

GUIDANCE NOTES APPLYING TO:

- LMA3018 UNITED STATES OF AMERICA NON-MARINE BINDING AUTHORITY AGREEMENT (“the USA BA”)
 - LMA3019 NON-MARINE BINDING AUTHORITY AGREEMENT (EXCLUDING U.S.A. & CANADA DOMICILED COVERHOLDERS) (“the NM BA”)
 - LMA3020 CANADA NON-MARINE BINDING AUTHORITY AGREEMENT (“the CAN BA”)
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Introduction

The Lloyd’s Market Association (“LMA”) has issued an updated suite of **Model Binding Authority Agreements** (“model agreements”), dated 20 July 2006, with the aim of providing comprehensive pro-forma binding authority contracts in line with current regulatory requirements and perceived good practice (available at www.the-lma.com or www.lloyds.com/coverholders). It is important to note that:

- the model agreements have been produced by a working party of Underwriters and Lloyd’s Brokers, and incorporate legal input from a variety of sources. While issued as model agreements by the LMA, it should be recognised that these documents, as with all LMA documents, are purely illustrative and are established and distributed for the guidance of members. Members are therefore free to use their own separate agreements;
- the exact format and substantive content of any individual binding authority contract will depend on the purpose for which that contract is established and is a matter for negotiation between the parties concerned, subject to the requirements of the Delegated Underwriting Byelaw (No. 1 of 2004).

These **Guidance Notes** are intended to assist Underwriters and Brokers when using the model agreements, by providing:

- an overview of relevant requirements and guidance, the interaction of the slip and the model agreements and general drafting guidance (see below);
- guidance on each specific section where it is consistent across the model agreements (see the table below); and
- additional/replacement territorial guidance relevant to USA and Canada model agreements (see appendices).

For the purposes of these guidance notes any reference to “territory(ies)” shall include country(ies) or province(s) or state(s).

Interaction of the Slip and Model Agreements

The model agreements have been designed so that all ‘variables’ are dealt with in the Market Reform Slip Schedule, thus maintaining the integrity of the model agreements. This is intended to speed up placement and finalisation of the binding authority (“BA”), and help achieve contract certainty prior to inception which is for the benefit of all parties to the contract.

General Drafting Guidance

These model agreements have been approved and issued by the LMA, in respect of: Non-Marine (excluding USA & Canada domiciled coverholders), USA and Canada business. It is important that the appropriate model agreement is selected to match the territory or classes of business written.

All the model agreements to which these guidance notes apply are worded, by default, to cater for the granting of a registered binding authority to a coverholder, issuing Lloyd's certificates (or policies in respect of the CAN BA) and underwritten by Lloyd's syndicates only.

Relevant requirements and guidance

All binding authority practitioners should familiarise themselves with the following key documents which set out the prudent requirements necessary in order to ensure that the risks associated with delegated underwriting are properly managed:

- Lloyd's Delegated Underwriting Byelaw (No. 1 of 2004) ("the DUB") and the Requirements made under the DUB: - available at www.lloyds.com/coverholders
- Lloyd's Code of Practice for Delegated Underwriting Arrangements ("the Code") - which prescribes the content of a binding authority and sets out what is regarded by Lloyd's to be good practice: - available at www.lloyds.com/coverholders
- Market Reform slip templates and endorsement procedures for use with the model agreements: - available at www.marketreform.co.uk/

Other relevant guidance includes:

- Market Reform Slip Completion Guidance, with supporting Market Reform Checklist: - available at www.marketreform.co.uk/
- Contract Certainty Code of Practice*, with Additional Guidance for Binding Authorities: - available at www.marketreform.co.uk/
- Lloyd's QA Tool: - the minimum contract standards to meet Lloyd's regulatory, fiscal and contract certainty requirements: - available at www.lloyds.com/qatool
- Lloyd's guidance on international legislative and reporting requirements for binding authorities: - available at www.lloyds.com [Refer to Lloyd's Bulletin Y3608, issued 1 August 2005 or any replacement thereof]

All of these documents are also available through www.lloyds.com/coverholders

*Note:

The Contract Certainty Binding Authority Guidance requires Underwriters to be able to demonstrate that insurance documents have been issued within 30 days (or 5 days for UK retail). The model agreements clarify that this applies to certificate issuance and further qualifies such period with "*or in accordance with local law*". Coverholders, therefore, will need to demonstrate to Underwriters that certificates have been issued within such period.

To this end, Coverholders may be required to issue a quarterly (as a minimum) report showing by volume and exception the number of certificates issued during such period.

This can be achieved per the example report attached to these Guidance Notes as Appendix 3.

<p><u>Agreement Number</u></p>	<p>The Agreement Number is the number by which the BA can be identified and should include, or be prefixed with, the Lloyd's Broker number.</p>
<p><u>Unique Market Reference Number</u></p>	<p>The Unique Market Reference Number must be included even if the core part of the number is identical to the Agreement Number shown above.</p> <p>If the handling broker changes during the term of a particular BA, the new broker must keep and use the old UMR. When the BA renews, a new UMR must be given.</p>
<p><u>Section 1</u> <u>Effective Date</u></p>	<p>Notwithstanding the <i>Inception Date</i> before a Coverholder is authorised to act on behalf of the Underwriters of a Lloyd's syndicate (or syndicates), whether on new binding authorities or renewed ones, the Underwriter of the lead syndicate must have received written acceptance from the Coverholder of the terms and conditions of the BA. The BA cannot be registered at Lloyd's until this confirmation has been received.</p> <p>The acceptance of the terms and conditions of the BA from the Coverholder can be achieved by requesting that one or more of the persons named in sub-section 3.1 signs and dates the Schedule (inclusive of any attachments identified in the Schedule).</p> <p>In order to communicate the provisions contained in a proposed BA to a new Coverholder, it would be good practice for the Lloyd's Broker or Underwriter to provide a copy of the BA, or a draft of the proposed BA agreement at an early stage in the negotiation of the contract.</p> <p>Regardless of the provisions contained in sub-section 1.3, which reinforces the fact that a BA is not an open ended agreement, it is best practice to issue the Coverholder with a new BA wording for each agreement year.</p> <p>The effective date of the BA is the date on which the BA can actually be used by the Coverholder. This should not be confused with the inception date of the BA contract (which could be the same or an earlier date).</p>
<p><u>Section 2</u> <u>Period</u></p>	<p>The period of the BA should be for no more than 12 months from inception. However, it is possible for the Underwriters to extend the period of the BA, but in no event should it exceed 18 months from inception.</p> <p>When defining the Agreement period, the default Market Reform slip states:</p> <ul style="list-style-type: none"> • "the period is from [insert date] to [insert date], both days inclusive, any time zone." <p>However, this is not mandatory, and there are alternative ways to specify both the date and/or time zone (which do</p>

	<p>not have to be amended via sub-section 14.2), namely:</p> <ul style="list-style-type: none"> • stating a specific date and time: - “the period is from [insert date and time] to [insert date and time], any time zone.”; • stating a specific time zone: - “the period is from [insert date] to [insert date], both days inclusive, [insert specific time zone] time zone.” ; • stating a specific date, time and time zone: - “the period is from [insert date and time] to [insert date and time], [insert time zone] time zone.” .
<p><u>Section 3</u> <u>Persons Responsible for Operation and Control</u></p>	<p>The allocation of responsibility for exercising the authority granted by the BA is key in controlling and managing Underwriters’ exposure.</p> <p>The Schedule must identify the following:</p> <p>Sub-section 3.1: name(s) of the Coverholder’s director or partner who is directly responsible, on behalf of the Coverholder, for the overall operation and control of the BA; and</p> <p>Sub-section 3.2: name(s) of the directors, partners or employees who will have authority to bind insurances under the BA; and</p> <p>Sub-section 3.3: name(s) of the directors, partners or employees (if any) who have authority to issue documents evidencing insurances bound under the BA.</p> <p>The person(s) identified in sub-sections 3.2 and 3.3 should be those with overall responsibility to the extent there is any such dedicated person within the Coverholder’s organisation. If there is no such dedicated person, these sub-sections should identify the appropriate person(s) from sub-section 3.1; and</p> <p>Sub-section 3.4: when the Coverholder is granted authority to handle, agree and/or settle claims, the name(s) of the person(s) so authorised should be shown. If the Coverholder is not granted any authority to handle, agree or settle claims, sub-section 3.4 of the Schedule should show “None” or refer to the Procedure for the handling and settlement of Claims (Section 24).</p> <p>If the Coverholder is granted authority to handle, agree and/or settle claims, it should be noted that Section 24 of the Schedule will need to set out the precise procedure for claims.</p>
<p><u>Section 4</u> <u>Grant of Authority</u></p>	<p>The Coverholder and the Underwriters must both be certain about the terms of the contract of delegation under which authority is delegated to the Coverholder.</p> <p>In accordance with the DUB, sub-section 4.2 requires that the Coverholder will comply with any condition, direction or requirement given to the Underwriters by Lloyd's as to</p>

	<p>the operation, or cessation or suspension of operation, of the BA in whole or in part (including any direction from Lloyd's to the Underwriters to cancel or terminate the BA with immediate effect).</p>
<p><u>Section 5</u> <u>Delegation of Authority</u></p>	<p>The DUB prohibits the Coverholder from sub-delegating its authority to:</p> <ul style="list-style-type: none"> • bind insurances, or • issue documents evidencing insurances bound by the Coverholder. <p>However, if the Underwriters wish to delegate such authority to an additional entity, such entity must be an Approved Coverholder (or a <i>restricted coverholder</i> in accordance with the terms of a <i>restricted binding authority</i>) as defined in the DUB.</p> <p>Once such additional entity is an Approved Coverholder the BA documentation will need to be as follows:</p> <ul style="list-style-type: none"> • EITHER: - the additional Approved Coverholder must be named on its own Market Reform slip and separate BA contract; • OR: - if the additional Approved Coverholder IS NOT A SEPARATE LEGAL ENTITY from the existing coverholder(s), as in the case of a branch office, then the additional Approved Coverholder may be added to the existing BA contract by endorsement, which sets out the terms and conditions applicable and which is signed by the existing coverholder. The endorsement should address every applicable slip schedule section. <p>In either case, the additional Approved Coverholder cannot bind any business nor issue any documents evidencing insurances bound until they have accepted the terms and conditions of the BA (suitably endorsed if necessary), and such acceptance has been acknowledged by the Underwriter of the lead syndicate.</p> <p>For the sake of clarity, this means that where there is a series of wholesale or retail producers in the chain who want to bind insurances and/or issue documents, Underwriters must directly contract with each party in the chain to do so.</p> <p>Other than binding insurances and issuing documents evidencing insurances bound, the Code provides that the Coverholder may sub-delegate other responsibilities under the BA e.g. typically claims handling and settlement. However, any such sub-delegation must be in writing and the Underwriters must be a party to this contract of sub-delegation. The Code provides further guidance on the terms and conditions that must be included in any such contract of sub-delegation.</p>
<p><u>Section 6</u> <u>Authorised Class(es) of Business and Coverage(s)</u></p>	<p>This Section of the Schedule should be considered in conjunction with Section 7, which together allow flexibility to define the business which may be bound under the BA.</p>

	<p>The BA should contain a precise description of the nature or classification of the contracts of insurance that the Coverholder will be authorised to bind under the BA.</p> <p>The BA contract should be clear whether it is accepting insurance business or reinsurance business or both (important for territory licences and coverholder approval);</p> <p>The phrase 'All Risks' should not be used without proper qualification e.g. 'All Risks of Physical Loss or Damage'.</p>
<p><u>Section 7</u> <u>Excluded Class(es) of Business and Coverage(s)</u></p>	<p>This Section of the Schedule must show only those exclusions relevant to the Authorised Class(es) of Business and Coverage(s) specified within Section 6 of the Schedule.</p> <p>Under sub-section 7.1, the BA excludes the acceptance of war and civil war risks unless specifically permitted in writing by the Underwriters. Underwriters' attention is drawn to the terms of Lloyd's War and Civil War Exclusion Agreement dated 1st April 1982 (and amendments) which sets out the basis on which such risks may be written with the prior written agreement of Underwriters.</p> <p>Section 7.4 excludes 'master policies issued to a group, association, organisation or club for the benefit of its members under a group or mass marketed program'. However, these may be agreed under binding authorities when permitted by law or regulation and with the prior agreement of Underwriters by deleting this exclusion under 14.2.</p> <p>Please refer to Appendix 1 attached for additional guidance on Section 7 of LMA 3018 the USA BA.</p>
<p><u>Section 8</u> <u>Period of Insurances Bound</u></p>	<p>Sub-section 8.1 of the Schedule allows for 12 months as the standard period and the maximum period allowed by Underwriters for the relevant classes of business.</p> <p>Sub-section 8.3 of the Schedule must contain the maximum number of days an insurance is allowed to be bound in advance of its inception date (which should not exceed the number of days notice required for cancellation).</p>
<p><u>Section 9</u> <u>Maximum Limits of Liability/Sums Insured</u></p>	<p>The maximum limits of liability or sums insured in respect of insurances bound by the Coverholder must be shown in this Section of the Schedule.</p>
<p><u>Section 10</u> <u>Gross Premium Income Limit</u></p>	<p>The BA must contain a gross premium income limit as per sub-section 10.1 of the Schedule and the Coverholder is required to notify the Underwriters if the premium income reaches a pre-determined percentage of the overall limit which is to be shown in sub-section 10.2 of the Schedule.</p>

<p><u>Section 11</u> <u>Territorial Limitations</u></p>	<p>Underwriters should take care to ensure that a Coverholder is approved to underwrite in the territory(ies) in which they are permitted to accept business and they are knowledgeable of and able to comply with all regulations in such territory(ies).</p> <p>The stated territories on the slip should therefore be consistent with the Binding Authority Registration System listed approved territories.</p> <p>Sub-section 11.1 of the Schedule is used to identify the territories in which risks are located. The location of risks should be determined in accordance with legal definitions of country or territory of risk applicable for local regulatory or fiscal reasons.</p> <p>Sub-section 11.2 of the Schedule is used to identify where insureds are domiciled. The territory of an insured's domicile is the territory in which the insured lives, if the insured is a private individual, or, if the insured is a company or other corporate body, in which it is established.</p> <p>Lloyd's has issued detailed guidance on these points in market bulletins and further guidance may be issued from time-to-time.</p> <p>Sub-section 11.3 of the Schedule defines the maximum territorial limits for every insurance bound under the BA.</p>
<p><u>Section 12</u> <u>Aggregates</u></p>	<p>For classes of business with the potential for aggregation of losses, the Schedule should identify the following:</p> <p>Sub-section 12.1 of the Schedule should clearly detail the basis of monitoring aggregate exposures; and</p> <p>Sub-section 12.2 of the Schedule should specify such aggregate exposure reporting intervals; and</p> <p>Sub-section 12.3 of the Schedule should specify the total aggregate limits the Coverholder is permitted to bind.</p> <p>However, for some classes of business aggregate reporting would not apply and the above sub-sections of the Schedule should show "Not Applicable".</p>
<p><u>Section 13</u> <u>Premiums, Deductibles and Excesses for Insurances Bound</u></p>	<p>The BA must contain the manner or basis for the calculation of gross premiums, discounts, fees, charges and expenses. Sub-section 13.1 of the Schedule allows for gross premiums and applicable discounts, fees, charges and expenses off gross premiums to be identified. Coverholder's Commission and if applicable Contingent or</p>

	<p>Profit Commission must not be shown in this sub-section, because Section 26 of the BA refers to these types of commission. Brokerage SHOULD NOT be shown in the BA as it should be shown in the Non-Schedule section of the Market Reform slip.</p> <p>If any deductibles and/or excesses apply, these must be shown under sub-section 13.2 of the Schedule.</p> <p>In the event that the rating and/or any applicable deductibles and/or excesses are contained within a separate guide or manual or other document (including any electronic data), reference to such should be made within sub-section 13.1 and/or 13.2 of the Schedule.</p>
<p><u>Section 14</u> <u>Other Conditions and/or Requirements relating to the operation of the Agreement</u></p>	<p>This Section relates to the BA contract of delegation ONLY.</p> <p>Sub-Section 14.1 of the Schedule SHOULD ONLY be used to identify any additional terms, conditions and/or requirements that are additional or supplementary to the BA and that are not otherwise addressed elsewhere within the BA.</p> <p>Sub-Section 14.2 of the Schedule SHOULD ONLY be used to identify any amendments to the BA (i.e. changes or amendments to the model agreement text). The section or sub-section numbers of the BA which are the subject of amendment(s) must be shown together with the replacement text.</p> <p>For the avoidance of doubt, Section 14 of the Schedule SHOULD NOT be used to identify, add, or amend terms and conditions of the individual insurances to be bound by the Coverholder. Instead, these should be dealt with in Section 21.</p> <p>Please refer to Appendices 1 and 2 attached for additional guidance on Section 14 of LMA3018 the USA BA and LMA3020 the CAN BA.</p>
<p><u>Section 15</u> <u>Automatic Renewal of Insurances Bound</u></p>	<p>Please refer to Appendix 2 attached for guidance on Section 15 of LMA3020 the CAN BA.</p>
<p><u>Section 16</u> <u>Cancellation and Termination</u></p>	<p>This Section identifies those circumstances under which the BA may be cancelled or terminated.</p> <p>A notice period for cancellation must be negotiated at the time of placement and such period inserted in sub-section 16.1.1 of the Schedule.</p> <p>This Section SHOULD NOT be used for the cancellation terms of the individual insurances as those should be shown under Section 21.</p>

	Please refer to Appendix 2 attached for replacement guidance on Section 16 of LMA3020 the CAN BA.
<u>Section 17</u> <u>Effect of Expiry, Cancellation or Termination</u>	Sub-section 17.1 limits the Coverholder's authority during the period of notice of cancellation or termination. However, this does not preclude a Coverholder from handling run-off business under the terms of the BA. In fact, where a BA expires and no additional provisions are made sub-section 17.3 requires the Coverholder to continue to manage their obligations under the Agreement.
<u>Section 18</u> <u>Applications or Proposal Forms</u>	Where the application or proposal form carries a recognised reference, this should be stated in Section 18 of the Schedule. Where the form is bespoke, it should be agreed by the Underwriters and identified in Section 18 of the Schedule as being attached to the BA. In the event the class(es) of business does not require an application or proposal form then "Not Applicable" should be shown in Section 18 of the Schedule.
<u>Section 19</u> <u>Documents Issued</u>	Sub-section 19.2 can be amended under 14.2 by either listing the names of the personnel at inception with updates being made at agreed periodic dates leaving the authorisation, addition or deletion of personnel to the discretion of the Coverholder, or agreeing a level of automatic responsibility within the Coverholder meaning that any personnel who attain a particular level of seniority may sign and issue the certificates. The Coverholder must retain a copy of all documents issued under the BA. In addition, the Coverholder must send a copy of all such documents to the Underwriters unless the parties have agreed otherwise and noted such agreement in sub-section 19.6 of the Schedule.
<u>Section 20</u> <u>Format and Approval of Certificates</u>	In many cases the form of the certificate (including the Schedule or Declaration page) will be prescribed by Lloyd's or by the relevant regulator. Where the certificate carries a recognised reference number, this should be stated in Section 20 of the Schedule. However, it is not necessary to attach a copy of the certificate to the BA. Where the certificate (including the Schedule or Declaration page) is bespoke, it should follow the format of any appropriate Model/Standard Outline Certificate for the territory concerned and should be agreed and attached to the BA. Where there is a multi territory BA and the format of the certificates could be a mixture of model, standard or bespoke forms then it is acceptable to refer to certificates

	<p>being "based on" the Model/Standard Outline Certificate(s) as applicable, and such forms do not need to be attached to the BA.</p> <p>Please refer to Appendix 2 attached for replacement guidance on Section 20 of LMA3020 the CAN BA.</p>
<p><u>Section 21</u> <u>Wordings Conditions, Clauses etc Applicable to Insurances Bound</u></p>	<p>Section 21 of the Schedule SHOULD ONLY be used to identify Wordings, Conditions, Clauses, Endorsements, Warranties and Exclusions applicable to insurances bound and SHOULD NOT be used to identify, add, or amend terms and conditions of the BA itself, as these should be specified under Section 14.</p> <p>The DUB and the Code prescribe certain minimum requirements applicable to all documents evidencing insurances bound by the Coverholder.</p> <p>Each Certificate issued by the Coverholder must contain these minimum requirements which includes a Several Liability Notice identified in sub-section 21.4 of the Schedule, even if a 100% Lloyd's placement. If both insurance and reinsurance are to be bound then both versions of the Several Liability Notice should be shown.</p> <p>Sub-sections 21.6.1.1 to 21.6.1.4 only appear in the NM BA and only apply where the binding or administration of the insurances is regulated by the FSA.</p> <p>Please refer to Appendix 2 attached for replacement guidance on Section 21 of LMA3020 the CAN BA.</p>
<p><u>Section 22</u> <u>Joint Certificates</u></p>	<p>Joint Certificates can only be issued in accordance with DUB Underwriting Requirements which sets out the relevant criteria.</p> <p>In respect of the Non-Marine (ex USA & Canada) model agreement only (LMA3019), permission from Underwriters for the Coverholder to issue Joint Certificates is obtained by virtue of sub-section 22.3 showing 'permitted' in the relevant places.</p> <p>If Joint Certificates are issued with 'other insurers' then:</p> <ul style="list-style-type: none"> • the identity of the other insurers should be shown under sub-section 22.3.1. • the appropriate Several Liability Notice must be shown in the certificate as per sub-section 22.3.4. <p>Please refer to Appendices 1 and 2 for replacement guidance on Section 22 of LMA3018 the USA BA and LMA3020 the CAN BA.</p>
<p><u>Section 24</u></p>	<p>In view of the differences in the Underwriters' business practices this is a free format field.</p>

<p><u>Procedure for the handling and settlement of Claims</u></p>	<p>Procedures for handling and advising claims to the Underwriters and/or where applicable for agreeing and/or settling claims must be set out fully in Section 24 of the Schedule. This should include the settlement authority broken down by class or category of loss and amount.</p> <p>Section 24 of the Schedule should be used to identify the responsibilities of the Coverholder in the handling, advising, agreement and/or settlement of claims including any claims-related responsibilities the Coverholder may have to a Third Party Administrator (“TPA”) acting on behalf of the Underwriters. Where a TPA is involved the DUB requires that a separate TPA agreement be agreed by all parties prior to inception of the BA.</p> <p>TPA details may be shown in Section 24 of the Schedule, including reference to the TPA agreement, but it is not expected that the whole TPA agreement be set out in full in the Schedule.</p> <p>If Underwriters or the Lloyd’s Broker require the TPA agreement to be attached to the slip for information, it should be mentioned under the Information section of the Market Reform slip.</p>
<p><u>Section 25</u> <u>Bordereaux Accounts and Accounting Settlements</u></p>	<p>The Code requires that the Coverholder report by class or category in respect of all premiums, paid claims, outstanding claims and expenses in respect of all insurances bound.</p> <p>This Section recognises that the Coverholder does not always produce claims bordereaux. If the Coverholder does not have responsibility for producing claims bordereaux, sub-section 25.3 of the Schedule directs the parties to indicate that accordingly.</p> <p>Please refer to Appendix 2 attached for replacement guidance on Section 25 of LMA3020 the CAN BA.</p>
<p><u>Section 26</u> <u>Commission(s)</u></p>	<p>The Coverholder’s Commission should be specified in sub-section 26.1 of the Schedule. Do not show brokerage in the Schedule of the BA, as this should be shown as a Non Schedule item in the Market Reform slip.</p> <p>In the event of the BA not being subject to Contingent or Profit Commission then “Not Applicable” should be shown in sub-section 26.2 of the Schedule.</p> <p>If the BA is subject to Contingent or Profit Commission then sub-section 26.2 of the Schedule should fully specify the amount(s) of and the formula or criteria used in the calculation of such Contingent or Profit Commission. If a separate Contingent or Profit Commission Clause is required then “as attached” should be stated in sub-section 26.2 of the Schedule and the full clause should be attached to the Market Reform slip.</p>

<p><u>Section 28</u> <u>Internet Trading</u></p>	<p>The Coverholder has no authority to transact insurance under the BA via the internet or similar electronic system(s), unless specifically agreed by Underwriters.</p>
<p>Section 32 <u>Premium Finance Arrangements</u></p>	<p>Please refer to Appendix 2 attached for guidance on Section 32 of LMA3020 the CAN BA.</p>
<p><u>Section 33</u> <u>Separate Bank Accounts</u></p>	<p>Where the Coverholder handles 'monies in transmission' only (i.e. does not hold or retain monies, for example, in order to establish or maintain a claims fund) such monies must be held in a separate bank account set apart for insurance monies (i.e. premiums, return premiums and claims monies). For the sake of clarity, this means that it must be held separately from the general and operating accounts of the Coverholder, but may be co-mingled with insurance monies from other insurers.</p> <p>In contrast, where the Coverholder holds or retains monies (for example to establish or maintain a claims fund), such monies must be held in accordance with the Lloyd's Premium Trust Deed. Details can be obtained from Lloyd's.</p>
<p><u>Section 34</u> <u>Records and Statistical Information required by the Underwriters</u></p>	<p>The Code requires that the Coverholder maintains complete records relating to all insurances bound, and the BA requires that the Coverholder retain all such records for a minimum of 7 years or such longer period as required by the law. The Code and the BA also provide that Underwriters shall own all such records and shall have the right to access, inspect, audit and copy all such records.</p> <p>The Coverholder must prepare and send any statistical information required by the Underwriters at the interval stated in sub-section 34.2 of the Schedule.</p> <p>If Underwriters choose to monitor Contract Certainty by means of a periodic report then this is the area of the Schedule where the details should be shown.</p> <p>This Section SHOULD NOT be used for information provided to the Underwriters to support the placement of the BA.</p> <p>Please refer to Appendices 1 and 2 attached for replacement guidance on Section 34 of LMA3018 the USA BA and LMA3020 the CAN BA.</p>
<p><u>Section 39</u> <u>Jurisdiction and Governing Law</u></p>	<p>This Section is for the BA and provides that all matters in difference between the parties, in respect of the BA, shall be subject to English law and practice and to the exclusive jurisdiction of the English courts.</p> <p>This Section SHOULD NOT be used for the Law and Jurisdiction of the individual insurances bound by the</p>

	<p>Coverholder as this should be shown under Section 21 of the BA.</p> <p>Please refer to Appendix 1 for replacement guidance on Section 39 of LMA3018 the USA BA.</p>
<p><u>Section 41</u> <u>Several Liability</u></p>	<p>The Section relates to the severability of the BA and makes it clear that the Underwriters are not responsible for the individual subscription of any co-subscribing underwriter or any other insurer or co-insurer who for any reason does not satisfy all or part of its obligations.</p>

APPENDIX 1

ADDITIONAL/REPLACEMENT GUIDANCE FOR USE IN CONJUNCTION WITH LMA3018 THE USA BA. THE GUIDANCE GIVEN BELOW IS ADDITIONAL TO THE MAIN GUIDANCE NOTES UNLESS STATED OTHERWISE.

U.S.A. BUSINESS

General Cover Conditions

1. General Cover Conditions must be attached to USA BA's in circumstances prescribed by the Council of Lloyd's and cannot be amended by Underwriters or Coverholders. (see Market Circular 64/2000 of 28 July 2000).
2. A Non-Marine version of the U.S. General Cover Conditions (LMA5058) is available for use in conjunction with the USA BA LMA3018. The reader will note some duplication between the U.S. General Cover Conditions and the model USA BA. This is because the U.S. General Cover Conditions are mandated by Lloyd's and must be applied to all USA BA's without amendment whereas the USA BA LMA3018 may be amended by Underwriters if they so decide.

<u>Section 7</u> <u>Excluded Class(es) of Business and Coverage(s)</u>	It should be noted that Section 14 incorporates by reference the U.S. General Cover Conditions. Accordingly, in addition to Section 7, Section 6 also will be subject to any additional exclusions or limitations provided in the U.S. General Cover Conditions.
<u>Section 14</u> <u>Other Conditions and/or Requirements relating to the operation of the Agreement</u>	Sub-section 14.1 incorporates by reference the U.S. General Cover Conditions, which must be attached to all USA BA's.
<u>Section 22</u> <u>Joint Certificates</u>	This replaces the guidance for Section 22 in the main guidance notes. On prudential grounds, Lloyd's does not permit the issuance of joint certificates in the USA., other than described in the U.S. General Cover Conditions.
<u>Section 34</u> <u>Records and Statistical Information required by the Underwriters</u>	This replaces the guidance for Section 34 in the main guidance notes. The Code requires that the Coverholder maintains complete records relating to all insurances bound, and the BA requires that the Coverholder retain all such records for a minimum of 5 years or such longer period as required by the law. The Code and the BA also provide that Underwriters shall own all such records and shall have the right to access, inspect, audit and copy all such records. The Coverholder must prepare and send any statistical information required by the Underwriters at the interval stated in sub-section 34.2 of the Schedule. For the purposes of contract certainty, all Coverholders should be required to report to Underwriters, at least

	<p>quarterly, on their performance in issuing insurance documentation within 30 days.</p> <p>This Section SHOULD NOT be used for information provided to the Underwriters to support the placement of the BA.</p>
<p><u>Section 39</u> <u>Jurisdiction and Governing Law</u></p>	<p>This replaces the guidance for Section 39 in the main guidance notes.</p> <p>This Section provides that all matters in difference between the parties, in respect of the USA BA, shall be governed by the substantive laws of the "State" specified in the Schedule. If either party chooses to pursue their rights in a court of law, the matter must be submitted to a U.S. court sitting in the State specified in the Schedule. Whether the matters in difference are heard in federal or state court, the substantive laws of the "State" specified in the Schedule shall apply.</p> <p>This Section SHOULD NOT be used for the law and jurisdiction of the individual insurances bound by the Coverholder as this should be shown under Section 21 of the USA BA.</p>

APPENDIX 2

ADDITIONAL/REPLACEMENT GUIDANCE FOR USE IN CONJUNCTION WITH LMA3020 THE CAN BA. THE GUIDANCE GIVEN BELOW IS ADDITIONAL TO THE MAIN GUIDANCE NOTES UNLESS STATED OTHERWISE.

CANADIAN BUSINESS

1. Canada is a complex licensed territory and general guidance on some of the more significant compliance obligations is contained in the Lloyd's Worldwide Markets Canada Manual.
2. Canadian Automobile business is highly regulated and provincial laws govern matters such as:
 - rates and rate classification systems;
 - forms of application, policy, endorsement or renewal or continuation certificate;
 - underwriting practices;
 - notice periods for non-renewal or a contract of insurance or change of its terms;
 - payments, or procedures for payment, of any claim or benefit under a contract of insurance;
 - procedures for dispute resolution.

"Automobile business" means any insurance classified as automobile by the laws and regulations of any Canadian province or territory.

<p><u>Section 14</u> <u>Other Conditions and/or Requirements relating to the operation of the Agreement</u></p>	<p>The CAN BA has LMA numbered endorsements for use in conjunction with it. These endorsements and the class(es) of insurance business to which they apply are as follows:</p> <ul style="list-style-type: none">• CANADIAN AUTOMOBILE INSURANCE SPECIFIC CONDITIONS ENDORSEMENT - LMA5032 - applies to all Canadian Automobile insurance business.• CANADIAN AUTOMOBILE AND ONTARIO COMMERCIAL LIABILITY INSURANCE SPECIFIC REPORTING ENDORSEMENT - LMA5036 - applies when LMA5031 is required to be attached to the CAN BA (please refer to Section 26 of this appendix) and LMA5036 applies to all Canadian Automobile and Ontario commercial liability insurance business.• ALBERTA RISK SHARING POOL ENDORSEMENT - LMA5035 - applies to all Alberta Automobile insurance business.• NEW BRUNSWICK RISK SHARING POOL ENDORSEMENT - LMA5037 - applies to all New Brunswick Automobile insurance business.• ONTARIO RISK SHARING POOL ENDORSEMENT - LMA5033 - applies to all Ontario Automobile insurance business.• QUEBEC PLAN DE RÉPARTITION DES RISQUES FACILITY ('P.R.R.') ENDORSEMENT - LMA5034 - applies to all Quebec Automobile insurance business. <p>If any endorsement is applicable to the class(es) of business which may be bound it must be specified in sub-section 14.1 of the Schedule and attached to the CAN BA.</p>
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<p>Section 15 <u>Automatic Renewal of Insurances Bound</u></p>	<p>The Coverholder must comply with applicable regulatory laws which relate to the review of each insurance bound prior to its individual renewal date in order to offer renewal terms or decline the risk. Additionally, Lloyd’s may have agreed to conduct insurance business in accordance with certain Canadian insurance industry codes of practice and details of each current code Lloyd’s subscribes to can be found at www.lloyds.com and/or on the Lloyd’s Canada Portal (<i>Lineage</i>).</p>
<p>Section 16 <u>Cancellation and Termination</u></p>	<p>This replaces the guidance for Section 16 in the main guidance notes.</p> <p>This Section identifies those circumstances under which the BA may be cancelled or terminated.</p> <p>A notice period for cancellation must be negotiated at the time of placement and such period should not be less than 30 days or in accordance with minimum statutory renewal requirements, because the parties to the CAN BA need to comply with the provisions of 15.2. The negotiated notice period is inserted in sub-section 16.1.1 of the Schedule.</p> <p>This Section SHOULD NOT be used for the cancellation terms of the individual insurances as those should be shown under Section 21.</p>
<p>Section 20 <u>Format and Approval of Policies</u></p>	<p>This replaces the guidance for Section 20 in the main guidance notes.</p> <p>In many cases the form of the Policy will be prescribed by Lloyd’s or by the relevant regulator. Where the Policy carries a recognised reference number, this should be stated in Section 20 of the Schedule. However, it is not necessary to attach a copy of the Policy to the BA.</p> <p>Where the Policy is bespoke, it should follow the format of the appropriate Lloyd’s declaration pages for the province or territory concerned and should be agreed and attached to the CAN BA. All declarations pages attaching to and forming part of each Policy must be in accordance with any requirements of the Council (as defined in the DUB) that are applicable to any insurances bound.</p>
<p>Section 21 <u>Wordings Conditions, Clauses etc Applicable to Insurances Bound</u></p>	<p>This replaces the guidance for Section 21 in the main guidance notes.</p> <p>Section 21 of the Schedule SHOULD ONLY be used to identify Wordings, conditions, clauses, endorsements, warranties and exclusions applicable to insurances bound and SHOULD NOT be used to identify, add, or amend terms and conditions of the CAN BA itself, as these should be specified under Section 14.</p> <p>The DUB and the Code prescribe certain minimum</p>

	<p>requirements applicable to all documents evidencing insurances bound by the Coverholder.</p> <p>Only Wordings' that have been approved by the applicable Regulator(s) for use by the Underwriters may be used for Automobile business.</p> <p>Each Policy issued by the Coverholder must contain these minimum requirements which include a Several Liability Notice identified in sub-section 21.4 of the Schedule, even if a 100% Lloyd's placement. If both insurance and reinsurance are to be bound then both versions of the several liability notice should be shown.</p> <p>The law and jurisdiction identified for the 'Policies' should be in accordance with Section 43 of the CAN BA.</p>
<p><u>Section 22</u> <u>Subscription Policies</u></p>	<p>This replaces the guidance for Section 22 in the main guidance notes.</p> <p>Section 22.1 of the Schedule must be used to identify whether or not the Coverholder can bind insurances on behalf of the Underwriters under a schedule of insurers participating in a 'subscription policy' in a lead or following capacity.</p> <p>If the Coverholder has been so authorised, the provisions that apply are set out in sub-section 22.2.</p>
<p><u>Section 25</u> <u>Bordereaux Accounts and Accounting Settlements</u></p>	<p>This replaces the guidance for Section 25 in the main guidance notes.</p> <p>The Code requires that the Coverholder report by class or category in respect of all premiums, paid claims, outstanding claims and expenses in respect of all insurances bound.</p> <p>The CAN BA has three LMA numbered Bordereaux, Accounts and Accounting Settlements clauses for use in conjunction with it, being:</p> <p>a) BORDEREAUX, ACCOUNTS AND ACCOUNTING SETTLEMENTS (SCHEME CANADA - PORTAL DATA ENTERED BY COVERHOLDER) - LMA5029 - applies when Scheme Canada data is entered on the portal (<i>Lineage</i>) by the Coverholder.</p> <p>b) BORDEREAUX, ACCOUNTS AND ACCOUNTING SETTLEMENTS (SCHEME CANADA - PORTAL DATA ENTERED BY LLOYD'S CANADA) - LMA5030 - applies when Scheme Canada data is entered on the portal (<i>Lineage</i>) by Lloyds Canada, or when data entry is undertaken by the Coverholder and Lloyd's Canada (e.g. premiums entered by Lloyd's Canada and claims entered by Coverholder). If all or some of the data for premiums and/or claims is entered on the portal (<i>Lineage</i>) by Lloyd's Canada, Underwriters will need to consent to this and agree the means (whether for premiums and/or claims) to be used by Lloyd's Canada.</p>

c) BORDEREAUX, ACCOUNTS AND ACCOUNTING SETTLEMENTS (NON SCHEME CANADA) - LMA5031 - applies to Non Scheme Canada processing.

The CAN BA requires that only one clause above is selected by the parties and applies. This will be dependent upon the method of processing, Scheme Canada or Non Scheme Canada, and in respect of Scheme Canada processing, whether the portal (*Lineage*) data will be entered by the Coverholder and/or by Lloyd's Canada. Sub-section 25.1 of the Schedule should show such selected clause as "Applicable and attached hereto" and the two remaining non-selected clauses as "Not applicable". The one clause selected as applicable must be attached to the CAN BA and such clause's 'area' within the Schedule will need to be completed in accordance with the following.

- '1st area' of the Schedule to be completed when Bordereaux, Accounts and Accounting Settlements (Scheme Canada - Portal Data Entered By Coverholder) - LMA5029 has been so selected as "Applicable and attached hereto". Sub-section 25.6 of the Schedule recognises the maximum period of remittance of settlements, and typical premium and claim settlements terms of trade are 30 days, although 30 day multiples, for example 60 or 90 days can be specified for premiums.
- '2nd area' of the Schedule to be completed when Bordereaux, Accounts and Accounting Settlements (Scheme Canada - Portal Data Entered By Lloyd's Canada) - LMA5030 has been so selected as "Applicable and attached hereto". Sub-section 25.6 of the Schedule recognises the maximum period of remittance of settlements, and typical premium and claim settlements terms of trade are 30 days, although 30 day multiples, for example 60 or 90 days can be specified for premiums.
- '3rd area' of the Schedule to be completed when Bordereaux, Accounts and Accounting Settlements (Non Scheme Canada) - LMA5031 been so selected as "Applicable and attached hereto". This area recognises that the Coverholder does not always produce claims bordereaux. If the Coverholder does not have responsibility for producing claims bordereaux, sub-section 25.4 of the Schedule directs the parties to indicate that accordingly. Sub-section 25.8 of the Schedule recognises the maximum period of remittance of settlements, and typical premium and claim settlements terms of trade are 30 days, although 30 day multiples, for example 60 or 90 days can be specified for premiums.

If LMA5031 has been selected the Coverholder should not deduct any taxes or levies as these are paid directly by Underwriters. Any other deductions are those deductions allowed by Underwriters which may include servicing or inspection fees Underwriters have agreed the Coverholder may deduct.

<p><u>Section 32</u> <u>Premium Finance Contracts and Premium Payment Plan</u></p>	<p>This replaces the guidance for Section 32 in the main guidance notes.</p> <p>If the Underwriters permit and the Coverholder is allowed to arrange for premiums to be settled by instalments under the Premium Payment Plan operated by Lloyd's Canada then sub-section 32.2 of the Schedule should show "Yes". Furthermore, the applicable classes of business to which the Premium Payment Plan applies should be listed in the space provided. In the event of the Premium Payment Plan not being applicable, or not required by the Coverholder, then sub-section 32.2 of the Schedule should show "No", and the list of class(es) of business should show "Not applicable".</p>
<p><u>Section 34</u> <u>Records and Statistical Information required by the Underwriters</u></p>	<p>This replaces the guidance for Section 34 in the main guidance notes.</p> <p>The Code requires that the Coverholder maintains complete records relating to all insurances bound, and the CAN BA requires that the Coverholder retain all such records for a minimum of 5 years or such longer period as required by the law. The Code and the CAN BA also provide that Underwriters shall own all such records and shall have the right to access, inspect, audit and copy all such records.</p> <p>The Coverholder must prepare and send any statistical information required by the Underwriters at the interval stated in sub-section 34.2 of the Schedule.</p> <p>Additionally, the Coverholder shall provide all statistical and other information as to insurances bound under the CAN BA as may from time to time be required by the Attorney In Fact in Canada for Lloyd's Underwriters, as per sub-section 34.6 of the CAN BA. Nonetheless, it should be noted that this provision predominately applies to Non Scheme Canada business.</p> <p>For the purposes of contract certainty, all Coverholders should be required to report to Underwriters, at least quarterly, on their performance in issuing insurance documentation within 30 days.</p> <p>This Section SHOULD NOT be used for information provided to the Underwriters to support the placement of the BA.</p>

APPENDIX 3 - EXAMPLE COVERHOLDER REPORT

COVERHOLDER CERTIFICATE ISSUANCE REPORT

Agreement Number: 123/456789
Unique Market Reference Number: 123/456789
The Coverholder: ABC Coverholders Inc.
The Lloyd's Broker: Broker Z Ltd.
Report Sequence: 1
Period of Report: From: 1/1/06 To: 31/3/06
Bordereaux Months: Jan/Feb/Mar 2006

Certificates Issued during the Period of the Report:

	Number	Percentage
Total:	200	100
Exceeding 30 days:	25	12.5

Comment (if any):

No significant problems encountered in the period. We are working on improving the speed of issue and expect improvements in timely issue over the next(x)months.

Signature of the Coverholder:

Date: