

# SERVICE COMPANIES CODE OF PRACTICE

**08 SEPTEMBER 2009**

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# SERVICE COMPANIES – MARKET BULLETIN TO MANAGING AGENTS – SEPTEMBER 2009 – Y4311

## Purpose

- To inform managing agents of the steps that Lloyd's is taking to ensure that authorities delegated to service companies are appropriately managed.
- To highlight the key risks associated with service companies and how those risks need to be mitigated/managed against Lloyd's minimum standards.
- To inform the market of Lloyd's intention to create a source of information, tools and support regarding service company activity within lloyds.com to encourage more consistency in processes and good standards in general.
- To confirm roles and responsibilities within Lloyd's for the oversight of service companies.
- To provide managing agents with detailed guidance to encourage a consistent and appropriate standard of management of service companies covering their creation, ongoing management and (if necessary) their closure.
- To confirm the specific Brand guidelines for service companies.

## Background

- Syndicate submissions for 2011 indicate likely premium income from service company business to be £2.39bn. There are 230 service companies managed by 36 managing agents. Lloyd's recognises that service companies are very much part of certain managing agents' strategies and there is no intention to restrict their use as long as they can be shown to be proactively managed.
- A 'service company coverholder (referred to in the Code simply as a "service company")' is an approved coverholder which Lloyd's has agreed can be classified as a "service company" by reason of it being a wholly owned subsidiary of either a managing agent or of a managing agent's holding company and which is normally only authorised to enter into contracts of insurance for members of its associated syndicate and/or associated insurance companies.
- The practical advantages to Lloyd's classifying an approved coverholder as a "service company" include a Lloyd's approval process that adopts a more risk based approach to service companies, the ability if approved to use LMA 3078 wording and the ability to allow the service company to sub-delegate its authority to other approved coverholders.
- Lloyd's, through the Delegated Authorities Team (DAT) in FPD, works closely with the market's representatives involved in the delegated authority sector and there is support for greater consistency in service company oversight.
- It is recognised that more focus has been placed upon the establishment of service companies than on their subsequent performance in the past. This will not be the case in the future: one consequence will be to review the authorities held by existing service companies to ensure that they remain appropriate.

### Lloyd's general expectations regarding service companies

- Lloyd's will create a new section of lloyds.com during 2009 to hold information relevant to the establishment and management of service companies.
- All of Lloyd's Franchise Standards apply to the formation of new service companies and to their ongoing management, recognising that managing agents will shape solutions to meet the level of risk involved.
- Managing agents are expected to manage their service companies to the same standard as any other part of their business, regardless of location, lines of business or other factors.
- Lloyd's will adopt a risk-based approach to the oversight of managing agents and their service companies.

### Next steps

- Lloyd's will continue to work with the market's leaders of delegated business to ensure that performance issues and risks are managed.

# SERVICE COMPANIES CODE OF PRACTICE: LLOYDS.COM

## Introduction

- Market Bulletin Y4311 set out Lloyd's intentions regarding the future oversight of service companies.
- Service companies have an important role in the development of business in the Lloyd's market and Lloyd's expects that they will be effectively managed.
- This site has been created to share good practice and provide a readily accessible source of information and assistance.

## Setting up a service company

- Lloyd's has developed a specific process for managing agents applying to establish new service companies. These details are set out in Appendix C.
- The Lloyd's Delegated Authorities Team (DAT) will review all new applications taking account of the proposed business plan, experience of the syndicate and key staff to meet that plan, and ability of the service company to meet the standards whilst at the same time seeking feedback from other teams in the Franchise Performance Directorate (including Underwriting Performance, Claims and Exposure Management) and from the Lloyd's International Representative.

## Managing an existing service company

- **The Performance Framework** sets out minimum standards that Lloyd's expects managing agents to meet, including oversight of its service companies. Lloyd's expects managing agents to be able to demonstrate sufficient oversight from its main office.
- It is important that managing agents are able to demonstrate that their level of oversight is designed and implemented to minimise the underwriting or reputational risk to Lloyd's from their service company locations.

## Closing a service company

- The managing agent needs to demonstrate that following any decision to cease writing business from a particular service company, there is an effective plan for the run-off of that business with key staff remaining in place to meet reporting requirements, service outstanding underwriting and claims matters and protect Lloyd's reputation.

## Lloyd's works closely with delegated authority stakeholders

- This document will continue to be developed through consultation with the LMA Delegated Underwriting and Compliance Committees.

## Useful Lloyd's contacts

Within Appendix J there is a list of key contact points within Lloyd's who can provide assistance on request.

## APPENDIX A: DEFINITION OF A SERVICE COMPANY

The definition was agreed following consultation with the Market in 2008. It has been approved by Council and incorporated into the byelaws.

**Service company coverholder** means an approved coverholder that:

- a** Is associated with a managing agent by reason of:
  - It being a wholly owned subsidiary of the managing agent
  - It being a wholly owned subsidiary of the managing agent's holding company, or
  - Such other matters as the Franchise Board may determine in any particular case or generally, and
- b** Will be authorised by the managing agent referred to in **a** above (the associated managing agent) to enter into a contract or contracts of insurance in accordance with the terms of a service company agreement

where the expressions "wholly owned subsidiary" and "holding company" shall have the meanings provided in the Companies Act 2006.

**Service company agreement** means a binding authority which authorises a service company coverholder to enter into a contract or contracts of insurance only to be underwritten by:

- a** Members of a syndicate managed by the associated managing agent (as defined at paragraph **b** of the definition of "service company coverholder").
- b** an insurance company which is a member of the same group as the associated managing agent (as defined at paragraph **b** of the definition of "service company coverholder")
- c** Such other person or persons with the prior consent of the Franchise Board.

## APPENDIX B: BINDING AUTHORITY WORDING FOR SERVICE COMPANIES

Service companies need to be granted authority under a binding authority that is a “service company agreement”. This means in practice a binding authority that is only entered into by the service company’s associated managing agent (or any insurance company within the managing agents’ group). In some circumstances Lloyd’s may agree that third party managing agents/insurers can be a party to the binding authority. This is discussed below.

A model Service Company Agreement (**LMA3078**) was released in the **Market bulletin LMA 08-030-DP** of November 2008. There is no requirement to use this model wording and managing agents are free to use other model binding authority wordings or their own bespoke wordings (so long as the wording meets Lloyd’s requirements for binding authorities). However, LMA 3078 may be considered beneficial for two reasons:

- d The language recognises the ownership relationship between the service company and the managing agent.
- e The wording allows for managing agents to permit the service company to sub-delegate its authority to other approved coverholders.

For further information please see the **LMA 3078 Guidance notes**.

## APPENDIX C: SERVICE COMPANY APPLICATION PROCESS

### Background

Lloyd's will approve new service companies to an extent commensurate with the service company's agreed business plan. DAT will also review the scope of approval granted in the past to existing service companies. In liaison with the managing agent we will consider whether certain classes of business and/or regional approvals might be retracted (as they are no longer required).

### Current process

DAT works to a service standard of 8 weeks for new coverholder and service company applications. Any contact with a local regulator should only be undertaken with the prior consent of Lloyd's. Early engagement with the **Lloyd's International Representative** will usually help to expedite the process.

#### a Initial meeting with the managing agent.

This meeting is designed to ensure that the managing agent has considered all important matters pertaining to its application and, subject to information still required, to agree a timetable for the approval. Service company applications are not managed through the Atlas system.

Managing Agents will be expected to:

- Confirm that the ownership is consistent with the service company definition. (If not, the applicant will be required to follow the coverholder approval process and submit an application through Atlas).
- Confirm whether the applicant is a service company branch or a new service company. (For example, in Europe, the IMD enables a branch to be set up via 'passporting' rather than incorporating a new company).
- Provide a copy of the **Service Company Coverholder Undertaking to Lloyd's** and explain that this will have to be signed by an authorised representative of the service company before approval can be granted. (Note: undertaking cannot be dealt with as an approval condition).

For its part DAT will use the meeting to:

- Understand progress to date, any genuine deadlines, and when all information required from the managing agent is expected to be available to Lloyd's.
- Discuss and provide the [Request for Information document](#) ("RFI").
- Explain the format of the information required, i.e. a letter, providing a summary of each topic, supported by a business plan and structure chart
- Understand progress made regarding service company licensing.
- Explain the importance of providing the business plan and clarify that it will be:
  - Used by DAT to supplement the letter and to provide comfort that the managing agent has undergone a thorough planning process (we will not do a line by line critique).
  - Copied to Underwriting Performance (UP) to review the underwriting proposals.

- Ensure that the managing agent is aware of the need to provide completed **Regional extension information**.
- Talk through the document '**Setting up a service company**' guide to ensure all matters have been considered.

**b** Review the completed RFI and carry out due diligence

DAT will need to be satisfied that the managing agent has the necessary oversight in place to ensure that the service company will meet the required Franchise Standards.

DAT or the Lloyd's International Representative (LREP) may require an interview with the Principal Officer and/or other key staff. It may be the case that a new Principal Officer has no previous Lloyd's experience. The key purposes of this interview will be to confirm that the individual has the authority to represent and manage the service company and to assess whether the individual(s) have the requisite working knowledge of the Lloyd's environment, in particular:

- Trading status (for Lloyd's generally and the conditions/restrictions specifically in place for the service company).
- Expectations with regard to minimum standards (to include dealing with Regulators, use of the **Lloyd's Brand**).

It is extremely unlikely that Lloyd's will challenge the recruitment decisions already made by the managing agent. However, this interview process may be used by Lloyd's to highlight specific areas of training or attention that is required for the Principal Officer.

**c** Seek feedback from interested parties

- DAT will provide details of the business plan to UP. It is the responsibility of UP to review all syndicate business plans and how any new coverholder or service company arrangements will impact that Plan. UP will undertake its review and raise any issues with DAT within 3 working days. DAT will arrange a meeting with the managing agent and relevant UP Executive to discuss any issues raised.
- DAT will forward the RFI to the LREP. The LREP will report within 3 weeks, advise on the progress made on regulatory matters (such as registration, licensing, reporting, qualification requirements for staff or key staff) and any concerns or conditions that the LREP may identify as appropriate. It is often the case that the managing agent will seek a meeting with the LREP prior to starting the application process. This can help to raise any country specific issues early and can also help to accelerate the process. For certain territories (**Australia, Hong Kong and Asia**), set-up guides have been written to assist the managing agent through the process.

**d** Follow up meeting(s)

Follow up meeting(s) with managing agent to fill any gaps and/or agree action where concerns remain.

**e** Approval notice

A notice of approval is sent by email highlighting authorities granted and any restrictions or conditions of approval. The name of the service company will also be included in the public register of approved coverholders. The approval will also highlight how the **Lloyd's Brand** can be used for the service company. Post-approval explanation of regulatory requirements relevant to the approved territory scope are available on

Post-approval explanation of regulatory requirements relevant to the approved territory scope are available on **Crystal**. In addition to Crystal, Lloyd's has developed **Crystal Assist**, an on line tutorial that provides market participants with an induction to Lloyd's licences and regulatory and fiscal requirements that need to be considered when writing international insurance business. However, it remains the managing agent's responsibility to ensure that all regulatory requirements are met.

### Post Approval Changes

Once approval is complete, DAT will load the service company information onto Atlas. Any subsequent **post approval changes** (regional extensions, additional classes of business) must be initiated by the managing agent through Atlas.

The process for post approval changes will include feedback requests as detailed in c. above.

### Lloyd's Asia

The application process for service companies operating in Lloyd's Asia can be found on **Crystal**

## APPENDIX D: SERVICE COMPANY MANAGEMENT – RISK MANAGEMENT

The **Performance Framework** sets out minimum standards that Lloyd's expects managing agent's to meet, including oversight of its service companies. This report seeks to highlight those areas particularly relevant to service companies.

### Risk management standards

There is an expectation that the key risks associated with service companies will be identified in the managing agent's risk register covering, but not limited to, the following:

- Key risk and its likelihood
- Impact of the risk if it were to materialise
- Causes and influencing factors
- Controls and actions in place to mitigate the risk
- Ownership and responsibility

The **Risk Management Toolkit**, available on Lloyds.com provides a range of tools, techniques and templates for key aspects of risk management.

Examples of risks associated with service companies include:

- Loss of key personnel
- Failure to maintain effective underwriting controls
- Inadequate documents / policy issuance delays
- Ineffective management of third party service providers
- Failure to maintain a reliable infrastructure (premises, systems)
- Financial crime
- Failure to comply with local regulatory requirements
- Failure to manage claims
- Failure to manage complaints
- Failure to protect the Lloyd's brand
- Failure to highlight in a timely manner to Lloyd's any issue that may have an adverse effect on Lloyd's reputation or brand

### Procedures document

It is expected that each managing agent will maintain a procedures document which sets out the overall approach to managing and monitoring of the service company. This document will cover the following areas:

- Staff structure with a clear outline of responsibilities.
- Guidance and training for staff to cover Lloyd's standards, clarity on each underwriting platform (where relevant), anti money-laundering, managing conflicts of interest.
- Underwriting guidelines. To cover underwriting review, risk and peer review, planning, rating and pricing, aggregate monitoring, reinsurance purchase and management.
- Underwriting and claims authorities.
- Appropriate controls over broker relationships to include approval process, contractual arrangements and terms of business.
- Approval and monitoring of coverholders.
- Policy issuance and evidence of contract certainty.
- Claims handling and management of any TPAs.

- Dealing with complaints (ensure that service company procedures comply with Lloyd's internal procedures for the handling of complaints, in accordance with DISP 1.11 of FSA rules).
- Production of M.I.
- Credit control and cash reconciliation.
- Expenses and commissions.
- Reporting, monitoring and managing performance (underwriting, claims, credit control, complaints, and operations).

### Service company audits

There needs to be a clear audit plan for all service companies. Careful consideration needs to be given as to who undertakes and controls the audit. Where the service company is operating on a dual platform, the managing agent must be seen to have a clear influence in the scope and frequency of the audit. The scope of the audit would be expected to include the following:

- **Underwriting:** compliance with standards, policy documentation, compliance with binding authority agreement, accurate records, and compliance with approvals (classes/regions) given by Lloyd's.
- **Claims:** compliance with applicable processes and standards (including accurate records, customer service, and timely reserves and settlements).
- **Dual platform:** review of how underwriting platform is decided and how any conflicts are managed. Transparency to the policyholder of the risk carrier.
- **Finance:** payment authorisation, bank reconciliations, accurate and up to date records.
- **Systems:** fully support business requirements, compatible feed of data back to managing agent, system and data security, back-up.
- **Compliance:** compliance with regulatory, legal and reporting requirements, appropriate and timely dealings with regulator(s), management of complaints, notification to Lloyd's of issues, compliance of any approval conditions set by Lloyd's, awareness / processes to combat the risk of money laundering / financial crime.
- **Credit control:** process, reporting, bad debt reserving, escalation procedures.
- **Management of:** SLA's, oversight, contract, brokers' TOBAs, TPA management third parties and audits.
- **Staff:** succession plan, awareness of Lloyd's standards, clarity on different underwriting platforms (where appropriate).

The audit report needs to be presented to the appropriate audit committee with actions and responsibilities highlighted and timetabled highlighted and reported until resolved.

## APPENDIX E: SERVICE COMPANY MANAGEMENT – UNDERWRITING

### Underwriting management standards

It is important that a managing agent can demonstrate that a service company's underwriting is subject to the same level of oversight as business underwritten in 'the room'. Where a managing agent manages a number of service companies through a 'hub', Lloyd's considers this a greater risk to oversight failing to meet the required standards. The managing agent must be able to demonstrate that the oversight at both the 'hub' and the managing agency meets the standards.

All underwriting management standards apply to the operation of a service company. This report highlights those areas that are particularly relevant to service companies.

- Each service company works to a plan that has been agreed by the Managing Agency Board. A designated underwriting committee monitors progress and performance against this plan.
- All service company underwriters have clarity on underwriting limits and guidelines and any referral procedures required before deviation from those guidelines. These limits and guidelines are documented.
- All service company underwriters have pricing guidelines on all classes of business and a clear process for approving and documenting any deviation from benchmark rates.
- The managing agent is able to demonstrate that catastrophe exposures, emanating from service company business, are assessed and incorporated into the syndicate's RDS.
- The managing agent can demonstrate the relevance of the reinsurance program to the service company business and have documented processes for the service company's own purchase of reinsurance. The service company underwriters can demonstrate a clear understanding of the impact of the reinsurance program on the business written by the service company.
- There is a documented process for how data is captured, checked and monitored. In the cases of a stand-alone system, there is a documented process as to how the data is integrated into the managing agent's data.
- Processes are in place to identify potential business that is offered to the service company that has already been offered to the managing agent in 'the room' or at any other location.
- Processes are in place to identify potential business offered in 'the room' or at any other location that has already been offered to the service company.
- A reporting regime is in place to ensure that the appropriate underwriting board is able to assess underwriting performance at service company / underwriter level and is able to demonstrate that the business written complies with the syndicate business plan agreed by Lloyd's.

The **Service Company Questionnaire** is used by DAT when assessing the oversight of underwriting by the managing agent. This can be used as a reference for the managing agent to help to ensure that standards have been complied with.

## APPENDIX F: SERVICE COMPANY MANAGEMENT – CLAIMS

### Claims management standards

All claims management standards apply to the operation of a service company. This report highlights those areas that are particularly relevant to service companies.

There must be a consistent approach to the management of claims for all offices, including the measurement of claims management performance against required standards and annual plans. The documentation of all offices' claims processes and procedures should also be consistent and should include identification of the roles and responsibilities within the claims function.

A reporting regime is in place to ensure that the appropriate underwriting/claims board is able to assess claims management performance at service company level.

### Delegation of claims handling

If claims handling services are to be provided by a service company or delegated to a third party administrator (TPA), the quality and adequacy of the proposed TPA's claims function should first be assessed, including the following:

- Management of claim funds, detail of bank accounts and controls applied to prevent fraud and money laundering.
- Evidence of regulatory compliance, including any appropriate licenses.
- Appropriate human resources e.g. with relevant experience, qualifications, and in sufficient number in relation to the volume of claims.
- Use of documented claims handling procedures that meet required service standards of managing agents and Lloyd's.
- Confirm that the claims and underwriting functions are segregated where the coverholder also handles claims. If not, confirm what conflict procedures are in place.
- Existence of controls to enforce adherence to authority levels.
- Documentation requirements that allow effective and proactive management of claims, including a document retention policy.
- Effective management tools including peer review or audit of claims function.
- Systems to ensure that policyholder requests and complaints are dealt with promptly and appropriately, claims are proactively managed, and reserves are established, monitored and reported in a timely and regular fashion. For example diary and workflow systems.
- The panel of experts used to meet the requirements of the claims being delegated. Check that terms of engagement are in place and performance is monitored. Confirm transparency over how the panel is selected and how regularly it is reviewed.

- Does the third party operate working practices to share claims knowledge and experience in order to assist with underwriting e.g. trends or issues with accounts or classes of business?

For all TPA arrangements, the service company must have a satisfactory TPA agreement, rolling audit programme and standard audit template. Audit outcomes need to be documented and actions (with owners) must be managed through to completion.

### Lloyd's Asia

Refer to **Market Bulletin Y4253** for the Statement of Best Practice for the Handling of Claims.

## APPENDIX G: REGULATORY ISSUES, REPUTATION AND BRAND

As service companies are often wholly owned subsidiaries of managing agents, they may be viewed by the local regulator / local market as an extension of Lloyd's. Consequently, the effects of acts or omissions of service companies can create an increased reputational and/or regulatory risk for Lloyd's. Whilst Lloyd's relies on the managing agents to supervise the activity of its service companies, regulators may consider Lloyd's to have ultimate responsibility, particularly as the authorisation/licence granted falls to Lloyd's centrally.

Some of the key regulatory risks identified are as follows;

### Lloyd's trading status

Managing agents must seek approval from Lloyd's before expanding their service company's business into new territories / classes of business. Issues can arise between Lloyd's and the relevant regulator, where the terms of the Lloyd's licence do not permit such business expansion.

Managing agents are required to ensure underwriters are fully conversant with the terms and parameters of Lloyd's licensing status prior to accepting business. Lloyd's may be licensed or authorised to underwrite business in a particular territory but there may be restrictions.

Amongst the questions that should be asked before committing to a risk:

- Is Lloyd's licensed or authorised to underwrite business, e.g. does it hold a direct and/or reinsurance licence?
- Are there any restrictions by class of business?
- Are there any requirements with regard to compulsory insurances?
- Are there any restrictions with regard to solicitation of business?

Underwriters will be familiar with business they underwrite in the territory in which the service company is based but when underwriting business outside of the immediate territory, it is particularly important to understand the terms of and any restrictions relating to Lloyd's licensing position with which underwriters may not be familiar.

Approval to underwrite outside of the service company's own domicile must be obtained from Lloyd's using the 'Regional extension' form on Atlas.

It is extremely important that managing agents and service companies are aware of changes to Lloyd's trading status by registering as users of **Crystal** which details the requirements regarding Lloyd's trading status and provides alerts to any changes in these authorisations.

Breaches of Lloyd's trading status are taken very seriously; not only might the managing agent / service company be subject to a possible penalty or fine but breaches may threaten Lloyd's overall trading rights and licence thereby affecting all managing agents trading in that territory and potentially cause damage to Lloyd's brand and reputation.

In the past, some service companies received blanket approval for all territories and classes of business. These approvals are now subject to review to ensure that the above risk has not been exacerbated by this blanket approval.

It is the managing agent's responsibility to ensure that the service company responds to and complies with any relevant changes to relevant local legislation or regulations.

### Service company's trading status – conditions / restrictions

The managing agent must be able to demonstrate that its service company has met and continues to meet any conditions that were applied as subject to their approval by Lloyd's.

The managing agent must be able to demonstrate that its service companies have not written outside the class and region authorities granted to it by Lloyd's.

For any authorities held but not currently used by a service company, the managing agent must be able to demonstrate that adequate oversight is in place to manage these authorities should they be activated in the future. In the absence of clear demonstration, these authorities will be removed. Additionally, any authorities 'not taken up' will be 'lapsed'. Future authorities will only be granted for those classes and regions that are required.

### Dealing with Regulators

One of the underlying principles of Lloyd's market access objectives is that licensed or authorised status gives every Lloyd's syndicate the right to carry on business in or from a territory. In order to achieve this, Lloyd's engages with local regulators on behalf of all managing agents in the Lloyd's market to achieve the same trading terms for all participants.

Given the unique structure of Lloyd's it is essential that in any negotiations with regulators, which can often be complex, that messages are consistent and meet the overall objectives of Lloyd's trading strategy to:

- Enable syndicates to underwrite business from London or via local independent coverholders or local service companies.
- Operate with no funding or minimal funding requirements.
- Provide central reporting returns and keep managing agents input to a minimum.

For this reason Lloyd's deals with regulatory authorities on behalf of the whole market. Discussions between a managing agent or service company with the regulator may jeopardise the benefits negotiated by Lloyd's on behalf of the market and possibly lead to confusion with the regulator.

Lloyd's recognises that some managing agents may have a relationship with local regulators via their company operations. In such instances we would encourage managing agents and service companies to liaise with Lloyd's prior to contacting a regulator as we may be in a position to provide additional information and context which may be useful in any discussions and to the mutual benefit of both parties.

We would however kindly request that any enquiries relating to Lloyd's overall trading terms and conditions or the operation of the service company in relation to Lloyd's be directed through Lloyd's, via the local representative or **Lloyd's International Trading Advice** in London.

### Conflicts of Interest

Managing agents need to be aware of when the interests of other companies within their group, who may also be represented by the service company, may conflict with the interests of Lloyd's. Any potential conflicts need to be advised to Lloyd's immediately. For example

Where reciprocity of Group relationships may influence the decision to write particular business for the syndicate.

Where a service company may be influenced by local pressure/customs to underwrite business which might conflict with the view of others e.g. contrary to the standards expected in the UK. Similarly, the scope of each managing agent's anti-bribery and corruption policy should be extended to include service companies. Further information on bribery and corruption may be found in **Market Bulletin Y4278** ("Bribery and Corruption").

### Local requirements and sanctions

Service companies may be subject to local requirements, such as compliance with local business practice and licensing issues. Due to the perceived closer relationship with Lloyd's, non-compliance creates increased regulatory risk for Lloyd's, including reputational risk. It is the responsibility of the managing agent to ensure that the service company is properly licensed locally where appropriate and that it complies with any wider regulations; breaches are often viewed by the regulator as an issue for Lloyd's to resolve and thus generate increased regulatory risk.

Managing agents, coverholders and service companies must comply with the requirements of any relevant sanctions, be they local or international. There should be *adequate* processes and controls in place with access to the information necessary to make an informed decision before underwriting a risk. It is important to take particular care when renewing risks where new sanctions may have been applied.

The responsibility for monitoring and advising underwriters of sanctions should be clearly defined between the managing agent and service companies with effective communication between compliance teams and underwriters.

Lloyd's provides information to the Lloyd's Market on the application of international sanctions, [however, responsibility for the ultimate decision whether to write a risk rests with the managing agent/service company.]

Further information on sanctions may be found in **Market Bulletin Y4117** ("International Sanctions Guidance") and the section **What are sanctions?** Detailed country information is also included within the sanctions section of **Crystal**.

### Lloyd's licences and market conduct requirements

All contracts must comply with applicable regulatory and market conduct requirements.

To assist managing agents and service companies, Lloyd's has developed **Crystal**, a web-based tool that provides primary information regarding international regulatory requirements, licensing and tax details identifying Lloyd's ability and any restrictions, to transacting specific classes of business in each country.

Key sections with which service company staff and underwriters should be familiar include:

- Pre-placement considerations.
- Routes into Lloyd's (particularly 'Coverholders' & 'Intermediary regulation').
- Financial considerations.
- Processing and servicing of risks.

All important amendments and updates to Crystal are included within the 'What's New' e-mail alert issued monthly to users of **Crystal**. To receive

these important updates users must be individually registered. It is essential that managing agents and service companies have a process in place with clear responsibilities to promulgate changes to relevant parties.

### Reporting requirements

Regulatory issues have been encountered due to the failure of service companies to submit accurate and timely data in certain territories in order that Lloyd's may file regulatory returns.

Lloyd's trading status is dependant upon submitting the requisite regulatory returns to local regulators on behalf of all market participants.

The submission of returns that do not meet deadlines or are inaccurate has the potential to prejudice Lloyd's trading status or for specific requirements to be imposed upon it.

Lloyd's aims to produce all returns centrally and without additional input from managing agents or service companies by using the data processed via Lloyd's central accounting process operated by Xchanging.

In some territories this is not possible where returns are to be made to the regulator directly or where data is not processed via Lloyd's central accounting process. As such Lloyd's relies on the co-operation of all parties in meeting these deadlines.

Managing agents are ultimately responsible for ensuring that their service companies establish, create and maintain complete records in respect of their activities including in respect of all insurances bound, premiums received, expenses and claims paid.

Where returns are required to be submitted, it is essential that responsibilities for producing the return, its validation and ultimate sign off are clearly defined between the managing agent and the service company and submitted within the applicable timescales defined by Lloyd's to meet regulatory deadlines.

Where the production of returns has been outsourced it is essential that roles, accountabilities, expectations and reporting requirements for all relevant parties are all clearly defined.

**Crystal** contains full details of returns that managing agents and their service companies are required to provide to Lloyd's or to the regulatory authorities directly however minimal or complex the input. The deadlines for these returns can be found in the **Business Timetable**.

### Branding Considerations for Service Companies

Care needs to be taken to ensure that documentation issued by service companies properly reflects the underlying security.

For example, it is vital to ensure that policyholders are not given the impression that a policy is written by Lloyd's underwriters where the security is in fact provided by its associated (non-Lloyd's) insurance company.

Poorly branded documentation or inaccurate marketing by a service company can result in clear risks to both the managing agent (as well as to Lloyd's generally).

Lloyd's has recently created the **Brand Guidelines for Lloyd's service Companies**. All service companies will be required to meet the branding requirements set out for their specific operating model (as stated below).

The agreed branding controls will be included in the conditions of approval for a service company at the outset of establishment or, if amendments are made to the existing operating model, the managing agents will be required to make DAT aware and meet the branding requirements for that operating model.

- **Model 1:** Service Company writing 100% for their own Lloyd's Syndicate (the majority of Service Companies fit within this model).

**In exceptional circumstances, these other models may be considered:**

- **Model 2:** Service Company writing for more than one Lloyd's Syndicate.
- **Model 3:** Service Company writing for a Lloyd's syndicate and a third party insurance company.
- **Model 4:** Service Company writing for their own Lloyd's Syndicate and a group insurance company.

Service companies under models 1&2 will be able to use the same branding permissions as a managing agent, which are set out in the current published guidelines subject to the following

They must provide a clear statement which outlines who they are and, who they are regulated by:

'We [name of service company], are a service company that is part of the [ ] group of companies. [We are regulated by [ ] in our capacity as [ ]. We have authority to enter into contracts of insurance on behalf of the Lloyd's underwriting members of Lloyd's syndicate [ ] which is managed by [managing agent].'

The service company should not use the "underwriters" descriptor.

The service company may not describe itself as a Lloyd's managing agent nor as a Lloyd's syndicate.

Service companies under models 3&4 will be able to use the same branding permissions as a coverholder, which are set out in the current published guidelines subject to the following

- a A clear statement which outlines who they are, who they are regulated by, their ownership and a clear explanation of what the Lloyd's and non-Lloyd's business is:

'We [name of service company], are a service company that is part of the [ ] group of companies. We are regulated by [ ] in our capacity as [ ]. We have authority to enter into contracts of insurance on behalf of the Lloyd's underwriting members of Lloyd's syndicate [ ] which is managed by [managing agent]. We also do business on behalf of other insurers [within the group]. When we offer insurance products to you (the policyholder) we will make sure we will tell you which insurer [in our group] will underwrite the policy.'

This statement must be included in general corporate brochures and on the company website (only on a webpage within a site that talks specifically about a product 100% underwritten at Lloyd's)

- b A clear statement that clarifies who offers the product – the Lloyd's or non-Lloyd's entity, (This statement is to be approved by the lead underwriter and is in addition to, and not a substitute for, the requirements relating to the content of Lloyd's policies/certificates including the use of appropriate several liability clauses)

Lloyd's example: 'We [name of service company], are a service company that is part of the [ ] group of companies. [We are regulated by [ ] in our capacity as [ ]]. This insurance product will be entered into by us on behalf of the Lloyd's underwriting members of Lloyd's syndicate [ ] which is managed by [managing agent]'.

Non-Lloyd's example: 'We [name of service company], are a service company that is part of the [ ] group of companies. [We are regulated by [ ] in our capacity as [ ]]. This insurance product will be entered into by us on behalf of [insurer].'

Where policies/certificate represents both Lloyd's and non-Lloyd's security: the lead Lloyd's underwriter shall ensure that Lloyd's guidance regarding "combined certificates" is followed.

This statement must be included in the following areas:

On the proposal and claims forms

On the documentation of insurance for new and renewal business

On specific product brochures

On specific product advertising

## APPENDIX H: FINANCIAL CRIME

Service company staff must have clear guidelines and training with regard to anti-money laundering and other financial crime risks, including bribery and corruption.

Money laundering is *'the process used by criminals to disguise the origin and ownership of the proceeds of their criminal activities in order to avoid prosecution, conviction and confiscation'*.

In the UK, legislation covers most financial sectors which include:

- Criminal offences around engaging in money laundering and/or assisting others to launder the proceeds of crime.
- Disclosure/reporting requirements in respect of suspicious activities/transactions.
- Tipping off offences: ensuring that law enforcement is not hampered in its investigations by the subject of the suspicion becoming aware of the allegations.

Similar legislation with related requirements & offences will also be in force in the jurisdictions within which service companies operate. Lloyd's does not provide this information centrally but expects managing agents to ensure that their service companies are aware of any local requirements or guidelines and to comply with these in addition to UK requirements.

For countries in which Lloyd's has a 'trading centre', namely China, Japan and Singapore, this information is being made available within **Crystal**.

Activities that might trigger a suspicion for a service company include:

- Difficulty in obtaining information about, or doubts over the bona fides of, the policyholder or other parties involved.
- Transactions set up and then quickly cancelled for no identifiable reason.
- Transactions involving business routed via intermediaries in different jurisdictions, for no discernible purpose.
- Return premiums, overpayments or claim payments where a third party appears to benefit.
- Transactions where insurance does not appear to be the primary object or make no economic sense.
- Over-inflated insurance requests, e.g. high value specie/fine art coverage.

All suspicions should be reported to the managing agent's Money Laundering Reporting Officer "MLRO" (often also the Compliance Officer) in London for consideration and documented accordingly. Managing agents might wish to consider, where appropriate (i.e. due to the location or size of the service company), designating a senior employee of the service company as a regional MLRO, to fulfil local and group money laundering reporting and training requirements.

The managing agent's MLRO will require the service company's MLRO to report their suspicions to local authorities in the prescribed manner and may also choose to report any such matters, via Lloyd's, to the UK authorities.

Further information is available in **Market Bulletin Y4161** ("Money Laundering").

Other anti-financial crime controls and policies adopted by a managing agent, such as anti-bribery & corruption and international sanctions compliance procedures, should also be implemented for service companies. In addition, managing agents should ensure that any financial crime matters (e.g. the fraudulent misuse of Lloyd's name)

identified by service company employees are reported to the managing agent's compliance officer for their consideration, action and as appropriate, reporting to Lloyd's.

## APPENDIX I: LLOYD'S REPORTING REQUIREMENTS

### Syndicate business forecast

The SBF process allows for all service company business plans to be consolidated into one total for each managing agent's return. This total will include any managing agent's Lloyd's Asia service company, for which a separate 'SBF-lite' is also required.

### Central services

Lloyd's is responsible for managing certain central services on behalf of managing agents. These include:

- Producing and filing regulatory and fiscal returns to various regulators around the world.
- Collecting and monitoring tax payments.
- Operating a central clearing house settlement facility.
- Analysing individual managing agency business performance to ensure the Lloyd's Market conducts its business within guidelines.

### Xchanging

**Xchanging** acts as an outsourced service provider engaged by managing agents to process their transactions and then report the necessary information to Lloyd's. Each managing agent is responsible for the production of data to Xchanging and there is no format prescribed by Lloyd's for that data.

### Performance management data

Performance Management Data (PMD) is required to allow Franchise Performance Directorate (FPD) to identify and challenge underwriting management and performance which is not in line with a managing agent's business plan.

For each service company the data required must be provided on one of the following bases.

- Data is aggregated and separate entries are made for each material risk code, syndicate class of business, currency code and risk location code written through the service company.  
or
- An individual entry is made for each risk written through the service company.

## APPENDIX J: CONTACT WITHIN LLOYD'S

- **Delegated Authorities Team:**  
General enquiries about Service companies or specific enquiries about the application process.  
Stephen Burns 020 7327 6126  
[Stephen.Burns@lloyds.com](mailto:Stephen.Burns@lloyds.com)
- **Underwriting Performance:**  
Agreement of business plans and reporting of underwriting performance.  
David Indge 020 7327 5716  
[David.Indge@lloyds.com](mailto:David.Indge@lloyds.com)
- **Underwriting Standards:**  
Kieran Flynn 020 7327 5739  
[Kieran.Flynn@lloyds.com](mailto:Kieran.Flynn@lloyds.com)
- **Claims Management:**  
Helen Ashenden 020 7327 5781  
[Helen.Ashenden@lloyds.com](mailto:Helen.Ashenden@lloyds.com)
- **Regulatory Issues:**  
Mark Channell 020 7327 5608  
[Mark.Channell@lloyds.com](mailto:Mark.Channell@lloyds.com)
- **Financial Crime matters:**  
Andy Wragg 020 7327 6387  
[Andy.Wragg@lloyds.com](mailto:Andy.Wragg@lloyds.com)
- **Brand:**  
Matt Drage 020 7327 5485  
[Matt.Drage@lloyds.com](mailto:Matt.Drage@lloyds.com)
- **Risk Management:**  
Neil Griffiths 020 7327 5729  
[Neil.Griffiths@lloyds.com](mailto:Neil.Griffiths@lloyds.com)
- **International Representatives:**  
Kevin Reeves 020 7327 6264  
[Kevin.Reeves@lloyds.com](mailto:Kevin.Reeves@lloyds.com)
- **Policy Holder and Market Assistance:**  
Handling of policy holder complaints.  
Mark Smith 020 7327 6252  
[Mark.Smith@lloyds.com](mailto:Mark.Smith@lloyds.com)