

Coverholder Auditing - a UK perspective

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1. Balancing compliance with risk reduction
2. Audit check lists
3. Practical tips and techniques
4. Reports in – what next?



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1. Balancing compliance with risk reduction:

What is the Coverholder's (C/H) knowledge & implementation of:

- Treating Customers Fairly – more later
- Anti Money Laundering
- London Market Principles
- Crime Policies
- Governmental sanctions
- Internal Escalation processes
- UK Bribery Act 2010



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COMPLIANCE:

TCF – FSA guidelines:

- Do the actions and behaviours of the C/H fit in with your principal's culture?
- How does the culture of the C/H compare with other C/H's that you have seen?
- Does the C/H act on behalf of multiple principals, how do they manage any variances in their requirements?
- Would you recommend the C/H to family and friends who may have little insurance knowledge?



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RISK:

TCF - Complaints – Possible audit scope questions:

- Detail C/H's complaints handling procedures
- Detail history of any complaints
- Does the C/H have a TCF programme in place & is it documented?
- Is TCF training provided to staff?
- Provide a copy of MI issued to senior management



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TCF – Complaints – Indicators of customer satisfaction:

- Retention rates; lapse rates; cancellation rates
- Claims payment patterns and rejected claims
- Details of refunds paid
- Details of administration fees
- Conversion of new quotes



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Data Protection:

- Does the coverholder comply with the UK Data Protection Act 1998?
- Data storage / disclosure / retention / transmission
- FSA fined Nationwide £980,000 (May 2007)
- Norwich Union fined £1.26m (December 2007)
- Reputational risk



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2. Audit check lists:

- Multiple Managing Agents (MA) – coordinated approach
- Obtain copy of the Binding Authority Agreement (BAA) & Endts.
- Cross reference if more than one scope of work
- Submit Pre-audit questionnaire & any document requests
- Review risk and claims bordereaux
- Previous recommendations & last audit report
- Discuss concerns with DUA/U'Wtr. Adapt scope, if necessary



3. Practical tips and techniques:

- Select appropriate auditor
- Schedule audit date
- Review any local regulations & Crystal
- Multiple carriers – compare coverage & loss ratios
- File sample size
- Data mining techniques



Frequently encountered problems:

- Suspicious coverholder – wary of audits – reassurance needed
- Hostile attitude – multiple reviews / waste of time etc
- Insufficient access to records
 - Electronic (unfamiliar IT systems) - Bulky paper files
- Key personnel not available
- Failure to complete PAQ
- Insufficient time on site



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During / after the audit:

- Call whilst on site, if necessary
- Wrap Up meeting / issues arising / coverholder feedback
- Chase up post audit document requests
- Exec Summary & report within 5 & 28 days.



4. Reports in – what next?

- Recommendations - meet underwriter or DUA Manager, if necessary
- Possible Lloyd's investigation
- More intensive & focused audit
- Knowledge > informed decisions > savings