Following on from its market-wide review during 2013 and 2014, Lloyd’s is issuing this guidance to assist the market in developing appropriate and risk based systems and controls in order to comply with its obligations in respect of international sanctions compliance.

Managing agents should be aware that this guidance focuses on ‘systems and controls’, and does not seek to address the different legal issues arising from the various sanctions regimes applicable to the Market, which managing agents will need to separately consider, taking legal advice as necessary. This bulletin does not replace but is intended to complement previous sanctions guidance issued by Lloyd’s.

This guidance will be of assistance to Lloyd’s managing agents in benchmarking their existing sanctions compliance systems and controls, and will be of use to those seeking to develop a sanctions compliance framework. As such, this bulletin is also being sent to Lloyd’s brokers for their information.

It is split into three Parts:

- Part 1: Compliance
- Part 2: Delegated Authorities
- Part 3: Claims
PART 1: COMPLIANCE

This guidance is intended for Lloyd’s managing agents in assessing the adequacy of their own sanctions systems and controls. It may also be of interest to Lloyd’s brokers. Its purpose is to assist managing agents in establishing appropriate systems and controls in respect of international financial and trade sanctions, and it sets out considerations that should form the basis of an effective sanctions compliance framework.

The guidance is not intended to be prescriptive. It has been developed following Lloyd’s comprehensive review of the Market’s sanctions systems and controls, and therefore can be used by managing agents to benchmark their own sanctions compliance framework. Due to the diverse nature of business written in the Market, not all aspects of this guidance will apply to all managing agents. Each managing agent should develop their systems and controls in accordance with their own risk appetite and their sanctions risk assessment.

This guidance should be read in conjunction with existing Lloyd’s guidance, referenced throughout and listed at the end of this document. This guidance builds on the guidance provided in these documents but does not replace it.

Whilst the scope of the guidance is limited to sanctions compliance, many of the principles outlined may have relevance to other aspects of financial crime risk management, including anti-money laundering, bribery and corruption and fraud.

The guidance covers the follow key areas:

- Risk Assessment
- Governance
- Policies & Procedures
- Sanctions Screening
- Other Screening and Due Diligence Considerations
- Monitoring and Reporting
- Record Keeping
- Communications and Training

Whilst due diligence is touched on throughout the guidance, it is not discussed in detail as Lloyd’s has already issued detailed guidance on the principles of sanctions due diligence in Market Bulletin Y4560 – Sanctions Due Diligence Guidance. This document should be read in conjunction with this detailed Due Diligence Guidance.
Risk Assessment

Managing Agents should undertake a sanctions risk assessment, for the purpose of assessing the risk that international sanctions pose to their business, and to identify which aspects of their business are the most exposed. The risk assessment should then drive the sanctions controls in place across the business, which in turn will inform the managing agent’s Sanctions Policies and Procedures. It would be best practice for the risk assessment to be endorsed by the board, or the relevant board committee.

The risk assessment will vary depending on the nature of the agent’s business, but may be driven by the following considerations:

- **Class of business**, including whether the business is insurance or reinsurance.

- **Territorial exposures**, including the domicile of the insured, as well as the location of the risk(s), and other territorial exposures (for example, if there is the potential for moveable property to transit through a particular territory). This should also include an assessment of any service companies or branches overseas and whether they operate their own sanctions controls, or are reliant on the managing agent’s London controls. This should also include an assessment of any risk inherent in the local market, for example, where the managing agents writes business out of Lloyd’s China, Lloyd’s Japan or Lloyd’s Singapore, where local insureds / cedants may not be subject to the same sanctions requirements.

- **Distribution method / method of acceptance**, whether the business is open market, written as a line slip, written through a delegated authority arrangement, or as a master/group policy and whether the managing agent leads or follows.

- **Currency of policy**, and if the currency of the policy (specifically, if the policy is transacted in USD) could lead to additional sanctions exposure.

- **Counterparty risk**, including if the transaction involves a number of counterparties (for example, in reinsurance; a reinsured and an underlying insured, or under a marine policy; a ship owner, manager, charterer and consignee) who may be unknown to the underwriter at the time of binding the risk.

- **Product risk**, whether there is exposure to particular activities, goods and equipment, trade and services which are subject to trade sanctions.

- **Type of client**, including client operational structure (e.g., company or natural person) and whether the nature of the client’s business is inherently more exposed to sanctions – for example, a commodities firm or energy business.

- **The sanctions laws that may apply** to the managing agent, the activities insured or the parties to the insurance arrangements to be entered.

The risk assessment should also consider the managing agent’s ownership and the capital structure supporting the syndicates it manages, particularly where there may be US
interests in the syndicate. This is important because US sanctions legislation can apply to overseas entities with significant US interests (including, for example, US capital backing or US directors). Detailed guidance on US sanctions, including US secondary sanctions, and their applicability to the Market can be found in the legal memos prepared by Squire Patton Boggs and available on Crystal. Consideration should also be given to sanctions regimes of other jurisdictions, where there is substantial capital backing derived from those jurisdictions, for example Canada, which may impose unilateral sanctions that could impact the Lloyd’s market.

The sanctions risk assessment may form part of a wider financial crime risk assessment, which includes other financial crime risks, such as anti-money laundering and bribery and corruption. The risk assessment should be subject to regular review, to ensure it is kept up to date and responds to changes in sanctions regimes, or new products or new classes of business underwritten by the managing agent.

**Governance**

Managing agents should have a defined and documented governance structure in place with regards to sanctions compliance, including clear roles and responsibilities. Managing agents should consider the following when reviewing the governance structure in respect of sanctions:

- **Tone from the top:** There should be sufficient profile and attention devoted to sanctions compliance by senior management who should also ensure that the firm’s risk appetite around sanctions compliance has been clearly articulated to all staff.

- **Reporting to Board:** There should be an established mechanism for upwards reporting to the Board (or relevant executive committees) of relevant sanctions issues. It would be best practice to establish at least an annual report to Board covering all financial crime issues.

- **Decision making responsibility:** There should be a clear process for decision making in respect of sanctions issues, including a clear escalation process which sets out where sanctions issues warrant referral to the Board, or Board committees (for example, risk committee). The approach to decision making should be consistent.

- **Senior management ownership:** There should be sufficient staff with sufficient experience and seniority allocated responsibility for ‘day to day’ management of sanctions issues.

**Policies & Procedures**

Managing Agents should have in place a Sanctions Policy, which sets out the business processes in place to mitigate the sanctions risks identified pursuant to the sanctions risk assessment, as well as the overall risk appetite. The Sanctions Policy may form part of a broader Financial Crime Policy or Compliance Policy, but should be readily available to staff. The nature and scope of the managing agent’s business will dictate the format of the
sanctions policy; however it should address the following key areas, which are not exhaustive:

- **Risk appetite** – the managing agent’s risk appetite should be set out, as well as any specific factors that inform this decision, such as territorial exposure or corporate structure and ownership. Managing agents should also consider reputational risk factors.

- **Sanctions screening** – what system is used for screening, and at what point(s) the business is screened and who is responsible for which aspects of screening. Additionally, it should set out the process by which assurance is gained that the screening tool is working effectively, either through audit or regular calibration testing. It should also specify the data sources or lists which the screening tool uses.

- **Sanctions due diligence** – the policy should comment on the extent to which underwriters\(^1\) are expected to undertake due diligence both prior to binding a risk and during the life of a risk, and how this should be recorded or evidenced on the underwriting file. It should set out any types of business for which enhanced due diligence is required. A recommended source of information is the extensive guidance provided by Lloyd’s on Sanctions Due Diligence.

- **Reliance on third parties** – the policy should set out where reliance on third parties for any aspect of sanctions compliance, for example screening or due diligence, is permitted and has been agreed. Where there are expectations that underwriters or claims handlers will take steps to validate or verify any due diligence information provided by third parties, this should be explicitly outlined. Managing agents should be aware that even when authority is specifically delegated to a third party to manage any aspect of sanctions compliance, they remain liable for any breach. Lloyd’s requires robust processes and procedures to be in place for delegated authorities arrangements; however this subject is handled in detail in Part 2 of this document, relating to Delegated Underwriting Arrangements.

- **Claims handling processes** – the policy should include any due diligence or screening requirements applicable to claims handling, including screening requirements applicable to third party payees who may not have been subject to batch screening. Detailed guidance regarding claims handling can be found in Part 3 of this document.

- **Trade sanctions and the Export Control Order**, should be considered in addition to financial sanctions. Information on the Export Control Order can be found in Market Bulletin 4412.

- **Escalation processes** – the policy should establish a clear escalation process for any risks where a potential sanctions issue is identified, with clear referral criteria outlined.

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\(^1\) Whilst this guidance references ‘underwriters’ undertaking due diligence and screening in the first instance, Lloyd’s recognises that some managing agents may prefer Compliance to undertake due diligence in the first instance.
This should specify who has ultimate decision making responsibility in respect of sanctions issues. Many managing agents adopt a ‘red flag’\(^2\) approach, whereby they set out a matrix ‘red flags’ which, where identified in a potential risk or during the claims handling process, should trigger the need for a referral to Compliance.

- **The use of risk mitigation tools**, including sanctions exclusions clauses and other exclusionary language. This should include any mandatory requirements set down by the managing agents and any referral process to compliance if, for example, the sanctions clause varies from the standard. For further information regarding sanctions clauses, refer to [Lloyd’s Guidance on Sanctions Clauses](#).

Policies and procedures should be subject to regular review, at a minimum of annually, but ideally in response to any fundamental legislative or regulatory requirements.

### Sanctions Screening

Lloyd’s expects all managing agents to make use of appropriate electronic screening tools. Whilst manual screening may be appropriate for pre-bind or pre-payment screening on a risk sensitive basis, Lloyd’s considers that the scale of the market’s business means that periodic screening of live risks is unlikely to be effectively undertaken through manual screening.

**NB:** Automated sanctions screening is a useful due diligence tool to identify possible financial sanctions concerns, but will not assist in an assessment of whether trade sanctions or arms embargoes apply to a specific transaction. Automated sanctions screening should therefore be operated in conjunction with manual screening and additional due diligence, on a risk sensitive basis. Lloyd’s guidance on sanctions due diligence is outlined in [Market Bulletin Y4560](#).

- **Pre Bind Screening**

Managing agents should undertake pre-bind screening of risks on a risk sensitive basis. Some managing agents have linked their underwriting system directly to their screening tool, which means that any information entered for the purposes of quoting for a risk is automatically screened – achieving pre-bind screening of all risks. However, this may not be possible for all managing agents and/or all classes of business.

Where pre-bind screening cannot be automated, managing agents should set clear criteria for the types of risk which require pre-bind screening, which should be linked to their overarching sanctions risk assessment. Guidance should also be provided as to what information should be screened, as for some classes of business it may not be sufficient simply to screen the insured – it may also be necessary to screen other parties, including

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\(^2\) ‘Red flags’ refers to the identification of certain criteria which highlight heightened sanctions risk, and may include certain countries, product types, or lines of business.
beneficial owners, reinsureds, contractors, charterers or other beneficiaries under the contract.

Evidence of pre-bind screening should be kept on the underwriting file, in the event the screening tool does not automatically keep an audit trail.

- **Automated Batch Screening**

Managing agents should periodically screen their book of business post-bind using an automated batch screening tool (in addition to using other manual screening measures, where appropriate). The frequency of screening should be determined with reference to the managing agents' own sanctions risk assessment, however Lloyd's general position is that anything less frequent than monthly screening of the book is likely to be insufficient.

Care should be taken to ensure that the configuration of the screening filter is aligned to the firm's risk appetite, appropriately calibrated in light of the managing agent's risk assessment. There should be a process in place to test the effectiveness of the screening tool – for example, a ‘test file’ process or regular review by an external provider, particularly if the managing agent operates an 'in-house' screening tool (i.e. – one they have designed and built in-house).

The sanctions lists which risks are screened against should align to the managing agent's risk assessment. Where lists need to be manually updated, these should be updated on a timely basis following any changes to the regulatory source. Access to configuring the screening tool should be restricted to relevant personnel only.

- **Pre-Payment Screening**

All payments should be screened prior to funds being released. In many cases, managing agents have their automated screening set up so that it screens all insureds each night, or so that it screens their claims system. However, care should be taken to ensure that any loss payees / third party payees who may not be named under an insurance contract are subject to screening prior to a payment being made for their benefit. This is especially the case for lines of business with any liability cover – for example, general liability, directors' and officers' liability and professional indemnity, as well as under master policies or group contracts.

The pre-payment screening process should also cover the ‘flagging’ of risks or claims which require additional due diligence or need to be frozen, as well as appropriate measures performed at appropriate times for ‘blocking’ claims or payments where sanctions concerns have been identified. Consideration should also be given to a process for freezing assets, or applying for a licence to deal with the release of any frozen assets, where applicable.

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3 There are a number of firms who offer independent testing of the calibration and operation of sanctions screening systems. A 'test file' process is commonly used, whereby a dummy file is run through the screening tool with deliberate positive hits in it, to verify if the system picks these hits up.
Detailed guidance on claims handling and pre-payment screening can be found in Part 3 of this document.

- **Process for clearing false positives**

There should be a documented and clear process in place for reviewing and clearing false positives, with an agreed service standard in place.

**Other Screening and Due Diligence Considerations**

There are certain types of insurance contracts, or features of insurance contracts, which give rise to specific screening concerns, largely due to the fact that information may be added about the risk, or about insureds, which may not automatically be picked up by any electronic screening solution. These types of contracts / areas of particular risk are considered below, under each of the relevant headings.

Managing agents should consider these areas, and put in place risk-sensitive procedures to manage the screening of these additional risks or insureds.

- **Endorsements**

Managing agents should consider the screening process for endorsements, particularly where endorsements are used to add additional insureds. This may include a process for ensuring endorsements are picked up in the regular automated batch screening, or it could require endorsements to be manually screened before they are bound, in accordance with the risk assessment. Other areas where endorsements need to be careful considered include endorsements which add a new activity / type of coverage which the contract did not previously cover, for example, the addition of oil or arms to a contract. Where an endorsement fundamentally changes the nature of the contract, due diligence should be conducted as if the contract was a new risk. Further, where an endorsement extends a contract for a period of time, consideration should be given to whether any new sanctions have come into effect which may alter the ability to continue to provide cover.

- **Additional insureds**

Where an additional insured is added to a contract, managing agents should ensure they undertake due diligence and screening on the same basis as though they were assessing an original insured.

- **Group or master policies**

Managing agents should consider the screening approach for group or master policies, which are issued to a single insured but may have many individuals declared to the master policy, who are provided cover and may make a claim under the insurance policy. At a minimum, managing agents should ensure that all beneficiaries under a master or group policy are screened prior to a payment being made.
The use of territorial exclusions and / or sanctions clauses on these types of policies is strongly recommended to limit exposure for territories or types of activity where the provision of coverage may constitute a breach of sanctions.

- **Territory specific screening requirements**

Managing agents should consider if any territory-specific screening requirement apply to specific areas of their business, for example, to overseas branches or subsidiaries. Branches and subsidiaries may be subject to local screening requirements, in addition to the requirement to screen UK/EU lists (and any other lists mandated by the managing agent).

**Monitoring and Reporting**

Sanctions controls should be subject to periodic monitoring to ensure they are working effectively – through compliance monitoring, quality assurance and audit. Additionally, policies should be subject to regular review, and there should be processes in place (including allocation of responsibility) for ensuring any regulatory reporting is fulfilled.

- **Monitoring**

The effectiveness of sanctions systems and controls should be included as part of the standard compliance monitoring process. Whilst there is no standard form this should take, during our review of the Market, we observed several different types of compliance monitoring or exception reporting, which included:

- Reporting and checking of risks bound in territories which were the subject of sanctions,
- Sample checking of underwriting files to ensure due diligence and screening had been undertaken, where appropriate,
- Reporting on the use of sanctions clauses, either through MI reporting or as part of contract certainty checking,

- **Monitoring of outsource arrangements**

Where any aspect of sanctions compliance has been outsourced to a third party, managing agents must ensure they regularly monitor the performance of the third party to ensure they are fulfilling their obligations. In many instances, a formal audit is the most effective way of ensuring they are acting in accordance with the managing agent’s instructions. Appropriate controls, such as rights of audit or review, should be included in outsourcing contracts.

- **Peer Review**

As part of the monitoring process, managing agents should consider to what extent they include sanctions and financial crime due diligence as part of the peer review process. It
may be appropriate for the peer review process to consider the adequacy of the due diligence undertaken, and whether a sanctions clause has been included, particularly for higher risk classes of business

- **Internal Reporting**

Managing agents should consider having regular internal reporting on relevant sanctions matters, including reporting to board level, where appropriate. This could include an assessment of the impact of new sanctions regimes or a report concerning the effectiveness of the sanctions controls.

- **Regulatory Reporting**

Managing agents should have a process in place for reporting of notifications or hits, covering any required reporting to HMT, Lloyd’s and the FCA (as well as any other regulators they may have an obligation to report to). Managing agents may also have obligations to report under Project Brass, for issues identified pursuant to the UK Export Control Order. Further information on this can be found in [Market Bulletin 4412 – Export Control Order 2008](#).

**Record Keeping**

It is imperative that records of any due diligence or screening are maintained, and are accessible in the event of future regulatory enquiries. Managing agents should ensure that both underwriters and claims handlers are keeping records of any due diligence work undertaken, and consideration should be given to keeping records of the fact that no additional due diligence was required in certain circumstances – for example, that they have screened a particular insured and no hits were returned.

**Communications and Training**

Managing agents should ensure that the Sanctions Policy and Procedures are communicated to staff, and are readily available for staff to refer to. Where fundamental changes have been made to the policy or procedures, these should be communicated to staff.

There should be an established method for the prompt distribution of other sanctions related information to relevant staff – particularly information regarding new sanctions regimes.

Managing agents should ensure their training programme includes sanctions training and that the training provided to staff is appropriate to the nature of their role within the business. It is important that specific sanctions training is provided on a regular basis to staff members who undertake any transactional related business, including underwriters, claims handlers and finance personnel who may make payments to external parties, including suppliers. Training on the Sanctions Policy and Procedures should be provided to these transactional staff as part of their induction.
Consideration should be given as to whether higher risk areas of the business need bespoke training, and the content of training should be reviewed and updated regularly, given the pace of change within the sanctions sphere and the nature of risks underwritten within the market.

**Additional Resources**

- [Market Bulletin 4560 - Sanctions Due Diligence Guidance for the Lloyd’s Market](#)
- [Market Bulletin 4832 – Lloyd’s Guidance on the Use and Purpose of Sanctions Clauses](#)
- [Market Bulletin 4412 – Export Control Order 2008](#)
PART 2: DELEGATED AUTHORITIES

Introduction

This guidance is intended for all managing agents who underwrite business using delegated authorities, in addition to Lloyd's brokers, who play an important role in the relationship between managing agent and coverholder4.

This guidance has been prepared in consultation with the Lloyd’s Market Association and various managing agents and brokers. It is intended to apply irrespective of whether the managing agent is in a lead or follow position on a binding authority. However, Lloyd’s recognises that practical difficulties in obtaining information and setting expectations can exist where a managing agent follows on a binder.

Whilst the guidance is specific to international sanctions, many of the principles contained within it may have application to other aspects of financial crime risk management, for example, anti-money laundering or anti-bribery and corruption.

It is intended to be complementary to, and read in conjunction with, Market Bulletin Y4727 and Market Bulletin Y4560. It focuses on these key areas:

- Governance
- Risk assessment of coverholders
- Due diligence of new coverholders
- Sanctions screening by coverholders
- Sanctions clauses
- Training
- Audits

In addition to the risk of a breach of sanctions, managing agents are required by FCA regulation to have in place appropriate systems and controls to mitigate their exposure to financial crime (which includes sanctions). Where authority is delegated, managing agents have a responsibility to ensure their coverholders are operating appropriate systems and controls to mitigate such risk. The purpose of this guidance is therefore to assist managing agents in establishing appropriate systems and controls relating to their coverholders, to ensure compliance with applicable sanctions and regulatory requirements connected to sanctions.

4 For the purposes of this guidance, ‘coverholder’ should be understood to include both coverholders and service companies. Third Party Claims Administrators (‘TPAs’), a form of delegated claims handling authority, are covered in the Claims Sanctions Guidance document.
**NB:** Managing agents should keep in mind throughout this guidance that they are liable for breaches of sanctions legislation by coverholders (and any other agents) acting on their behalf.

**Governance**

Responsibility for the oversight of financial crime and sanctions compliance by coverholders should be clearly defined and documented. A best practice approach would be to vest ownership for coverholder sanctions compliance with a single department and not be split across multiple functions. This will avoid a potential for inconsistency of approach, loss of information or confusion in communications or responsibilities.

To support this approach, the relevant written delegated underwriting procedures should set out a formal escalation process for sanctions issues, including who has ultimate decision making responsibility for resolving any issues. They should be kept under regular review.

**Coverholder Risk Assessment**

It is important that managing agents assess the level of sanctions risk posed by the business conducted by each of their coverholders, and ensure that proportionate controls are in place to counter it. In order to do this, a formal coverholder risk assessment should be undertaken, documented and easily accessible.

Managing agents should also consider building a risk assessment\(^5\) into their due diligence process for new coverholders, so that appropriate and proportionate sanctions controls can be agreed with the coverholder at the outset of the relationship.

Whilst general guidance as to the suggested criteria for a sanctions risk assessment is provided in Part One of this guidance, below are some additional criteria which could inform a coverholder-specific risk assessment:

- **Class of business** - particular consideration should be given to coverholders who write ‘moveable property’ risks (for example, cargo), or other classes which are more exposed to sanctions risk.

- **Domicile of coverholder** - consideration should be given to coverholders that are domiciled in countries where sanctions apply, or countries which regularly transact with sanctioned states.\(^6\)

- **Territorial exposure** - consideration should be given to the territorial limits of the binder, including whether the coverholder has permission to underwrite in countries subject to sanctions, or if the coverholder has a worldwide binder.

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\(^5\) Whilst this guidance is specific to sanctions, the risk assessment should also consider the risk of other types of financial crime, including money laundering and bribery and corruption. For guidance on these aspects of financial crime, please see [Lloyd’s Market Bulletin Y4727](#).

\(^6\) For holistic risk assessments which consider other financial crime risks, managing agents may want to consider other risk indexes, such as [Transparency International’s Corruptions Perception Index (CPI)](#) which can be used to assess bribery risk, or on the [Financial Actions Task Force’s (FATF) list of jurisdictions assessed as high risk and non-cooperative](#), for the assessment of AML risk.
• **Level of delegation of authority** - consideration should be given to whether the coverholder has full binding authority, or if the binder is prior submit, in addition to whether the coverholder has claims handling authority.

• **Level of financial crime controls** - consideration should be given to the level of financial crime controls the coverholder currently exercises or has the potential to exercise. For example, some coverholders are large, sophisticated organisations with an established compliance framework and standalone sanctions screening, whilst others may not have a formal compliance function.

The coverholder risk assessment should be documented and subject to review, ideally at least annually on renewal of the binder. In the event that any of the key risk assessment criteria change during the life of the binder, for example new territories or classes of business are added to the terms of the binding authority, the risk assessment should be immediately reviewed. The overall coverholder risk assessment process should also be documented and form part of the managing agent’s sanctions compliance procedures.

Following on from the risk assessment, it is important that the managing agent clearly communicates to its coverholders the controls it expects the coverholder to exercise, the rationale for why these controls are required and that such controls are appropriately incorporated into the terms of the relevant binding authority.

**Due Diligence - New Coverholder Arrangements**

Under the Delegated Underwriting Code of Practice, a coverholder needs to demonstrate they have in place adequate processes to manage the risk of financial crime. This means that managing agents should satisfy themselves as to the adequacy of a coverholder’s financial crime and sanctions controls when entering into a new binding authority. The following principles should be adopted in respect of coverholder due diligence when considering if the proposed coverholder has adequate controls in place:

• **Risk sensitivity** - the controls should be risk sensitive, and may therefore vary depending on the type of business the coverholder is binding on the managing agent’s behalf. Typical controls could include robust sanctions policies and procedures, sanctions screening tools and escalation processes, and sound training processes, and are discussed in greater detail in Market Bulletin Y4727.

• **Consistency** - managing agents should be consistent as to the level of sanctions controls they expect, and should not accept a lesser standard of controls from a coverholder than if they were writing the same type of business on an open market basis.

• **Vetting of coverholder prior to appointment** – in addition to assessing the coverholder’s financial crime compliance capabilities, managing agents should carry out due diligence screening on the coverholder and its directors, using screening tools.

As a minimum, managing agents should request sight of the coverholder’s sanctions policy and procedures and assess whether they are adequate. This assessment of adequacy should be made by the department with responsibility for financial crime compliance. These
do not necessarily need to be standalone documents, and may be covered in a general compliance manual.

Where a coverholder is required to conduct sanctions screening on the managing agents behalf, managing agents should satisfy themselves that the coverholder has the capability and resources to undertake this screening, with an appropriate escalation process in place – this subject is discussed in more detail under the section entitled ‘Screening’.

Finally, the managing agent should consider if the coverholder has completed and keeps up to date with appropriate training on sanctions and financial crime compliance.

- **Subscription Market Issues**

Where a lead managing agent has conducted due diligence on a prospective coverholder, they should endeavour to share the coverholder’s key documents with the followers on the binder via Atlas, to save followers duplicating the due diligence and making duplicate enquiries of the coverholder. Atlas offers a very useful facility through which relevant documents can be uploaded to share with other managing agents on the binder.

While followers on the binder may not have access to the same level of information as the lead, they still need to satisfy themselves that the coverholder has proportionately managed the sanctions and financial crime risk which their business exposes them to.

**Sanction Screening by Coverholders**

An essential aspect of the coverholder’s sanctions processes is the extent to which they should conduct sanctions screening on the managing agent’s behalf and also in response to the coverholder’s domestic sanctions legislation. Coverholders should sanction screen risks on the managing agent’s behalf on the same basis as the managing agent would if it were binding the business directly.

The coverholder risk assessment should drive the level of screening that the managing agent requires the coverholder to undertake, and managing agents should be specific as to what sanctions lists they require the coverholder to screen against, the frequency and depth of such checks, what terms they require the coverholder to impose in contracts underwritten on the managing agent's behalf with respect to sanctions and what they require the coverholder to do where a match is identified.

Where the coverholder is conducting sanctions screening there should be an agreed escalation process between the coverholder and the managing agent, if the coverholder identifies a “false positive” or true hit in the screening results or a trade sanctions issue arises. This process should be clearly documented.

- **Pre-Bind screening by coverholders**

Managing agents may require the coverholder to conduct pre-bind screening against relevant sanctions lists. This will be imperative for coverholders that are binding business in
jurisdictions which present a higher level of sanctions risk, e.g. where the provision of (re)insurance for certain transactions is deemed to be a criminal offence.

Where pre-bind screening is conducted, managing agents should require that the coverholder keeps a documentary record of the screening results on its underwriting file. Managing agents should also explicitly state which lists they require the coverholder to screen against and ideally the agreed process should be set out in writing at the commencement of the relationship.

Managing agents may be able to facilitate a coverholder’s pre-bind screening by providing it with access (e.g., a licence) to their own screening software or to their own underwriting console, which conducts screening of quotes, and therefore automates the screening process for the coverholder.

Even if every insured is screened pre-bind, an individual or entity may be designated during the life of the policy. In the event of a claim, the coverholder and managing agent are then at risk of making payment to a designated entity if there is no post bind or pre-payment screening. To mitigate this risk, pre-bind screening should be complemented with appropriate post-bind screening, again in line with the risk assessment and agreed processes documented prior to the start of the relationship.

Where the coverholder does not have an existing screening tool, and it is cost-prohibitive to give access to the managing agent’s own tool, an option may be to use a provider such as Sanctions Search, which is a simple web-based portal to conduct screening against a variety of lists (provided that this is appropriate in light of the managing agent’s risk assessment in relation to the coverholder and its prospective activities). More information regarding Sanctions Search can be found here.

- **Post-bind screening of coverholder business**

Lloyd’s recognises that in certain circumstances it may not be proportionate for coverholders posing a lower sanctions risk to conduct pre-bind screening. The managing agent’s risk assessment of the coverholder should document the rationale for the screening the coverholder is carrying out on their behalf.

- **Automated (‘batch’) screening of coverholder business**

In respect of automated (‘batch’) screening of coverholder business, managing agents should consider the following, in conjunction with their coverholder risk assessment:

  - **Central screening by Lloyd’s** - Lloyd’s conducts post-bind and pre-payment screening of coverholder business in certain jurisdictions\(^7\) - currently Canada\(^8\). This may be sufficient for certain books of coverholder business, however managing agents should make their own assessment as to the adequacy of this screening. For further information on the screening that is carried out on behalf of Canadian coverholder business, please see Market Bulletin Y4828.

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\(^7\) This facility is expected to be extended to include Italian coverholder business by the end of 2015.

\(^8\) Canadian screening is limited to certain classes of business, and domestic Canadian business only.
Batch screening of coverholder data loaded into underwriting system - Some managing agents require coverholders to input the risks they bind into the managing agent’s central underwriting tool, which allows coverholder business to be batch screened in the same manner as open market business.

Bordereaux Cleansing and Screening - Some managing agents are investing in bordereaux cleansing software, which allows coverholder bordereaux to be screened through the managing agent’s own screening tool. When adopting this approach, consideration should be given to the timing of the receipt of bordereaux, as in certain cases this may not occur until some months after the risk has been bound, which may make this method insufficient where pre-bind screening is appropriate.

- Pre-Claims Payment Screening by Coverholders

Managing agents should ensure that coverholders with claims handling authority screen every payee (including third party payees) prior to making a payment. This is because the ‘making funds available’ offence remains a risk even in lower risk jurisdictions; for example, a number of designated entities and individuals are located in Europe and the US. All claims screening expectations should be clearly stipulated in the terms of the binder.

Claims screening requirements relating to coverholders, service companies and third party administrators are comprehensively covered in the Claims Guidance, which managing agents who delegate claims handling authority should review.

- Elimination and escalation of hits

Managing agents should ensure that, prior to entering into the binder, the process for handling false positives and any ‘true’ matches is documented and understood by the coverholder.

Sanctions Clauses and Other Exclusions

Managing agents should ensure that there is an appropriate anti-financial crime and sanctions clause in each binding authority agreement entered into with coverholders.

Managing agents should, on a risk sensitive basis, consider whether it is necessary to require coverholders to include a sanctions clause on all certificates issued under the binding authority. Where this is required, this should be checked during the coverholder audit.

Training

Managing agents should ensure key coverholder staff (e.g., those involved in underwriting or claims handling activities) undertake appropriate sanctions training. Lloyd’s provides financial crime (including sanctions) eLearning modules, which may satisfy their training needs.

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9 LMA 3113, LMA 3114, and LMA 3115 each contain a suitable clause based on LMA 5173, which meets Lloyd’s expectations.
requirements, however coverholders may have their own or sanctions training programme in place. Where a managing agent requires a coverholder to complete the Lloyd’s eLearning Modules, they should request that the coverholder uploads the completion certificate to Atlas, so that others in the Market can note the results and avoid making multiple requests of the same coverholder.

Managing agents should also be satisfied that coverholders who are conducting sanctions screening using the managing agents’ own sanctions screening tool are appropriately trained in how to use the system, including how to correctly interpret the screening results and to understand the required escalation or elimination processes.

Management information
Managing agents should consider what management information (‘MI’) is available to assist them in ensuring coverholders continue to manage sanctions risk appropriately. Whilst each managing agent will determine its own approach to MI, consideration should be given to the following:

- **Screening tool usage statistics** – where a managing agent has given the coverholder access to their own sanctions screening tool, data may be available as to the frequency with which they are using the tool.

- **Review of bordereaux for high risk business** - where a managing agent has high risk binders, they may wish to consider periodically reviewing coverholder bordereaux to ensure the business is being bound in line with expectations.

- **Review of referrals from coverholder** – where a managing agent receives referrals from the coverholder, either with regard to screening results or other queries related to sanctions compliance, this data may be useful to review to identify recurrent themes, exposures, practices or failures and therefore enable the managing agent to enhance its management of the sanctions risk posed by the coverholder.

- **eLearning training completion rates** – where a managing agent requires completion of the Lloyd’s eLearning training modules, completion statistics are available on request from the Lloyd’s Delegated Authorities Team.

- **Audit findings relating to sanctions** – where a managing agent has audit findings relating to sanctions for its coverholders, this data may be useful in identifying coverholders who may need additional training or support from the managing agent.

Audits
Coverholder audits are a key control to ensure coverholders are effectively managing sanctions risk on behalf of the managing agents. There are different points to bear in mind when considering how sanctions should be covered during the coverholder audit process, which are detailed below:
• **Frequency** - the frequency of coverholder audits should be consistent with the coverholder risk assessment. Managing agents should consider auditing high risk coverholders annually. Where a full audit is impractical but the business is high risk, managing agents should consider monitoring the coverholder’s sanctions compliance - for example, a review of the coverholder’s bordereaux, policies and procedures.

• **Scope** - the scope of the coverholder audit should include sanctions and financial crime, to a level of depth proportionate to the risk assessment of the coverholder being audited. For example, if it has been agreed that the coverholder will conduct sanctions screening at certain stages of the policy, the audit should consider the effectiveness and frequency of the coverholder’s screening process to ensure that its corresponds to the requirements laid down by the managing agent.

The [Lloyd's Coverholder Audit Scope](#) contains a detailed menu of questions covering both sanctions and financial crime compliance which should be considered when setting the audit scope. The Lloyd’s Audit Scope as it relates to sanctions should be used on a risk sensitive basis, and managing agents will need to consider what testing they require the auditors to undertake, and what supporting evidence they require. This should be developed in line with the expectations they set out to the coverholder at the outset of the binder.

• **Post-Audit** - once the audit is complete, findings should be communicated back to the Delegated Underwriting Manager (or equivalent). Where there are sanctions related findings, guidance may need to be sought from the Compliance team as to appropriate remedial action.

Findings should be prioritised in accordance with the audit’s significance rating, and followed up by the managing agent appropriately. Where there are significant concerns regarding the coverholder’s sanctions compliance, managing agents should consider whether more intensive monitoring of the coverholder until these concerns are remediated, or if may be appropriate to terminate the binder.
PART 3: CLAIMS

Introduction

This guidance is intended primarily for Compliance Managers who, working in consultation with senior claims personnel, will need to ensure their claims team has in place appropriate sanctions procedures. This guidance has been prepared in consultation with the Lloyd's Market Association and various Managing Agents and brokers. It is intended to be complementary to, and read in conjunction with Parts 1 and 2 of this guidance.

Format of Guidance

This is not “Minimum Standards” guidance, but instead is intended to assist Managing Agents by outlining factors to be considered in respect of their claims handling operations in order to meet applicable legal and regulatory standards. With the exception of the Lead/Follow expectations outlined in Section 2.1 below, the guidance is not intended to be prescriptive, as the procedures each Managing Agent will need to adopt will vary depending on their risk profile and the nature of the business they conduct.

The procedures developed through use of this Guidance should apply to Managing Agent claims teams, Lloyd’s service companies and coverholders with claims handling authority, as well as all third party administrators (TPAs) used by Lloyd’s Managing Agents and coverholders.

Relevance of sanctions to claims handling operations

Under many sanctions regimes, the mere provision of cover to a sanctioned party is not a ‘breach’ of the applicable sanctions – rather a breach will occur when an insurer ‘makes funds available’ directly or indirectly to or for the benefit of a sanctioned entity, through payment of a claim or return of premium. For this reason, claims operations have a key role in mitigating exposure to sanctions.

Secondly, changes to sanctions exposure can take place between the point a risk is underwritten and the time a claim is paid. Sanctions lists can change, meaning that an individual who was not subject to sanctions at the time of underwriting may become subject to sanctions by the time a claim is made. The sanctions to which a Managing Agent is exposed may also change over time. It is due to this that claims operations are exposed to different sanctions risks than other operations.

Why this is important

Those developing claims procedures pursuant to this Guidance should be mindful that the risk presented by sanctions is twofold:

Managing agents should also be mindful that UK implementing legislation contains restrictions on ‘dealing in’ funds received from asset freeze targets, and additional prohibitions relating to the provision of ‘financial services’ to designated persons are contained in the Terrorist Asset-Freezing etc. Act 2010.
• the risk of a **breach of applicable sanctions**.

• the risk that regulatory bodies to which Managing Agents, coverholders, service companies and TPAs are answerable may find their systems and controls to be inadequate to mitigate the risk posed to them by sanctions (a "**systems and controls failure**").

Additionally, the distinction between various types of sanctions regimes, and their potential impact upon claims, should be well understood. To that end, Lloyd's offers the following brief descriptions of the broad categories of sanctions that may apply in the claims context:

**‘Trade sanctions’** — are sanctions which target particular sectors of a target country’s economy, types of trade or particular products. They cannot be identified through merely screening the name of the insured, as they relate to particular prohibited activities (e.g. shipping Iranian oil) which may have been carried out under the insurance contract.

**‘Financial sanctions’** — are also known as ‘asset freezing measures’ ‘smart’ or ‘targeted’ sanctions. They are sanctions which target a **named individual or entity**, and have the effect of freezing their assets, meaning that you cannot ‘make funds available’ to them, directly or indirectly, either through payment of a claim or return of premium. You can identify if financial sanctions may apply to a claimant or payee by running their name through your sanctions screening tool.

**Policies & Procedures**

All claims operations should have in place and follow documented claims sanctions policies and procedures. These can be standalone or form part of the overall claims handling procedures. Claims sanctions procedures should cover the following broad areas, which are not exhaustive:

• **Sanctions compliance expectations**: What is expected of claims handlers should be clearly defined. These expectations should be based on the Managing Agents’ overall sanctions risk assessment. It is expected that the procedures will make clear that the size of a claim and/or potential payment is non-material to an assessment of sanctions risk. It should set out the level of due diligence (including screening) required, and what screening tools (if any) should be used when handling claims and prior to making payments. Any requirement to refer claims which meet certain criteria to Compliance should also be clearly stated.

• **Documentation of due diligence**: The level of documentation required should be set out so that claims handlers are aware in what circumstances they are required to evidence due diligence or screening they have undertaken and how it should be evidenced, e.g. print-outs of results or notes on system.
• **Escalation process:** The procedures should detail how and who to any referrals of suspicious transactions or sanctions matches should be made and when this should be done. Best practice would include the logging of all referrals with commentary detailing how the referral was resolved.

• **Claims peer review:** Best practice claims peer reviews will consider sanctions compliance in addition to operational matters. Where possible, a log of peer reviews conducted should be kept for audit and future reference purposes. Please note that for the purpose of this guidance, “peer review” refers to the periodic review of claim files within the claims team itself, and not as part of a Managing Agent’s larger audit process.

• **Lead / follow:** Procedures should set out the approach to be undertaken when the Managing Agent is a lead or claims agreement party, as well as where the Managing Agent acts in a follow capacity.
  
  o **NB:** Lloyd’s expects that all Leaders will screen claims against UK, EU and US sanctions lists and will conduct appropriate checks for trade and other sanctions requiring manual checking. Where a positive sanctions hit is identified, and in order to allow followers to perform further checks on claims, the Lead shall promptly provide followers with such information as they require to perform those checks in sufficient time before the claim is agreed/paid (and shall refrain from agreeing claims on behalf of those followers until they have indicated to the Lead that they are in a position for the Lead to do so).

  o Lloyd’s does not prescribe the method through which followers are notified of positive hits, but merely expects that it be done in a prompt and transparent manner.

  o The Lead shall allow a reasonable period of time in which the followers may conduct such checks and shall liaise with the followers regarding the results of any sanctions checks prior to approving payment of a claim.

  o Followers shall assess what financial crime checks (including Anti-Money Laundering / anti-corruption / sanctions checks) have been performed in relation to the claim by the Lead and perform such further checks as they deem necessary in a timely manner (via the broker, if required).

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**‘Positive hit’** – where a name (either an entity or individual) is matched to an entry on a sanctions list or where trade or other sanctions requiring manual checking are confirmed as applicable in relation to the claim made.
Claims Due Diligence

'Due diligence' – in a sanctions context is the process of investigating a claim before payment is made to ensure that payment of the claim or the provision of other services in relation to it do not raise any sanctions issues or concerns.

The approach to due diligence at the point of claim notification and pre-payment should be risk sensitive, and flow from the Managing Agents’ overall sanctions risk assessment. Consideration should be given not only to the territory in which the claimant is based or the risk is located, but also to the class of business, type of product or activities being insured. Additional guidance on sanctions risk assessments can be found in Part 1 of this guidance. For example, a Managing Agent may require that limited due diligence be undertaken for a UK motor claim (for example, merely screening the name of the payee), but require much more extensive due diligence for a marine cargo claim.

Care should be taken when assessing details of payees, to ensure all those directly or indirectly receiving or benefitting from the money are captured under the due diligence process.

'Red flag' system

'Red flag system' – the identification of certain criteria which highlight for claims handlers the need for additional sanctions enquiries or investigation to be undertaken.

An essential part of the due diligence process is a documented and well understood ‘red flag’ system. Red flags may include:

- **Sanctioned countries** – a list of countries which are subject to financial or trade sanctions.

- **Countries subject to an arms embargo** – a list of countries subject to an arms embargo should be provided, in addition to a list of sanctioned countries, to claims handlers who have the potential to deal with claims affected by arms embargoes (marine and aviation cargo claims).

- **Sanctioned products / activities** – These vary and depend on the sanctions regime, but the most common are energy sector products (oil, gas, petrochemicals). Trade sanctions can include both imports and exports of sanctioned raw materials or goods, as well as movement of them within a sanction country.\(^\text{11}\)

In some cases, the ultimate beneficiaries or persons receiving the payment may not necessarily be the persons listed in the policy document. They may be majority

\(^\text{11}\) The Export Control Organisation (ECO) keeps lists of parties who have been denied export licences due to sanctions concerns – for example, the BIS Iran List. These can serve as useful ‘red flag’ tools for claims handlers when assessing claims where trade sanctions may be relevant.
shareholders of the insured companies or owners of vessels who are not listed in the insurance policy but are in fact those receiving the funds (when it is a vessel manager listed as a claimant under the policy).

Where the information is available, beneficial owners or those with a financial interest in any payment should be screened prior to payment. Lloyd’s does not dictate the extent to which a Managing Agent must undertake due diligence to identify and screen beneficial owners, but expects Managing Agents to adopt procedures that are appropriate and proportionate to the risk associated with a class of business or particular risk. For further guidance on how to approach due diligence, please see Lloyd’s general guidance on Sanctions Due Diligence, Market Bulletin Y4560.

Under certain contracts (e.g. liability) the payees are often third parties that would not typically be included in a Managing Agent’s underwriting system and therefore would not have been subject to automated batch screening. It is important to screen third-party payees as they may be subject to sanctions.

**Limitations of the ‘red flag’ system**

Whilst the use of a ‘red flag’ system is a good way to identify the need for additional due diligence, best practice is to use a red flag approach in conjunction with automated “batch” screening of payees. This is because there are numerous individuals and companies who are subject to UK or EU asset freezes, or who have been named as ‘specially designated nationals’ (‘SDNs’) by the U.S Treasury, not all of whom are located in sanctioned territories.

There are a number of sanctioned individuals who are located in the UK or EU, for example, and therefore a red flag system which considers only sanctioned territories will not pick up these individuals.

**Documentation of due diligence**

There should be a consistent approach to the recording of due diligence, including manual screening, that is undertaken on claims files. Records of due diligence and screening undertaken are essential in the event that a claim decision is subjected to regulatory enquiry but are also useful for those conducting peer review and/or internal audits. In addition, because certain long-tail claims can be handled by a number of claims professionals, it is important that anyone reviewing a file can understand what, if any, sanctions due diligence has been undertaken.

**Claims Screening**

The general principles for sanctions screening are set out in the Lloyd’s Sanctions Compliance Guidance. However, there are certain aspects of screening which should be considered by claims teams, in consultation with their Compliance Department:
• Is the claims handler able clearly to identify the **beneficial recipient of the payment**? If not, the claims handler may need to seek guidance from their Compliance Department.

• Has the payee been subject to **automated screening** via the underwriting system?

• Is the **claims database** subject to automated batch screening and if so, how frequently?

• Are there any gaps in the automated screening which would need to be **supplemented by manual screening**? for example, third party payees?

• Do any further manual checks need to be made to screen claims for **sanctions risks that may not be detected by automated screening** (eg, trade sanctions)?

It is best practice for **screening to be undertaken for all payees prior to funds being made available to them**. The data to be screened should include the name of the payee, as well as any known beneficiaries.

Where the payee or beneficiary is not subject to periodic electronic screening, manual screening should be used to screen these names. As noted above, the requirements around the use of manual screening solution, and the frequency of its use, should be detailed in the sanctions policies and procedures for claims handlers.

Even where a Managing Agent has robust automated screening, there will still be a need for appropriate sanctions due diligence to be undertaken in certain scenarios. This is because electronic screening only matches for certain financial (or targeted) sanctions, and will not identify claims where there may be trade or other sanctions issues.

**Screening of third party service providers**

Where service providers are used as part of the claims handling process, including ‘experts’, external adjustors, surveyors and lawyers, Managing Agents should consider screening them. Where a particular service provider is used frequently, consideration should be given to an initial approval process, with periodic checks which may remove the need to screen every payment made to them.

**Process for positive hits**

Appropriate treatment of positive hits in claims decisions is critical, and no action should be taken without seeking appropriate compliance or legal advice. Any decision as to whether to reject or approve a payment, including whether a payment should be made into escrow or a frozen account should be documented on the claims file, bearing in mind that in some

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12 Managing agents should note that there are also reporting requirements applicable to trade sanctions / arms embargoes issues, pursuant to Project Brass. Information relating to reporting of these issues can be found in Market Bulletin 4412 – Export Control Order 2008.
cases a licence may need to be obtained from the relevant regulatory body (e.g. HM Treasury). While Lloyd’s does not mandate the method through which decisions are recorded, it is expected that procedures will be in place to ensure that it is done.

Where a positive hit has been identified, it is important that the claims file is able to be clearly marked, and preferably should be ‘locked’ to prevent any payment being made. Managing agents should consider if their claims system has the capability to lock such claims for payment, while still allowing for them to be processed, or at least flagged as ‘under investigation’. This is especially relevant for long-tail claims, and for claims handled by a number of individuals.

Under most EU and UK sanctions regimes that apply to persons or entities, a payment cannot be made to a sanctioned person or entity, but a claim may continue to be processed (e.g. adjusted), in certain circumstances. To ensure prudent claims reserving, claims departments should consider whether to reserve for claims even where the parties involved are subject to sanctions issues. This is because if the applicable sanctions are lifted and the claimant is no longer subject to an asset freeze list, in certain circumstances the claim may have to be paid.

**Delegated claims handling – TPAs, coverholders and service companies**

‘TPA’ – for the purposes of this guidance and ease of reference, TPA should be understood to include any entity or individual to whom a Managing Agent has delegated claims handling authority, including third party administrators, coverholders, service companies or any other claim processing service or company.

Where a Managing Agent delegates claims handling authority to a third party administrator, coverholder or service company, they should ensure that the TPA performs pre-payment sanctions due diligence and screening on the same basis as if they were handling the claims themselves. Lloyd’s position is that TPAs must undertake sanctions screening on any payment they make on behalf of a Managing Agent.

**NB:** It is important to remember that, while a Managing Agent may delegate claims authority, the ultimate responsibility for compliance with applicable sanctions laws rests with the Managing Agent.

**Pre-appointment due diligence and suitability**

The ability to manage sanctions and financial crime risk on behalf of a Managing Agent should form part of the consideration as to a TPA’s suitability, and should be addressed in the pre-appointment due diligence undertaken by the Managing Agent. Managing agents

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13 A claim ‘lock’ could be a physical lock on the claims handling system, or could be a ‘procedural’ lock – for example, a clear flag or note on the file that no payments may be made until sanctions issues are resolved, with a requirement that at least two senior personnel are required to ‘sign off’ any payments processed to avoid inadvertent breaches.
should request information from the TPA about their processes in respect of sanctions screening. Managing agents should also sanctions screen the TPA itself.

**Clear statement of expectations**

TPA contractual agreements should include sanctions due diligence requirements, and explicitly set out Managing Agent’s expectations around claims screening requirements, including frequency of screening and which lists they require the TPA to screen against (e.g. UK, EU and U.S lists) and, where appropriate, the manual and trade sanctions screening the TPA must undertake. Managing agents are responsible and accountable for the quality of sanctions compliance conducted on their behalf, therefore if they wish to rely on TPAs’ sanctions due diligence, they should be comfortable with the controls TPAs have in place.

Managing agents should also include a contractual requirement to report any sanctions hits to the Managing Agent, with an instruction that no action should be taken by the TPA until they have been advised further by the Managing Agent.

**TPA audits or review**

Managing agents should also ensure that TPA audits, where undertaken, include a consideration of the TPA’s sanctions compliance procedures. Managing agents may also wish to review the TPA’s sanctions compliance records periodically to ensure that the TPA remains suitable to undertake claims handling duties on their behalf.

**Training**

In addition to any general compliance training, claims handlers should be provided with bespoke sanctions training. Claims handlers dealing with classes exposed to trade sanctions (e.g. marine or aviation claims) may require more in-depth training. Training is covered in more depth in the Compliance guidance.

Managing agents should also consider whether their TPAs have undertaken appropriate training.

**Other Issues**

- **Bordereaux / block claims** – Lloyd’s is conscious that, in some instances, claims are reported to insurers or reinsurers either via bordereaux or block submissions and that information on individual claimants may be limited or non-existent. There is not currently any guidance available from relevant government agencies on how these types of claims should be handled in terms of sanctions compliance. Managing Agents should therefore assess the risk posed by this method of reporting and establish such measures as are necessary and appropriate to mitigate that risk. It is advisable for Managing Agents to satisfy themselves that their insureds have in place appropriate screening procedures.
• **Reinsurance / indemnification** – similarly, Lloyd’s is aware that there is often difficulty in obtaining sufficient claims information in the reinsurance market for sanctions compliance purposes (*e.g.* in obtaining further information from cedants or insureds with respect to the identities of underlying claimants). As noted above, while it may not be possible for Managing Agents to obtain information necessary to conduct screening, they should undertake appropriate due diligence to satisfy themselves that their cedants have in place appropriate sanctions procedures and should assess the risk posed and establish further measures as are necessary and appropriate to mitigate that risk. Where information about the underlying claimants is made available, this should be screened in line with standard screening procedures.

• **Verticalised policies** -- Lloyd’s are aware that, in certain classes of business, risks are covered through the use of so-called “verticalised policies” and that, under such arrangement, the various participants in a risk may not be privy to the contract terms (including, for example, sanctions clauses) that others on the risk employ. With respect to such classes of business, it is expected that a Managing Agent’s risk assessment will consider the impact of this approach and will adopt appropriate, proportionate procedures to account for those risks.