
Delegated Underwriting

The Importance of the Model and the Lloyd's Framework

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I will cover

- Lloyd's approach to coverholders and the importance of the coverholder model
- Advantages and challenges to an insurer
- The Lloyd's Control Framework
- Key considerations in controlling Coverholders – the Lloyd's Minimum Standards

Lloyd's approach

A coordinated approach to Coverholder relationship management

Promote

- To position Lloyd's as the global, market leading provider of delegated authority capacity, solutions and service.

Protect

- To facilitate and oversee access of the Lloyd's market to sustainable business through well run and expert Coverholders.

Provide

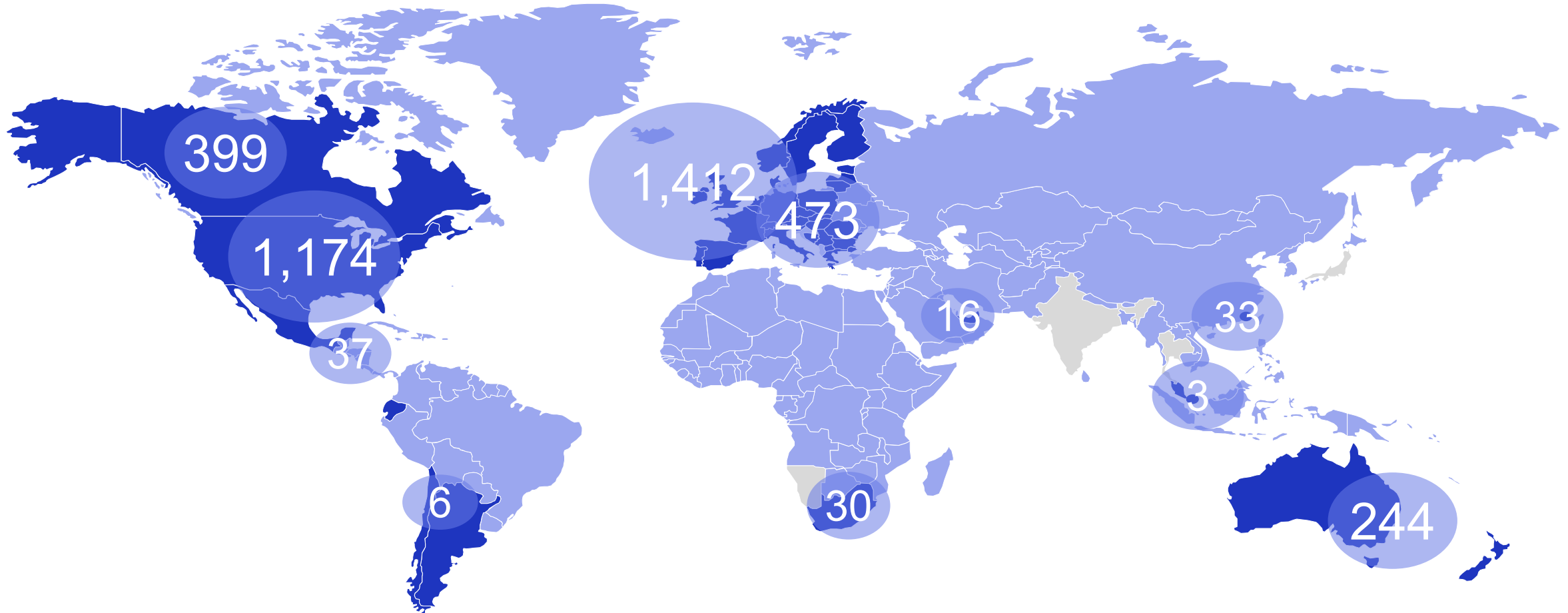
- To provide managing agents, brokers and Coverholders with the systems and solutions they need to compete effectively in the delegated authority space.

First, the basics....

- A Coverholder is a Lloyd's-specific term for a locally regulated, insurance intermediary which has been delegated authority to enter into contracts of insurance on behalf of a Lloyd's managing agent.
- Coverholders are regarded as an outsourcing arrangement – plays a vital part of Lloyd's distribution network.
- Lloyd's supervises coverholders as part of its role in managing and supervising the Lloyd's market. This is carried out through a rigorous approval and auditing process as well as on-going supervision of all approved coverholders by Lloyd's.
- The document which sets out the terms and restrictions of the authority delegated to a Lloyd's coverholder is called a Binding Authority Agreement (BAA).

Coverholder Distribution – global reach

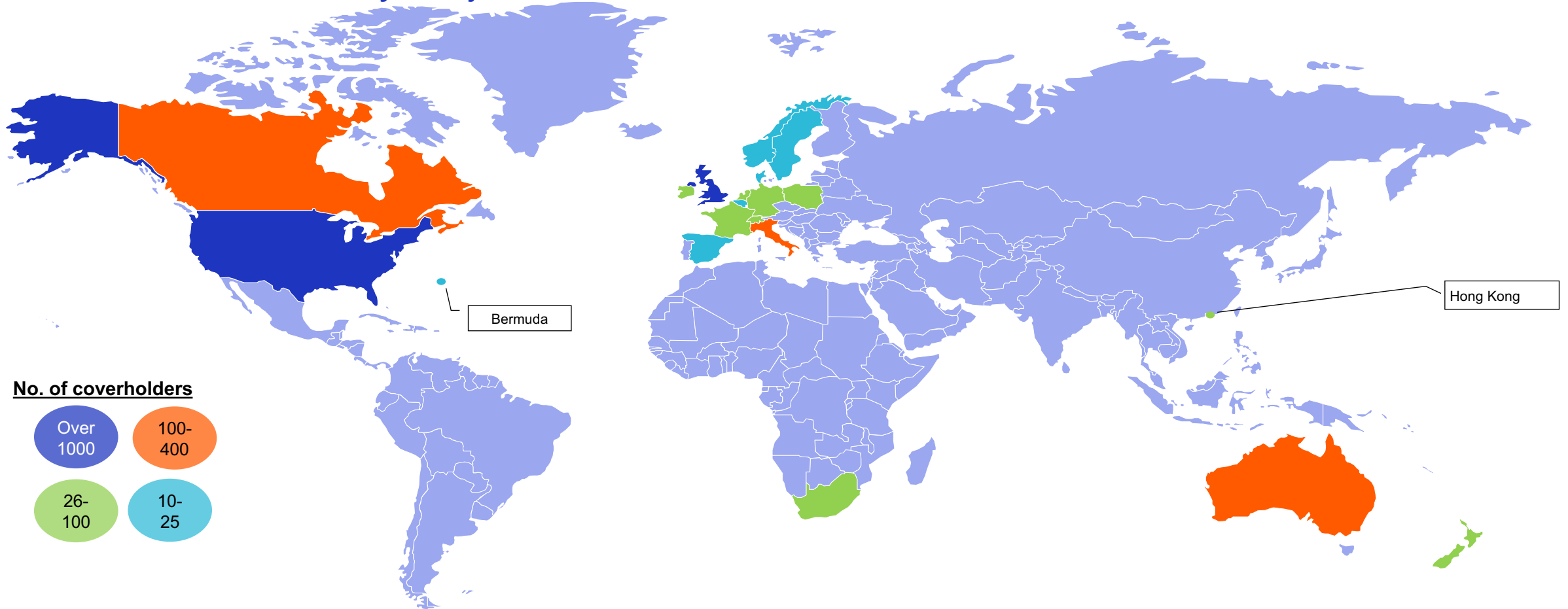
Total Number of Approved Coverholder Office Locations - 3,827



Lloyd's Major Coverholder Territories in 2017

The existing market is currently concentrated in North America and the UK.

Lloyd's major Coverholder territories - 2017

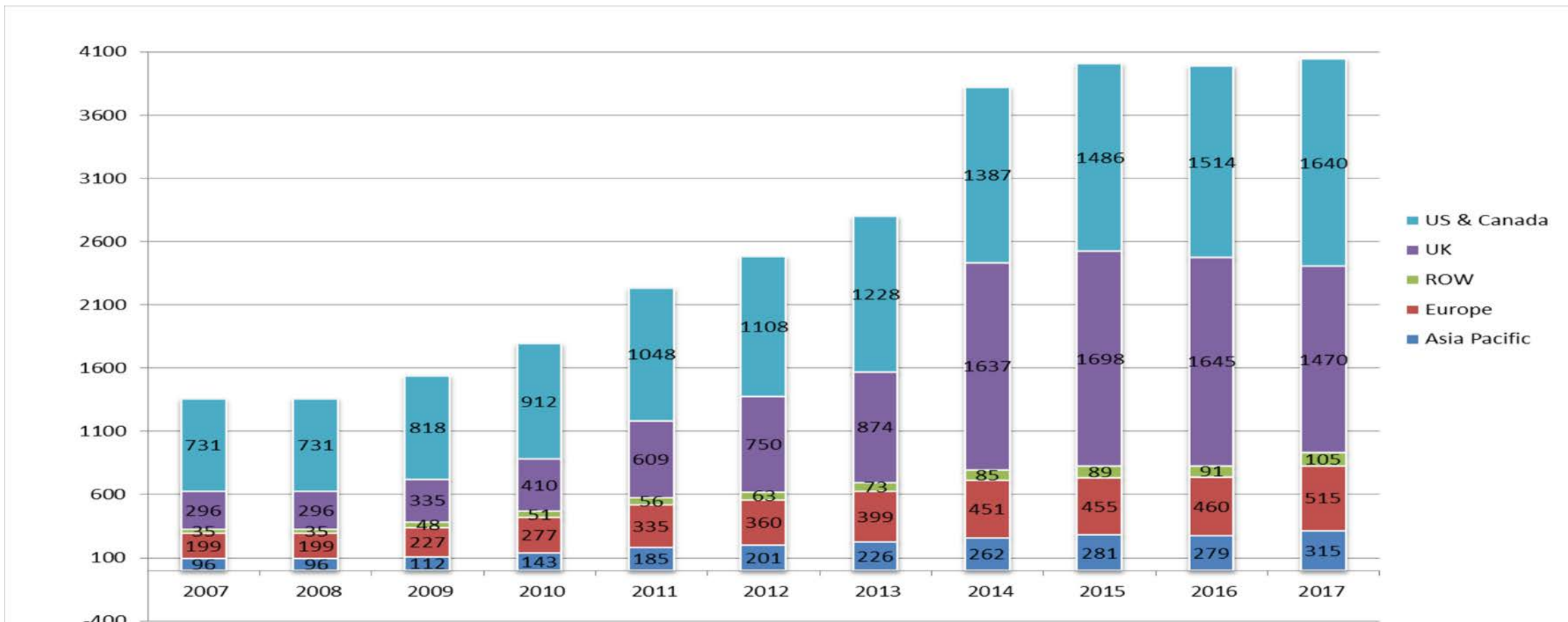


No. of coverholders



A growing model...

2007 - 2017 – Coverholders and Service Companies Combined



Note: Historic data cannot easily split coverholders and service companies. They are combined on this slide. As from now we are separately recording these.

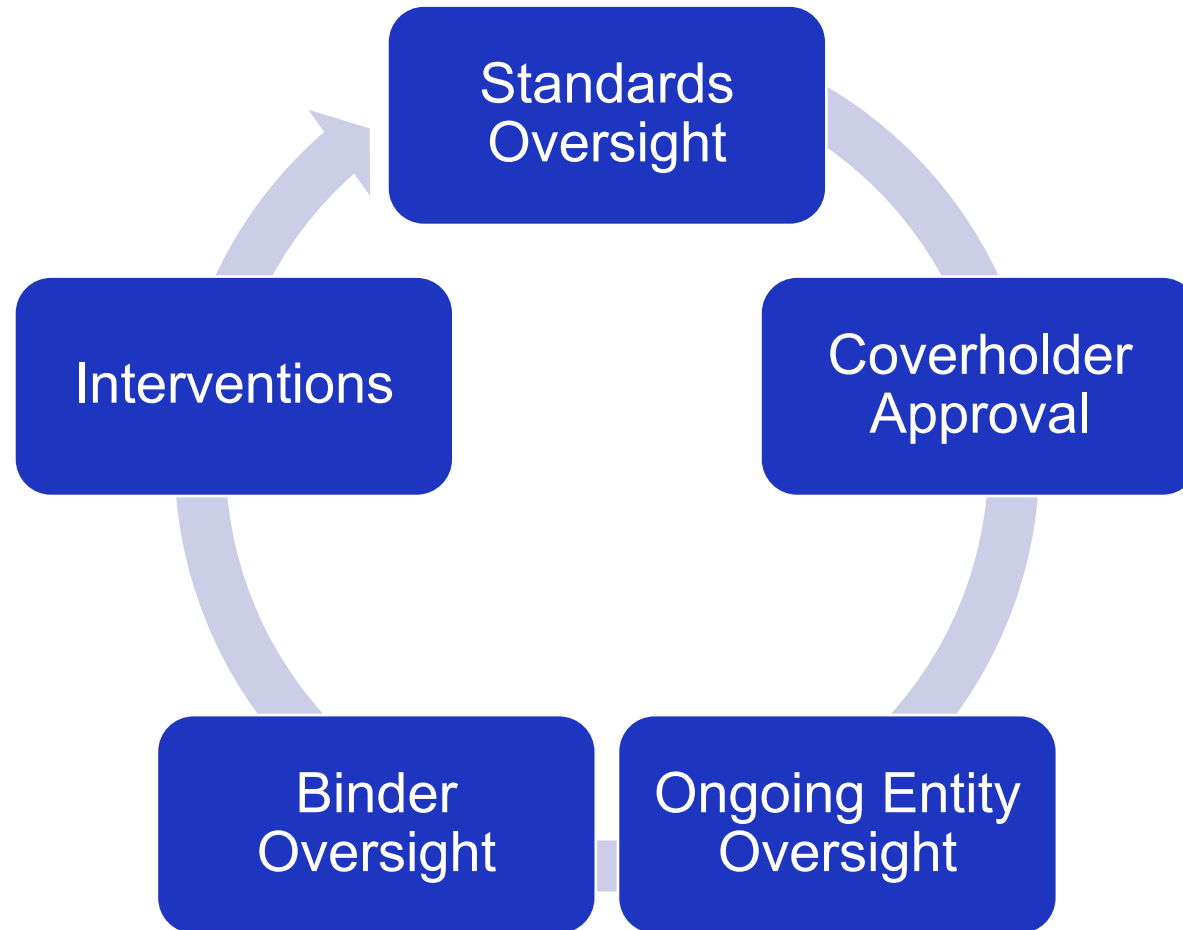
Advantages to the model

- An important distribution channel for Lloyd's. 29.6% of Lloyd's overall business; a steady growth since 2012.
- A successful and profitable business model overall.
- Access to local business unlikely to travel to London through other distribution channels. (especially consumer/SME)
- Access to local expertise
- Portfolio diversification. Less volatile than Open Market business.
- A proven model to enter new/developing markets.

Challenges

- Risks – Conduct, Credit, Underwriting and Reputational
- Pricing
- Digitally savvy competitors – multiplication of ‘one touch’, ‘plug and play’ on-line platforms.
- Inefficiencies in operational processes.
- Rising cost of doing business, particularly acquisition-related through long distribution chain.
- Increasing trend for brokers to set up MGAs.
- Data challenge for monitoring.
- Regulatory overheads and scrutiny

Lloyd's Coverholder Controls



Controls – the minimum standards

- **Strategy and Procedures for Delegated Authority**

Managing Agents shall have a clearly defined strategy and procedures for writing and managing delegated authority business:

- Ultimate responsibility rests with the Board, although commonly delegated to a nominated committee for design, review and agreement of specific elements;
- Need to be satisfied that adequate controls and resources (systems and individuals) are in place;
- What is the expected gain? Analysis of market conditions, consumer exposure, territorial considerations, consistency with Syndicate Business Forecast (“SBF”), organisation and reporting structure, business strategy, overall risk profile and ability to meet regulatory obligations.

- **Due Diligence of Coverholders**

Managing Agents shall carry out and be able to evidence a thorough due diligence assessment of Coverholders to which they propose delegating authority:

- Know who you are ‘giving your pen to’, considering financial, compliance and underwriting capabilities;
- Full due diligence where leading, risk-based approach where following.

Controls – the minimum standards

- **Delegated Authority Contracts**

Managing Agents shall have contracts for delegated authority in place with each third party to which they delegate authority:

- Roles and responsibilities clearly set out in accordance with the permissions granted;
- LMA model wordings to ensure compliance with the Intermediaries Byelaw;
- Consider termination provisions.

- **Management and Monitoring of Delegated Authorities**

Managing Agents shall proactively manage delegated authority contracts once incepted:

- Oversight must include regular Board reporting;
- Careful monitoring of bordereaux, performance against EPI expectations, credit control;
- Early identification of problem cases to minimise financial, reputational and regulatory risks.

LLOYD'S