

LLOYD'S OF LONDON CENTRAL REGISTER						
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FROM: The Secretary to Lloyd's Disciplinary Board
LOCATION: 58/SE1
EXTENSION: 5530
DATE: 22 December 1998
REFERENCE: 123/98
SUBJECT: CE HEATH (INSURANCE BROKING) LIMITED

SUBJECT AREA(S): Disciplinary Proceedings
ATTACHMENTS: None
ACTION POINTS: For information only
DEADLINE: None

CE Heath (Insurance Broking) Limited ("CE Heath"), a Lloyd's broker now known as Heath Insurance Broking Limited, has admitted two charges of misconduct, and has been ordered to pay a fine of £30,000 and costs of £3,000. The misconduct relates to CE Heath failing to control properly its Dubai office.

1. CE Heath established its Dubai branch in 1994 and opened a total of 10 bank accounts with 4 different banks. None of these accounts was established by the Dubai office as an Insurance Broking Account (IBA). However, between 1994/1995 and 1997/1998 these accounts were used to handle insurance transaction monies. The relevant accounts received £3-4 million of insurance transaction monies each year and the average month end insurance transaction balance held in the accounts was between £100,000 and £175,000.

CE Heath conducted a compliance review in May 1997 and, as a result, 8 of these 10 accounts were identified as not being IBAs. Upon identification, CE Heath immediately rectified the position, but did not report this to Lloyd's for some 6 months.

CE Heath then undertook, as a result of its concerns, a further compliance review of the Dubai office around May 1998. Following that review CE Heath identified the two further accounts which were not IBAs and immediately rectified those accounts.

2. During the 1998 compliance review CE Heath also reported to Lloyd's that in March 1995 the then General Manager of the Dubai office had successfully negotiated the settlement of a claim on behalf of one of the Dubai office's clients. In July 1995, the full amount of the claim (approximately £30,000) was transferred to the Dubai office

account by Insurers' Agents.

It was not until August 1996 that the General Manager reverted to the client and misrepresented to the client that underwriters would only make an "ex gratia payment" of Dh 35,000 (about £10,000). The client eventually accepted this "ex gratia payment". Over a year later, in November 1997, CE Heath discovered what had occurred and paid over the remainder of the claim to the client. The General Manager has since been dismissed.

CE Heath therefore failed to realise or have any adequate systems in place to realise that between July 1995 and November 1997 the Dubai branch account was credited with the settlement of the claim, but that the funds had not been forwarded to the client.

3. The compliance review of 1998 also identified a number of instances of premiums being charged by the Dubai office to the original insured, which were greater than the gross premiums charged or indicated by the London insurers involved.

C E Heath conducted a detailed review, and grossing up totalling approximately \$40,000 was identified in respect of 12 clients with individual amounts ranging from \$100 to \$6,875. CE Heath accept that they failed to have in place any adequate systems to ensure that premiums were not subsequently inflated by the Dubai office without the clients' knowledge or consent.

CE Heath accepts that there was a failure to control properly the operation of its Dubai office. CE Heath has admitted the charge of failing to take reasonable steps in connection with the business of insurance to avoid risk of harm to Lloyd's policyholders, the Society, its members, or those doing business at Lloyd's (paragraph 3(e) of the Misconduct and Penalties Byelaw (No. 30 of 1996)). CE Heath also admitted failing to report promptly a matter of potential misconduct.

In assessing the penalty, credit was given for the following:

- i) C E Heath reported all of these events voluntarily;
- ii) At all times CE Heath maintained an IBA solvency surplus even without the Dubai accounts;
- iii) CE Heath has undertaken to compensate any clients where grossing up is found to have occurred; and
- iv) New staff are now in place to ensure compliance standards are maintained.

This case was determined by the Lloyd's Disciplinary Board and its decision gives effect to a settlement of these proceedings agreed between CE Heath and the Council of Lloyd's.

This bulletin is being sent to all underwriting agents, Lloyd's advisors, Lloyd's brokers, corporate members, market associations, the ALM and recognised accountants.

A.P. Barber
Secretary, Lloyd's Disciplinary Board