

MARKET BULLETIN

REF: Y4931

Title	Binding Authority Agreements – Multi-Year Contracts
Purpose	To notify changes to Lloyd's requirements to allow multi-year binding authority agreements of up to 36 months
Type	Event
From	Peter Montanaro, Head of Delegated Authorities Performance Management Directorate
Date	15 October 2015
Deadline	Immediate
Related links	www.lloyds.com/coverholders

Lloyd's is announcing that with effect from the 2016 year of account, managing agents may enter into binding authority agreements of up to 36 months ('multi-year binding authorities'). Presently, managing agents may only enter into binding authority agreements of up to 18 months and in most cases binding authorities are annual.

This bulletin explains the process managing agents must follow where they wish to enter into multi-year binding authorities. As Lloyd's syndicates are annual ventures, these arrangements are to ensure that business is allocated correctly across different years of account.

- New model wordings have been produced for multi-year binding authorities. These must be used and contain the necessary provisions to allow for the transfer of binding authorities between different years of account.
- Managing agents will be required to confirm annually, on the formation of the new syndicate years of account, that their syndicates agree to the transfer of the multi-year binding authorities.

The new arrangements are intended to support long term relationships with coverholders and to make it easier to do business at Lloyd's. The new arrangements ensure that no additional burden is placed on coverholders or their brokers.

Appendix 1 provides a simple outline of the process for writing multi-year binding authorities and should be read in conjunction with the LMA guidance note [LMA015-055-AG](#).

Supporting long term relationships

Coverholders are a valued and important part of the Lloyd's market. Feedback from coverholders has emphasised the value coverholders place on long-term relationships with managing agents.

To support the writing of coverholder business at Lloyd's, Lloyd's has therefore changed its requirements to allow managing agents to enter into binding authorities of up to 36 months. While multi-year arrangements may not be appropriate in every case (and they presently remain out of scope for certain arrangements – see below) where used they will allow for significantly longer term deals. As they will only need to be renewed every three years this should also reduce the level of administration required. This change has been discussed with the LMA, LIIBA, AAMGA and NAPSLO.

Changes to Lloyd's Requirements

To date, Lloyd's has required that all binding authority agreements should be no longer than 18 months from the date of inception. This is provided for by paragraph 10(e) of the Requirements made pursuant to the Intermediaries Byelaw.

To allow for multi-year binding authorities, the [Requirements made pursuant to the Intermediaries Byelaw](#) have been amended so that the period of binding authorities may now be up to 36 months.

36 months is intended to operate as an upper limit for the use of multi-year binding authorities and cannot be further extended. It is still possible to have multi-year binding authorities for shorter periods of, say, 24 months and in many cases this will be appropriate. (Note that where the proposed period is between 12 and 18 months then a multi-year binding authority may still be appropriate but in this case managing agents continue to have the option of following the process for annual binding authorities – see further below.)

Lloyd's is presently limiting multi-year binding authorities to a maximum of 36 months as Lloyd's believes that all binding authorities should be revisited at least once every three years to ensure that the terms remain appropriate.

New arrangements for multi-year binding authorities

Where syndicates write multi-year binding authorities, it is important that the business is properly allocated across the different syndicate years of account. However, as a matter of contract law, since Lloyd's syndicates operate as annual ventures, all business written under a binding authority must be allocated to the year of account of the syndicate that entered into the binding authority agreement. There is no automatic right to allocate risks bound under a multi-year binding authority to following years of account unless appropriate steps are taken to provide for this.

To address this Lloyd's has, with the assistance of Leading Counsel, developed the following arrangements for the annual transfer of multi-year binding authorities. Managing agents must decide whether it is appropriate to enter into any multi-year binding authority. If the managing agent does wish to enter into a multi-year binding authority it must ensure that it complies with these arrangements.

- New multi-year versions of LMA3113, LMA3114 and LMA3115 have been prepared: LMA3113M, LMA3114M and LMA3115M. In particular, a clause has been included which provides for the agreement by coverholders to the annual transfer of the binding authority to the next year of account of the subscribing syndicates. This clause is numbered/referenced as section 37A and under no circumstance should that clause be amended. These model wordings must be used for multi-year binding authorities unless agreement has been obtained from Lloyd's. A version of LMA3113M showing the changes from LMA3113 can be found at www.lloyds.com/coverholders;
- As the multi-year binding authorities will usually be concluded at a time when the following syndicate year of account has not yet been formed, Leading Counsel has advised that, once formed, the new years of account must confirm their agreement to the transfer to them of the multi-year binding authorities. Lloyd's will therefore operate a simple annual procedure to confirm the election by the new syndicate years of account, once formed. In November or December each year, Lloyd's will send to managing agents a form requesting the appropriate confirmation. Note that the transfer of the individual binding authorities to the new year of account will only take place at the anniversary of the inception dates of each binding authority;
- On the transfer of the multi-year binding authority to the following year of account at the anniversary of the binding authority inception date, managing agents will be expected to confirm the transfer to the coverholder by way of a new endorsement wording prepared for this purpose (LMA5237). This endorsement also includes details of the syndicates' new reference numbers and is therefore important to allow for the proper allocation of risks, premium and claims to the new year of account. Failure to provide this endorsement will, however, not invalidate the transfer but will represent a breach of Lloyd's requirements.

The new transfer arrangements do not require any action by the coverholder or broker other than agreement to use the new multi-year model wordings and the assistance of the broker, where appropriate, to facilitate the endorsement confirming transfer and any premium processing required. In all other respects, multi-year binding authorities can be placed in the same way as annual binding authorities are currently placed at Lloyd's.

The required model wordings have been agreed with the LMA, which has issued the wordings under [LMA015-055-AG](#). LMA015-055-AG also provides an [LMA guidance note](#) which sets out additional practical details, agreed with Lloyd's, on the use of the new model wordings.

- Compliance with the arrangements for multi-year binding authorities

Note that failure to implement suitable arrangements for the transfer of binding authorities between different years of account may mean that all business written under the binding authority has to be allocated to the original year of account. Accordingly, Lloyd's requires that all binding authorities which are more than 18 months must follow the arrangements set out above. Where managing agents fail to follow the processes provided for then Lloyd's may prevent the syndicates in question from entering into multi-year binding authorities.

Binding authorities with periods of 12 months to 18 months can either:

- continue to be entered into using the current process for annual contracts. In that case, all the business must be allocated to the syndicate year of account that enters into the binding authority; or
- syndicates may elect to follow the process for multi-year binding authority arrangement outlined in this bulletin, in which case the business bound on or after the anniversary of the inception date must be allocated to the following year of account of the participating syndicates.

Arrangements for processing multi-year binding authorities

In entering into multi-year binding authorities managing agents and brokers are asked to note that certain processing changes are required to support the arrangement. Appendix 1 gives a one page summary of these changes and Appendix 2 sets out in more detail the technical processing requirements.

Carrying out compliance and due diligence

Lloyd's expectations for managing agent compliance and due diligence in respect of binding authority business are set out in the [Minimum Standards for Delegated Authorities](#) and Lloyd's [Code of Practice – Delegated Underwriting](#). Many managing agents address the annual elements of this compliance and due diligence at the time of renewal of their annual binding authorities. Lloyd's believes that best practice is achieved where compliance and due diligence is continuous and addressed throughout the year to avoid unduly concentrating the process at renewal. Addressing matters at renewal only can lead to delays and increases the burden on coverholders.

With multi-year binding authorities, as renewal will now only occur up to once every 36 months, it is all the more important that managing agents ensure they have suitable due diligence and compliance processes in place that are not tied to the renewal of the binding authority.

Lloyd's will be monitoring managing agents' approach to due diligence and compliance in relation to multi-year binding authorities to ensure they meet the standards set in the Minimum Standards.

Scope

The new arrangements for multi-year binding authorities may be used for all binding authorities with the following exceptions for which multi-year binding authorities presently remain out of scope due to the technical processing complexities that would be involved:

- Binding authorities where the coverholder has authority to bind risks with periods greater than 18 months
- Master binding authority arrangements

Implementation

The arrangements for multi-year binding authorities can be adopted by managing agents with effect from the 2016 year of account. Existing binding authorities should be allowed to run to expiry before adopting the new multi-year arrangements at renewal. The multi-year wording must not be endorsed to existing binding authorities.

Managing agents that wish to enter into multi-year binding authorities must ensure they comply with this bulletin and have regard to the guidance note issued by the LMA with [LMA015-055-AG](#).

Further Information

Lloyd's will be holding a Town Hall meeting in the Lloyd's Building on the 11th Floor on 4 November 2015 at 3pm where details of the multi-year binding authority arrangements will be presented. This will include a Q&A session. Invitations to register for the event will be sent on Wednesday 21 October. Please note spaces will be extremely limited.

If you have any questions on the new arrangements or any aspect of this bulletin you are invited to contact coverholders@lloyds.com.

Appendix 1

Summary of process for writing multi-year binding authorities

- Enter into appropriate multi-year binding authority agreement using model wordings: LMA3113M, LMA3114M or LMA3115M
 - Period can be up to 36 months.
 - Ensure Gross Premium Income Limit (Section 12.1) and Maximum Total Aggregate Limit (Section 23.2.3) are annual figures. Should the parties wish to change these following the first annual period or at any time, this can be done by agreement between the parties following current market practice.
 - New model wording includes Section 37A which includes coverholder agreement to transfer of binding authority to following years of account of participating syndicates.
- In November/December each year Lloyd's will issue a letter asking each managing agent to confirm on behalf of the syndicates they manage, that the new years of accounts elect to accept the transfer of the of multi-year binding authorities entered into by that syndicate in the previous year of account.
 - Each managing agent signs and returns the letter to Lloyd's.
- The transfer of all multi-year binding authorities written by the syndicates to the new year of account takes place automatically at the anniversary date of the inception of each multi-year binding authority.
- An endorsement is issued by the broker, where appropriate, and signed by the underwriters, for information purposes only, noting the change of syndicate year of account and each syndicate's new references. The new references will allow for the proper allocation of risks, premium and claims.
- With effect from the anniversary date, all business (including premium and claims relating to (re)insurances bound) is legally allocated to the new year of account. All business written in the prior year continues to be allocated to the outgoing year and the outgoing year can continue to enforce the binding authority for the business written by it. Managing agents must make sure that the risks, claims and premium are all processed appropriately to reflect this – in particular, it is important that managing agents take steps to ensure that bordereaux identify the year of account to which they relate.
- For multi-year contracts with periods of more than 24 months, the process is repeated for the transfer at the second anniversary of the date of inception.
- Any mid-term changes (including to the participating syndicates or their participations) are addressed in accordance with usual market practice (by endorsement). Syndicates wishing to cease their participation on the binding authority mid-term can give notice in accordance with the terms of the binding authority.

Appendix 2

Arrangements for technical processing of multi-year binding authorities via Xchanging

Who	When	What
Broker/managing agent	Prior to inception	<ul style="list-style-type: none"> Places binding authority contact with 3 year period using model wordings for multi-year
Managing agent either directly or via broker	Prior to inception	<ul style="list-style-type: none"> Registers draft binding authority contract for 3 years on BARS Obtains coverholder agreement to appropriate multi-year model wording Registers fully the binding authority contract for 3 years on BARS Submits to Xchanging on the IMR with LPAN(s) for year 1
Xchanging	As and when	<ul style="list-style-type: none"> Checks binding authority for use of multi-year wording and completion Allocates FDO SNAD(s) using year 1 references agreed in MRC signed into year 1 year of account Generates Underwriters Signing Message (USM) to managing agents including period, year 1 year of account, and year 1 references. Issues signed and sealed binding authority if required
Broker/managing agent	As provided for	<ul style="list-style-type: none"> Submits premium and claims bordereaux. Format to include the year of account to which they relate Enters year 1 FDO SNAD(s) on LPAN(s) and LCCF or into ECF
Xchanging	As and when	<ul style="list-style-type: none"> Checks bordereaux ensuring that risks are within territorial scope etc. Checks for year of account allocation Signs premium, returns and claims to year 1 FDO SNAD Generates USM or Claims Signing Message (SCM) to managing agents based on year 1 FDO SNAD.
Lloyd's/ Managing agent	November/ December	<ul style="list-style-type: none"> Lloyd's issues form to all managing agents to be signed confirming agreement by new syndicate years of account to transfer of multi-year binding authority. Managing agent signs on behalf of each syndicate in respect of all multi-year binding authorities.

Managing agent either directly or via broker	Prior to first anniversary	<ul style="list-style-type: none"> • Completes endorsement confirming transfer of binding authority to new year of account. Includes new syndicate references. • Asks broker to make any necessary changes to BARS under existing BARS number and date and checks this has been completed.
Broker/managing agent	Prior to first anniversary	<ul style="list-style-type: none"> • Submits to Xchanging under existing UMR on the IMR • Submission includes endorsement confirming transfer to new year of account and new syndicate references, LPAN(s) for year 2
Xchanging	As and when	<ul style="list-style-type: none"> • Checks binding authority, including any endorsement of changes, to ensure that any changes in Lloyd's regulatory or overseas legislative requirements have been endorsed. • Checks endorsement confirming transfer to new year of account and new syndicate reference numbers - checks the syndicate numbers are the same as the outgoing syndicates. • Checks BARS has been updated where necessary • Allocates new FDO SNAD(s) using year 2 references, signed into year 2 year of account • Generates USM to managing agents including period, year 2 year of account, and year 2 references. • Issues signed and sealed binding authority endorsement if a signed and sealed binding authority was required
Broker/managing agent	As provided for	<ul style="list-style-type: none"> • Submits premium and claims bordereaux. Format to include the year of account to which they relate. • Provides separate bordereaux for each year of account • Enters year 1 and/or year 2 FDO SNAD(s) on LPAN(s) and LCCF or into ECF as applicable
Xchanging	As and when	<ul style="list-style-type: none"> • Checks bordereaux ensuring that risks are within territorial scope and correct year of account. • Checks that year of account on bordereaux matches the FDO SNAD provided for on the LPAN(s) etc. • Signs premium, returns and claims to year 1 and/or year 2 FDO SNAD as provided for within the bordereaux and LPAN(s) etc. • Generates USM or SCM to managing agents based on the appropriate year 1 and/or year 2 FDO SNAD.

The above process is repeated as appropriate for the transfer to year three.