



DELEGATED UNDERWRITING AT LLOYD'S

Peter Montanaro, Head of Delegated Authorities

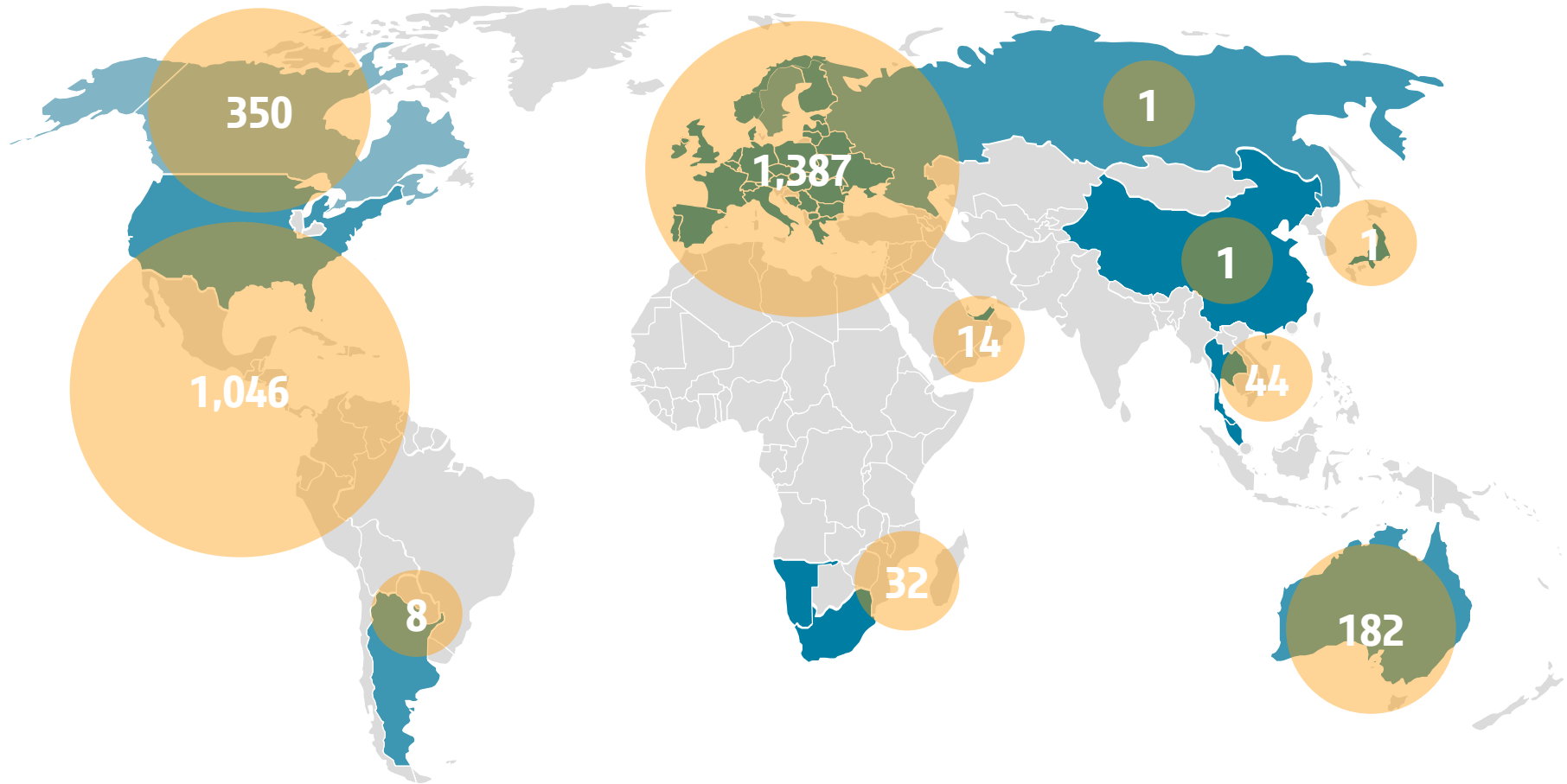
6 FEBRUARY 2014



DELEGATED UNDERWRITING AT LLOYD'S



GLOBAL DISTRIBUTION OF COVERHOLDERS @ 1/1/14



CHANGES SINCE LAST YEAR - IMMEDIATE

Coverholder sponsorship

Streamlined applications

Revised Branch approval process

New approval letter

Auditors granted access to Atlas

Joint working group set up comprising representatives from DUC and BOLT.

CHANGES SINCE LAST YEAR - ONGOING

Audit scope

Audit coordination

Improvements to Atlas

Central provision of some compliance functions.

**DELEGATED UNDERWRITING AT
LLOYD'S**

PRIORITIES FOR 2014



2014 PRIORITIES

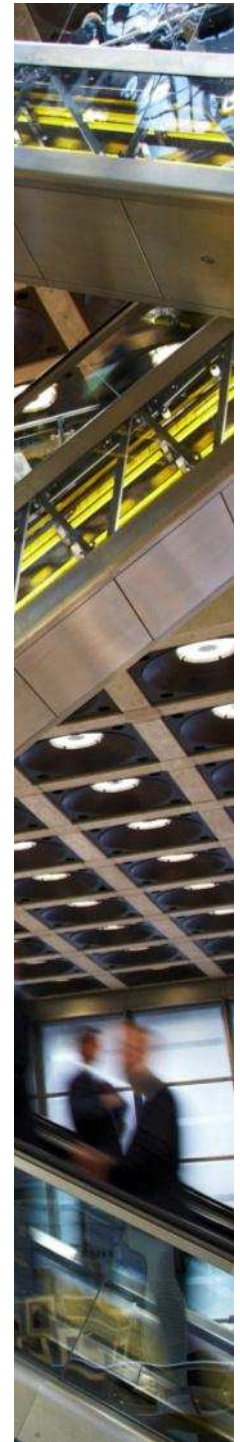
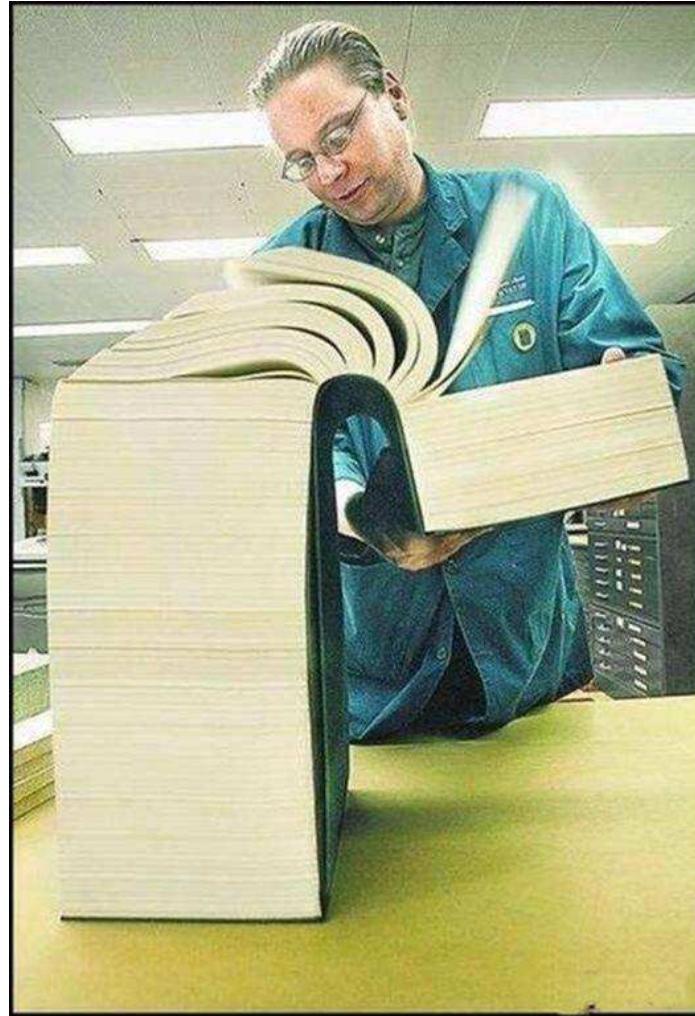
- ▶ Conduct Risk
 - Work with market to ensure that 'consumer business' is managed appropriately.
 - Upgrade Atlas to accommodate additional coverholder population and improve system performance.
- ▶ Straight through processing
 - Roll out of data standards
 - Review of available solutions and Lloyd's options.
- ▶ Data
 - Analysis of DA performance
 - Tax and regulatory "Control Framework"
- ▶ Audits
 - Scope
 - Coordination
 - System solution
- ▶ Any requests ?



OVERSIGHT OF DELEGATED AUTHORITY BUSINESS AT LLOYD'S



KEEPING IT SIMPLE....



QUESTIONS YOU WON'T FIND ON THE APPLICATION FORM

- ▶ Why are you sponsoring an EC3 coverholder when you have an underwriter on the box writing the same class of business ?
- ▶ If you don't have the expertise to write this business, how can you supervise the coverholder ?
- ▶ Why does this company need to be approved ?
- ▶ Introduce a fifth minimum standard for delegated underwriting focussed on conduct risk

THE DA CONDUCT PROJECT

Objective: To improve the oversight and management of conduct risk focussed on consumer business in delegated underwriting.

Proposals:

- ▶ Remove the restricted coverholder category
- ▶ Introduce a new level of underwriting authority 'no discretion'
- ▶ Introduce enhanced due diligence for consumer product binding authorities
- ▶ Introduce a fifth minimum standard for delegated underwriting focussed on conduct risk

CONSULTATION

- ▶ Working Group
- ▶ DUC
- ▶ BOLT
- ▶ RegCom

Also shared with

- ▶ DUM
- ▶ Joint Motor Underwriting Committee
- ▶ FCA

RESTRICTED COVERHOLDERS

Proposal:

- ▶ That the restricted coverholder category is removed
- ▶ Existing restricted coverholders become approved coverholders
- ▶ To achieve this Council will be invited to amend the Intermediaries Byelaw

Reasons:

- ▶ Current levels of Lloyd's oversight need to be increased in line with the increased regulatory focus on conduct risk
- ▶ Lloyd's wants to ensure that Managing Agents are managing their relationships with consumers to an appropriate standard

RESTRICTED COVERHOLDERS

Future coverholder applicants who would have been restricted coverholders

- ▶ Will have to apply to be a coverholder on Atlas following the usual application process
- ▶ Will be able to utilise the new 'no discretion' level of underwriting authority (or prior submit)

RESTRICTED COVERHOLDERS

Existing restricted coverholders:

- ▶ Will be grandfathered into Atlas
- ▶ Data collection in January to ensure only current information only is transferred
- ▶ Will be given the new 'no discretion' level of authority
- ▶ Will have one year to complete their annual compliance and update Atlas details
- ▶ Will have one year to sign the Lloyd's Undertaking
- ▶ Will be subject to all the same rules as other approved coverholders

NO DISCRETION COVERHOLDERS

The coverholder may only be given underwriting authority via a comprehensive rating matrix. These arrangements must not give the coverholder discretion in calculating the premium or making adjustments to it, other than minimal rounding up or down.

- ▶ Reflects current limits of authority of restricted coverholders
- ▶ Will be available for all coverholder applicants going forward
- ▶ Applicants will have to complete a full application on Atlas. However, applications will be assessed with regard to the low underwriting risk presented by 'no discretion' coverholders.

CONSUMER PRODUCT BINDING AUTHORITIES (CPB)

Any binding authority under which the end policyholder is a consumer.

For the purposes of the CPB regime Lloyd's considers the following to be consumers:

- ▶ Private individuals
- ▶ Small businesses, commonly referred to as micro-enterprises, or other small non-business organisations
- ▶ Any other entity that would be considered a consumer by the relevant regulatory authority in the local territory

IDENTIFYING A CPB

- ▶ It is the Managing Agent's responsibility to identify their CPBs
- ▶ Reasonable judgment on whether the product is one offered to small businesses
- ▶ Within Atlas there will be a question in the class of business tab regarding whether the class is being requested in relation to an intended CPB
- ▶ Within BAR there will be a question asking whether the binding authority is a CPB

THE CPB QUESTIONNAIRE

- ▶ CPBs require enhanced due diligence focussed on conduct risk
- ▶ CPB Questionnaire is a template to evidence due diligence
- ▶ It is not mandatory to use the Lloyd's template. A Managing Agent's alternative, but suitable, process may be used that can evidence the due diligence.
- ▶ Lloyd's will require evidence of due diligence with new applications or class of business requests which relate to CPBs
- ▶ The most important thing is that consideration of conduct risk can be evidenced on an ongoing basis

COMPLETING THE CPB QUESTIONNAIRE

- ▶ The Managing Agent must complete the form – not the broker and not the coverholder
- ▶ Consider the level of conduct risk posed by the business
- ▶ We expect that the level of detail in responses will vary based on degree of risk and jurisdiction
- ▶ Key points we want to see:
 - What steps has the MA taken to assess the conduct risk ?
 - What did those steps demonstrate with regard to level and management of conduct risk ?
 - How did that satisfy the MA that conduct risk is being appropriately managed ?

A PROPORTIONATE RESPONSE



RED RISK

- ▶ Managing Agents should have a clear view on what they consider to be red/green risk with supporting rationale
- ▶ Red risk is likely to include at least all UK CPBs, mass marketed retail products and products sold as add-ons
- ▶ For red risk CPBs complete answers to all questions in the CPB Questionnaire will be expected
- ▶ For UK CPBs answers should evidence, amongst other things:
 - An understanding of how the coverholder is meeting its TCF obligations
 - Confirmation that the coverholder is aware of and compliant with the Lloyd's Complaints Code

AMBER RISK

- ▶ Expect to see evidence of appropriate due diligence given the level of risk and jurisdiction
- ▶ Reasonable explanation of how the Managing Agent has satisfied itself that the conduct risk is being managed
- ▶ For example:
 - Where there are local consumer regulations how the Managing Agent has satisfied itself of compliance with all such regulations (this would include any interaction with the local Lloyd's Representative)
 - Where a new product is being distributed information on the approval process and testing of that product.

GREEN RISK

- ▶ Lloyd's will not expect individual answers to Questionnaire questions
- ▶ We will require a short statement explaining why the Managing Agent is satisfied that the conduct risk does not require further due diligence
- ▶ In some circumstances one statement will be applicable to a book of binding authorities offering the same product

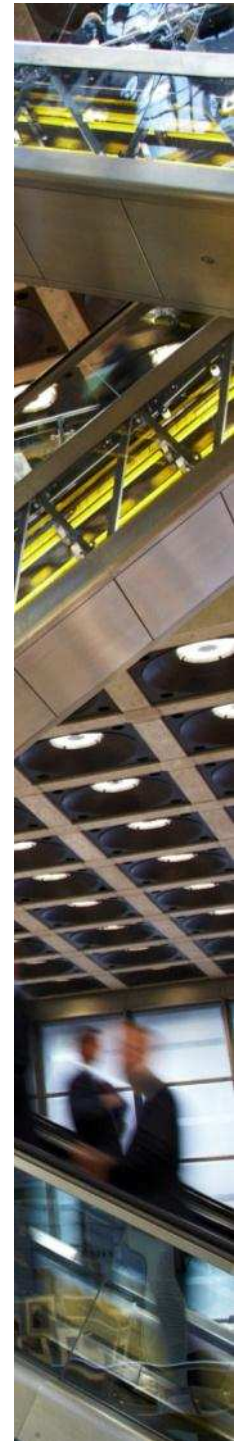
COVERHOLDER AUDIT INITIATIVES



AUDIT SCOPE

BACKGROUND

- ▶ Current scope was produced in March 2010
- ▶ A new version was needed to
 - Reflect changes in regulatory environment
 - Address challenges of changes to market systems and processes
 - Ensure use by more stakeholders
- ▶ New version created by market stakeholders working with Lloyd's

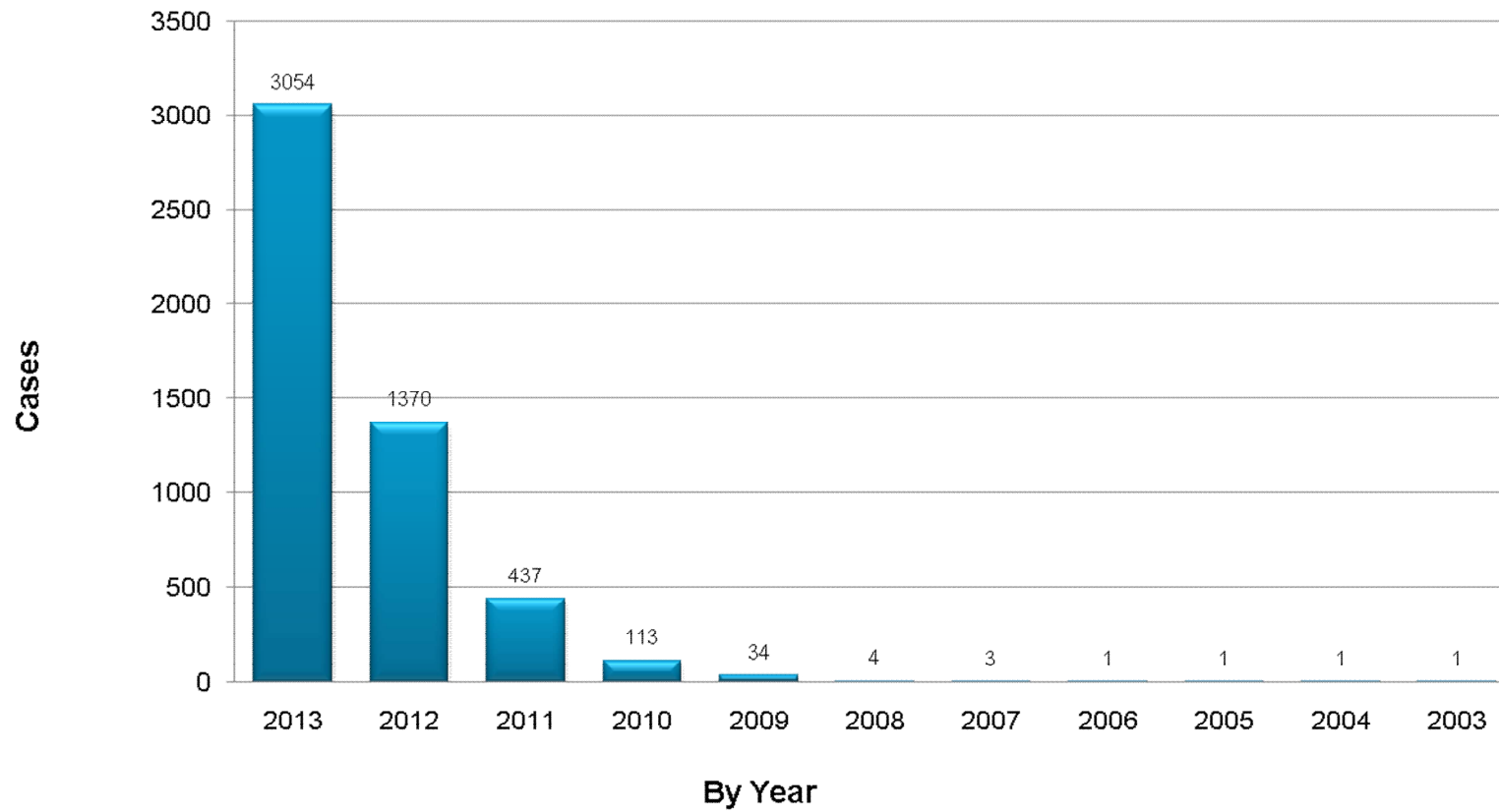


NEW VERSION OF THE AUDIT SCOPE

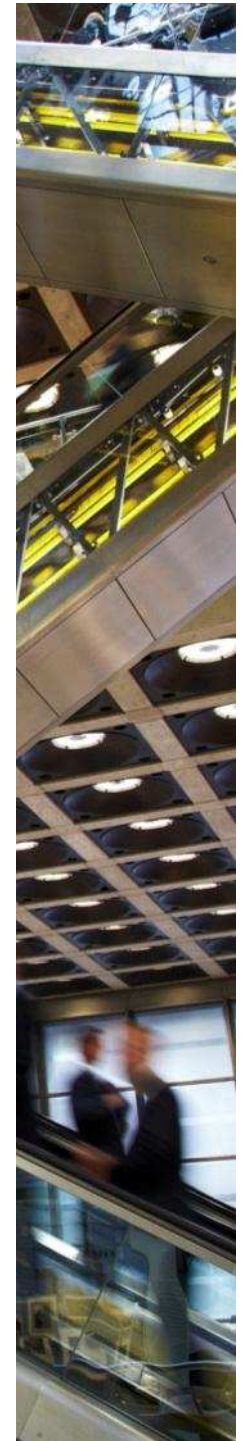
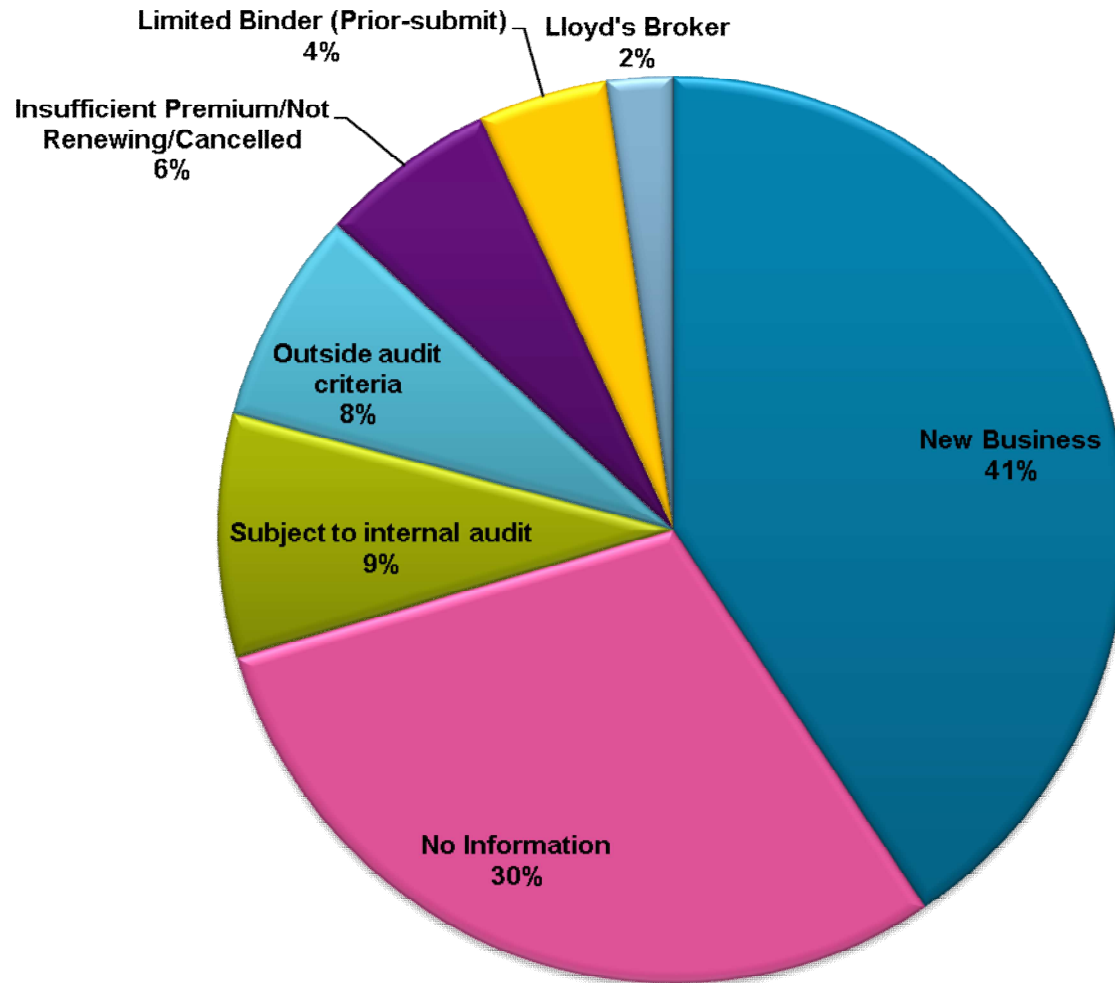
- ▶ Whole new look and feel
- ▶ Includes an order sheet for managing agents to select parts of audit want covered
- ▶ Everything which is in Atlas is together in one section, optional for this to be covered again in the audit
- ▶ General section on the coverholder includes company, accounts, IT, business continuity and compliance. Includes questions on financial crime and capturing tax and regulatory information.
- ▶ Contract specific section includes underwriting, claims, transactional accounting and reporting
- ▶ Optional appendices including internet trading and consumer



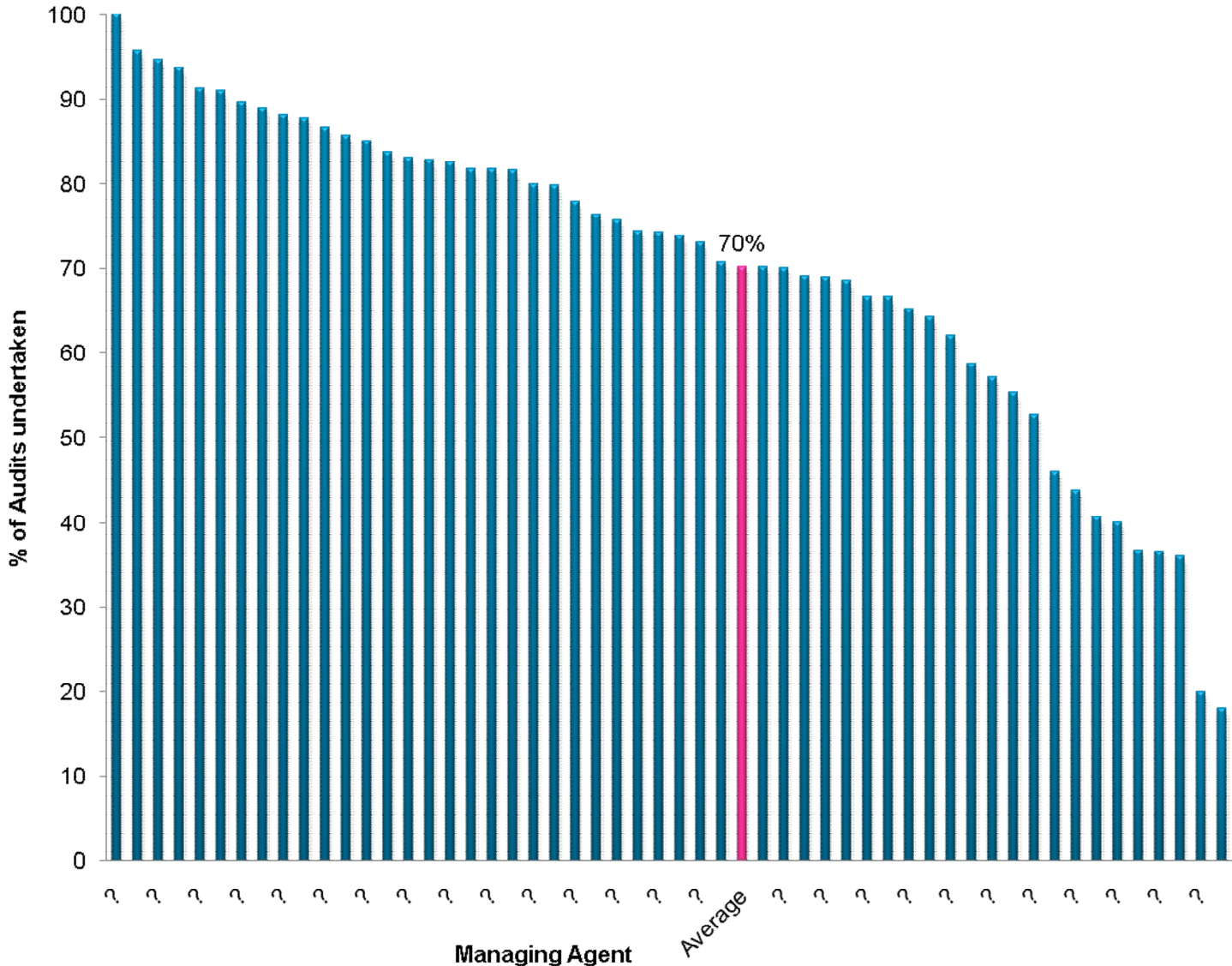
WHEN WAS THE LAST TIME YOU AUDITED YOUR COVERHOLDER?



WHY HAS THIS COVERHOLDER NOT BEEN AUDITED?



% OF AUDITS UNDERTAKEN IN THE LAST 3 YEARS



% OF AUDITS UNDERTAKEN IN THE LAST 3 YEARS (NOT INC. NEW BUSINESS)

