

MARKET BULLETIN

REF: Y4274

Title Clear identification and prompt processing of Hong Kong coverholder business

Purpose To improve the accuracy of Lloyd's Hong Kong regulatory reports

From Susan Zajac, Manager, International Regulatory Affairs
Contact details: 020 7327 6291, susan.zajac@lloyds.com

Date 11 May 2009

Deadline With immediate effect

Background

Lloyd's regulatory obligations to Hong Kong's regulatory authority, the Office of the Commissioner of Insurance ("OCI") require that Lloyd's reports on all business written by its Hong Kong coverholders. To date, this business has often not been correctly identified during processing, leading to errors in Xchanging's data used by Lloyd's in producing its Hong Kong regulatory reports. These errors are time consuming for Lloyd's to identify, investigate and amend each quarter, in order to ensure the resulting regulatory return submission is correct.

The Xchanging process and Hong Kong coverholder business

Some changes have already been implemented within Xchanging and Lloyd's procedures to enable business originating from Hong Kong coverholders to be more readily identified. However, it has been observed that many of the errors in Hong Kong data stem from the source documentation submitted to Xchanging. Hong Kong coverholder business is frequently poorly identified on binders and bordereau submissions, leading Xchanging to record the transactions as Hong Kong business arising in the UK, where either the master binder holder or processing agent is a UK broker.

Brokers and managing agents responsible for preparing Hong Kong coverholder submissions to Xchanging are strongly requested to clearly mark "**Hong Kong coverholder**" and prominently state the **name of the coverholder** on the binder and bordereau, so Xchanging are able to check against their records and code the business correctly.

Hong Kong coverholders writing treaty business

We are aware that some Hong Kong coverholders have the authority to write treaty business. It is important this business is coded correctly in Xchanging submissions so it is accurately captured in the OCI regulatory reports. It should also be noted that there is a reporting distinction between treaty business where 25% or more relates to Hong Kong business¹ compared to treaty business which is less than 25%; only the former must be captured in the OCI report.

Therefore, brokers and managing agents responsible for Hong Kong coverholders writing treaty business are requested to clearly mark on the bordereau which transactions relate to treaty business. This should be further supported by a separate LPAN, which is already required for treaty business. Where the treaty business relates to less than 25% Hong Kong business this should be marked "**Treaty less than 25%**" and where it is 25% or more attributable to Hong Kong it should be marked "**Treaty 25% or more**". Xchanging will then be able to identify and code the business so the resulting regulatory reports to OCI are correct.

Processing delay of bordereau

The OCI closely monitor Lloyd's regulatory returns and continue to flag their concern that the data reflected within these can be delayed by late processing of bordereau.

Brokers and managing agents responsible for making Hong Kong coverholder submissions to Xchanging are strongly requested to ensure they obtain and then submit bordereau submissions from their coverholders promptly; ideally these should be submitted no more than one quarter late. This will ensure that business written by Hong Kong coverholders is reflected in the OCI regulatory reports on a timely basis.

To improve the quality of the Hong Kong reports, Lloyd's will be tracking the occurrence of miscoding and lateness of bordereau by individual broker number going forward, in order to ensure any issues with submissions can be resolved and the accuracy of Lloyd's OCI reports improved.

Further information

For further information please contact:

Lloyd's International Trading Advice - LITA
Tel: 020 7327 6677
Email: LITA@lloyds.com

¹ Where 25% or more of the total treaty reinsurance risk (calculated in terms of gross premiums receivable under the treaty) arises in Hong Kong.