

MARKET BULLETIN

REF: Y4947

Title	Coverholder licensing: Checking by managing agents
Purpose	To inform managing agents of the removal of the requirement for an independent check of coverholder licences
Type	Event
From	Peter Montanaro, Head of Delegated Authorities Performance Management Directorate
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Deadline	Immediate
Related links	www.lloyds.com/coverholders

Lloyd's has reviewed the arrangements for assessing coverholder suitability, which currently require managing agents to satisfy themselves that coverholders have all necessary licences. Having listened to market feedback on this, Lloyd's is removing the need for managing agents to perform their own independent analysis of coverholder licensing with immediate effect.

Coverholder Licensing

Coverholders must have the necessary local authorisations for the regulated activities they undertake. Accordingly, when assessing the suitability of a coverholder Lloyd's has regard to whether a coverholder:

"possesses all the licences, approvals or authorisations in order to act as an approved coverholder wherever it will conduct insurance business in that capacity." (Requirements made pursuant to the Intermediaries Byelaw, para 6(g))

This is also reflected in the Undertaking coverholders are asked to sign on being approved. At paragraph 6.1 of the Undertaking coverholders are asked to provide an assurance that:

“We will always comply with all relevant local insurance, fiscal and taxation laws, regulations and requirements of the jurisdiction in which we are domiciled, or in which we trade, provide services or do business, or in any other jurisdiction as required. This will include maintaining any necessary local licences, permits or other authorisations.”

The LMA model binding authority wordings also include equivalent wording. For example, see Section 28 of LMA3113.

Presently, when seeking coverholder approval, managing agents are asked to provide evidence that the applicant has all necessary regulatory licences to act as a coverholder.

New arrangements

Lloyd’s recognises that independently evidencing that coverholders have all necessary licences creates a significant burden for both managing agents and coverholders.

Having regard to the regulatory benefit to Lloyd’s when weighed against the burden this imposes on the parties, Lloyd’s is satisfied that it no longer needs managing agents to carry out an independent assessment. Instead, managing agents must obtain a confirmation from coverholders that they have all necessary licences.

To give effect to these changes, therefore, Lloyd’s is making changes to:

- The decision paper to be completed by managing agents for new coverholder applications; and
- The licensing section of Atlas

In respect of both of these there is, with immediate effect, now no requirement to provide evidence that the coverholder has the necessary licences. Instead, on the implementation of system changes to Atlas in January 2016, within the decision paper, managing agents will be asked to state that they have received confirmation from the coverholder that it holds all necessary licences. When updating the licensing section on Atlas as part of the annual compliance process the coverholder will be required to attest that they are properly licensed. If the Lloyd’s broker is completing the annual compliance task on behalf of the coverholder then this confirmation will be required to be provided by the coverholder within the annual compliance paper questionnaire submitted to their broker.

Importance of correct intermediary licensing

While Lloyd’s is removing the requirement for managing agents to undertake an independent assessment of a coverholder’s licences, the requirement that a coverholder has all necessary licences remains unchanged. Intermediary licensing is a complex field with wide variations in regimes worldwide. It is vital that Lloyd’s coverholders continue to ensure that they are correctly licensed for any regulated activities they are performing as coverholder and that they are able to confirm this to their sponsor and to underwriters.

Managing agents must also remain vigilant to any risk that a coverholder may not have the appropriate licences. Where managing agents do have concerns, they should raise this with the coverholder concerned and its broker. If these concerns remain, they should make the concerns known to the Delegated Authorities Team at Lloyd's for further investigation.

Coverholder audit requirements remain unchanged

Intermediary licensing will continue to feature in the coverholder audit scope for all jurisdictions where coverholders perform regulated activities.

Review of intermediary licensing by Lloyd's global network offices

Some Lloyd's offices worldwide perform an independent check of coverholder licensing as part of their review of coverholder applications. The changes announced in this bulletin do not extend to those review processes, which will continue as at present.

Coverholder territorial extensions

Coverholder territorial extensions are a Lloyd's control. The need to secure the correct territorial extensions is in addition to any regulatory licensing requirements that coverholders may require in respect of their own activities. Lloyd's agreement to a territorial extension is not a substitute for coverholders having the appropriate licences in the relevant territory.

Further information

If you have any queries relating to this bulletin please contact:

Delegated Authorities Team
t: +44 (0)20 7327 6275
e: coverholders@lloyds.com

or

Lloyd's International Trading Advice
Lloyd's Desk, Ground Floor, Underwriting Room
t: +44 (0)20 7327 6677
e: lita@lloyds.com
w: www.lloyds.com/crystal