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Delegated Authority at Lloyd's

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By the end of this presentation, you'll be able to:

- Define Delegated Authority and Coverholder
- Identify the different types of Delegated underwriting
- Describe the process of becoming a Coverholder, the benefits of this, and how they are regulated and renumerated
- Identify pitfalls faced by Coverholders
- Explain the process by which Coverholders are audited

Delegated Authority: what it is and why we have it

What is Delegated Authority (DA)?

An arrangement whereby an insurer authorises another party to underwrite (enter contracts of insurance) on their behalf. It is an agency agreement.

Other authority can also be delegated (such as claims handling) and, collectively, these are all referred to as Delegated Authorities (DA).

Why have Delegated Authorities?

Around 40% of Lloyd's income is written through Delegated Authorities.

Provides access to business that otherwise would not be seen or could not be written economically at the box.

- High volume, low value
- Territorial access
- Access to experience

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Different types of Delegated Underwriting

DA to intermediaries		DA to Insurers	
Coverholder / Managing general agent (MGA)	Service company	Line slip	Consortium

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Understanding Coverholders

Coverholder - Lloyd's-specific term for a locally regulated, insurance intermediary which has been **delegated authority to act on behalf of a Lloyd's managing agent**

Vital for distribution, enabling Lloyd's managing agents to operate in a region or country, to compete with local insurers and access small and medium sized business efficiently

Can also be a company or partnership **unrelated to a Lloyd's managing agent** (e.g. a local independent broker) or a company owned by the managing agent, known as a **"service company"**

Overseen by the **Lloyd's Delegated Authorities Oversight** team as part of its statutory role in managing and supervising the Lloyd's market

Bound by a **Binding Authority Agreement (BAA),** which sets out the terms and restrictions of the authority delegated to the Coverholder

Don't take on the risk themselves, but all Lloyd's coverholder business is backed by **Lloyd's Chain of Security**

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Benefits of becoming a Coverholder

Brand recognition

Local authority with global backing

Access to specialist products

Collaboration

Global network

Becoming a Coverholder

1

Secure Sponsorship

Must be sponsored by a Managing Agent and there can be a Lloyd's broker supporting. Sponsors support the application and provide key guidance throughout the process.

2

Submit Application via ATLAS

The Managing Agent initiates the application on Lloyd's ATLAS platform. Applicants must supply business plans, financial information, and demonstrate robust operational capabilities.

3

Due Diligence

The Managing Agent carries out a comprehensive due diligence process on the information provided and the applicant as an entity.

4

Proposal Discussion

Applicants discuss their proposal with the Managing Agent and the local Lloyd's Country Manager. When both have agreed and due diligence is complete, the application is submitted to Lloyd's.

5

Approval and registration

Applicants sign a Coverholder Undertaking to meet Lloyd's standards. After due diligence and approval, they become Lloyd's Coverholders.

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Becoming a Coverholder: key information

How long does it take?

The Lloyd's Delegated Authorities team process Coverholder applications within a few days. Applications needing referrals might take longer, with the managing agent being kept up to date throughout the process. The timeline may also vary due to the finalising of due diligence by the managing agent.

What are the initial steps?

The first step is to find a sponsoring Managing Agent. Prospective applicants can seek out a sponsoring Managing Agent directly or they can seek the help of a broker to facilitate this process.

What are the reporting requirements?

Lloyd's Coverholder Reporting Standards state the core set of regulatory, tax, premiums and claims information Coverholders and DCAs are required to report into the Lloyd's market for all classes of business in all territories.

Duration of Coverholder approval

Coverholder approval lasts as long as there is business being placed, with a generous lapsing time frame.

There is a lapsing process Lloyd's follows whereby Coverholders will always be communicated with before their Coverholder entity is de-registered.

This provides Coverholders, brokers and managing agents the opportunity to request reinstatement.

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Expanding underwriting authority and capacity

Increasing underwriting parameters

A Coverholder will be able to increase their underwriting parameters by their existing or new capacity submitting registration requests to Lloyd’s via the ATLAS system. This process requires a signed attestation from the Managing Agent, confirming that the proposal aligns with Lloyd’s guidelines and best practice.

Adding additional parameters

Following Coverholder approval with one managing agent, additional underwriting capacity can be obtained by submitting a new lead relationship request to Lloyd’s for review and approval, accompanied by a signed attestation.

If a new class of business is also required, this will need to be submitted by the new capacity once their lead relationship request has been approved.

Binding authority duration options longer than one year

There is the option to have a multi-year binding authority which can last up to 3 years long.

If your capacity is open to it, Lloyd's also offers the opportunity to have continuous binding authorities that run continuously until termination.

Remuneration of coverholders

Each binding authority document has a section outlining Coverholder commission

This means that a percentage of each risk written will be taken as commission and paid to the Coverholder

There is also the option to add profit commission where appropriate as well

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Common pitfalls Coverholders face

Breaching the binding authority

The lead managing agent may address an issue, notify Lloyd's, and may pursue a claim against the Coverholder's professional indemnity. Such actions could strain relationships and result in termination or non-renewal of the binding authority.

Commercial performance

A Managing Agent can remove underwriting authority if there is a commercial decision to exit the binding authority. They must follow the termination instructions within the binding authority and provide the required notice period to allow for alternative capacity to be obtained accordingly. The same applies for non-renewal too.

Audit purpose and process for Coverholders and DCA

Lloyd's is dedicated to promoting both **high standards and consistency** in the audit of its Coverholders and DCAs. The Lloyd's Audit team oversees on average **800 Coverholder and DCA coordinated audits** annually.

Purpose and approach

- To ensure a consistent approach, Lloyd's has worked with the market and the LMA to produce a common LMA Coverholder and DCA audit scope.
- A risk-based approach to auditing helps the managing agent ensure that the Coverholder is entering into contracts of insurance in accordance with the binding authority agreement and that the DCA is adjusting claims on behalf of the managing agent in accordance with their Service Agreement.

Onsite review and benefits

- An onsite visit by an audit specialist will help to ensure that company policies and procedures provided by the Coverholder / DCA are being adhered to and that the terms of the binding authority agreement are being complied with.
- Audits will also identify areas where the Coverholder / DCA can reduce risk or improve efficiency.

Lloyd’s coordinated audits

Purpose

When there are two or more managing agents with a lead binding authority agreement, Lloyd’s facilitates the coordination of audits on their behalf to minimise the burden of multiple annual audits for those Coverholders and DCAs with multiple Lloyd's leads.

Process

The Lloyd’s coordinated process is automated via an online platform called Delegated Audit Manager (DAM).

Scale

The Lloyd’s Audit team oversees on average 800 Coverholder and DCA coordinated audits annually.

Delegated Audit Manager (DAM)

Delegated Audit Manager (DAM) supports coordinated audit facilitation by carrying out the following functions:

- **Auditor Registration** and RFI maintenance
- **Annual Audit Schedule** – markets select which Coverholders and DCA they want audited, their auditor preference and quarter preference
- **Quarterly Audit Scoping** – allowing markets to select which binding authorities they require auditing and confirm the sections of the LMA audit scope they require
- **Audit Quoting** – auditors are able to send the quotes to the Managing Agent through the system
- **Audit Remediation** – post audit, Auditors upload the recommendations into DAM. The managing agents confirm which recommendations they wish to take forward. DAM sends the recommendations to the Coverholder/DCA for actioning

The LMA Audit Scope and frequency of the audit (1/2)

The LMA Audit Scope facilitates the coordination of audits, enabling multiple Managing Agents to audit the same Coverholder / DCA at the same time, avoiding duplication and multiple audits. The LMA Audit Scope is provided by the Managing Agent's to the auditor via DAM at specific times throughout the year as outlined below:

A new Coverholder is audited in the first year and Managing Agent's should join the scheduled Lloyd's coordinated audit to do this.

Thereafter, the frequency will depend on numerous factors, including:

- class of business
- type of insurance product
- customer type
- premium income
- level of authority delegated
- ongoing compliance of the Coverholder with the terms of the binding authority agreement including the provision of risk, premium and claims bordereaux

Similar rules can be applied to DCA audits

The LMA Audit Scope and frequency of the audit (2/2)

The LMA Audit Scope is embedded in DAM which provides a template for audit requirements for Managing Agents to pick and choose which sections of the scope they would like to use for each audit.

Managing Agents may also have their own specific requirements and these can be selected under the be-spoke scope function in DAM.

Audit completion: what comes next

Auditor has a wrap up meeting with the Coverholder / DCA to discuss their initial findings and provide an opportunity to see if there are any immediate solutions.

Auditor will provide a report to the managing agent detailing their findings and audit recommendations will be entered in DAM under the audit assignment.

Managing agents will provide feedback, recommendations and timescales for completion via the DAM task. If the audit was coordinated on behalf of several managing agents, Lloyd's Audit team will consolidate the general recommendations to minimise duplication and will issue final Coverholder / DCA Audit Actions via DAM.

The Coverholder / DCA will then be expected to provide a response and any supporting evidence to the managing agent/s via their DAM portals to enable them to close the recommendations.