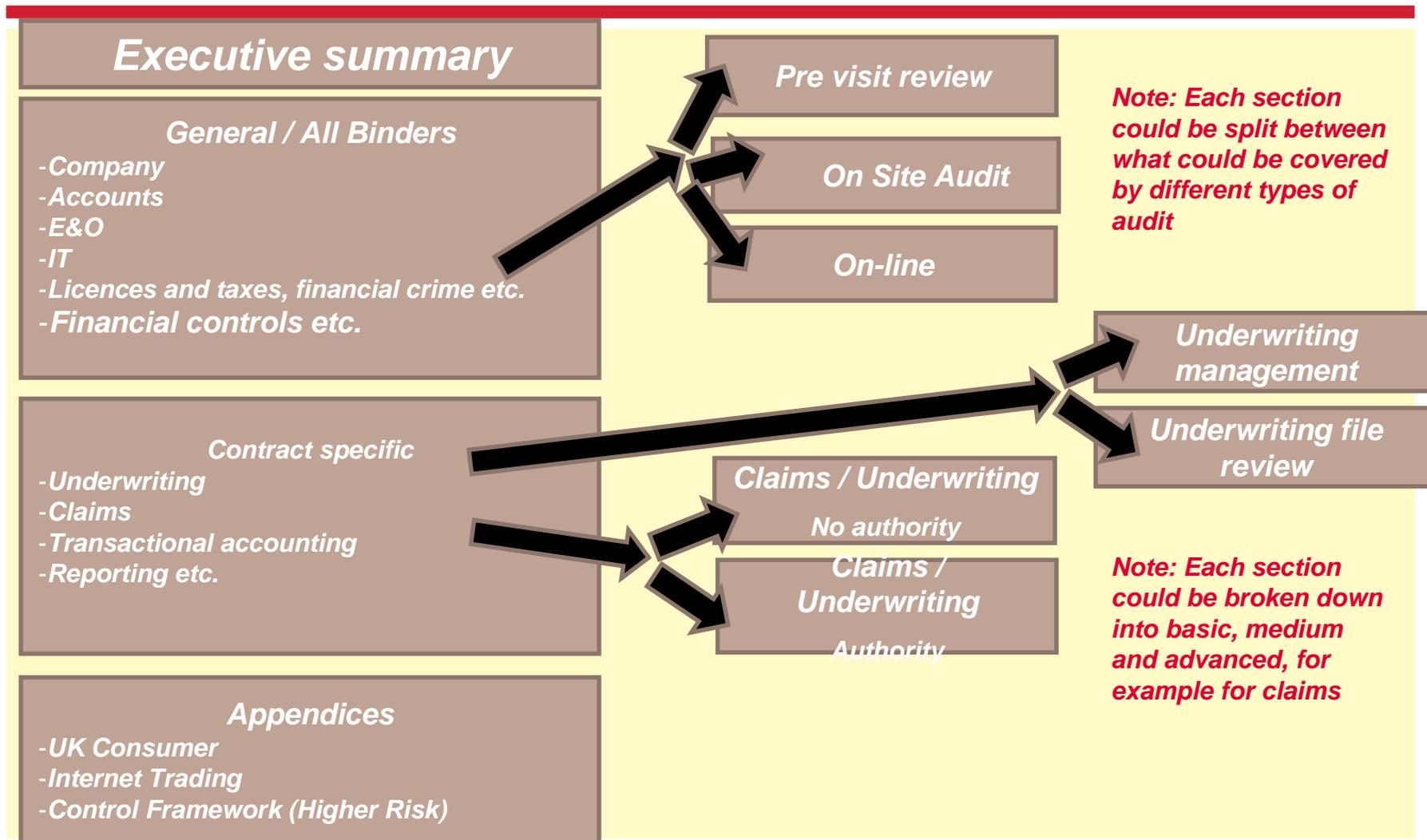
The Steering Group

Member	Organisation	Group	Role
Charles Rowley	Catlin	DUM	Chair
Steve Hart	Ark	DUC	
Patricia Beaton	Canopus	BACG	
Dan Lott	Integro	BOLT	
Ian Whitehead	Bell and Clements		Technology expert
Sarah Thacker	Lloyd's		Project Manager

The Review

- Steering group with members from DUC, DUM, BOLT, BACG and Lloyd's undertook initial review of scope.
- Working groups of subject matter experts from around the market met to review different sections.
- Lloyd's local representatives consulted with local coverholders and auditors, comments received from auditors in Australia and Italy and from Lloyd's offices in Australia, Hong Kong, Italy and Spain.
- UK MGAA and US AAMGA associations consulted.
- With thanks to AAMGA, AON, Ark, Atrium, Axiom, Barbican, Beazley, Bell and Clements, Bowood, Brit, Canopus, Catlin, Chaucer, Cranmore Australia, C&N Insurance, Decus, Gold Seal, Hiscox, Integro, Kiln, Lloyd's local representatives, Lloyd's Delegated Authorities Team, Markel, MGAA, Miller, Mitsui, R&Q, Self Assured Limited, THB, Torus, Towers Watson, Tyser and Willis

A Modular Risk Focussed Structure



Structure – Examples A and B - Selection

Simple Commercial 1 country

Executive summary

General / All Binders

- Company*
- Accounts*
- E&O*
- IT*
- Licences and taxes, financial crime etc.*
- Financial controls etc.*

Contract specific

- Underwriting*
- Claims*
- Transactional accounting*
- Reporting etc.*

Appendices

- UK Consumer*
- Internet Trading*
- Control Framework (Higher Risk)*

Complex Consumer UK and EEA

Executive summary

General / All Binders

- Company*
- Accounts*
- E&O*
- IT*
- Licences and taxes, financial crime etc.*
- Financial controls etc.*

Contract specific

- Underwriting*
- Claims*
- Transactional accounting*
- Reporting etc.*

Appendices

- UK Consumer*
- Internet Trading*
- Control Framework (Higher Risk)*

The new audit Tool kit

- Updates of - Underwriting, Claims, Reporting and Compliance sections
- Inclusion of - UK consumer business, TPAs, Internet Trading, Cross Border Trading, Financial Crime
- Full copies available shortly.
- Consulted with regulators.
- Guidance notes completed

- Out of scope for this delivery: -
 - ◆ Online audit templates
 - ◆ Self certification templates (to be considered alongside annual review process.)

Next Steps

- Issue the Audit Tool kit
- Distribute a communications plan to all relevant stakeholders.
- Provide all stakeholders – Auditors, Brokers, Underwriters and Coverholders with additional information and guidance.

- Next
 - ◆ Review and consider the need for a self certification module.
 - ◆ Review and consider the need for an on-line audit module.
 - ◆ Set up a regular review process.
 - ◆ Update the scope with additional Coordination project feedback.

Summary - New version of audit scope

The review process

- Cross market steering group:- Chair - Charles Rowley (DUM/Catlin); Steve Hart (DUC/Ark); Patricia Beaton (BACG/Canopus); Dan Lott (BOLT/Integro); Ian Whitehead (Bell and Clements) and Sarah Thacker (Lloyd's)
- Working Groups of experts focused on specific topics; and comments were also received from managing agents, brokers, coverholders, auditors and Lloyd's country reps
- With thanks to AAMGA, AON, Ark, Atrium, Axiom, Barbican, Beazley, Bell and Clements, Bowood, Brit, Canopus, Catlin, Chaucer, Cranmore Australia, C&N Insurance, Decus, Gold Seal, Hiscox, Integro, Kiln, Lloyd's local representatives, Lloyd's Delegated Authorities Team, Markel, MGAA, Miller, Mitsui, R&Q, Self Assured Limited, THB, Torus, Towers Watson, Tyser and Willis

Current proposed changes

- Significant updates to underwriting, claims, reporting and compliance sections
- Inclusion of requirements for UK consumer business, TPAs, Internet trading, Data Control Framework and Financial Crime
- Full details of changes will be advised with new draft
- Guidance notes under development

Current plan

- Currently being drafted
- Draft to be made available late October/November
- Consultation on draft during November
- Final version end of the year or early 2014

- Any Questions?

