

# LLOYD'S APPROVED COVERHOLDER APPLICATION FORM – GUIDANCE NOTES

**MARCH 2016**

## INTRODUCTION

As the Delegated Authorities Team carry out the approval process in London without having a direct knowledge of your business, you must provide full information so that they can assess your application properly.

The form is designed to gather the information needed by Lloyd's and the managing agent that proposes to grant you a binding authority.

The application form is a very important part of Lloyd's approval process. If you are successful in becoming an approved coverholder, you and your clients will know that you have met the high standards required of Lloyd's approved coverholders.

### Some points to bear in mind when filling in the application form

Always answer the questions truthfully. If you think that you or your principal personnel have been involved in a matter which may affect your suitability, please make sure you:

- give full details of any such matter in the application;
- explain what action was taken to put the matter right; and
- explain what action was taken to make sure that it does not happen again.

If you are not sure whether any fact or matter is relevant, please make sure you mention it. Lloyd's will then be in a position to consider all the relevant information. If you do not provide any relevant information, Lloyd's may reject your application.

- Do not be tempted to alter any question in order to provide a more convenient answer. The questions have been specifically worded and must not be altered. However, if you find that a question is not relevant or needs to be different in order for you to answer, please state this clearly on the form or in a covering letter.
- If you cannot answer the questions in English, ask your sponsor to attach an English translation and confirm the accuracy of the translation.
- Lastly, make sure you have answered all the questions and supplied any supporting documents. Incomplete applications will be returned.

## DEFINITIONS

The following words, which are shown in bold in the application form, are defined in the definitions byelaw. Those definitions are summarised below.

**'applicant'** means you, the company or partnership applying to be an approved coverholder.

**'approved coverholder'** means a company or partnership which Lloyd's has approved to act as an approved coverholder in accordance with the Delegated Underwriting Byelaw.

**'binding authority'** means an agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

**'coverholder'** means a company or partnership authorised by a Lloyd's managing agent to enter into contracts of insurance to be underwritten by the syndicate in accordance with the terms of a binding authority.

**'customer'** means all customers and clients, including policyholders and prospective policyholders.

**'domiciled'** a company is domiciled in the jurisdiction it is registered in.

**'insurance monies'** means all money received or to be paid to a coverholder, from or on behalf of a Lloyd's managing agent, in accordance with the terms of a binding authority.

**'Lloyd's broker'** means a person listed in the register of Lloyd's brokers maintained under the Lloyd's brokers Byelaw.

**'Lloyd's managing agent'** means an underwriting agent which carries on underwriting for a member.

**'member'** means a person admitted to the membership of the Society of Lloyd's.

**'principal personnel'** means all directors and partners of the applicant and all other senior employees of the applicant who are or will be responsible for the management and operation of a binding authority.

**'registered binding authority'** means a binding authority which has been registered with the Franchise Board in accordance with the Delegated Underwriting Byelaw.

**'retail'** means insurance business received directly from the insured.

**'rules'** means the rules and requirements Lloyd's makes from time to time in relation to binding authorities and coverholders.

**'sponsor'** means the Lloyd's broker or Lloyd's managing agent that is supporting the applicant's application to become an approved coverholder.

**'syndicate'** means a member or group of members underwriting insurance business at Lloyd's through the agency of a Lloyd's managing agent.

**'wholesale'** means insurance business received through another intermediary and not directly from the insured.

Note: these definitions are given to help you fill in the application. If any word or term above is defined in the Definition Byelaw, that meaning will apply.

## STAKEHOLDERS

This section will tell us your sponsoring Lloyd's registered broker (or direct-dealing managing agent) and the lead managing agent on the proposed binder for which you are seeking Lloyd's coverholder approval. Once these companies are selected they will be able to view the application on Atlas.

## COMPANY INFORMATION

### Legal name

This must be the registered legal name of the company and not a trading name.

### Trading names

We are interested only in any trading names that you may use in connection with your business under any Lloyd's binding authorities, including any name that may appear on the insurance documents you may issue.

If any of the trading names are legal entities in their own right, and you need them to be able to enter into contracts of insurance or issue insurance documents, you must fill in a separate application form for them to become approved coverholders.

If you have more than one office and you need them all to be able to enter into contracts of insurance or issue insurance documents, you must fill in a separate branch application form for the other additional offices.

### Registered address & Company registration number

Please provide the registration number (and associated address) you are registered under in accordance with local company law requirements.

### Registration details

Your answer here should tell us your local regulator and reference (if any). The year of incorporation will tell us how many years you have been trading. So, for example, if ABC Ltd was formed in 1990, but changed its name to XYZ Ltd in 2000, then it is the 1990 date that should be shown.

### Trading address

This should be the address you will trade from as a Lloyd's approved coverholder.

### Postal address

The address used for business correspondence. This may or may not be the same as the trading or the registered address.

## Company Contact Details

This covers company telephone number, fax number, e-mail address and website information. Please note that these details will also be displayed on the Lloyd's coverholder directory <http://www.lloyds.com/The-Market/Directories/Coverholders>

## Coverholder Contact Details

This section should identify the principal contact for the Lloyd's binder/s. This information is not displayed outside of Atlas. It is not mandatory to complete this section.

# UNDERWRITING & CLAIMS

Please indicate the type of authority to be delegated; prior-submit, no discretion, pre-determined rates or full underwriting authority.

We also need to know whether you will be issuing documents. If not please let us know in the supporting comments which entity will be issuing documents.

We need to know whether the managing agent is also delegating claims authority. If so we need to know:

- Whether there a segregation of duties / authority between your underwriting and claims departments
- Whether you have ever had a claims authority under a binding authority cancelled by underwriters
- what your internal audit and peer review processes are to ensure compliance with the terms and conditions of the binding authority in respect of claims handling
- the internal claims authority limits that will apply to persons authorised to handle claims, including authority to agree final settlement of claims.

# BUSINESS STRATEGY

## Non-insurance business

You should state here all your other activities (such as real estate, premium financing, loss adjustment, repairs and so on) and explain how you will manage any conflict of interest with these functions and your insurance activities.

## Sub-delegation

We would like to know whether you propose to authorise (including through online internet trading systems) any third party (non-employees) to accept risks, issue documentation or access your underwriting systems.

## Directorships

We would like to know whether any of the directors hold directorships in organisations other than the applicant's.

## Distribution Channels

We would like to know the applicant's distribution channels including whether the applicant will be dealing directly with the insureds or with other intermediaries and the medium through which this communication will occur. It is important that any intention to trade over the internet is fully explained.

## Business / underwriting plan

Providing a business / underwriting plan will enable us to evaluate the business you will be bringing to Lloyd's and we view this as a crucial aid in understanding your proposal.

The managing agent of the lead syndicate will help you with the precise content of the plan. It is likely that the managing agent of the lead syndicate will want your underwriting plan to include the following information;

- Company profile.
- Where your business comes from.
- The rationale for choosing Lloyd's.
- Your target profitability and past profitability, including the reasons for any previous insurer declining to renew.
- Territories and distribution channels.
- Details of other contracts of delegation you manage.
- An analysis of the market (including opportunities for, and threats to, successful underwriting and key competitors).
- Your basis for choosing risks.
- Your basis for setting prices (where appropriate).
- Information about your performance against monthly targets.
- Details of how the binding authority will fit with your other areas of business.
- Claims handling arrangements.

## OWNERSHIP OF THE COMPANY

### Ownership

Please supply details of companies or individuals owning a share of the applicant company.

## KEY STAFF

### Details of principal personnel

Give details of all principal personnel and provide a copy of each person's CV or résumé. We need the dates of birth of your personnel to correctly identify the individuals concerned.

CVs or résumés should include the following information:

- A list of all insurance-related organisations (such as insurance companies, insurance brokers, managing general agents or coverholders) that the person has been a director, partner or employee of, with relevant dates.
- A list of all insurance organisations (such as insurance companies, insurance brokers, managing general agents or coverholders) the person has had an ownership or controlling interest in, with relevant dates.
- Details of experience in the insurance industry.
- Details of any relevant professional qualifications.

If there are known problems with any of the organisations identified in any of the CVs or résumés, explain that person's role in connection with the problem.

We may need to take up references or make enquiries of previous employers. If we intend doing this we will first discuss it with you and your sponsor.

We also need to know whether the key staff named on the binder are directly employed by the coverholder.

## REPUTATION AND STANDING

We strongly recommend that all your principal personnel and other staff referred to in the 'Key staff' section of the application form take great care in reading and approving your answers to the questions in this section.

## **PROFESSIONAL INDEMNITY (PI) INSURANCE**

To be an approved coverholder you are expected to have professional indemnity or errors and omissions insurance.

Lloyd's does not set minimum levels of cover. Your answers to these questions will help managing agents and Lloyd's assess the adequacy and security of your insurance.

In particular, your professional indemnity or errors and omissions insurance must cover your activities in connection with Lloyd's binding authorities in all jurisdictions in which you will be trading, providing services or doing business under those binding authorities.

Your full PI policy wording must be uploaded to the application so that Lloyd's and your sponsoring managing agent can check in the wording as part of their due diligence.

We also expect you to provide details of any claims made against your policy in the last 5 years.

## **FINANCIALS**

Although audited accounts are common in the UK, this is not always the case elsewhere. The minimum standard that we look for is a set of financial statements (accounts) including an income statement (profit and loss account) and a balance sheet, that have been audited or reviewed and have at least been compiled by a suitably qualified person. We will usually accept CPA-compiled accounts from applicants domiciled in the USA.

We will not usually accept your own internal management accounts unless:

- they show a relevant change in your financial position since your last formal accounts (in which case, please provide both the last formal accounts and your latest management accounts); or
- for some reason, you cannot provide formal accounts. In this case you should explain why, and have the figures in your management accounts verified by a suitably qualified person. We may ask for a suitable guarantee or other security to support your application.
- Because of the different accounting practices that apply throughout the world, we have not laid down any minimum criteria for profit, capital, working assets, liabilities and equity. However, we do expect you to be able to show that you are financially sound, and so would expect you to demonstrate that you are at least a profitable company with working capital and equity.
- If your company is a new operation (less than 2 years trading history) then please provide the opening balance sheet and at least 3 years projected future income statements for the coverholder entity.
- The development in Atlas has done away with the need for structured data fields to be filled in for financial information. All that will be required is for the financial statements to be submitted with the application.

## **BANK ACCOUNTS**

Your sponsor or the Lloyd's managing agent of the lead syndicate will explain to you the exact requirements relating to how insurance monies must be held. Generally, Lloyd's expects that a separate account should be maintained for Lloyd's monies.

### **Co-Signatory Bank Accounts**

We expect all bank accounts to have at least 2 signatories.

## **SYSTEMS AND CONTROLS**

### **Internal systems**

Please note that 'systems' should be electronic but, if they are manual, we would need to be assured that service levels, especially relating to quality, quantity of information and speed, can be achieved.

We ask specific questions regarding systems. If the answer to any of these questions is 'no' we require further information to explain how the requirements will be met.

We would also like to know:

- The company service standards for entering new risks bound onto the core underwriting systems, and how are these standards monitored?
- What oversight and controls are in place to ensure compliance to the terms and conditions of the binder? - E.g. adherence to limits, individual's authorities, etc.
- What procedures and timescales are in place to deal with customer complaints?

We also require confirmation that financial crime policies are in place covering bribery, sanctions and anti-money laundering in line with local requirements and that staff receive training. If the answer is 'no' we require further information to explain how the area is managed.

We also require appropriate complaints and business continuity plans to be in place with copies of the policies attached.

## LICENSES

For new applications the Coverholder needs to confirm that they have all necessary licenses, permits and other authorisations in all jurisdictions where they are domiciled, trade, provide services or do business under a binding authority. This declaration is made on ATLAS.

## CLASS OF BUSINESS

We need to know which classes of business are required. The classes selected must correspond with the classes and risk codes listed in the Letter of Support. We also need to know the coverholder's estimated premium income for this class (including non- Lloyd's business) and the estimated premium income to Lloyd's for this class. We also need to know whether this business is wholesale, retail or both.

There is also a question regarding whether the binding authority is intended to include consumer products. This relates to specific Lloyd's guidelines and your managing agent should be able to answer the question for you.

## REGIONS

All Lloyd's coverholders have permission to conduct business on behalf of Lloyd's underwriters in their own domicile.

A coverholder proposing to do business in any country beyond its domicile must first obtain Lloyd's permission.

When extending a coverholder's approval, we consider the country required as part of a region which, once approved by us, will permit the relevant managing agents should they wish, to grant the coverholder authority to enter into contracts of insurance for all countries in that region. For up to date information regarding information we require go to <http://www.lloyds.com/The-Market/Tools-and-Resources/Resources/Changing-an-approved-coverholders-authority-and-details>.

## **COVERHOLDER UNDERTAKING**

A photocopy or scan of the signed coverholder undertaking is acceptable – we do not require the original. The name of the coverholder on the undertaking must match the legal name given in the 'Company information' section of the application.  
We do not accept undertakings with electronic signatures.

## **LETTER OF SUPPORT**

This will be a detailed letter from the Underwriter who will be delegating authority and should summarise the following:

- the background & nature / length of the relationship. This should include your familiarity with the key people concerned and their capabilities, and whether the managing agent has written their business on open market basis previously.
- for a branch application, how this location is overseen by its head office
- the classes of business / risk codes proposed and corresponding E.P.I
- rationale for the binding authority; from both the managing agent's and the applicant's perspectives
- proposed binding authority sum insured and extent of underwriting authority to be delegated (prior submit, pre-determined rates, full authority).
- market conditions and expected results
- how the rating will be controlled
- the extent of any claims authority proposed, the parties involved in the claim chain and their roles/authorities, and how these parties will be audited
- outcome of any pre-approval underwriting and claims audit or visits (including audits carried out on behalf of other managing agents of the same coverholder/claims administrator)
- whether the proposed insurance documents and bordereaux and any marketing/website material have been vetted / approved
- any issues highlighted in the internal due diligence process and how these are being addressed

Other documents to submit with the letter of support

These may include, but not be limited to:

- where the authority granted is to be pre-determined rates, the rating proposals / limits to be issued to the coverholder.
- underwriting results and projections
- details of any financial analysis
- trip reports - Where individuals have visited the offices of the prospective coverholder Lloyd's would like to see the Independent visit reports from each, whether it be by the underwriter, broker, appointed auditor, or other individual / group of individuals.
- a Checklist / procedure sign off

## **SIGN OFF**

This declaration must be signed by an authorised person of the coverholder that proposes to enter into a binding authority contract with the Lloyd's managing agent.

Once the coverholder submits the application it will go back to the Lloyd's registered broker or direct-dealing managing agent who will then submit it to the lead managing agent for sign off. The managing agent will then submit the application to Lloyd's.

If you would like to know which party the application is with please refer to the 'status' column of your 'ongoing' task list.