

MARKET BULLETIN

REF: Y4311

Title	Service Companies Code of Practice
Purpose	To inform the market that Lloyd's has published the Service Companies Code of Practice
Type	Event
From	Peter Montanaro, Head of Delegated Authorities Lloyd's Franchise Performance 020 7327 5971 peter.montanaro@lloyds.com
Date	09 September 2009
Deadline	
Related links	Service Companies Code of Practice

Purpose

- To inform managing agents of the steps that Lloyd's is taking to ensure that authorities delegated to service companies are appropriately managed.
- To highlight the key risks associated with service companies and how those risks need to be mitigated/managed against Lloyd's minimum standards.
- To inform the market of Lloyd's intention to create a source of information, tools and support regarding service company activity within lloyds.com to encourage more consistency in processes and good standards in general.
- To confirm roles and responsibilities within Lloyd's for the oversight of service companies.
- To provide managing agents with detailed guidance to encourage a consistent and appropriate standard of management of service companies covering their creation, ongoing management and (if necessary) their closure.
- To confirm the specific Brand guidelines for service companies

Background

- Syndicate submissions for 2009 indicate likely premium income from service company business to be £1.46bn. There are 200 service companies managed by 36 managing agents. Lloyd's recognises that service companies are very much part of certain managing agents' strategies and there is no intention to restrict their use as long as they can be shown to be proactively managed.
- A 'service company coverholder (referred to in the Code simply as a "service company")' is an approved coverholder which Lloyd's has agreed can be classified as a "service company" by reason of it being a wholly owned subsidiary of either a managing agent or of a managing agent's holding company and which is normally

only authorised to enter into contracts of insurance for members of its associated syndicate and/or associated insurance companies.

- The practical advantages to Lloyd's classifying an approved coverholder as a "service company" include a Lloyd's approval process that adopts a more risk based approach to service companies, the ability if approved to use LMA 3078 wording and the ability to allow the service company to sub-delegate its authority to other approved coverholders.
- Lloyd's, through the Delegated Authorities Team (DAT) in FPD, works closely with the market's representatives involved in the delegated authority sector and there is support for greater consistency in service company oversight.
- It is recognised that more focus has been placed upon the establishment of service companies than on their subsequent performance in the past. This will not be the case in the future: one consequence will be to review the authorities held by existing service companies to ensure that they remain appropriate.

Lloyd's general expectations regarding service companies

- Lloyd's will create a new section of lloyds.com during 2009 to hold information relevant to the establishment and management of service companies.
- All of Lloyd's Franchise Standards apply to the formation of new service companies and to their ongoing management, recognising that managing agents will shape solutions to meet the level of risk involved.
- Managing agents are expected to manage their service companies to the same standard as any other part of their business, regardless of location, lines of business or other factors.
- Lloyd's will adopt a risk-based approach to the oversight of managing agents and their service companies.

Next steps

- Lloyd's will visit each managing agent with service companies during 2009 (and at regular intervals thereafter) to confirm their service company activity, discuss the authorities delegated, and to understand how those authorities are being managed.
- Lloyd's will continue to work with the market's leaders of delegated business to ensure that performance issues and risks are managed.