



LLOYD'S

COVERHOLDER AUDIT SCOPE – GUIDANCE NOTES

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1 INTRODUCTION

1.1 THE PURPOSE OF THIS DOCUMENT

1.1.1 A common scope

A common audit scope has been compiled with the intention of improving consistency of audits and the audit process, so making it easier for coverholders to work with the Lloyd's market and to support both managing agents and coverholders in meeting the expectations of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA).

Whilst the use of this Audit Scope is not mandatory, and in certain situations a bespoke scope may be appropriate, it is intended that managing agents should as far as possible use this scope in order to reduce duplication and to promote consistency.

1.1.2 Guidance notes

This document is intended to provide guidance on the audit scope. This document should be read by the auditor in advance of the audit to ensure a good understanding of the reason why the question is being asked and the expectation of the format of the response.

1.1.3 Questions

A separate accompanying document, "Coverholder Audit Scope – Questions", lists the questions to be asked by external auditors undertaking audits of coverholders on behalf of managing agents in the Lloyd's market.

The managing agent is expected to select the questions and sections they would like asked from the list given, see section 1.9 below.

In some regions and for some classes of business there may be additional topics which need to be examined. It is expected that the auditor and managing agent will discuss and agree these in advance of the audit.

The auditor is expected to request supporting documentation for any question relating to controls, procedures and practices.

For many of the questions specified in the audit scope below, the auditor is expected to test, and provide evidence where appropriate, unless instructed not to by the managing agent.

For example by:-

- Reviewing files, transactions, logs and other documents
- Looking at what has been documented and reported.
- Testing understanding, by asking if this happened what would you do?
- Requesting copies of documentation and examples as evidence where appropriate.

It is expected that the auditors will comment on the areas that they have tested and reviewed for the managing agents to take the appropriate action.

Guidance is provided below to help determine the number of files and transactions to be reviewed and tested, and checklists are provided in the appendices for reviewing underwriting and claims files and premium transactions.

1.1.4 Other audit initiatives

This document is not concerned with self-certification by coverholders or audit co-ordination; these will be addressed by separate initiatives; however, it is hoped that the production of this document will assist with these.

1.2 CHANGES IN THIS VERSION

The audit scope has been completely revised to take account of recent changes such as new technology and regulatory requirements. The audit scope has also been given a whole new look and feel.

The audit scope has been split into two main sections, a general section and a contract specific section.

Significant changes have been made to the underwriting and claims management sections and questions as it is expected that there will be a greater focus on these.

Appendices have been introduced for Internet Trading, Consumer Business, Claims Audits and an Atlas Information Review.

1.3 THE FORMAT OF THE AUDIT SCOPE

1.3.1 Sections and questions

The scope is comprised of a series of sections. Each major section is split into a series of sub-sections. Each section includes a series of questions.

It is not expected that every section and all questions, will need to be answered for each audit. The managing agent(s) are expected to advise on their requirements.

1.3.2 Section 2, the general section

Managing agents are expected to work together to co-ordinate audits of coverholders where possible. The audit scope therefore includes a common general section focused on the coverholder. This includes sub-sections and questions on the organisation, the accounts, licences, taxes and regulatory, IT and compliance.

1.3.3 Section 3, the contract specific section

The audit scope also includes a contract specific section, which may need to be managed separately for each managing agent involved in the audit. This includes sections on underwriting, claims, transactional accounting and reporting.

1.3.4 Section 4, the appendices

A series of appendices are provided which only apply in certain scenarios. There are appendices which will only apply for certain coverholders, for example for internet trading and consumer business. There are also appendices which can be used for the self-assessment of TPAs.

1.4 THE ROLE OF THE MANAGING AGENT

In line with best practice, managing agents should align the audit framework to their risk management framework and devise a proportionate risk based approach.

Managing agents are expected to audit their coverholders on a regular basis and to use this audit scope to do so.

Where possible managing agents should work together to lessen the impact on coverholders by co-ordinating with other managing agents to undertake joint audits.

The managing agent is expected to select the questions which need to be asked. For example, some questions may need to be asked at each audit, and others may only be asked once, or infrequently. This may depend for example on the nature of the coverholder, the classes of business and territories in which they write business or the number of contracts the managing agent has with the coverholder. This should be done by completing the audit order sheet discussed in section 1.9.

The managing agent also needs to specify how many files and transactions they would like the auditor to review. This is for the managing agent to decide and may be dependent for example on how automated or manual processes are, the class of business; and the complexities of the binding authority contract(s). The managing agent is expected to request a representative sample. Some guidance is given in section 1.10 below.

The managing agent is expected to ensure that the auditor has the appropriate skills to undertake the audit; this may mean that a team of auditors is required, or that specialists undertake different aspects of the audit.

The managing agent should provide the auditor with as much information and documentation as possible prior to contacting the coverholder.

Where possible the managing agent should ask Lloyd's to provide the auditor with access to Atlas, Lloyd's coverholder management system, so that they can view the information available there. This must be done by following the quarterly procedures put in place by Lloyd's Delegated Authorities Team. For further details please contact coverholders@lloyds.com.

Managing agents are expected to undertake their own underwriting visits in addition to the external audit. The purpose of such visits would typically be to form an opinion on the quality of risk selection and the underwriting.

Managing agents may wish to consider the renewal date when arranging the audit and ensure that the audit is completed at least three months in advance.

An example of what a three year plan for coverholder audits might look like is given below. Please note this is an example only and not a recommendation, each contract is different.

Example type of coverholder	Example assurance approach
1. UK coverholder with no discretion	<ul style="list-style-type: none"> • Desktop review of key scope elements every year. • Onsite audit every three years covering core scope.
2. European SME commercial lines coverholder with some discretion and loss funds	<ul style="list-style-type: none"> • Desktop review of key scope elements every year. • Onsite audit every two years covering core scope, rotating in changes or risk-focussed elements over a three year cycle.
3. US major binding authority with significant claims authority	<ul style="list-style-type: none"> • Onsite audit of key scope elements every year, rotating in additional elements of the scope over a three year cycle.

1.5 THE ROLE OF THE BROKER

The broker is expected to introduce the new audit scope to the coverholder and to help arrange and co-ordinate the audit if required.

The broker is responsible for providing the information as required and requested by the managing agent and the auditor. This includes ensuring that the information on Lloyd's Atlas system is as up to date as possible.

1.6 THE ROLE OF THE COVERHOLDER

The coverholder is expected to support the work of the auditor and to make people and information available as required.

It is recommended that the coverholder appoint a senior person who is the first point of contact for the audit.

The coverholder may need to make the information listed in section 1.7.1 available to the auditor in advance of the audit; or to assist the broker in doing so.

1.7 THE ROLE OF THE AUDITOR

1.7.1 Background materials

The auditor should compile as much information from the broker, the managing agent and the coverholder prior to the on-site review.

Access to Atlas, Lloyd's coverholder management system, is encouraged as it provides an excellent source of information. Where appropriate or required, the managing agent is responsible for requesting access to Atlas for the auditor.

Access to the Risk Locator Tool & Crystal, Lloyd's online global trading tools (for assistance with establishing legal location of a risk and country specific tax and regulatory requirements), is also encouraged. www.lloyds.com/crystal.

The following are examples of the sort of documents and information which it is expected would be gathered in advance (and would be expected to be in place in line with FCA systems and controls requirements):-

- Company accounts
- Organisation chart
- Succession plan
- Binding authority contracts
- Business continuity plan
- Documented procedures and processes
- Details of who at the coverholder has taken Lloyd's Financial Crime Training
- E&O Certificates
- Licences, personal and company
- Previous applicable audit reports and recommendations
- The managing agent's current risk assessment of the coverholder's business for collecting and processing tax and regulatory information and for financial crime.
- Bordereaux, submissions and reports
- Example certificates
- Contract certainty report
- CVs / resumes

Where information is not available either on Atlas or from the London broker or managing agent, then as far as possible one request should be made of the coverholder for documentation; the coverholder should not be presented with multiple lists and requests for the different managing agents on the audit.

Note these are examples only; there is no obligation for these to be provided where it is inappropriate to do so.

Further explanations and details of the requirements and risks being examined below, and the expectations of Lloyd's, can generally be found on Lloyd's web pages: -

<http://www.lloyds.com/the-market/i-am-a/delegated-authority>

[A list of useful documents and tools is given in 1.14 below.](#)

1.7.2 On-line file reviews and desk based audits

Where an option for an on-line review is available, the auditor should take advantage of this opportunity.

1.7.3 On-site audits

The auditor should allow as much time as possible for the contract specific elements of the audit. This along with testing and validating the components of the coverholder's operation are the main areas which managing agents expect the auditor to focus on whilst on site at the coverholder.

The auditor is expected to interview or discuss matters with key members of staff and not just the person named with overall control on the binding authority contract. For example underwriters, accounting personnel and claims handlers.

1.7.4 Significant issues

The auditor is expected to remain objective when reviewing materials or conducting the on-line or on-site audit.

Any subjective issues, or issues of a commercially sensitive nature, should be provided separately to the relevant managing agent.

Auditors should notify managing agents immediately if they find any issues such as material breach of licences, fraud, sub-delegation, unapproved offices etc.

1.7.5 Reports

After the audit, the auditor should present a series of reports as discussed in section 1.11 below.

1.8 THE ROLE OF LLOYD'S AND LLOYD'S LOCAL OFFICES

Lloyd's has worked with the market to produce this revised audit scope. The document should be treated as a living document and Lloyd's is responsible for facilitating the production of future versions, providing updates and managing the communication of changes.

Lloyd's local offices can add value to the audit process. The local offices are in contact with coverholders and will often have been informed of their specific circumstances (from a legal, regulatory and business point of view). The local offices are aware of the applicable legislation and regulatory requirements that coverholders should meet in their regions.

Local Lloyd's offices will always seek, as far as possible, to support the work of the auditor, prior, during and after the audit process.

Meetings between the auditor and Lloyd's offices are advisable to discuss the scope and the outcome of the audits.

Comments made by Lloyd's offices may be included in the auditors' reports.

1.9 THE AUDIT ORDER SHEET

The order sheet is for managing agents to specify the sections and sub-sections of the audit which they want completed and the number of files and transactions which they want reviewed.

Examples:

- A managing agent completing their own review of Atlas may not require, the Atlas information review.
- A managing agent requesting an audit of a coverholder who trades on line may request Appendix Four which focuses on Internet Trading.

The managing agent(s) requesting the audit should complete the table in Appendix Eleven to indicate the scope which the auditor is expected to cover.

The order sheet is designed to make the appointment of the auditor easier however the auditor and managing agent will still need to enter into a formal engagement contract that sets out the terms of the engagement including use of the report, fees, service standards and any confidentiality provisions

1.10 TESTING FILES AND TRANSACTIONS

The following is an example table showing a representative sample of underwriting files, transactions or claims handled, in relation to each binding authority or set of policies, transactions or claims handled for which the same systems and controls are used:

Population in set of policies, transactions or claims	Representative sample size
< 10	All files
10 to 100	10
400	20
1000	32

This table is provided as guidance only. The type of processes in place and whether these are manual or automated, the number of different binders and classes of business being reviewed and other factors will all have a bearing on the most appropriate sample size.

1.11 AUDIT REPORTS

The following section discusses the typical reports which a managing agent will expect. However, it is for the managing agent and the auditor to agree what should be delivered for individual coverholders and contracts.

1.11.1 Executive summary

The auditor is expected to provide an executive summary to the managing agent for each of the reports below. These should provide details of the main findings and issues, an indication of the coverholder's general suitability, culture and openness and a review of any previous recommendations.

It is recommended that the executive summaries be provided within five calendar days of the completion of the on-site or on-line review, or as agreed with the managing agent.

The executive summary should include a table of recommendations. An example table is provided in Appendix Twelve.

Each recommendation for action by the coverholder should be graded as high, medium or low priority.

The executive summary should also include a review of the prior audit findings, including details of any actions taken and outstanding.

The auditor is also expected to present any recommendations they may have for the managing agent, the London broker, or for Lloyd's; however, the auditor's responsibility is to the managing agent to whom they are expected to deliver the report(s).

When the managing agent comes to review the report, they will be keen to understand how the coverholder is managing the different risks associated to the business. The auditor will need to provide evidence of the controls in place.

1.11.2 Report on the coverholder

The auditor should provide each of the managing agents involved in the audit with a report on the coverholder.

It is recommended that the report should be provided within twenty one calendar days of the completion of the on-site or on-line review, or as agreed with the managing agent. Good practice is to deliver the report within fourteen calendar days.

1.11.3 Contract specific reports

The auditor should also produce a series of reports, one for each managing agent, which are focused on the binding authority contracts.

It is recommended that the reports should be provided within twenty one calendar days of the completion of the on-site or on-line review, or as agreed with the managing agent. Good practice is to deliver the report within fourteen calendar days.

These reports should include commentary on the following:-

- Executive summary and new recommendations for items which are contract specific.

- Underwriting
- Claims
- Transactional accounting
- Reporting
- Appendices for internet trading, consumer business etc. as appropriate

1.11.4 Format of Audit reports

Some guidance to auditors in preparing reports:-

- Consider the impact that audit reports can have on underwriters position; especially if they are communicated to the coverholder.
- Focus on exception reporting.
- Avoid statements that go beyond what you know is true (i.e. of which you have evidence) – For example, avoid: "The coverholder has bound risks in accordance with its scope of authority"; instead, say: "The risks reviewed were all within the scope of authority"; or: "The following risks reviewed raised the following concerns".
- Consider including suitable disclaimers regarding reliance by parties other than underwriters

1.12 WRAP UP MEETING

The auditor is expected to have shared each of the recommendations with the coverholder in a wrap up meeting with a senior person at the end of the audit, and should detail the coverholder's initial responses in the executive summaries and reports.

1.13 FEES

The auditor is expected to agree any fees chargeable and how these will be divided between the different managing agents participating in the audit, in advance of the audit.

1.14 USEFUL DOCUMENTS, TOOLS AND SYSTEMS

1.14.1 Useful documents

Code of practice – delegated underwriting

<http://www.lloyds.com/the-market/i-am-a/delegated-authority/operations/code-of-practice-for-delegated-underwriting>

Service companies code of practice

<http://www.lloyds.com/~media/Files/The%20Market/!%20am%20a/Coverholders/Service%20Company%20Code%20of%20Practice%20September%202009%20V2.pdf>

Definitions byelaw

http://www.lloyds.com/~media/Files/The%20Market/Operating%20at%20Lloyds/Regulation/Acts%20and%20byelaws/Byelaws/17Feb12_Definitions_Byelaw.pdf

The intermediaries byelaw

http://www.lloyds.com/~media/Files/The%20Market/Operating%20at%20Lloyds/Regulation/Acts%20and%20byelaws/Byelaws/17Feb12_Intermediaries_Byelaw.pdf

The coverholder undertaking

<http://www.lloyds.com/~media/Files/The%20Market/!%20am%20a/Coverholders/CHUndertakingJuly2008.pdf>

Service company undertaking

<http://www.lloyds.com/~media/Files/The%20Market/!%20am%20a/Coverholders/Attachment4Undertaking.pdf>

The coverholder reporting standards
www.lloyds.com/coverholderreportingstandards

The coverholder toolkit
www.lloyds.com/coverholdertoolkit

Brand guidelines
<http://www.lloyds.com/the-market/tools-and-resources/brand-and-marketing/lloyds-brand/brand-guidelines>

Binding authority model wording agreements
<http://www.lloyds.com/the-market/i-am-a/delegated-authority/operations/binding-authority>

Complaints handling
www.lloyds.com/complaintshandling

Market bulletins
<http://www.lloyds.com/the-market/communications/market-bulletin-search/market-bulletins>

Consumer business
<http://www.lloyds.com/~media/files/the%20market/communications/market%20bulletins/2013/11/y4739.pdf>

TUPE - Transfer of Undertakings (Protection of Employment) regulations
<https://www.gov.uk/transfers-takeovers/overview>

Remote workers: Guidance for remote workers can be found in the code of practice, and an introduction is given in this news item:-
<http://www.lloyds.com/the-market/i-am-a/delegated-authority/news/coverholder-articles/2013/03/introducing-remote-workers>

Financial crime
<http://www.lloyds.com/~media/files/the%20market/communications/market%20bulletins/2013/10/y4727.pdf#search='Y4727>

1.14.2 Financial Crime Training Modules

Sanctions
<http://lloyds.exari.com/sanctions/info>

Anti-bribery
<http://lloyds.exari.com/bribery/info>

Anti-money laundering
<http://lloyds.exari.com/moneyLaundering/info>

1.14.3 Atlas

Access to Atlas, Lloyd's coverholder management system, is encouraged as it provides an excellent source of information.
www.lloyds.com/atlas

Where appropriate or required, the managing agent is responsible for requesting access to Atlas for the auditor. In order to facilitate the anticipated requests, Lloyd's requires all requests to be made on a quarterly basis. Managing agents should contact coverholders@lloyds.com for further details.

1.14.4 Crystal and the Risk Locator Tools

When using Crystal market participant or auditors may either access publically available content or register as a user and benefit from:-

- Access to premium content
- Risk location guidance
- Regular updates on regulatory and fiscal requirements via [Lloyd's Regulatory Communications](#) newsletter
- Access to [Crystal Assist](#), an online tutorial that provides an introduction to Lloyd's licences and regulatory and fiscal requirements (CII CPD Accredited Event - 20pts)
- Ability to save favourite searches

Access to Crystal and full details on how to register are available here:- www.lloyds.com/crystal

2 GENERAL

2.1 ATLAS INFORMATION REVIEW

Some managing agents may choose to make their own review of the information on Atlas outside of the audit; and others will want the auditor to do this as part of the audit. Where this is required the auditor should complete Appendix One.

2.2 THE COMPANY

2.2.1 People

The managing agent needs to understand who is involved in the running of the coverholder, succession plans and how staff are trained. They will also want to know about any changes to key staff and the level of staff turnover.

When a business changes owner, its employees may be protected under the Transfer of Undertakings (Protection of Employment) regulations (TUPE). Managing agents need to know whether they have any exposure to TUPE; for example if there are staff spending more than fifty per cent of their annual time working on the delegated authority business of the managing agent.

2.2.2 Multi office locations (if applicable)

The managing agent needs to know about the different locations the coverholder operates from, including any home and remote working.

They will want to understand how these are controlled and any processes and procedures in place, for example to ensure consistency of underwriting and security of data.

The auditor is expected to comment on whether activities are being performed at approved locations listed in the binding authority contract.

2.2.3 Outsourcing, insourcing and producers

Where any activities are outsourced, or provided by producing brokers, the managing agent will want to know the details of these and how they are managed.

There is an increasing number of coverholders who have activities provided by a separate division or company within the same group; managing agents will also want to know details of these. Where activities are insourced, these should be validated in the audit.

Good practice indicates that coverholders should have processes in place to manage producer risk such as cascading risk transfer in the UK. These should, where relevant, include:-

- Monitoring premium payment
- Due diligence and/or regular vetting
- Confirmation of licences
- Ensuring producer agreements, Terms of Business Agreements (TOBAs), are in place

Any outsourcing by the coverholder of underwriting, policy issuance or claims authority should only take place where the managing agent is a party to the contract. Any such outsourcing not entered into by the managing agent may

constitute unauthorised sub-delegation and should be immediately reported"

2.2.4 Conflicts of interest

In addition to local laws coverholders also sign the coverholder's undertaking to Lloyd's by which they undertake that they "will manage any conflicts of interest, between ourselves, our customers and Lloyd's managing agents in a fair and open way."

The definition of a conflict of interest will depend upon the laws and regulations that apply to the specific coverholder. But a key concern for the managing agent will be any circumstance which may give rise (or could be perceived to give rise) to a conflict of interest which may pose a risk of damage to the interests of underwriters or a policyholder which may compromise the objectivity of the coverholder's performance of its obligations.

The managing agent will want to understand any current and potential conflicts of interest which exist, and the processes which the coverholder has in place for identifying, resolving and managing conflicts.

Examples of actual conflicts:

- Where the coverholder also has an interest in the outcome of a service provided to the policyholder or of a transaction carried out on behalf of underwriters, which is distinct from the policyholder's or underwriters' interest in that outcome.
- Where a coverholder has a financial or other incentive to favour the interest of another insurer over the interests of underwriters.

Circumstances that could give rise to potential conflicts:

- Where a coverholder is also a broker, in which case the possibility of a perceived conflict of interest arising is much greater. On the one hand, the coverholder may have an interest as a broker in placing business on behalf of the policyholder and on the other hand the coverholder may have a financial interest in binding the risk on behalf of Lloyd's underwriters.
- Where the coverholder also has claims settling authority as well as underwriting authority.

There is an expectation that Lloyd's brokers who are also coverholders will have a conflicts of interest policy available for review by the auditor.

2.2.5 Litigation and formal investigations

The coverholder's involvement in any current litigation or any significant contingent liabilities may affect their ability to continue to operate (for example, a claim on their errors and omissions insurance). It is therefore important for the managing agent to understand any formal investigations or litigation which is underway.

It is however recognised that the coverholder may be unable to disclose full details. If the coverholder is not comfortable providing this information to the auditor, then it may be provided separately to the managing agent.

2.2.6 Errors and omissions

The requirements made under the Intermediaries Byelaw, paragraph 6(e) (Chapter 2 of the Underwriting Requirements)

state that the coverholder should have "adequate professional indemnity insurance". The question of what is "adequate" relates to (a) the scope of the policy, (b) the limits provided and (c) the security of the provider.

In terms of adequacy of cover, Lloyd's requires evidence that the policy is in force and that it specifically includes activity as a Lloyd's coverholder (or refers to "underwriting" or "MGA" etc.) and if applicable claims handling.

With regards to policy limit the adequacy should be determined by taking into account a number of factors including the size of the coverholder's operations, the coverholder's historic claims experience under its E&O coverage, any assessments produced in recent audit reports and the competence and experience of key personnel.

Lloyd's does not require a coverholder to purchase professional indemnity limits that match high binding authority contract limits but this should also be a consideration when assessing the adequacy of the professional indemnity limits purchased.

Lloyd's expects the E&O insurer to carry at least an AM Best "A" rating or equivalent. Further information can be found in the "Code of Practice – Delegated Underwriting".

The managing agent will want confirmation that such cover is in place; details of any exclusions and changes to the policy; details of any claims made against the policy and details of any instances of the coverholder having the renewal of the policy refused.

It is, however, recognised that the coverholder may be unable to disclose full details. If the coverholder is not comfortable providing this information to the auditor; then they may provide it separately to the managing agent.

2.3 ACCOUNTS

2.3.1 Fund accounts

The purpose of this section is to ensure that all the insurance funds (i.e. non-operational) held by the company are protected and are held in the correct type of accounts, as defined by the binding authority contract; that these are clearly ring fenced and that the reconciliation on the accounts is being completed in a satisfactory manner.

These checks are important in case the coverholder fails; to ensure that monies held on behalf of the underwriters can be paid.

This section checks that insurance funds are held separately to the company's operating funds and can be identified as such.

When examining the results of the reconciliation, the auditor should pay particular attention to any suspense items or other unallocated amounts to ensure that they are followed up to resolve any issues. Often this is where any anomalies in terms of incomplete processes can be found.

It is expected that the coverholder will reconcile their own records to the bank statement and that they have a reconciliation process to ensure that the fiduciary funds are intact (i.e. that the assets should be equal to or exceed the liabilities.)

Commenting on the effectiveness of the process for matching cash and debit notes is not applicable in Canada, where a licenced CA or CPA would be required to make such comment.

2.3.2 Credit control

This section is all about ensuring funds are handled in a timely and efficient manner. It also checks that the company has not recently suffered any cash flow problems, one pointer to which can be debts which are uncollected.

If cash flow problems were identified, comment should be made as to how the situation was rectified.

Tracking the movement of money is also important as it may have moved through operational or personal accounts, neither of which is appropriate.

2.3.3 Taxes and regulatory

The coverholder's original approval, and any extensions to this, will have permitted them to write business in certain territories only. Checks should be made to ensure that business is not being written outside these territories and/or outside the terms of the binding authority contract.

Lloyd's provides risk rating guidance to assist managing agents in assessing the risk of each coverholder in relation to the business written under a binding authority contract. The coverholder's risk rating is based on a number of factors that will determine the complexity of the business and the level of risk associated with identifying, recording and reporting tax and regulatory information to managing agents.

These factors include:

- Whether the business is single or multi-territory.
- Whether the territories associated with the business have complex regulatory reporting requirements, for example: Australia, Italy, Canada etc.
- Whether the business is single or multi-class.
- The amount of premium being written.
- Coverholder resources; what does the coverholder use to ensure correct and consistent information is being reported; for example:-
 - Lloyd's Coverholder Reporting standards.
 - Specialist staff.
 - Third parties.
 - Specialised tools like Crystal and the Risk Locator Tool.

The coverholder's risk rating will assist the auditor to determine a proportionate approach to this audit section.

The purpose of this section is to ensure that the coverholder is correctly:-

- Identifying and applying the relevant taxes and regulations
- Correctly reporting these to all parties involved
- Correctly paying any relevant taxes

The managing agent is also interested in understanding the level of consistency of tax and regulatory information captured by the coverholder.

If the coverholder uses Crystal/ Risk Locator Tool on a regular basis and can demonstrate their understanding and proficiency in the use of these Lloyd's tools for their business, then this will help to evidence that there is a high level of accuracy and

consistency for information identified and recorded by the coverholder; but use of these tools is not sufficient in itself as evidence of the information what the coverholder is gathering and capturing.

If the coverholder only trades in one country, then they would only be expected to refer to Crystal for regulatory updates.

If the coverholder trades in multiple countries, then they would be expected to use Crystal and the Risk Locator tool regularly to ensure that the correct tax and regulatory requirements are being met in each of the territories or countries in which they trade.

Where the coverholder uses other methods of identifying this information, the auditor should comment on this, so that the managing agent may determine whether the tools used by the coverholder are appropriate and will ensure the same level of information consistency as if Crystal/Risk Locator Tool had been used.

It is entirely acceptable practice for the coverholder not to use such tools where the managing agent risk rating assessment for the coverholder demonstrates that the business does not require their use. The auditor may comment on this, for example "This business is single territory, single class and the managing agent is satisfied that the original tax and regulatory information recorded for the business provides the appropriate level of information required by the managing agent for tax and regulatory reporting purposes."

The auditor may identify instances where there is incidental coverage in other territories, or where there may be occasions where other taxes may be applicable and the risk location may not be easily identifiable at risk or transaction level. The audit should identify such instances, so that the managing agent may take a view on modifying the risk rating for the coverholder and / or may agree additional processes with the coverholder in order to ensure that this information is correctly identified, recorded and reported in the future. These additional processes will then be reviewed in future audits.

For coverholders which are identified as higher risk, the auditor should check at least three transactions for each territory and class of business and refer to Lloyd's Control Framework Data Items for guidance on the sort of information which should be being captured:-

<http://www.lloyds.com/~media/Files/The%20Market/Operating%20at%20Lloyds/Control%20Framework/Control%20Framework%20Data%20Items%20v20.xlsx>

The additional questions in Appendix Two will need to be asked if the coverholder is writing cross border risks, A cross border risk is one where either:-

- The insured is domiciled in a different country or state or province to the coverholder or where different regulatory controls are in operation.
- The subject of the insurance is located in a different country or different state or province to the coverholder or where different regulatory controls are in operation.
- The subject (or any part) of the insurance is located in more than one country, state, province, or location where different regulatory controls are in operation.

2.4 IT

Unless the auditor is an IT expert, the auditor should focus on collecting information for the managing agent(s) so that the managing agent(s) can review this.

2.4.1 IT Systems

The purpose of this section is to ensure that any system(s) used for (but not limited to): rating and/or quoting, binding (including wordings) or amending cover; policy issuance; reporting; accounting; claims and internet / web trading; relating to the contracts are robust, maintained, are backed-up, can be recovered, provide accurate reports and meet the requirements of the binding authority.

There could be multiple systems in use, for instance one to produce the documentation, one for accounting and one for reporting. All need to be considered.

The term 'SLA' means a Service Level Agreement and should include aspects such as response times to system failures, provision of support services, vendor contact details, maintenance/change control/system upgrade provisions, and the like. The essence of this is to ensure that should a system fail the coverholder has a defined and documented process for ensuring recovery occurs in a timely manner.

The term 'Escrow' is intended to ensure that any relevant software source code is lodged with an independent third party in case the supplier is no longer able to provide support. This source would then be available to the coverholder, if required, to ensure continuation of use. This can be considered an 'optional' requirement.

The question asking about Cloud or external hosting relates to the fact that control can effectively be passed over to a third party provider to ensure system availability, upgrades, maintenance and the like. Robust agreements need to be in place to ensure that systems are available at all times the coverholder requires them.

Anti-Virus and Anti-Spam is important to ensure that internal systems are protected from attack. Protection systems should be regularly maintained and updated, at least weekly. Virus attacks can vary daily. The preference is for virus/spam updates to occur network wide automatically as provided by protection agencies.

2.4.2 Data protection

The term 'All data' is taken to mean, but not limited to, data residing on servers, PC's, laptops, home computers if applicable, portable memory devices, back-up media, paper in the office and paper stored off-site.

Data can take many forms. It should be recognised that the media containing data is not actually relevant here but the actual data is. Due consideration should be given to paper documents as well as electronic storage. The local Data Protection regulations should be referred to in order to understand what is deemed to be protected. Thereafter all possible outlets of such data need to be tested against the risk of data loss, data corruption, data amendment and data theft.

A 'data security breach' can take various forms, ranging from but not limited to:

- Electronic data files being lost or mislaid
- Papers containing data being lost or mislaid
- Staff losing personal devices (i.e. iPads, cell-phones, etc.) which may contain data relating to the business (insured data, login details, IP addresses, etc.).

A 'system penetration test' should be performed by an external third party who is a specialist in this area. If a test has occurred a report will be available for review. Penetration testing means

checking for weaknesses in the coverholder's network for external attacks (malicious or otherwise). Weaknesses can occur typically via web-sites (inadequate password strength for instance) or firewalls having open 'ports', (which means that access can be gained to either part of or the full network).

Where data is transmitted, either between branch offices or home workers, then that data should be secured via encryption. Data should not be transmitted externally in 'native' (i.e. unencrypted) format in any circumstance.

Protection of certificates or policy documents is vital. Control needs to be evidenced to ensure that only those understanding the importance of amending documents are able to change these. Enabling uninformed staff to amend documents can lead to incorrect coverage being offered.

Where IT services are outsourced the auditor should find out clearly where the responsibility lies for data security and what contracts are in place to protect underwriters' data. Holding data elsewhere (outsourced) does not remove the coverholder's responsibility for ensuring data is protected.

Where payments from credit and debit cards are being taken the managing agent will want to understand whether the coverholder is complying with the Payment Card Industry (PCI) data standards.

https://www.pcisecuritystandards.org/security_standards/.

2.4.3 Internet

Internet trading opens up various risks which may or may not be explicitly defined in the binding authority.

Appendix Four should be included in the Audit Scope for coverholders undertaking internet trading – that is where they have a website which allows trading, quoting or binding.

2.5 BUSINESS CONTINUITY

Recovering systems is essential to ensure the longevity of any company. Ideally business continuity plans will be in place and tested annually with both non-IT and IT participation; however, it is for the managing agent to decide how frequently they think it is appropriate for tests to be carried out and to advise the auditor of this. A business continuity exercise is NOT an IT event, it is a business event. Failure to recover in a timely fashion will lead to loss of confidence, loss of business and could cause failure of the company.

It is important to understand that any plans need to be accessible should the coverholder's office be unavailable at any time (there is little point having the plans filed in the office only for the office to burn down)..

Business Continuity is often referred to as Disaster Recovery or Business Recovery.

An example business continuity plan is provided in Appendix Thirteen. This plan is provided for guidance only; it is not intended to be adopted as a standard template. Each plan will be based upon the specific business environment and operational issues that impact upon the individual coverholder. Managing agents may choose to request and review any business continuity plans outside of the audit.

Coverholders should notify the managing agent of any material deficiencies identified in the plan or any significant changes the coverholder makes to the plan which may have a serious

impact on the coverholder's ability to perform its duties under the binding authority contract. If any such changes have happened but not been reported then this should be highlighted.

2.6 COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

2.6.1 Compliance, general

The managing agent wants to understand the coverholder's approach to compliance with applicable laws and regulations; how it is managed and how staff are trained.

This includes understanding the coverholders processes and procedures for complaints, branding, advertising, marketing and promotional materials and financial crime.

The managing agent will want to know whether or not the coverholder is aware of the regulations and responsibilities around the fair treatment of customers, Treating Customers Fairly. Further guidance on this can be found here <http://www.fca.org.uk/firms/being-regulated/meeting-your-obligations/fair-treatment-of-customers>

For UK coverholders, Treating Customers Fairly has specific meaning within UK regulation. All Lloyd's coverholders are expected to treat their customers fairly whether they are regulated and authorised in the UK or by other regulatory bodies in other territories. All coverholders should be prepared to demonstrate and provide documented evidence to support their company ethos relating to treating their customers fairly. For UK Coverholders, further guidance can be found at <http://www.fca.org.uk/firms/being-regulated/meeting-your-obligations/fair-treatment-of-customers>

For larger coverholders, the auditor should ask for details regarding the coverholder's control functions and three lines of defence model i.e. how risk, compliance and internal audit are structured. Questions should also be asked regarding any regulatory visits, thematic reviews, significant regulatory issues or otherwise that the auditor should be aware of. A copy of the breaches log should also be reviewed.

2.6.2 Complaints

All coverholders are expected to have a complaint handling procedures. For detailed guidance, please refer to Lloyd's market bulletins.

2.6.3 Branding, advertising, marketing and promotional materials

The managing agent needs to know about any marketing or promotional materials for products written under the binding authority contract and the controls and procedures around these.

2.6.4 Consumer Business

For coverholders concerned with consumer business; this topic is covered in more detail in Appendix Five

2.7 FINANCIAL CRIME

Lloyd's has issued Market Bulletin Y4727, which consolidates guidance for managing agents on managing financial crime risk posed by delegated underwriting. It includes a risk matrix for managing agents to use to guide them in assessing the financial crime risk posed by their coverholders.

<http://www.lloyds.com/~media/files/the%20market/communications/market%20bulletins/2013/10/y4727.pdf#search='Y4727'>

Each of the following aspects of financial crime compliance should be checked by the auditor with reference to the coverholder risk assessment, which will define the expectations in respect to the systems and controls each individual coverholder should be operating in order to ensure compliance with anti-money laundering legislation. It is recommended that managing agents advise auditors of the managing agent's risk assessment of the coverholder prior to the audit.

2.7.1 Anti-money laundering

Managing agents have a responsibility to ensure that coverholders have proper and adequate systems and controls in place to enable compliance with anti-money laundering legislation.

The coverholder audit process should address specific questions relating to the coverholder's compliance with anti-money laundering legislation.

As a minimum coverholders should be able to demonstrate procedures covering the following:

- Recognition and reporting of suspicious transactions.
- Staff training and awareness.

Auditors may also ask whether the anti-money laundering requirements set by the managing agent in their risk assessment are being adhered to; particularly any additional requirements for those coverholders identified as posing a higher money laundering risk profile (see the risk matrices in bulletin Y4727 for details).

Lloyd's has developed an on-line training module to guide coverholders through Lloyd's expectations on the proceeds of crime (including money laundering). The purpose of the module is to clarify Lloyd's expectations and encourage a consistent market approach to meeting these expectations.

Underwriters and brokers are asked to ensure that the key personnel at coverholders' offices complete this module. Lloyd's will hold a list of all individuals that have completed the module. This list will be made available to associated underwriters and brokers on request.

2.7.2 Anti-bribery

Managing agents have a responsibility to ensure that coverholders have proper and adequate systems and controls in place to enable compliance with anti-bribery legislation.

The coverholder audit process should address specific questions relating to the coverholder's compliance with anti-bribery legislation.

As a minimum coverholders should be able to demonstrate procedures covering the following:

- Recognition and reporting of bribery issues.
- Staff training and awareness.

Auditors may also ask whether the anti-bribery requirements set by the managing agent in their risk assessment are being adhered to; particularly any additional requirements for those coverholders identified as posing a higher bribery risk profile (see the risk matrices in bulletin Y4727 for details).

Lloyd's has developed an on-line training module to guide coverholders through Lloyd's expectations on bribery. The purpose of the module is to clarify Lloyd's expectations and encourage a consistent market approach to meeting these expectations. Underwriters and brokers are asked to ensure that the key personnel at coverholders' offices complete this module. Lloyd's will hold a list of all individuals that have completed the module. This list will be made available to associated underwriters and brokers on request.

2.7.3 Sanctions

Managing agents have a responsibility to ensure that coverholders have proper and adequate systems and controls in place to enable compliance with sanctions legislation.

The coverholder audit process should address specific questions relating to the coverholder's compliance with sanctions legislation.

As a minimum coverholders should be able to demonstrate procedures covering the following:

- Recognition and reporting of sanctions issues.
- Staff training and awareness.

Auditors may also ask whether the sanctions requirements set by the managing agent in their risk assessment are being adhered to; particularly any additional requirements for those coverholders identified as posing a sanctions risk profile (see the risk matrices in bulletin Y4727 for details).

Lloyd's has developed an on-line training module to guide coverholders through Lloyd's expectations on sanctions. The purpose of the module is to clarify Lloyd's expectations and encourage a consistent market approach to meeting these expectations. Underwriters and brokers are asked to ensure that the key personnel at coverholders' offices complete this module. Lloyd's will hold a list of all individuals that have completed the modules. This list will be made available to associated underwriters and brokers on request.

3 CONTRACT SPECIFIC

3.1 UNDERWRITING

The quality and adequacy of the coverholder's controls and procedures for the management of underwriting risks needs to be understood by the managing agent.

3.1.1 Underwriting authority

The table below sets out the different levels of underwriting authority a coverholder may have, and this will be a factor in determining the level of detail and information the managing agent requires of the auditor when carrying out the audit.

Level of Authority	Definition
Full Authority	The coverholder is given full discretion to set rates or given minimum rates from which the coverholder has discretion to increase rates without restriction or referral.
Pre-determined rates	The coverholder is given a rating matrix or range within which the rates can be established. The coverholder has authority to exercise minimum underwriting discretion within agreed parameters, for example within a percentage of the standard premium.
No discretion	The coverholder is given a comprehensive rating matrix. These arrangements must not give the coverholder discretion in calculating the premium or making adjustments to it, other than minimal rounding up.
Prior submit	Each risk must be referred from the coverholder to the lead underwriter before being bound.

3.1.2 Underwriting management

This part of the underwriting aspect of the audit is intended to gain an understanding of the coverholder's underwriting processes such as handling submissions, rating of risks, quoting and binding risks, post bind (surveys/inspections), policy and endorsement issuance and renewals.

3.1.3 Underwriting file compliance review

The second part of the underwriting audit is a review of a selection of underwriting files. Such review should bear out the information provided by the coverholder under the first part of the underwriting audit as well as providing some statistical data – the idea is to compare the answers given to the questions raised with the coverholder to the reality. This is the testing and evidencing part of the audit.

If there are discrepancies this should be raised as an action point and the managing agent can request coverholder input.

The number of files that should be reviewed will vary according to class of business, managing agency requirements and the complexity of the files themselves. Section 1.10 provides guidance on this. The managing agent should use the Audit Order sheet, in Appendix Eleven, to stipulate the number of files they wish the auditor to review. The auditor is not

expected to form an opinion on the quality of risk selection, but is still invited to relay comments in this regard if they so wish.

A certificate checklist is provided in Appendix Six. The checklist provides generic headings and managing agents and auditors should liaise prior to the audit as to the class specific fields.

3.2 CLAIMS

As per paragraph 36A(h) of the Intermediaries Byelaw; the managing agent needs to understand whether any coverholders or Third Party Administrators (TPAs) handling claims are suitable to do so.

Principle 6 of Lloyd's Claims Standards deals with Third party procurement with Principles 6A through to 6G specifically relating to delegated claims management:

- 6F: The managing agent monitors regularly the service provided by the third party and, if required standards are not met, restricts or terminates the delegation.
- 6G: The managing agent ensures that the third party is audited in respect of the arrangement normally every twelve months, or at other appropriate intervals, and that any matters arising are considered, and where appropriate, addressed.

The audit report should comment on the overall quality of claims handling decisions.

The full self-assessment questionnaire in Appendix Seven is intended to be used to audit coverholders and third party administrators (TPAs) with claims authorities.

Ideally, all new and existing TPAs and coverholders with claims authorities should complete the questionnaire provided in Appendix Seven, and update this every twelve months in advance of contract review and renewal.

However, any new Third Party Administrator (TPA) which has not handled claims for the Lloyd's market may complete the short self-assessment questionnaire in Appendix Eight.

TPAs should be subject to regular audit, with intervals of no more than twelve months between audits, or at other intervals, as deemed appropriate by the leading underwriter.

3.2.1 Claims management

Where coverholders manage their own claims, the audit should examine the way in which claims are handled and managed and undertake appropriate file reviews.

For coverholders with no claims authority, the managing agent will need to specify the appropriate questions to ask.

3.2.2 Claims file review

The second part of the claims audit is a review of a selection of claims files. Such review should bear out the information provided by the coverholder under the first part of the claims audit as well as providing some statistical data. The number of files that should be reviewed will vary according to class of business, managing agency requirements and the complexity of the files themselves. Section 1.10 provides guidance on

this. The managing agent should use the Audit Order Sheet, in Section 1.9, to stipulate the number of files they wish the auditor to review.

Appendix Nine provides a file audit checklist for claims file reviews. This will again vary by class of business. The checklist provides generic headings and managing agents and auditors should liaise prior to the audit as to the class specific fields.

3.3 TRANSACTIONAL ACCOUNTING

Failure to correctly account for transactions can suggest a serious financial exposure for managing agents in relation to the business. A failure to correctly process the transactions may result in coverage being in place without payment of the premium. If the correct payments are not being made in a timely manner, this could be indicative of more serious operational failings within the coverholder's operation.

The auditor should review the coverholder's transaction processing accounting practices against the agreed settlement timeframe shown in the binding authority contract.

The auditor is expected to test and evidence that transactions are settled in a timely manner in accordance with the agreed timeframe set out in the schedule to the binding authority contract. The auditor should evidence that staff are aware of the agreed timeframes and the internal process for monitoring, recording and reporting late transactions. The auditor should evidence the coverholder's transaction accounting procedures and test the efficiency of these procedures for ensuring the timely and correct settlement of transactions.

The table provided in Appendix Ten is intended to assist the auditor to evidence where sample transactions have either met or failed the agreed settlement deadlines. The auditor will complete the fields highlighted in yellow to indicate the agreed settlement timeframe for the business.

3.4 REPORTING

This section of the audit should focus on:-

- Whether the coverholder understands what they are supposed to be reporting.
- How they do the reporting.
- Whether the reports are an accurate reflection of what has happened.

The audit should examine whether or not the coverholder is familiar with the Coverholder Reporting Standards, any contract specific reporting requirements and any reporting requirements specific to the territories and classes in which they operate, for example reporting to local Lloyd's offices or UK employers' liability reporting (ELTO).

The coverholder may provide paper or system generated reports. They may also produce transactions on a real-time XML basis, and where this is done the auditor will need to review a suitable number of transactions.

It is recommended that a minimum of ten transactions or reports are tested.

The audit should also consider any systems and processes and any data changes/manipulations that take place and whether or not these have an audit trail.

3.5 GENERAL

Following the audit, the auditor should provide comments on any other information or considerations which the managing agent should be informed about.

Examples of the type of information which may be considered relevant are:-

- Current and future business plans.
- Factors affecting growth / expansion.
- Nature of competition, local market conditions.
- Coverholder's relationship with London broker and managing agent.
- Overall impression and suitability of the office, general working environment, size of the office, cleanliness, working conditions etc.

4 APPENDICES

4.1 APPENDIX ONE – ATLAS INFORMATION REVIEW

Atlas is an online market system which deals with three main areas of coverholder activities:

- New coverholder applications, including branch applications.
- Changes to coverholder permissions that are applied centrally by Lloyd's.
- Annual compliance data that can be made available to all interested managing agents and Lloyd's brokers.

As Atlas enables the central storage and sharing of coverholder compliance information; it is important that the audit does not just replicate requesting the same information of the coverholder.

The purpose of Appendix One of the audit is to review the information given on Atlas and to check that this is still up to date, correct and complete.

Where this section is being reviewed as part of the audit, managing agents are required to either request Atlas access for the auditor, or provide the information from Atlas to the auditor in some other format and provide guidance on what is required to be reviewed.

Prior to the on-site audit, the auditor is able to complete their off-site review of the coverholder's operation by using the information provided by the coverholder, or the Lloyd's broker held on Atlas. It is expected that this off-site review will save the auditor and the coverholder time covering this review on-site.

It is the responsibility of the Lloyd's broker and / or the coverholder to ensure that the information held on Atlas is up to date, accurate and complete and that where documents have been uploaded, these are held within the appropriate section of the details tab.

The review should follow the primary section headings for Atlas as listed in the Details Tab. If information or any documents are missing or out of date then this is to be recorded and reported back to the managing agent. It may be the case that documents have not been attached to the correct section in Atlas or may not be viewable or may be held on file by the managing agent or the broker. The Lloyd's broker and/or the managing agent will be able to assist the auditor if the auditor is not able to complete the off-site review due to missing or incorrect documents / information. Following the auditor's report, it is for the managing agent to agree with the coverholder whether missing documents and / or information should be held on Atlas.

4.2 APPENDIX TWO – CROSS BORDER RISKS

The additional questions in Appendix Two will need to be asked if the coverholder is writing cross border risks, A cross border risk is one where either:-

- The insured is domiciled in a different country or state or province to the coverholder or where different regulatory controls are in operation.
- The subject of the insurance is located in a different country or different state or province to the coverholder or where different regulatory controls are in operation.
- The subject (or any part) of the insurance is located in more than one country, state, province, or location where different regulatory controls are in operation

4.3 APPENDIX THREE – LOCAL TAX PAYMENTS MADE BY THE COVERHOLDER

The auditor is expected to validate and provide evidence that relevant local taxes are being paid correctly and in a timely manner to the correct body or forwarded on to the underwriter for settlement in accordance with regulations.

The auditor should detail the process the coverholder uses to make returns to relevant local authorities and provide details of the evidence of this process including details of the frequency and accuracy of reports.

The table shown in Appendix Three provides a suggested template for auditors to use in order to evidence local tax payments made by the coverholder.

4.4 APPENDIX FOUR – INTERNET TRADING

Internet trading opens up various risks which may or may not be explicitly defined in the binding authority.

Appendix Four should be included in the Audit Scope for coverholders undertaking internet trading – that is where they have a website which allows trading, quoting or binding.

4.5 APPENDIX FIVE – CONSUMER BUSINESS

The auditor should discuss this section with the managing agent before the audit to determine how it is to be approached and to get details of any product evaluation that has already taken place at the managing agent so that this can be used for reference.

The managing agent should decide which questions are applicable for the coverholder in advance of the audit taking into account various factors including whether the coverholder or managing agent developed the product, the location of the coverholder and the authority level of and activities carried out by the coverholder. Where possible the managing agent should also provide advice on the level of detail they expect in the answers. For the relevant definition of consumer please see Market Bulletin Y4739 -

<http://www.lloyds.com/~media/files/the%20market/communications/market%20bulletins/2013/11/y4739.pdf#search=Y4739>

The approach to the questions will vary depending upon who develops and manages the product. If it is the coverholder then analysis of all sections of the appendix is required, if it is the managing agent then the audit focus will be more on the activities that the coverholder carries out; for example marketing, distribution and servicing.

It is for the managing agent to decide which questions are applicable for each coverholder.

Marketing and promotional material

These questions are designed to check that the coverholder handles all promotional and marketing material appropriately and that they understand the importance of such material being targeted at the correct audience. Key risks in this area include the distribution of unclear, unfair or misleading material due to the content of the material itself or because it is targeted at an inappropriate audience.

It is not for the auditor to determine who the right customer is. They need to outline the process and test whether it is being followed. It is for the managing agent to determine whether it is appropriate and whether it is actually targeting the right customer. If the auditor does need to know they should seek guidance from the managing agent.

Product distribution, suitability and information

If the coverholder is using standard wordings without amendments the auditor is expected to be able to confirm this. Reward schemes which may conflict with the interests of the customer are those beyond standard commission and profit commission as agreed in the binder. Key risks in this area include customers being provided inappropriate or poor advice or customers being treated unfairly or otherwise improperly.

Post sales access

The key risk in this area is that a customer is unfairly impeded should they wish to make mid-term changes to their policy.

Complaints

The earlier section of questions, in 2.6.2, on complaints should be completed together with these additional questions.

UK coverholders only

It is recommended that this question is always asked where the coverholder is UK based and writes consumer business.

Treating customers fairly (UK coverholders only)

These questions aim to monitor whether the coverholder is achieving the FCA TCF outcomes which are:

Outcome 1: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.

Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.

Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.

Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances.

Outcome 5: Consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect.

Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

It is expected that the coverholder will have a treating customers fairly policy that is embedded throughout the company; that is a policy in place, which is cascaded down to all staff and is reported on and minuted on at Board meetings. The coverholder should provide a copy of this policy.

4.6 APPENDIX SIX – CERTIFICATE CHECKLIST

A certificate checklist is provided in Appendix Six. The checklist provides generic headings and managing agents and auditors should liaise prior to the audit as to the class specific fields.

4.7 APPENDIX SEVEN – FULL CLAIMS QUESTIONNAIRE

Any Third Party Administrator (TPA) which has not handled claims for the Lloyd's market previously should complete the full self-assessment questionnaire in Appendix Seven.

4.8 APPENDIX EIGHT – SHORT CLAIMS QUESTIONNAIRE

All existing TPAs should complete the short questionnaire provided in Appendix Eight, and update this every twelve months in advance of contract review and renewal.

4.9 APPENDIX NINE – FILE AUDIT CHECKLIST FOR CLAIMS

Appendix Nine provides a file audit checklist for claims file reviews. This will again vary by class of business. The checklist provided attempts to provide generic headings and managing agents and auditors should liaise prior to the audit as to the class specific fields.

4.10 APPENDIX TEN – TRANSACTIONAL ACCOUNTING

Transactions should be reviewed and the details noted in the table provided in Appendix Ten; refer to 3.3 for additional guidance

4.11 APPENDIX ELEVEN - AUDIT ORDER SHEET

The intention of the following sheets is to provide a way for the managing agent or managing agents to select the sections to be included in the audit.

- Two options are provided below, a high level selection list, and a lower level selection list.
- Where the audit is being undertaken for just one managing agent, they should fill in the first column only.
- If there is a second or more managing agents, then they should fill in additional columns.

4.11.1 High level selection

Coverholder	
Coverholder PIN	
Due date	
Broker contact name	

	Sections	Managing agent 1	Managing agent 2	Etc
	UMR			
2.2	The company			
2.3	Accounts			
2.4	IT			
2.5	Business continuity			
2.6	Compliance with applicable laws and regulations			
2.7	Financial Crime			
3.1	Underwriting			
3.2	Claims			
3.3	Transactional accounting			
3.4	Reporting			
3.5	General			
4.1	Appendix One – Atlas information review			
4.2	Appendix Two – Cross Border Risks			
4.3	Appendix Three – Local tax payments made by the coverholder			
4.4	Appendix Four – Internet trading			
4.5	Appendix Five – consumer business			
4.6	Appendix Six – Certificate checklist			
4.7	Appendix Seven – Full Claims Questionnaire			
4.8	Appendix Eight – Short Claims Questionnaire			
4.9	Appendix Nine – File Audit Checklist for Claims			
4.10	Appendix Ten – Transactional accounting			

	File Reviews – No of files	Managing agent 1	Managing agent 2	Etc
	Underwriting			
	Certificates			
	Claims			

	Transaction Reviews – No of transactions	Managing agent 1	Managing agent 2	Etc
	Transactional accounting			
	Tax and regulatory			
	Cross border risks			

4.11.2 Lower level selection

Coverholder	
Coverholder PIN	
Due date	
Broker contact name	

	Sections	Managing agent 1	Managing agent 2	Etc
	UMR			
2.2	The company			
2.2.1	People			
2.2.2	Multi-office locations			
2.2.3	Outsourcing, insourcing and producers			
2.2.4	Conflicts of interest			
2.2.5	Litigation and formal investigations			
2.2.6	Errors and omissions			
2.3	Accounts			
2.3.1	Fund accounts			
2.3.2	Credit control			
2.3.3	Taxes and regulatory			
2.4	IT			
2.4.1	IT systems			
2.4.2	Data protection			
2.4.3	Internet			
2.5	Business continuity			
2.6	Compliance with applicable laws and regulations			
2.6.1	Compliance, general			
2.6.2	Complaints			
2.6.3	Branding, advertising, marketing and promotional materials			
2.6.4	Consumer business			
2.7	Financial Crime			
2.7.1	Anti-money laundering			
2.7.2	Anti-bribery and corruption			
2.7.3	Sanctions			
3.1	Underwriting			
3.1.1	Underwriting management			
3.1.1.1	The submission process			
3.1.1.2	Rating			
3.1.1.3	Quotes			
3.1.1.4	Binding risks			
3.1.1.5	Post bind			
3.1.1.6	Policy and endorsement issuance			
3.1.1.7	Renewals			
3.1.1.8	Management of underwriting processes			
3.1.1.9	Inspections and surveys			
3.1.1.10	Contract profitability			
3.1.2	Underwriting file compliance review			
3.2	Claims			
3.2.1	Claims management			
3.2.1.1	Claims organisation			
3.2.1.2	Claims management			
3.2.1.3	Experts			
3.2.1.4	Denials			
3.2.2	Claims file review			

	Sections	Managing agent 1	Managing agent 2	Etc
3.3	Transactional accounting			
3.4	Reporting			
3.5	General			
4.1	Appendix One – Atlas information review			
4.2	Appendix Two – Cross Border Risks			
4.3	Appendix Three – Local tax payments made by the coverholder			
4.4	Appendix Four – Internet trading			
4.5	Appendix Five – consumer business			
4.5.1	Marketing and promotional material			
4.5.2	Product governance			
4.5.3	Product distribution, suitability and information			
4.5.4	Post sales access			
4.5.5	Claims			
4.5.6	Complaints			
4.5.7	UK coverholders only			
4.5.8	Treating customers fairly (UK coverholders only)			
4.6	Appendix Six – Certificate checklist			
4.7	Appendix Seven – Full Claims Questionnaire			
4.8	Appendix Eight – Short Claims Questionnaire			
4.9	Appendix Nine – File Audit Checklist for Claims			
4.10	Appendix Ten – Transactional accounting			

	File Reviews – No of files	Managing agent 1	Managing agent 2	Etc
	Underwriting			
	Certificates			
	Claims			

	Transaction Reviews – No of transactions	Managing agent 1	Managing agent 2	Etc
	Transactional accounting			
	Tax and regulatory			
	Cross border risks			

4.12 APPENDIX TWELVE - TABLE OF RECOMMENDATIONS

The auditor is expected to provide a table of recommendations. The following is an example of how this might look:-

4.13 HIGH PRIORITY

Recommendations which are considered critical to the business including but not limited to breaches of the binding authority agreement or of local legislation/regulation. It is expected that the coverholder will act on these recommendations immediately or in accordance with the recommendation given.

No.	Section	Finding	Recommendation	Coverholder's response

4.14 MEDIUM PRIORITY

Recommendations which are in line with best practice. It is expected that the coverholder will act on these within six months or in accordance with the recommendations given.

No.	Section	Finding	Recommendation	Coverholder's response

4.15 LOW PRIORITY

Recommendations which could improve the coverholder's efficiency and risk management without being material (i.e., housekeeping type, operational / administrative issues). It is expected that the coverholder will act on these prior to contract renewal, or in accordance with the recommendations given.

No.	Section	Finding	Recommendation	Coverholder's response

4.16 PRIOR AUDIT FINDINGS

Recommendations which were raised at prior audits, and progress on these.

No.	Section	Finding	Recommendation	Coverholder's response

4.17 RECOMMENDATIONS FOR LONDON

Recommendations for action by the managing agent, London broker or by Lloyd's.

No.	Section	Finding	Recommendation	London response

4.18 OTHER ITEMS

Any other points of notes.

No.	Section	Finding	Recommendation	London response

4.1 APPENDIX THIRTEEN – EXAMPLE BUSINESS CONTINUITY PLAN

The following is an example of the sort of information which it is expected that a coverholder will have in their disaster recovery, or business continuity, plan.

4.1.1 Introduction to the plan

The purpose, author, organisation, scheduled updates. Where the plan is stored (preferably securely on the web so that it can be accessed from anywhere).

4.1.2 Emergency information sheet

One-page summary of immediate steps to be taken and individuals to be contacted. Assessing the scale of an incident (Severe/Widespread, Major/Localised, Minor/Localised).

4.1.3 Internal communication plan (or "telephone tree")

The names of those to be contacted, including office and home numbers, personal e-mail addresses, strategy for contacting them, and communication vehicles that can be used. Emergency contact point (e.g. a dedicated phone number with suitable message for all to call).

4.1.4 External communication plan

The names of those to be contacted, including office numbers, possibly home numbers and personal e-mail addresses, strategy for contacting them and communication vehicles that can be used. Consider regulators, markets, retailers, banks, outsource partners, telecoms, suppliers, hospitals, fire departments, police departments etc.

4.1.5 Recovery team members

List of recovery/salvage team members (including work, mobile and home phone numbers, e-mail addresses, social media), with descriptions of their responsibilities, scope of authority, and reporting lines.

4.1.6 Systems

Schedules, procedures and persons responsible for routine testing and invocations (e.g. of computer system recovery, system back-ups, telephony, communications including e-mail services etc.) and procedures for follow-up to reported vulnerabilities.

An invocation means a request for assistance should an event occur which triggers a Business Continuity plan to be enacted. In simple words, you seek help

4.1.7 Infrastructure

Schedules, procedures, and persons responsible for routine testing and inspections (e.g. of fire alarms and suppression systems, roof, etc.), and procedures for follow-up to reported vulnerabilities. A summary of steps to be taken to salvage materials. Note: Inspection checklists should appear in the appendix, and completed inspection forms should be retained to allow follow-up on reported problems.

4.1.8 Departmental plans

More detailed priorities by department, subject and/or location. These should be indicated in an appendix to the plan or as a separate document.

4.1.9 Checklist of pre-disaster actions

Outline of procedures to be followed in advance of emergency for which there is advance warning (e.g. hurricane, flooding), including assignment of responsibilities for those actions.

4.1.10 Response and recovery instructions

Recovery locations (meeting location point near the office, off-site recovery venue.) Detailed, step-by-step instructions on all phases of salvage operation, including discussion of recovery from the range of incidents that are possible (e.g. computer system failure, loss of e-mail, short-term office unavailability, loss of office).

4.1.11 Accounting information

Description of institutional funds available in a recovery effort and procedures/authorization for access to them.

4.1.12 Insurance information

Explanations of coverage, claim procedures, record-keeping requirements, restrictions on staff/volunteers entering a disaster area, information on state/federal disaster relief procedures.

4.1.13 Location of keys

Information about the location of, and means of access to keys or combinations or entry requirements to the office or recovery site in the event of an invocation. Note: For security reasons, it may not be prudent to provide exact information about all these. In such cases, the plan should specify a procedure for contacting the individuals who have the proprietary information.