

LLOYD'S APPROVED COVERHOLDER APPLICATION FORM – GUIDANCE NOTES

AUGUST 2008

INTRODUCTION

As the Delegated Authorities Team carry out the approval process in London without having a direct knowledge of your business, you must provide full information so that they can assess your application properly.

The form is designed to gather all the information needed by Lloyd's and the managing agent that proposes to grant you a binding authority.

The application form is a very important part of Lloyd's approval process. If you are successful in becoming an approved coverholder, you and your clients will know that you have met the high standards required of Lloyd's approved coverholders.

Some points to bear in mind when filling in the application form

Always answer the questions truthfully. If you think that you or your principal personnel have been involved in a matter which may affect your suitability, please make sure you:

- give full details of any such matter in the application;
- explain what action was taken to put the matter right; and
- explain what action was taken to make sure that it does not happen again.

If you are not sure whether any fact or matter is relevant, please make sure you mention it. Lloyd's will then be in a position to consider all the relevant information. If you do not provide any relevant information, Lloyd's may reject your application.

- Do not be tempted to alter any question in order to provide a more convenient answer. The questions have been specifically worded and must not be altered. However, if you find that a question is not relevant or needs to be different in order for you to answer, please state this clearly on the form or in a covering letter.
- If you cannot answer the questions in English, ask your sponsor to attach an English translation and confirm the accuracy of the translation.
- Lastly, make sure you have answered all the questions and supplied any supporting documents. **Incomplete applications will be returned.**

LETTER OF SUPPORT

Lloyd's requires a letter of support to accompany all applications for coverholder approval. This letter should be written by the underwriter primarily responsible for the proposed binding authority.

"Regarding the "letter of support" - we don't have a pro forma as such, but you may want to consider clarifying:

- the background & nature/length of the relationship (including whether you have written their business open market)
- your familiarity with the key people concerned and their capabilities
- your assessment of the applicant's ability to administer a Lloyd's binding authority, including the outcome of any pre-approval audit or visits
- for a branch application, how this location is overseen by its head office
- the classes/business/risk codes proposed and corresponding e.p.i.
- rationale for the binder; from both your perspective and the applicant's
- market conditions and expected results
- how you will control and determine the adequacy of the rating
- the proposed binder sum insured and extent of underwriting authority to be delegated
- the extent of any claims authority proposed, the parties involved in the claim chain and their roles/authorities
- whether you have vetted/finalised the proposed insurance documents & bordereaux and any marketing/website material
- any issues you have highlighted in your due diligence process and how these are being addressed

Where available, some managing agents are also providing: copy draft binder; audit/trip report; internal decision paper &/or financial analysis, all of which helps to speed up Lloyd's review of the application."

DEFINITIONS

The following words, which are shown in bold in the application form, are defined in the definitions byelaw. Those definitions are summarised below.

'applicant' means you, the company or partnership applying to be an approved coverholder.

'approved coverholder' means a company or partnership which Lloyd's has approved to act as an approved coverholder in accordance with the Delegated Underwriting Byelaw.

'binding authority' means an agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

'coverholder' means a company or partnership authorised by a Lloyd's managing agent to enter into contracts of insurance to be underwritten by the syndicate in accordance with the terms of a binding authority.

'customer' means all customers and clients, including policyholders and prospective policyholders.

'domiciled' a company is domiciled in the jurisdiction it is registered in.

'insurance monies' means all money received or to be paid to a coverholder, from or on behalf of a Lloyd's managing agent, in accordance with the terms of a binding authority.

'Lloyd's broker' means a person listed in the register of Lloyd's brokers maintained under the Lloyd's brokers Byelaw.

'Lloyd's managing agent' means an underwriting agent which carries on underwriting for a member.

'member' means a person admitted to the membership of the Society of Lloyd's.

'principal personnel' means all directors and partners of the applicant and all other senior employees of the applicant who are or will be responsible for the management and operation of a binding authority.

'registered binding authority' means a binding authority which has been registered with the Franchise Board in accordance with the Delegated Underwriting Byelaw.

'retail' means insurance business received directly from the insured.

'rules' means the rules and requirements Lloyd's makes from time to time in relation to binding authorities and coverholders.

'sponsor' means the Lloyd's broker or Lloyd's managing agent that is supporting the applicant's application to become an approved coverholder.

'syndicate' means a member or group of members underwriting insurance business at Lloyd's through the agency of a Lloyd's managing agent.

'wholesale' means insurance business received through another intermediary and not directly from the insured.

Note: these definitions are given to help you fill in the application. If any word or term above is defined in the Definition Byelaw, that meaning will apply.

SECTION 1 – COMPANY INFORMATION

Question 1.2 – Trading names

We are interested only in any trading names that you may use in connection with your business under any Lloyd's binding authorities, including any name that may appear on the insurance documents you may issue.

If any of the trading names are legal entities in their own right, and you need them to be able to enter into contracts of insurance or issue insurance documents, you must fill in a separate application form for them to become approved coverholders.

If you have more than one office and you need them all to be able to enter into contracts of insurance or issue insurance documents, you must fill in a separate branch application form for the other additional offices.

Question 1.5 – Registered address & Company registration number

Please provide the registration number (and associated address) you are registered under in accordance with local company law requirements.

Question 1.6 – Trading address

This should be the address you will trade from as a Lloyd's approved coverholder.

Question 1.7 – Postal address

The address used for business correspondence. This may or may not be the same as the trading or the registered address.

Question 1.13 – Year of incorporation

Your answer here should tell us how many years you have been trading. So, for example, if ABC Ltd was formed in 1990, but changed its name to XYZ Ltd in 2000, then it is the 1990 date that should be shown.

Question 1.14 – Previous coverholder applications

Please tell us about any previous applications you have made for Lloyd's coverholder approval, whether these were successful or not.

Question 1.15 – Other Lloyd's approvals in group

Please tell us about any other legal entity within your group of companies that has been approved by Lloyd's as a broker, managing agent, coverholder, open-market correspondent, or in any other capacity.

Question 1.17 – Internal organisation chart

We would like to understand the inter-relationship and structure of departments / functions within your organisation. Please provide a chart of these, including key positions / personnel.

Question 1.18 – Number of staff

Please state how many staff are directly employed by your company. This should include only those staff employed by the applicant. Employees of other companies in the same group should not be included.

SECTION 2 – BUSINESS STRATEGY

Question 2.1 & 2.2 – Non-insurance business

You should state here all your other activities (such as real estate, premium financing, loss adjustment, repairs and so on) and explain how you will manage any conflict of interest with these functions and your insurance activities.

Question 2.5 – Business / Underwriting plan

Providing us with a business / underwriting plan will enable us to evaluate the business you will be bringing to Lloyd's and we view this as a crucial aid in understanding your proposal. As such it is a mandatory attachment and your application cannot be considered without it.

The managing agent of the lead syndicate will help you with the precise content of the plan. It is likely that the managing agent of the lead syndicate will want your underwriting plan to include the following information;

- Company profile.
- Where your business comes from.
- The rationale for choosing Lloyd's.
- Your target profitability and past profitability, including the reasons for any previous insurer declining to renew.
- Territories and distribution channels.
- Details of other contracts of delegation you manage.
- An analysis of the market (including opportunities for, and threats to, successful underwriting and key competitors).
- Your basis for choosing risks.
- Your basis for setting prices (where appropriate).
- Information about your performance against monthly targets.
- Details of how the binding authority will fit with your other areas of business.
- Claims handling arrangements.

SECTION 3 – OWNERSHIP OF THE COMPANY

Question 3.4 – Group ownership structure chart

The purpose of the structure chart is to show your relationship to other firms which are part of your group.

SECTION 4 – PRINCIPAL STAFF

Question 4.1 – details of principal personnel

Give details of all principal personnel and provide a copy of each person's CV or résumé. We need the dates of birth of your personnel to correctly identify the individuals concerned.

CVs or résumés should include the following information.

- A list of all insurance-related organisations (such as insurance companies, insurance brokers, managing general agents or coverholders) that the person has been a director, partner or employee of, with relevant dates.
- A list of all insurance organisations (such as insurance companies, insurance brokers, managing general agents or coverholders) the person has had an ownership or controlling interest in, with relevant dates.
- Details of experience in the insurance industry.
- Details of any relevant professional qualifications.

If there are known problems with any of the organisations identified in any of the CVs or résumés, explain that person's role in connection with the problem.

We may need to take up references or make enquiries of previous employers. If we intend doing this we will first discuss it with you and your sponsor.

SECTION 5 – REPUTATION AND STANDING

We strongly recommend that all your principal personnel and other staff referred to in section 4 of the application form take great care in reading and approving your answers to the questions in this section.

SECTION 6 – LLOYD'S & BINDING AUTHORITY EXPERIENCE

Give details of all Lloyd's activities as per questions 6.1 to 6.6.

SECTION 7 – YOUR PROFESSIONAL INDEMNITY (PI) INSURANCE

To be an approved coverholder you are expected to have professional indemnity or errors and omissions insurance.

Lloyd's does not set minimum levels of cover. Your answers to these questions will help managing agents and Lloyd's assess the adequacy and security of your insurance.

In particular, your professional indemnity or errors and omissions insurance must cover your activities in connection with Lloyd's binding authorities in all jurisdictions in which you will be trading, providing services or doing business under those binding authorities.

Section 7 of the form includes a question (7.1) asking specifically whether the PI covers Lloyd's binding authorities, and so, by signing the form a coverholder would be deemed to have confirmed this fact. Further to this, a Managing Agent can check in the wording as part of their due diligence.

Question 7.4 / 7.5 – Rating Company

This is the rating company (Standard & Poors, AM Best etc) which provided the rating as entered in question 7.5. Rating information should be entered in 7.4 and 7.5 if it is known, but otherwise may be left blank.

SECTION 8 – FINANCIALS

Although audited accounts are common in the UK, this is not always the case elsewhere. The minimum standard that we look for is a set of financial statements (accounts) including an income statement (profit and loss account) and a balance sheet, that have been audited or reviewed and have at least been compiled by a suitably qualified person. We will usually accept CPA-compiled accounts from applicants domiciled in the USA.

We will not usually accept your own internal management accounts unless:

- they show a relevant change in your financial position since your last formal accounts (in which case, please provide both the last formal accounts and your latest management accounts); or
- for some reason, you cannot provide formal accounts. In this case you should explain why, and have the figures in your management accounts verified by a suitably qualified person. We may ask for a suitable guarantee or other security to support your application.

Because of the different accounting practices that apply throughout the world, we have not laid down any minimum criteria for profit, capital, working assets, liabilities and equity. However, we do expect you to be able to show that you are financially sound, and so would expect you to demonstrate that you are at least a profitable company with

working capital and equity.

If your company is a new operation (less than 2 years trading history) then please provide the opening balance sheet and at least 3 years projected future income statements for the coverholder entity.

The development in Atlas has done away with the need for structured data fields to be filled in for financial information. All that will be required is for the financial statements to be submitted with the application.

SECTION 9 – SEGREGATED BANK ACCOUNTS

Your sponsor or the Lloyd's managing agent of the lead syndicate will explain to you the exact requirements relating to how insurance monies must be held. Generally, Lloyd's expects that a separate account should be maintained for Lloyd's monies.

Question 9.5 – Co-Signatory Bank Accounts

Regardless of how many separate signatories to your bank account may exist, this box should be crossed if your bank account requires more than one of these signatures to authorise transactions. Note that co-signatory accounts are not a Lloyd's requirement but may be taken into account when assessing the security of banking arrangements.

SECTION 10 – SYSTEMS AND CONTROLS

Question 10.1 – 10.3 – internal systems

Please note that 'systems' should be electronic but, if they are manual, we would need to be assured that service levels, especially relating to quality, quantity of information and speed, can be achieved.

SECTION 11 – BUSINESS CONTINUITY

Advanced planning and preparations are necessary to identify and deal with any emerging event, incident or crisis that may affect your business's ability to continue. So you should have arrangements in place to identify the effect of potential losses, and produce recovery strategies and plans which protect your business. You should provide

a comprehensive business continuity plan.

It may help you to consider the following points.

- Recovery timescales
- Communications (how information will be passed on both internally and externally)
- Infrastructure (for example, the resilience of your IT systems and the location of alternative offices)
- Succession planning
- How your recovery plans are tested and documented

SECTION 12 – REGULATORY AND LICENSING

Question 12.4 – Regional extension form

The reason that Lloyd's will require a regional extension form as well as an application form if you are intending to transact any business outside your own domicile is that as there are multiple regulatory regimes in each 'region' the extended undertakings contained in the regional extension form are necessary for regulatory purposes.

The Regional extension process (detailed in our 4 February 2008 bulletin) is a process which does easily fit in with the new-style paper coverholder application form. The prime reason why it was not included in the paper form is because of the protracted dialogue and paper exchanges that often occurs between the coverholder and the local Lloyd's General Representative for the Region.

Whilst the paper coverholder application form exists, Regional extensions can be applied for (at the same time as the coverholder application, if required) through the existing process - here's a link:

http://www.lloyds.com/Lloyds_Market/Market_participants/Coverholders/Changing_an_approved_coverholders_details/Approved_coverholder_regional_extensions.htm)

SECTION 15 – COVERHOLDER UNDERTAKING

For legal reasons, the **original** coverholder undertaking (page 22) must be submitted to the Delegated Authorities Team at Lloyd's. A photocopy or scan will not be acceptable.