Surplus Line
ASSOCIATION OF WASHINGTON

LLOYD'S OF LONDON

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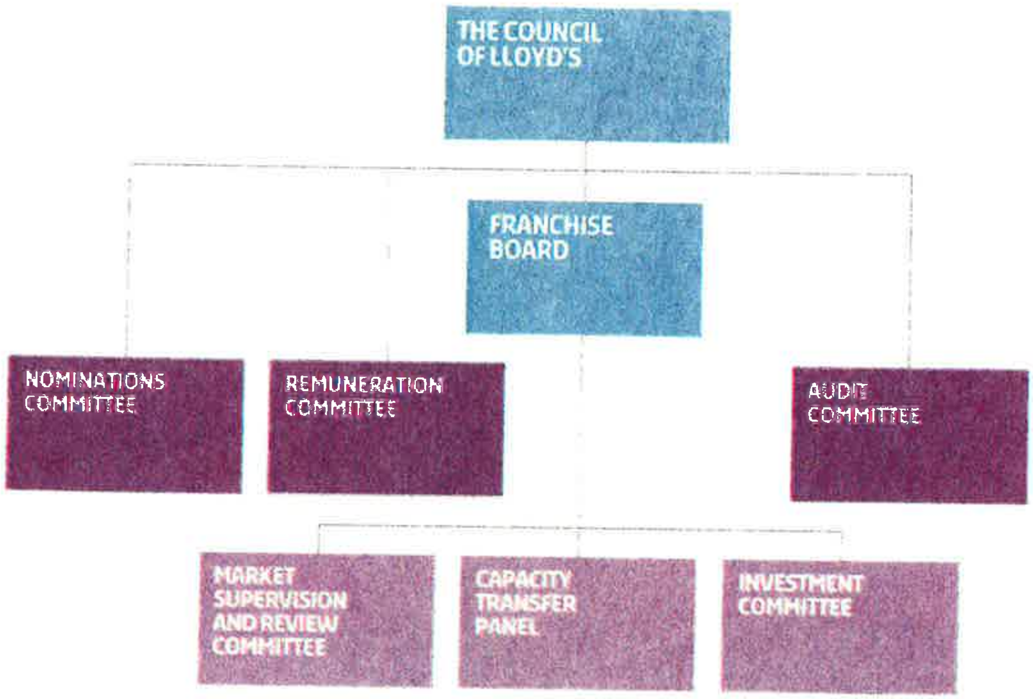
LLOYD'S PRINCIPAL COMMITTEES



GOVERNANCE OF THE LLOYD'S MARKET

- The FSA is responsible for regulating Lloyd's, including direct supervision of managing agents and monitoring capital solvency.

- The Corporation plays an active role in managing risk in the market to ensure that Lloyd's central assets, brand and reputation are protected.

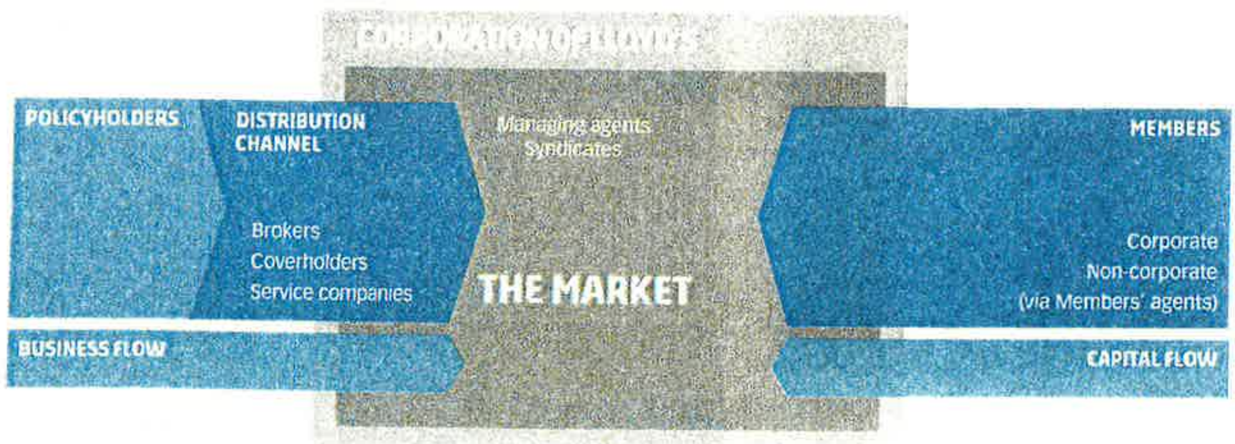
- The Council of Lloyd's is the governing body of the Society of Lloyd's, with ultimate responsibility for the management of Lloyd's.

- For many of its functions, the Council now acts through the Franchise Board, whose members are appointed by the Council and are drawn from inside and outside the market.

- The day-to-day powers and functions of the Council and Franchise Board are exercised by the Executive Team; the CEO and the Directors of the Corporation.

HOW LLOYD'S WORKS
MARKET STRUCTURE

Lloyd's is not an insurance company. It is a market where members join together to form syndicates to insure risks. Much of Lloyd's business works by subscription, where more than one syndicate takes a share of the same risk.



WHO'S WHO?

Policyholders
request insurance cover
Businesses, organisations, other insurers and individuals from around the world want to protect themselves against risks that could affect them. They approach a broker and explain their individual needs.

Brokers
place the risks
Most of Lloyd's business is placed with the assistance of a broker. In addition to being regulated by their national regulator, brokers must also meet Lloyd's own eligibility criteria.

Coverholders
place the risks
Coverholders are companies authorised by a managing agent to enter into contracts of insurance and/or issue insurance documentation, on behalf of the members of a syndicate.

Service companies
place the risks
A service company is an approved coverholder which Lloyd's has classified as a 'service company' by reason of it being a wholly owned subsidiary of either a managing agent or its holding company.

Syndicates
write the insurance risks
Underwriters decide on behalf of its members which risks a syndicate will underwrite and on what terms. Much of Lloyd's business is conducted in the Underwriting Room, where face-to-face negotiations take place with brokers regarding the risks they want to place at Lloyd's.

Managing agents
manage the syndicates
These are companies set up to manage one or more syndicates. The managing agent employs the underwriting staff and handles the day-to-day running of a syndicate's infrastructure and operations.

Members
provide the capital
Members of Lloyd's provide the capital to support syndicates' underwriting. Members include some of the world's major insurance groups and companies listed on the London Stock Exchange, as well as individuals and limited partnerships.

Corporation of Lloyd's
supports the market
The Corporation oversees and supports the market and promotes Lloyd's around the world. This includes determining the capital that members must provide to support their proposed underwriting, working with the management of underperforming syndicates to improve performance, undertaking financial and regulatory reporting for the Lloyd's market, managing and developing Lloyd's global network of licences, Lloyd's brand and representing Lloyd's to governments and regulators around the world.

CHAIN OF SECURITY
LINKS STRENGTH WITH STABILITY

Figures as at December 31 2010

Financial strength

The Chain of Security

Lloyd's unique capital structure, often referred to as the Chain of Security, provides excellent financial security to policyholders and capital efficiency for members.

The Chain of Security provides the financial strength that ultimately backs insurance policies written at Lloyd's and the common security underpins the market's ratings and licence network.

There are three links in the Chain of Security:

- Syndicate level assets
- Members' funds at Lloyd's
- Central assets

The funds in the first and second links are held in trust, primarily for the benefit of policyholders whose contracts are underwritten by the relevant member. Members underwrite for their own account and are not liable for other members' losses. The third link contains mutual assets held by the Corporation which are available, subject to Council approval, to meet any member's insurance liabilities.

The Corporation is responsible for overseeing both member and central capital levels to achieve a level of capitalisation that is robust yet allows members the potential to earn superior returns.

IN ACTION
HOW WE'RE MOVING AHEAD

We continue to introduce ways to make Lloyd's an easier place to do business, increasing efficiency and standards of service.

Our processes may change, but mutuality of capital will remain central to Lloyd's, and is a key factor in maintaining our competitive position in the global insurance market while also underpinning our international licences and strong financial ratings.

We continue our steady expansion into international markets to build our platform for the future. A major priority has been, and continues to be, managing performance throughout the cycle. Although our resolve has been tested over the past 12 months, our disciplined approach to underwriting and our conservative investment mix have ensured that we maintain our strong competitive position.

MANAGING AGENTS
A DYNAMIC AND DIVERSE MARKETPLACE

As at 31 December 2010, the Lloyd's market consisted of 52 managing agents and 85 syndicates. In addition, a further four managing agents exclusively manage syndicates in run-off. All 56 are shown below. However, more important than the sheer scale of the market is the breadth and depth of specialist broking and underwriting expertise brought together under the Lloyd's umbrella.

Find out about our managing agents at
www.lloyds.com/directories

2010 FINANCIAL HIGHLIGHTS
OUR STRENGTH AND RATINGS

Financial security is crucial and gives peace of mind to policyholders. Lloyd's strength and robust capitalisation is reflected in our ratings.

WHERE DOES OUR CAPITAL COME FROM?[1]

- 36% UK listed and other corporate members
- 51% International insurance industry
- 13% Individual members

LLOYD'S RATINGS[2]

A+

Standard & Poor's A+ (Strong)[3]
Fitch Ratings A+ (Strong)[4]

A

A.M. Best A (Excellent)[5]

All Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its network of global licences and the Central Fund. As all Lloyd's policies are ultimately backed by this common security, a single market rating can be applied. The Lloyd's financial strength ratings apply to every policy issued by every syndicate at Lloyd's since 1993.

Three of the world's leading insurance rating agencies validate Lloyd's strengths, robust capitalisation and the financial strength of the market. In 2010, all three rating agencies reaffirmed our ratings as outlined above. In addition, Standard & Poor's has upgraded Lloyd's Enterprise Risk Management rating from 'adequate' to 'adequate with strong risk controls'. This recognises Lloyd's ongoing improvements in risk management.

View our financial reporting information at **www.lloyds.com/financialreports**

"Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a specialist writer of property and casualty risks. Its competitive strength derives from its reputation for innovation and flexibility, which is supported by the pool of underwriting expertise in London."

A.M. Best
August 2010

1-2 *Lloyd's Annual Report 2010.*
3 Standard & Poor's affirmed its Lloyd's financial strength rating and assigned a Stable Outlook, September 2010.
4 Fitch Ratings affirmed its Lloyd's financial strength rating and assigned a Stable Outlook, December 2010.
5 A.M. Best affirmed its Lloyd's financial strength rating with a Stable Outlook, July 2010.

REACH
WHERE WE'RE ACTIVE AROUND THE WORLD

Lloyd's accepts business from over 200 countries and territories worldwide. Our licences in over 75 jurisdictions, supported by a network of local offices, ensure access to insurance markets large and small.

LLOYD'S CLASS BREAKDOWN BY REGION[6]

	US & Canada	Other Americas	United Kingdom	Europe	Central Asia & Asia Pacific	Rest of the world	TOTAL
REINSURANCE	30%	75%	29%	38%	46%	62%	37%
PROPERTY	31%	7%	20%	14%	14%	8%	22%
CASUALTY	20%	8%	22%	18%	28%	12%	20%
MARINE	6%	4%	5%	17%	6%	7%	7%
ENERGY	10%	4%	2%	7%	3%	3%	6%
MOTOR	1%	1%	21%	1%	1%	2%	5%
AVIATION	2%	1%	1%	5%	2%	6%	3%
ALL CLASSES	**43%**	**7%**	**20%**	**16%**	**10%**	**4%**	**100%**

LLOYD'S IN NUMBERS

85
SYNDICATES of specialist underwriting experience and talent

178
BROKERS daily creating insurance solutions in over...

200
COUNTRIES AND TERRITORIES which covers...

94%
OF THE FTSE 100 and...

97%
OF DOW JONES industrial average companies all underpinned by...

323
YEARS OF UNDERWRITING EXPERIENCE

6 *Lloyd's Annual Report 2010.*

TODAY
EXPLORING OUR CURRENT BUSINESS ACTIVITIES

The Lloyd's market insures complex and specialist risks – from oil rigs to celebrity body parts. Brokers are able to find individual and innovative cover in the market, whatever their challenge may be.

Casualty
Casualty risks are particularly specialist and complex and the US accounts for a large proportion of this business. This market includes professional indemnity, medical malpractice, accident and health, directors & officers' liability and general and employers' liability. Casualty makes up 20% of Lloyd's business.

Property
The property sector is hugely varied, encompassing everything from supporting the building of the new World Trade Center to protecting holiday resorts against storm damage. Property makes up 22% of Lloyd's business.

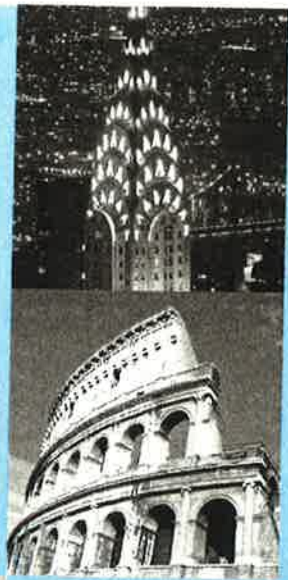
Marine
This is where the Lloyd's story began over 300 years ago. Today it is a smaller but still a significant part of our business. Most of the cover in this area is for hull, cargo, marine, liability and specie (the insurance of highly valued items such as fine art while in transit). Marine makes up 7% of Lloyd's business.

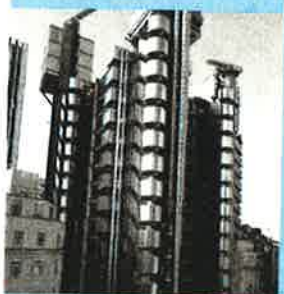
Energy
This market is steadily evolving, from onshore and offshore property, oil rigs and refineries to emerging renewable energy ventures. Coverage relates to physical damage and liability risks. Energy makes up 6% of Lloyd's business

Motor
In this competitive sector, Lloyd's is primarily focused on company fleet business, niche private car and other non-standard risks. This includes high value, vintage and collectors' vehicles, high risk drivers and affinity groups. Lloyd's has insured numerous land speed record attempts and Sir Malcolm Campbell, the first man to break 300mph on land, was a Lloyd's broker. Motor makes up 5% of Lloyd's business.

Aviation
Lloyd's is an industry leader within the global aviation market. This includes airline, general aviation, products, airports, war and terrorist coverage, and satellite business. The aviation market continues to benefit from new safety systems, increased security and improved regulation but recent performance, particularly in airline, has been disappointing. The sector remains highly competitive with significant capacity available for most risks. Aviation makes up 3% of Lloyd's business.

Reinsurance
The reasons for reinsurance tend to fall into four categories: to protect an insurer against very large claims; to reduce exposure to 'peaks and troughs'; to obtain an international spread of risk; and to increase the capacity of the direct insurer. Reinsurance makes up 37% of Lloyd's business.





COVERHOLDER TOOLKIT

September 2011

COVERHOLDER TOOLKIT CONTENTS

The contents of the coverholder toolkit are summarised below, with links to the relevant section of the Toolkit.

contd.

- Claim Funds
- What are the coverholder reporting standards?

8. Lloyd's coverholder reporting standards

Coverholder reporting

- Background – information reporting
- What are the general information requirements?
- Why is the information needed?
- How does the coverholder submit their information?
- What is the process for submitting reports?
- Are there any additional reporting requirements?

Coverholder reporting standards

- Background – information reporting standards
- What are the information reporting standards?
- Why are the information reporting standards important?
- What do the reporting standards mean for you as a coverholder?
- Practical steps for implementation

9. Coverholder systems used by Lloyd's

Atlas

- Background
- What is Atlas?
- Who can use Atlas?
- What does Atlas do for the coverholder?
- Where is Atlas located?
- What does it look like?
- Does the coverholder have to use it?
- Who can approve any changes to the coverholder information within Atlas?
- What are the benefits of Atlas?
- Where can a coverholder get training on it?

MOCHA and DOPRINT

- Background - MOCHA
- What is MOCHA?
- Who can use MOCHA?
- What does it do?
- What does MOCHA look like?
- What are the benefits to a coverholder?
- Where can a coverholder get training on MOCHA?
- Does a coverholder have to use MOCHA?
- What is DOPRINT?
- Who can use DOPRINT?
- What does DOPRINT do?
- What are the benefits to a coverholder?
- Where can a coverholder get training on DOPRINT?

Lineage

- Background - Lineage
- What is Lineage?
- What does it do?
- Where is it located?
- Who can use Lineage?
- What does it look like?
- Does the coverholder have to use it?
- What are the benefits to me as a coverholder?
- Where can a coverholder get training on it?

10. Compliance obligations

- Background
- How does the annual compliance return process work?
- Do I have to complete it?
- What are the benefits of completing the annual compliance?
- When is the annual compliance due?
- What is the impact and effect of financial crime?
  - Money laundering
  - International sanctions
  - UK Bribery Act 2011
- What is conflict of interest?

11. Coverholder audit

- Background
- What is the reason for the audit?
- What is the audit scope?
- What does it look like?
- Is it mandatory?
- Who selects the auditor?
- Who decides and what are the timescales?
- What does the audit consist of?
- What does the coverholder have to do?
- What are the implications of a coverholder not allowing an audit to happen?
- Who has the key responsibilities?
- How are audits co-ordinated when the coverholder has several binding authorities?
- Who provides the feedback?
- What happens next?

contd.

LLOYD'S

COVERHOLDER TOOLKIT | 1

CHAPTER 1: INTRODUCTION

This chapter gives an introduction to the coverholder toolkit. It explains what it is, its development, aims, intended audience and how it is structured.

It also provides a summary of the different sections of the toolkit to provide a helpful overview of content areas.

CONTENTS

Click to download other chapters

1. Introduction	6. Premium handling	11. Coverholder audit
2. Coverholders at Lloyd's	7. Claims handling	12. Understanding regulatory requirements
3. Lloyd's offer and expectations	8. Lloyd's coverholder reporting standards	13. Lloyd's brand
4. Binding authority agreements	9. Coverholder systems used by Lloyd's	14. The application process
5. Certificates	10. Compliance obligations	15. A-Z Glossary

What is the coverholder toolkit?
The coverholder toolkit is a clear and simple guide to doing business with Lloyd's. It provides high level overviews on key topics to help potential and existing coverholders understand:

- What is a Lloyd's coverholder?
- How can I do business at Lloyd's?
- How can I become a Lloyd's coverholder?
- What resources are available to help me develop my business?

A variety of diagrams, worked examples, practical advice and tutorials are provided in each section to help bring the topic to life.

The toolkit helps to explain Lloyd's existing standards and guidance rather than replace or revise existing practices.

Background and development
Lloyd's has worked closely with market practitioners in developing the toolkit. In particular, Lloyd's would like to thank members of the LMA's Delegated Underwriting Committee and LIIBA's Binders, Offslips, Lineslips and Treaty Committee for their valuable contributions.

The participation of both groups has helped scope and shape the toolkit, by directing its development and by providing valuable feedback at every stage.

Aims of the toolkit
A great deal of information is available setting out Lloyd's expectations for coverholders. This is often held in different places and in different documents.

The toolkit aims to help coverholders make sense of it all by providing easy to understand overviews (or 'roadmaps') on all the key topics of relevance to being a coverholder at Lloyd's.

Intended audience
The toolkit has been developed primarily for new and existing coverholders. However, it is also likely to be of interest to staff of Lloyd's brokers and managing agents whether they place business with coverholders or who manage coverholder operations and businesses who are considering becoming a coverholder at Lloyd's.
For example, it could be used in the following ways:
- A useful source of information of training for new joiners.
- Where further business or system development is being considered, the toolkit can help inform and direct development.
- For a business which is interested in becoming a coverholder, the toolkit can act as a source of information and guidance that can help speed understanding of how things work.

Structure
Each component section of the toolkit covers the following:

What is it? – explains and defines the coverholder topic being discussed in this section.

Why is it important? – discusses why this is important.

What do I need to know? – summarises and prioritises the key information relating to this section.

Practical steps necessary for implementation – highlights some key steps necessary for an organisation to take in order to implement and address this topic.

Relevant links and guidance – provides links to all associated guidance and underlying materials referred to in the section and gives a brief explanation of how each link should be used.

contd.

Toolkit overview

Here is a brief overview of the various sections of the toolkit:

Coverholders at Lloyd's

1. Introduction
   What is the Coverholder Toolkit, its development, aims, intended audience and how is it structured?

2. Coverholders at Lloyd's
   What is a coverholder and how do they work? How do they fit into Lloyd's?

3. Lloyd's offer to and expectations of coverholders
   Lloyd's is looking for high standards and professionalism from its coverholders. In return, it offers access to the brand, security and a licence network of the world's largest specialist insurance market.

How can I do business at Lloyd's?

4. Binding authority agreements
   Coverholders operate under contracts of delegation which set out what they can do. What do these contracts cover and how do they work?

5. Certificates
   Coverholders issue insurance certificates as evidence of insurance cover. What does the certificate need to look like and contain and what freedom is there for coverholders own branding?

6. Premium handling
   How does premium handling work at Lloyd's? Who does what?

7. Claims handling
   How does claims handling work at Lloyd's? Who does what and how do third party administrators and loss adjustors fit into the picture?

8. Lloyd's coverholder reporting standards
   How does reporting work at Lloyd's? What are the reporting standards, their benefits and how and can they be adopted?

9. Coverholder systems used by Lloyd's
   A number of important Lloyd's systems are used by coverholders when doing business with Lloyd's, in particular, ATLAS, Mocha and Lineage. What are these systems, why do they matter and what do you need to know?

10. Compliance obligations
    What are the key compliance obligations on a coverholder? Some other issues to be aware of including cancellation and non-renewal, dispute resolution and operation of the binding authority contract.

11. Coverholder audit
    What is the reason for the audit, what are the timescales, how does it work and what is expected of coverholders?

12. Understanding regulatory requirements
    What is the network of Lloyd's licences? What is crystal, who can use it and what are the benefits to a coverholder?

13. Lloyd's brand
    How can coverholders use the Lloyd's brand on certificates and corporate marketing materials?

14. The application process for new and existing coverholders
    What is the application process for coverholders and what is required? How can coverholders add an additional office?

This chapter gives an introduction to what is a coverholder, how they work and how they fit into Lloyd's.

CONTENTS

Click to download other chapters

1. Introduction	6. Premium handling	11. Coverholder audit
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What is delegated underwriting?

Delegated underwriting is the phrase commonly used at Lloyd's to describe what happens under a binding authority. The managing agent delegates its underwriting authority within defined terms to the coverholder.

What is a coverholder?

A coverholder is a company or partnership authorised to write contracts of insurance on behalf of the managing agent in accordance with the terms of a binding authority.

A coverholder may also have authority to issue insurance documents. Insurance documents include certificates of insurance, and other documents acting as evidence of contracts of insurance.

Coverholders may be known under different titles in other countries for example, in the USA they are known as managing general agents (MGAs) whilst in some parts of Europe they can be described as underwriting agents or multi agents.

What is a binding authority?

A binding authority is an agreement under which a managing agent delegates their authority to enter into contracts of insurance to a coverholder.

The binding authority agreement will set out all of the coverholder's responsibilities, including any authority to issue insurance documents, collect premiums and agree claims.

Global map showing number of coverholders worldwide

Canada	
Canada	285
America & Carribean	
USA	827
Baharnas	2
Bermuda	3
British Virgin Islands	2
Cayman Islands	2
Dominica	1
Grenada	1
Jamaica	1
Virgin Islands US	10
Trinidad & Tobago	2
South America	
Argentina	2
Chile	3
Ecuador	1
Europe	
Republic of Ireland	34
United Kingdom	516
Andora	1
Austria	2
Belgium	11
Cyprus	4
Czech Republic	1
Denmark	5
Finland	1
France	35
Germany	17
Gibraltar	7
Greece	7
Iceland	1
Italy	98
Malta	5
Monaco	3
Netherlands	13
Norway	18
Poland	5
Portugal	1
Spain	18
Sweden	12
Switzerland	27
Africa	
Mauritius	1
Namibia	1
South Africa	25
Middle East	
Bahrain	1
Israel	6
United Arab Emirates	5
Russia	
Russian Federation	1
Asia	
Hong Kong SAR	15
Thailand	1
Pacific	
Australia	116
New Zealand	17
Tahiti	1

Source: Lloyd's
Date: Figures correct as at August 2011

How do coverholders fit at Lloyd's?

Coverholders are a vital part of Lloyd's distribution network, enabling Lloyd's managing agents to operate in a region or country to compete with local insurers and access small and medium sized business efficiently. This is achieved by Lloyd's managing agents delegating their underwriting authority and other responsibilities to the coverholder.

For an easy overview as to how Lloyd's works see the Lloyd's Quick Guide (link referenced in relevant links and guidance).

Some key coverholder facts:

- There are approximately 2,500 approved coverholders at Lloyd's.
- They produce approximately 30% of Lloyd's premium income each year.
- 85% of coverholders have been with Lloyd's for more than 5 years.
- From a recent Lloyd's survey some of the biggest advantages of being a coverholder for Lloyd's has been identified as:
  - Flexibility in underwriting solutions
  - Freedom to make own underwriting decisions
  - Access to Lloyd's brand and security rating

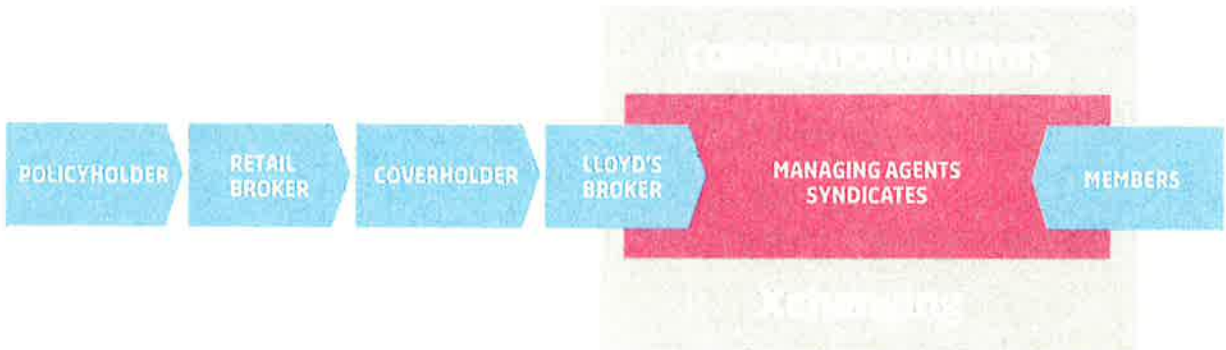
For the experienced coverholder, Lloyd's managing agents will give the underwriting authority to empower them. For those coverholders who are not so experienced, Lloyd's managing agents will work with them, so that over time they are able to be empowered further.

Coverholder GROSS signed Premium 2010 by region

Region	Coverholder 2010 Gross Signed Premium (premiums for the 2010 calendar year)	Percentage %
US and Canada	4,459.7	54.90%
UK	1,735.1	21.36%
Europe	914.8	11.26%
Asia Pacific	744.2	9.16%
Latin America	79.1	0.97%
Rest of the world	190.2	2.34%
WORLD	**8,123.0**	**100%**

Source: Lloyd's
Date: Figures correct as at 2010 for the calendar year

Who are the key parties in the placement of business as a coverholder?



The table over the next few pages outlines who are the key parties in the placement of business as a coverholder and the legal position of the parties (who owes a duty to whom):

Policy holder

Role

A person or company who buys or holds an insurance policy; usually, the client in whose name an insurance policy is written.

Who owes a duty to whom?

The policyholder is the client of the retail broker and has a duty to disclose material facts to the managing agent when an insurance contract is being negotiated, subsequently amended or renewed.

Retail broker

Role

The retail broker advises the policyholder about insurance options, choice of cover and risks to be insured for the policyholder, from a range of insurers.

Who owes a duty to whom?

The retail broker is the agent of the policyholder and the client of the coverholder and has a duty to act in the policyholder's best interests.

Coverholder

Role

The coverholder is a company authorised by a Lloyd's managing agent (on behalf of the Lloyd's syndicate) to enter into contracts of insurance and/or issue insurance documentation, on behalf of the members of a syndicate.

A coverholder may also be authorised by the Lloyd's managing agent for collecting premiums and handling claims. The exact nature of the coverholders authority to act for the Lloyd's managing agent must be set out in the binding authority.

Who owes a duty to whom?

The coverholder acts as the agent for the managing agent, rather than as the policyholder's agent.

When a coverholder, acting under the terms of a binding authority with the managing agent, enters into contracts of insurance to be underwritten by the managing agent, or issues insurance documents, they are acting as the agent for the managing agent.

A coverholder also acts as agent for the managing agent for collecting premiums or handling claims. The exact nature of the coverholders authority to

contd.

act for the Lloyd's managing agent is set out in the binding authority.

Lloyd's broker

Role

The role of the Lloyd's broker, on behalf of the coverholder is to:

- *Arrange and administer the binding authorities.*
- *Negotiate terms and conditions of the binding authority with the managing agent.*
- *Sponsor new coverholders.*
- *Manage the day to day relationship with the coverholder.*
- *Arrange renewal and find new syndicates if necessary.*
- *Handle items which fall outside of the terms of the binding authority.*
- *Preparation and submission of reporting to the managing agent and to Xchanging.*

Who owes a duty to whom?

A Lloyd's broker usually acts as the agent for the coverholder and acts as the point of contact between the managing agent and the coverholder.

Xchanging

Role

A company which provides the Lloyd's and the London market with a single processing of regulatory and tax information and cash settlement of premiums and claims.

Who owes a duty to whom?

Within Xchanging XIS (Xchanging Ins-sure Services) and XCS (Xchanging Claims Services) responsible for Lloyd's market processing.

Managing Agent

Role

These are companies approved by Lloyd's and authorised by the FSA to manage one or more Lloyd's syndicates. The managing agent is responsible for managing all aspects of a Lloyd's syndicate.

Who owes a duty to whom?

Managing agents have the authority to enter into binding authorities.

The managing agent acts on behalf of all of the capital providers of the Lloyd's syndicate. It is the agent of the capital providers and has a duty to act in their best interests.

This includes:

- *Establishing the syndicate business plan*
- *Establishing the syndicate's capital*
- *Managing and modelling the syndicate's risks*
- *Appointing underwriting and claims staff*
- *Setting reserves*

Syndicates

Role

Capital providers at Lloyd's are called Lloyd's members. A Lloyd's member can provide capital to one or more Lloyd's syndicates. The syndicates operating within the market specialise in many areas of insurance including:

- *Marine*
- *Aviation*
- *Property*
- *Non- Marine*
- *Motor*
- *Reinsurance*

Syndicates work with Lloyd's brokers to tailor solutions to respond to the specific needs of the client, thus offering choice, flexibility and continuing innovation. Syndicates compete against each other. Syndicates cover either all or a portion of the risk. They are staffed by underwriters, the insurance professionals on whose expertise and judgement the market depends.

Who owes a duty to whom?

Syndicates operate as independent business units within the Lloyd's market and are managed by Lloyd's managing agents. Syndicates are formed for one year and reformed each year, sometimes with the same and sometimes with different capital providers.

contd.

Members

Role

Members are the insurers and accordingly provide the capital to support syndicates' underwriting. Members include some of the world's major insurance groups and companies listed on the London Stock Exchange, as well as individuals and limited partnerships.

Who owes a duty to whom?

Members of Lloyd's underwrite insurance by forming groups of members known as syndicates. Members authorise the managing agent of the syndicate to underwrite insurance risks on the behalf.

Corporation of Lloyd's

Role

Lloyd's is not an insurance company, it is a market where members join together as syndicates to insure and reinsure risks. Much of Lloyd's business works by subscription, where more than one syndicate takes a share of the same risk.

The Corporation of Lloyd's main activities include:

- *Establishing and maintaining the standards that are expected of all the managing agents.*
- *Overseeing the performance of all the managing agents.*
- *Making sure all the managing agents are adequately capitalised, including the central fund.*
- *Obtaining and maintaining insurance and reinsurance licences for Lloyd's throughout the world.*
- *Undertaking financial and regulatory reporting on behalf of the Lloyd's market.*
- *Protecting and promoting the Lloyd's brand globally.*
- *Maintaining the overall credit rating for the Lloyd's market.*

Who owes a duty to whom?

Lloyd's has the statutory power to supervise the Lloyd's market and those who operate in it. In practice it does this through the franchise board, which is responsible for the day to day management of the Lloyd's market.

Lloyd's supervises coverholders as part of its statutory role in supervising the Lloyd's market. This supervision is carried out through the approval process and then through Lloyd's ongoing supervision of all approved coverholders. The department that is responsible for coverholders on a day to day basis is the Delegated Authority Team.

Who regulates Lloyd's?

The Corporation of Lloyd's is regulated in the UK by the Financial Services Authority (FSA) and subject to the FSA's rules. The FSA also directly regulates all Lloyd's managing agents.

What does the FSA expect of Lloyd's?

One of the key areas the FSA expects from Lloyd's is the oversight and control of delegated underwriting and Lloyd's delivers this through its standards framework which is why it has the standards for delegated underwriting.

How does Lloyd's meet the FSA expectations?

To meet the FSA requirements, Lloyd's has established franchise standards, with which managing agents need to comply. There is a franchise standard for delegated underwriting which is summarised as follows:

- Each managing agent must have a clear strategy for writing and managing delegated underwriting business as part of its overall business plan.
- Each managing agent is expected to carry out thorough due diligence of coverholders to which it proposes to delegate authority.
- Each managing agent must have binding authorities in place with each coverholder to which it delegates authority clearly defining the conditions, scope and limits of that authority and which comply with contract certainty requirements, including the requirement to demonstrate regularly that insurance documents have been issued within required timescales.

contd.

- The managing agent must proactively manage delegated underwriting contracts once incepted to ensure compliance with contract conditions.

To help managing agents understand better how they can meet the Lloyd's franchise standard, further guidance has been provided by Lloyd's in the 'Code of practice – delegated underwriting'.

Although the code is aimed at managing agents, coverholders may find it useful to familiarise themselves with it.

Relevant links and guidance

- An overview on what a coverholder is can be found at: http://www.lloyds.com/The-Market/I-am-a/Coverholder/Prospective-Coverholder/Tell-me-more-about-coverholders

- For the 'Code of practice - delegated underwriting' go to: http://www.lloyds.com/The-Market/Tools-and-Resources/Resources/Code-of-practice-for-delegated-underwriting-new

- For further information on how Lloyd's works see the Lloyd's Quick Guide: http://www.lloyds.com/Lloyds/About-us/Publications/Lloyds-Quick-Guide-2011

COVERHOLDER TOOLKIT | 3

LLOYD'S

CHAPTER 3: LLOYD'S OFFER TO AND EXPECTATIONS OF COVERHOLDERS

This chapter gives an introduction to what Lloyd's offers and what Lloyd's is looking for from coverholders.

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Background

Lloyd's is the world's specialist insurance and reinsurance market, bringing together an outstanding concentration of underwriting expertise and talent. It is often the first to insure emerging, unusual and complex risks.

Around 80 syndicates are underwriting insurance at Lloyd's, covering all classes of business. Together they interact with thousands of brokers daily to create insurance solutions for businesses in over 200 countries and territories around the world. Lloyd's insures the majority of FTSE 100 and Dow Jones industrial average companies.

Lloyd's enjoys strong financial security supported by excellent ratings.

What does Lloyd's offer coverholders?

Being a coverholder at Lloyd's gives wide ranging benefits:

Underwriting authority appropriate to expertise

- Coverholders are able to negotiate a level of underwriting authority appropriate to their level of expertise and ability.
- There are three levels of underwriting authority available to coverholders.
- **Full authority** - authorised to write business and issue documentation within agreed parameters without referral to the managing agent.
- **Pre-determined risk selection and rates** – authorised to write business and issue documentation using pre-determined rates provided by the managing agent or by reference to an internet rating system.
- **Prior submit** – risk is referred back to the managing agent to underwrite insuring document issued by coverholder.

Claims handling authority appropriate to expertise

- Where a coverholder has the necessary expertise and resources in its business, it is able to negotiate a level of claims handling authority.

Flexibility and capacity to develop bespoke insurance solutions

- The ability to work with managing agents and Lloyd's brokers to develop innovative tailored products relevant to client needs in the local market.
- To be able to offer insurance coverage where other insurers will not.
- To have access to an alternative market with a variety of managing agents.

Access to Lloyd's brand

- World renowned global brand, with an excellent reputation in the insurance industry and synonymous with being innovative and progressive.
- Lloyd's has been trading since 1688 and is known for its long standing tradition and its unique way of doing business.
- One of the oldest and best known names in insurance.
- As a coverholder you get access to the brand.

Further details on using the Lloyd's brand for the coverholder can be found in **chapter 13 – Lloyd's brand**

Access to a range of insurance talent within the Lloyd's Market

- There are 180 Lloyd's brokers and 55 managing agents at Lloyd's, all of which come together to provide a market place which allows Lloyd's to provide insurance and reinsurance solutions to clients throughout the world.
- Coverholders get access to diverse products, provided by numerous different managing agents and Lloyd's brokers, who they can work with to develop their business, across a range of different classes of business and geographies.

Access to other markets through Lloyd's licences

- Lloyd's has 80 direct insurance licences, many of which can be used by coverholders to do business in other countries. By working with Lloyd's, coverholders can expand their business internationally as well as operating in their own country.

2011 Licence Network

Licensed or eligible to undertake insurance business

US 'surplus lines' approval

Registered or licensed to write reinsurance business

Lloyd's has an extensive global license network with authority to write direct insurance in over 75 jurisdictions and the ability to conduct reinsurance business in over 200 territories.

Source: Lloyds
Date: Correct as at August 2011

Lloyd's financial strength and security

- Lloyd's unique capital structure, often referred to as the chain of security, provides excellent financial security to policyholders and capital efficiency for members.
- The chain of security provides the financial strength that ultimately backs insurance policies written at Lloyd's and the common security underpins the market's ratings and licence network.
- There are three links in the chain of security:
  - Syndicate level assets – the premiums received from policyholders
  - Members' funds at Lloyd's – the capital required to be lodged with Lloyd's in support of the business plan
  - Central assets
- The funds in the first and second links are held in trust, primarily for the benefit of policyholders whose contracts are underwritten by the relevant member. Members underwrite for their own account and are not liable for other members' losses. The third link contains mutual assets held by the Corporation which are available, subject to Council approval, to meet any member's insurance liabilities.

Lloyd's financial strength ratings

- Three of the world's leading insurance rating agencies validate Lloyd's strengths, robust capitalisation and financial strength of the market.
- Lloyd's currently holds A+ ratings from Fitch Ratings and Standard & Poor's, and an A rating from A.M Best.
- The Lloyd's financial strength ratings apply to every policy issued by every syndicate at Lloyd's since 1993.

A+

A

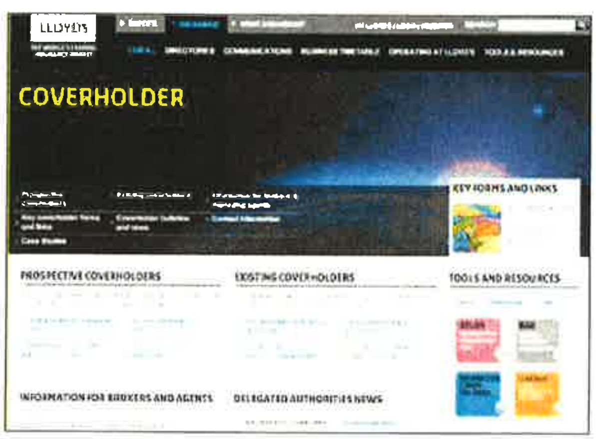
Standard & Poor's A+ (Strong)
Fitch Ratings A+ (Strong)

A.M. Best A (Excellent)

Source: Lloyd's
Date: Ratings correct as at September 2011

Dedicated website for coverholders

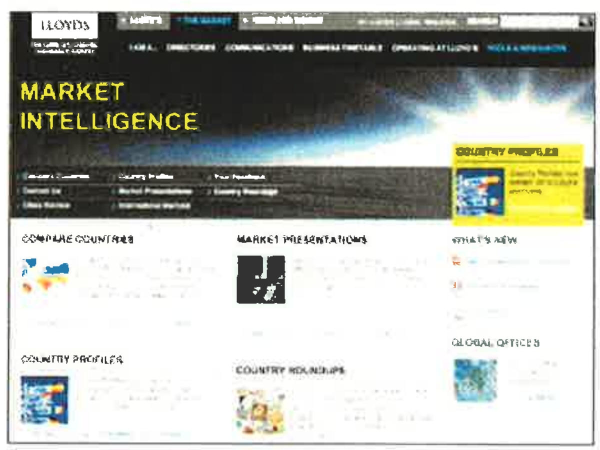
- Coverholders have their own dedicated website within www.lloyds.com which provides information featuring:
- Delegated authority news and coverholder related articles
- Coverholder specific bulletins
- Upcoming country events
- Access to tools such as Atlas and Lineage
- Access to resources such as model contracts of delegation



www.lloyds.com/coverholders

The five main market intelligence products available to coverholders.

- **Compare countries** provides high level statistics across 200+ territories, on the economy, insurance market and Lloyd's business. This tool employs regional heat maps to showcase key indicators for a quick strategic overview.
- **Country profiles** provide individual summaries for Lloyd's top 35 markets. These profiles contain factsheets on the economy, insurance market and Lloyd's business and licence position.
- **Market presentations** contain local insights from Lloyd's Country Managers as well as opportunities and challenges for Lloyd's in their markets.
- **Country roundups** provide summaries of recent industry news from Lloyd's Country Managers. These one pagers contain snippets of insurers and reinsurers news as well as updates on distribution and local Lloyd's events.
- **Class review** provides in depth class of business intelligence on a market. Initially, this is available for California, Texas, Florida and New Jersey.



www.lloyds.com/marketintelligence

Access to model contracts of delegation

- To make life easier for coverholders, model contracts have been developed that meet the Lloyd's requirements for a contract of delegation (see **chapter 4 – binding authority agreements** for further details).

Country manager network

- Lloyd's coverholders have access to the country manager network across over 25 countries.
- The Lloyd's country manager represents and promotes Lloyd's in the country and has excellent local market knowledge and contacts to:
  - Facilitate meetings
  - Help on specific development initiatives
  - Run a range of Lloyd's events in their country
- The country manager can meet with the coverholder to introduce key contacts or explain how Lloyd's works.

Local coverholder networks

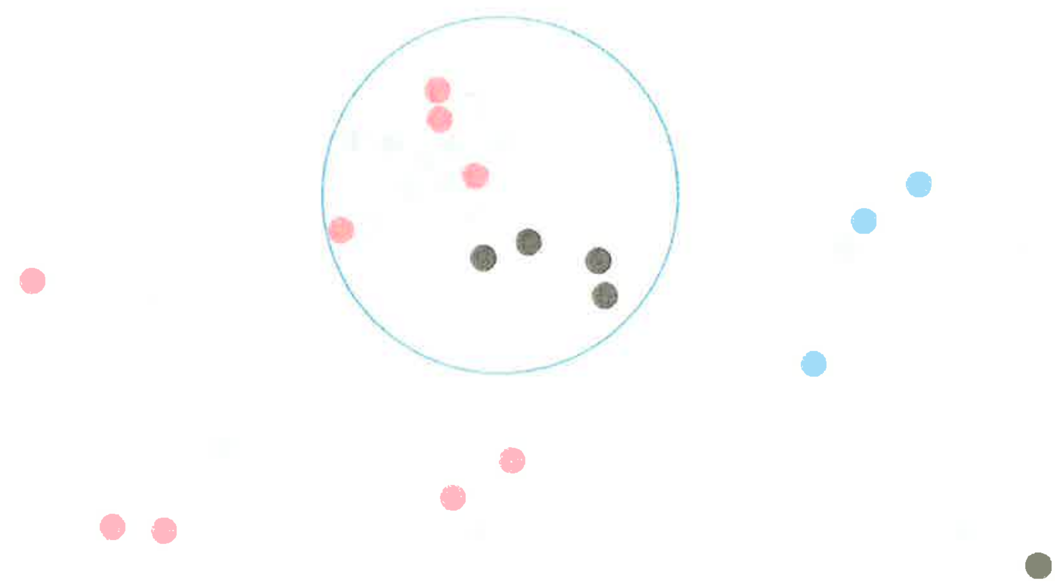
- Many country managers have coverholder networks and associations available.

Access to events

- Lloyd's runs an events programme all around the world.
- Coverholders have access to all these events and have the opportunity to discuss areas of mutual interest and share experiences.

(See relevant links and guidance at end of this chapter for link

Country manager network



Type	Market Development Scope	Territories *Europe*	*Asia Pacific*	*Africa*	*North America*	*South America*
	Local underwriting with **co-located syndicates** (or via a Lloyd's regulated entity); **Country Manager** with Market Development Role		China Japan Singapore			
	Country Manager with Market Development Role	Benelux, France, Germany, Ireland, Italy, Poland, Spain, Sweden, Switzerland, UK	Australia Hong Kong (SAR)	South Africa	Canada, US Eastern, US Central & US Western	Brazil
	Legal Representative for regulatory requirements	Cyprus, Greece, Israel, Malta	New Zealand			
	Legal Representative for minimum regulatory requirements	Austria, Denmark, Norway, Portugal		Namibia, Zimbabwe		Argentina, Belize, Chile

Source: Lloyds
Date: Correct as at December 2010

Coverholder e-newsletter

- In 2011 Lloyd's introduced a coverholder e-newsletter which gives updates and news on key coverholder developments at Lloyd's.

(To be added to the circulation list for the coverholder news e-mail Coverholders@lloyds.com)

Lloyd's and London Market Introductory Test (LLMIT)

- There is comprehensive training and support available for coverholders who want a better understanding of Lloyd's and the London market. Lloyd's has the LLMIT test which is a stand-alone qualification which members of staff can study for and sit in most parts of the world.

(Further details on LLMIT can be accessed via the link on the relevant links and guidance page at the end of this chapter)

What expectations does Lloyd's have of its coverholders?

When Lloyd's assesses an application from a new coverholder the following areas are considered:

- That the coverholder is suitable and meet the Lloyd's suitability criteria.
- Ongoing, Lloyd's also expects each coverholder to commit and contract to the way it conducts its business by means of the coverholder undertaking, which sets out the general principles of their relationship as an approved coverholder of Lloyd's.

Why does Lloyd's approve coverholders?

All Lloyd's coverholders require Lloyd's approval, including Lloyd's brokers who act as Lloyd's coverholders. Lloyd's approval will typically initially permit a coverholder to accept risks and issue documentation on behalf of the managing agent only in the coverholders own territory.

Lloyd's approves coverholders because Lloyd's wants managing agents to delegate underwriting, only to well managed and financially secure coverholders. This ensures that policyholders' interests are properly protected and also protects and further improves Lloyd's reputation in the local territory.

What are the suitability criteria?

In deciding whether to approve a company as a coverholder, Lloyd's will consider the following:

- The coverholder's compliance with appropriate principles of good corporate governance.
- The coverholder's membership of any body or organisation deemed necessary or desirable.
- The quality and adequacy of the coverholder's human resources.
- The quality and adequacy of the coverholder's other resources.
- The quality and adequacy of the coverholder's controls and procedures to manage its business.
- Whether the coverholder is of appropriate reputation and standing.
- Whether any person who controls the coverholder, or is connected or associated, is of appropriate reputation and standing.
- Whether the coverholder has adequate capital and financial resources.
- Whether the coverholder has adequate professional indemnity insurance.
- Whether the coverholder is capable and willing to comply with terms of any undertaking given by Lloyd's.
- Whether the 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.

Beyond considering these suitability criteria for a coverholder, the managing agent will also pay close attention to each of the following areas when deciding whether to issue a binding authority:

- The quality and adequacy of the coverholder's business plan.
- The quality and adequacy of the underwriting function.
- The quality and adequacy of the coverholder's ability to operate a binding authority.
- The quality and adequacy of the claims handling function (where applicable).
- The coverholder's reputation and standing.
- The coverholder's financial standing.
- Financial crime.
- The coverholder's regulatory or licensed status.

(Details for each of these areas can be found in the Code of practice – delegated underwriting – see relevant links and guidance at the end of this chapter).

What is the undertaking?

As part of the approval process Lloyd's requires all coverholders to enter into a standard undertaking.

The main purpose of the undertaking is to set out, in clear terms, the basic expectations Lloyd's has of coverholders when they deal with Lloyd's, their customers and clients, and Lloyd's managing agents and Lloyd's brokers. It also sets out the Lloyd's powers relating to the operation of a binding authority or the ongoing approval of an approved coverholder.

What is covered in the Lloyd's undertaking?

General (conduct and conduct of business)

Why is that important?

The coverholder commits to deal with Lloyd's in good faith and conduct their business appropriately.

Underwriting Authority

Why is that important?

The coverholder commits to only enter into contracts of insurance in accordance with their binding authority agreement and not to sub-delegate their authority.

Administrative arrangements (including insurance monies)

Why is that important?

The coverholder commits to organise and control their affairs responsibly and ensure that any insurance monies are held in accordance with the binding authority agreement and under local jurisdiction requirements.

Dealing with customers

Why is that important?

The coverholder commits to treating its customers fairly and only acting under the terms of the binding authority agreement.

Dealing with the Lloyd's market

Why is that important?

The coverholder commits to deal with Lloyd's market openly and in good faith and to comply with the binding authority agreement.

Compliance with local requirements

Why is that important?

The coverholder commits to comply with all relevant local insurance, fiscal, taxation and regulatory requirements and to notify Lloyd's representative immediately of any failure to do so.

De-registration or immediate suspension

Why is that important?

The coverholder commits to comply with the binding authority agreements provision in relation to expiry, cancellation or termination of the binding authority agreement.

Lloyd's powers

Why is that important?

It commits the coverholder to respond to requests from Lloyd's or its representatives for information or documentation relating to the binding authority agreement.

Miscellaneous (material changes or other significant matters)

Why is that important?

It commits the coverholder to notify Lloyd's representatives of any material changes to the coverholder application or other significant matters which Lloyd's would expect notice of.

Data protection

Why is that important?

The coverholder confirms that they have read and accepted the terms regarding the use of personal and business sensitive data.

Third party contract rights

Why is that important?

The coverholder confirms that they understand that none of provisions of the undertaking are enforceable by anyone other than the Corporation of Lloyd's.

Governing law

Why is that important?

The coverholder confirms their understanding that the undertaking and all matters relating to their application as a coverholder at Lloyd's, shall be subject to the laws of England.

How does the undertaking fit in with the binding authority agreement that the coverholder may have with a managing agent?

Lloyd's is not a party to the binding authority agreement that a coverholder enters into with a managing agent. However, it needs the ability to be able to step in to deal with issues as a last resort, for instance if the relationship between the coverholder and the managing agent completely breaks down. For this reason the undertaking is put in place

Lloyd's interest here is to protect the Lloyd's market, its reputation, its good name, compliance with the terms of its licences worldwide and its reputation for making sure that all valid claims are paid.

What is Lloyd's looking for?

Lloyd's objective is to promote profitable underwriting from its coverholders, which means it is looking for companies made up of professional people with good business plans that are financially sound.

Business Activity

What is Lloyd's looking for?

- That the coverholder organisation and staff adhere to high professional standards to ensure there is no risk to the Lloyd's brand, reputation and licences.
- That the coverholder is competent, proficient and well run.

Business plan

What is Lloyd's looking for?

- The coverholder has to prepare an underwriting plan for any proposed binding authority which will be reviewed by the managing agent to ensure that it fits with their strategy. This should include:
- Source of business
  - Profitability
  - Other contracts of delegation
  - Analysis of market place
  - Basis for selection of risks and pricing
  - Performance against monthly targets
  - How will the binding authority fit within the coverholders other areas of business

Systems and IT

What is Lloyd's looking for?

- That the coverholder has the resources and systems for underwriting administration and for the administration and agreement of claims (where applicable).

Business continuity planning

What is Lloyd's looking for?

- That there is a business continuity plan in place to ensure timely recovery in the event of a disaster and/or supply chain interruption (see Appendix 2 at the end of the chapter).

Regulatory and tax

What is Lloyd's looking for?

- Lloyd's operates in a highly regulated market, where high standards are the expected norm, so Lloyd's in turn expects the same from its coverholders.
- Audits of the coverholder will be conducted by either internal staff or an external auditor at specified periods, coordinated through the Lloyd's broker.
- Coverholders can demonstrate the appropriate principles of good corporate governance.
- Coverholder can demonstrate knowledge of local relevant insurance, fiscal and taxation laws and requirements.

Conflict of interest

What is Lloyd's looking for?

- The coverholder has arrangements in place for identifying, resolving or managing conflicts of interest.

Relevant links and guidance

- To access the dedicated website for coverholders at Lloyd's go to:
  http://www.lloyds.com/coverholder
- To access Lloyd's market intelligence products go to:
  http://www.lloyds.com/market-intelligence
- To access Lloyd's forthcoming events go to:
  http://www.lloyds.com/events
- To access more information on the LLMIT go to:
  http://www.lloyds.com/LLMIT
- To access the suitability criteria within the Code of Practice – Delegated Underwriting go to:
  http://www.lloyds.com/The-Market/Tools-and-Resources/Resources/Code-of-practice-for-delegated-underwriting-new

Appendix 1

DISASTER RECOVERY/BUSINESS CONTINUITY PLAN

As a guide, coverholders should check their own plans, if any exist, against the following:

	• Emergency information sheet: one-page summary of immediate steps to be taken and individuals to be contacted
	• Introduction to the plan: its purpose, author, organisation, scheduled updates
	• Communication plan (or "telephone tree"): names of those to be contacted, including office and home numbers, strategy for contacting them, and communication vehicles that can be used
	• Institution-wide collection priorities: list, with locations and name/phone of collection specialist(s). Note: More detailed priorities -- by department, subject, and/or location -- should be indicated in an appendix to the plan
	• Prevention/protection strategy: 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. Note: Inspection checklists should appear in the appendix, and completed inspection forms should be retained to allow follow-up on reported problems
	• 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
	• Instructions for response and recovery: summary of steps to be taken to salvage materials. It is useful in the body of the plan to summarize the procedures for the most likely incidents, and to include both more detail and a broader range of incidents in the appendix
	• Recovery team members: list of recovery/salvage team members (including work and home phone numbers), with description of their responsibilities, scope of authority, and reporting lines
	• Collection priorities within departments, locations, and/or subject areas: lists, names of collection specialist(s) for each area, and location (perhaps indicated on floor plan)
	• Checklists for prevention/protection inspections: extra copies of forms to be used.
	• Response and recovery instructions: 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., roof/plumbing leaks, flooding, fire, etc.) and covering the various media included in the collection, such as books and journals, manuscripts/records, coated vs. uncoated stock, sound recordings, photographic media, computer/electronic media, etc.
	• Instructions for long-term rehabilitation: procedures for activities including marking and labelling, rebinding and repair, rehousing manuscript/archival materials, sorting and rehousing, smoke/soot removal, cleaning, etc.
	• Record-keeping forms: multiple copies of all forms that may be needed in the salvage operation, including inventory forms, packing lists, requisitions and purchase orders, etc.

	• Detailed building plans: separate sets covering each of the following: storage areas, aisles, entrances and exits, windows; fire extinguishers, fire alarms, sprinklers, smoke/fire detectors, annunciators; shut-offs and master switches for power, water, gas, HVAC (heating, ventilation, and air-conditioning) system, elevator controls, etc.; priority collections (by department)
	• Resource lists: locations and inventory of in-house supplies, sources of commercial supplies/equipment that may be purchased, names of consultants and other specialists, sources of auxiliary/volunteer personnel, etc. For lists of resources outside the institution, it will be useful to provide day and night/weekend contacts and phone numbers, along with some details about the resource such as the type and quantities of materials available, cost and payment terms, and/or special arrangements/contracts that exist
	• Accounting information: description of institutional funds available in a recovery effort and procedures/authorisation for access to them
	• 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
	• Location of keys: information about the location of, and means of access to keys or combinations of special collections, elevators, offices, etc. 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
	• Reading list: location and call number of materials in the collection, and perhaps full text of key works

LLOYD'S

COVERHOLDER TOOLKIT

CHAPTER 4: BINDING AUTHORITY AGREEMENTS | 4

This document gives an introduction to the binding authority agreement (also known as a model contract of delegation), its content and what the coverholder needs to do and know.

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Background

The contract that frames the responsibilities, entitlements and obligations of the parties is the contract of delegation and is referred to as the binding authority agreement. It is the document that the parties use to make sure all contracting parties are clear about their roles and responsibilities.

The binding authority agreement (contract of delegation) is **not** the contract of insurance (the contract of insurance is explained in chapter 5).

Who are the contracting parties?

The two contracting parties are:

- The coverholder
- The managing agent (on behalf of the Lloyd's syndicate)

Why is a contract needed?

An important part of Lloyd's rules relates to the contents of every binding authority contract. Establishing the exact terms and conditions of the binding authority will make sure that as a coverholder you understand exactly what you can do and how you must act as an approved coverholder. What this means is:

- There must always be a contract between the parties setting out how the binding authority will work (i.e. the binding authority agreement).
- There are also a number of sub requirements that must always be clear between the parties and must be included in the agreement.

The managing agent must set out the parameters within which the coverholder is allowed to act.

Agreeing these terms at the outset reduces the possibility of misunderstandings or disputes at a later stage.

It is for this reason that the Lloyd's broker (or managing agent) cannot register a binding authority at Lloyd's until the coverholder has agreed in writing to its terms and conditions.

What are model contracts and non-model contracts?

There are requirements that need to be addressed in any contract of delegation. To make life easier there are model contracts available which are issued by the Lloyd's Market Association (LMA) and meet all these requirements. Equally, the parties may enter into non-model contracts provided they address the requirements of the key areas that must be included in a binding authority agreement.

What binding authority model agreements are there and where can I find them?

Type of model agreement?	Reference number	Document used
For USA	**LMA 3018**	**United States of America non-marine model binding authority agreement**
For Canada	**LMA 3020**	**Canadian non-marine binding authority agreement**
For the rest of the world	**LMA 3019**	**Non-marine binding authority agreement (excluding USA and Canada domiciled coverholders)**
For marine	**LMA 3021**	**Marine binding authority agreement**
Where the Lloyd's broker is also acting as the coverholder	**LMA 3024**	**Lloyd's brokers non-marine binding authority agreement**

These can all be found on www.lloyds.com as binding authority model agreements and each one has its own set of guidance notes (see relevant links and guidance at end of this chapter).

What are the key areas covered by the binding authority agreement?

Prudent underwriting

What is covered?

This states that the coverholder is expected to act always in a prudent and professional way with due care and skill.

Authorised people

What is covered?

This identifies which of the coverholders staff have the authority to enter into contracts of insurance and who has responsibility for overall control of the binding authority.

Duration

What is covered?

This identifies the duration of the contract of delegation will usually last for no more than 12 months and must never exceed 18 months in total.

contd.

Contracts of insurance

What is covered?

This identifies which types and classes of insurance can be entered into by the coverholder under the binding authority.

Selling arrangements

What is covered?

This identifies the local requirement for how the insurance should be sold by a coverholder.

Renewing contracts of insurance

What is covered?

This identifies the local requirements for a coverholder when handling non-renewable contracts of insurance.

Limits on premium income

What is covered?

This identifies the limit applied to the gross premium income allowable for the coverholder.

Collecting premiums

What is covered?

This sets out the coverholders responsibilities and the appropriate service standards required for the collecting of premiums.

Insurance monies

What is covered?

This sets out the requirements for the coverholder to ensure that any insurance monies are held in a separate insurance monies account.

Insurance documents

What is covered?

This sets out the coverholders responsibilities and the service standards required, including format and content, when producing and issuing insurance documents.

Handling claims

What is covered?

This sets out the coverholders responsibilities and the appropriate service standards required for the handling of claims.

Agreeing claims

What is covered?

This identifies if the coverholder has been given authority to agree claims from contracts of insurance entered into under the binding authority agreement.

Claim funds

What is covered?

If a coverholder has been allocated a claims fund this sets out the requirements for holding these funds and defines the circumstances in which they can be used.

Reporting responsibilities

What is covered?

This sets out the requirements for the coverholder to report by type or class, premiums, paid claims, outstanding claims and expenses in respect of contracts of insurance it has entered into.

Sub-contracted claims handling

What is covered?

This sets out the requirements of a coverholder who is allowed to sub-contract responsibility for handling claims and performing certain administrative functions.

Complaints

What is covered?

This sets out the requirements for the coverholder to have appropriate procedures in place for the handling of policyholder complaints.

Lawful instructions

What is covered?

This sets out the requirements of the coverholder in respect of the operation of risks bound under or claims arising from the binding authority agreement.

Cancellation

What is covered?

This sets out the provisions for cancellation of the binding authority agreement.

contd.

Using the Lloyd's Name

What is covered?

This sets out the requirements for the coverholder to follow the Lloyd's guidelines when using the Lloyd's name.

Inspection and ownership of records

What is covered?

This sets out the requirements for the coverholder to keep complete records of all business carried out under the binding authority agreement.

Jurisdiction and choice of law

What is covered?

This informs the coverholder that English law and English jurisdiction will apply, but free to agree otherwise in the binding authority agreement.

What does the binding authority look like?

The model binding authority agreement document is structured as two parts:

- The standard wording* contains all the Lloyd's required content and standard clauses for the binding authority agreement.
- The schedule contains all the variable information (for example, inception date, expiry dates, who has authority to do what, etc) which is completed by the Lloyd's broker and changes each year. It also contains a section for completion if any of the standard wording is replaced with a non-standard wording. It is the schedule that is signed by the two contracting parties.

** The parties can use their own non-standard wording provided it covers the Lloyd's requirements for the binding authority agreement.*

contd.

How is the schedule structured?

The schedule:

- Example of the first page of the schedule

SCHEDULE

This Schedule forms part of and incorporates by reference LMA3019 (the 'Agreement'), which Agreement is identified by the Agreement Number and Unique Market Reference Number stated below. For the purposes of interpretation, the contents of this Schedule shall have meaning only as provided for in the Agreement.

Core details

Agreement Number:	12345
Unique Market Reference Number:	BZ123/12345
The Coverholder:	John Smith Inc.
Address:	Suite 123 123 Main Street Manchester M12 XYZ
The Lloyd's Broker:	ABC Broker
Address:	456 High Street London EC3

AGREEMENT SECTION NUMBER	NARRATIVE
Section 2	PERIOD: From: *1ST January 2014* To: *31st December 2014* Both days inclusive, any time zone
Sub-section 3.1	THE PERSON(S) RESPONSIBLE FOR THE OVERALL OPERATION AND CONTROL:
Sub-section 3.2	THE PERSON(S) AUTHORISED TO BIND INSURANCES: JOHN SMITH

This shows inception and expiry details. The coverholder is not authorised to accept business under the agreement until the lead managing agent has received written acceptance from the coverholder of the terms and conditions of the binding authority.

This identifies the lead person in the coverholder company

(To see the full schedule see **relevant links and guidance** for a link to the templates)

contd.

What is contract certainty?

Contract certainty, which is an expectation of the FSA, provides that there shall be complete and final agreement of all terms between the parties, before the binding authority incepts.

How does contract certainty apply to binding authority agreements?

Before a coverholder is authorised to act on behalf of a managing agent, whether on new binding authorities or renewed ones, the managing agent must have received written confirmation from the coverholder agreeing to the terms and conditions of the binding authority.

The binding authority cannot be registered at Lloyd's until this confirmation has been received and as a coverholder, you must not operate the binding authority until the Lloyd's broker (or managing agent) has confirmed that the binding authority has been registered with Lloyd's. This applies to both new and renewal business.

In order for contract certainty to be achieved, everyone contracted in the document must be clear about their roles and responsibilities and there must be complete and final agreement of all binding authority terms between the coverholder and the managing agent, **before** the inception of the binding authority agreement. This ensures that there can be no misunderstanding between the parties before the binding authority agreement starts.

As part of the binding authority agreement sign off there must be complete and final agreement of the format and scope of terms to be used in insurance documentation, issued under the binding authority and the coverholder must hold or have access to all the insurance documents that are used for the evidence of cover by the time the binding authority agreement starts.

What do I need to do and know?

How does the process of arranging a binding authority agreement work?

- Whilst the binding authority agreement is between the coverholder and the managing agent, the Lloyd's broker is normally responsible for liaising with the coverholder and the managing agent for the binding authority agreement.
- The coverholder will be advised of any wording changes to the binding authority agreement via the Lloyd's broker.
- The contracting parties show their agreement to the binding authority agreement by signing the schedule.

How long does a binding authority agreement last and why is that?

The binding authority agreement lasts for 12 months. The reason is that Lloyd's is not a fixed capital market. Its members change and the syndicates are reconstituted each year. This means that the binding authority agreement will always be for a 12 month period. They can be extended for up to an additional 6 months to a maximum of 18 months.

Relevant links and guidance

Further details for binding authority agreements can be found on www.lloyds.com.

- Examples of binding authority model agreements and guidance notes can be found here: http://www.lloyds.com/The-Market/Tools-and-Resources/Resources/LMA-binding-authority-model-agreements
- Contract certainty code of conduct and detailed guidance on contact certainty can be found here: http://www.lloyds.com/The-Market/Tools-and-Resources/Resources/[illegible]
- The code of practice for delegated underwriting can be found here: http://www.lloyds.com/The-Market/Tools-and-Resources/Resources/Code-of-practice-for-delegated-underwriting-new

LLOYD'S

COVERHOLDER TOOLKIT | 5

CHAPTER 5: CERTIFICATES

This chapter gives an introduction to the format and content of the insurance documentation, and what you need to know.

CONTENTS

Relevant links and guidance

Click to download other chapters

1. Introduction	6. Premium handling	11. Coverholder audit
2. Coverholders at Lloyd's	7. Claims handling	12. Understanding regulatory requirements
3. Lloyd's offer and expectations	8. Lloyd's coverholder reporting standards	13. Lloyd's brand
4. Binding authority agreements	9. Coverholder systems used by Lloyd's	14. The application process
5. Certificates	10. Compliance obligations	15. A-Z Glossary

What is a certificate?

The certificate* sets out the terms of the insurance contract between the policyholder (insured) and the managing agent.

As a coverholder, the format and content of insurance documents you issue must be agreed with the managing agent via the Lloyd's broker.

Where is the content of the certificate defined?

- The binding authority agreement clearly defines what specific information should be included in the insurance documents.
- The binding authority agreement also sets out responsibilities and service standards for producing and issuing insurance documents.

There is flexibility for the coverholder to devise the format for certificates provided they include the Lloyd's and local requirements for insurance documents.

** Lloyd's uses the generic terms of either 'certificates' or 'insurance documents' to refer to the insurance contract.*

contd.

What does a typical certificate look like?

This is the SLC-3 USA version

Front sheet

Lloyd's Certificate

This Insurance is effected with certain Underwriters at Lloyd's, London.

This Certificate is issued in accordance with the limited authorization granted to the Correspondent by certain Underwriters at Lloyd's, London whose syndicate numbers and the proportions underwritten by them can be ascertained from the office of the said Correspondent (such Underwriters being hereinafter called "Underwriters") and in consideration of the premium specified herein, Underwriters hereby bind themselves severally and not jointly, each for his own part and not one for another, their Executors and Administrators.

The Assured is requested to read this Certificate, and if it is not correct, return it immediately to the Correspondent for appropriate alteration.

All inquiries regarding this Certificate should be addressed to the following Correspondent:

SLC-3 (USA) NMA2868 (24/08/2000)

Certificate provisions

CERTIFICATE PROVISIONS

1. **Signature Required.** This Certificate shall not be valid unless signed by the Correspondent on the attached Declaration Page.

2. **Correspondent Not Insurer.** The Correspondent is not an Insurer hereunder and neither is nor shall be liable for any loss or claim whatsoever. The Insurers hereunder are those Underwriters at Lloyd's, London whose syndicate numbers can be ascertained as hereinbefore set forth. As used in this Certificate "Underwriters" shall be deemed to include incorporated as well as unincorporated persons or entities that are Underwriters at Lloyd's, London.

3. **Cancellation.** If this Certificate provides for cancellation and this Certificate is cancelled after the inception date, earned premium must be paid for the time the insurance has been in force.

4. **Service of Suit.** It is agreed that in the event of the failure of Underwriters to pay any amount claimed to be due hereunder, Underwriters, at the request of the Assured, will submit to the jurisdiction of a Court of competent jurisdiction within the United States. Nothing in this Clause constitutes or should be understood to constitute a waiver of Underwriters' rights to commence an action in any Court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another Court as permitted by the laws of the United States or of any State in the United States. It is further agreed that service of process in such suit may be made upon the firm or person named in item 6 of the attached Declaration Page, and that in any suit instituted against any one of them upon this contract, Underwriters will abide by the final decision of such Court or of any Appellate Court in the event of an appeal.

   The above-named are authorized and directed to accept service of process on behalf of Underwriters in any such suit and/or upon request of the Assured to give a written undertaking to the Assured that they will enter a general appearance upon Underwriters' behalf in the event such a suit shall be instituted. Further, pursuant to any statute of any state, territory or district of the United States which makes provision therefor, Underwriters hereby designate the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as their true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Assured or any beneficiary hereunder arising out of this contract of insurance, and hereby designate the above-mentioned as the person to whom the said officer is authorized to mail such process or a true copy thereof.

5. **Assignment.** This Certificate shall not be assigned either in whole or in part without the written consent of the Correspondent endorsed hereon.

6. **Attached Conditions Incorporated.** This Certificate is made and accepted subject to all the provisions, conditions and warranties set forth herein, attached or endorsed, all of which are to be considered as incorporated herein.

7. **Short Rate Cancellation.** If the attached provisions provide for cancellation, the table below will be used to calculate the short rate proportion of the premium when applicable under the terms of cancellation.

Short Rate Cancellation Table For Term of One Year.

This particular certificate template contains some standard clauses whilst others do not. The clauses which are to be attached to the certificate are agreed in the binding authority agreement.

Cancellation table

Days Insurance in Force	Per Cent of one year Premium	Days Insurance in Force	Per Cent of one year Premium	Days Insurance in Force	Per Cent of one year Premium	Days Insurance in Force	Per Cent of one year Premium
1	5%	66 - 69	29%	154 - 156	53%	256 - 260	77%
2	6	70 - 73	30	157 - 160	54	261 - 264	78
3 - 4	7	74 - 76	31	161 - 164	55	265 - 269	79
5 - 6	8	77 - 80	32	165 - 167	56	270 - 273 (9 mos)	80
7 - 8	9	81 - 83	33	168 - 171	57	274 - 278	81
9 - 10	10	84 - 87	34	172 - 175	58	279 - 282	82
11 - 12	11	88 - 91 (3 mos)	35	176 - 178	59	283 - 287	83
13 - 14	12	92 - 94	36	179 - 182 (6 mos)	60	288 - 291	84
15 - 16	13	95 - 98	37	183 - 187	61	292 - 296	85
17 - 18	14	99 - 102	38	188 - 191	62	297 - 301	86
19 - 20	15	103 - 105	39	192 - 196	63	302 - 305 (10 mos)	87
21 - 22	16	106 - 109	40	197 - 200	64	306 - 310	88
23 - 25	17	110 - 113	41	201 - 205	65	311 - 314	89
26 - 29	18	114 - 116	42	206 - 209	66	315 - 319	90
30 - 32 (1 mos)	19	117 - 120	43	210 - 214 (7 mos)	67	320 - 323	91
33 - 36	20	121 - 124 (4 mos)	44	215 - 218	68	324 - 328	92
37 - 40	21	125 - 127	45	219 - 223	69	329 - 332	93
41 - 43	22	128 - 131	46	224 - 228	70	333 - 337 (11 mos)	94
44 - 47	23	132 - 135	47	229 - 232	71	338 - 342	95
48 - 51	24	136 - 138	48	233 - 237	72	343 - 346	96
52 - 54	25	139 - 142	49	238 - 241	73	347 - 351	97
55 - 58	26	143 - 146	50	242 - 246 (8 mos)	74	352 - 355	98
59 - 62 (2 mos)	27	147 - 149	51	247 - 250	75	356 - 360	99
63 - 65	28	150 - 153 (5 mos)	52	251 - 255	76	361 - 365 (12 mos)	100

Rules applicable to insurance with terms less than or more than one year:

A. If insurance has been in force for one year or less, apply the short rate table for annual insurance to the full annual premium determined as for insurance written for a term of one year.

B. If insurance has been in force for more than one year:

1. Determine full annual premium as for insurance written for a term of one year.
2. Deduct such premium from the full insurance premium, and on the remainder calculate the pro rata earned premium on the basis of the ratio of the length of time beyond one year the insurance has been in force to the length of time beyond one year for which the policy was originally written.
3. Add premium produced in accordance with items (1) and (2) to obtain earned premium during full period insurance has been in force.

Declaration page

This Declaration Page is attached to and forms part of Certificate provisions (Form SLC-3 USA NMA2868)

Previous No.	Authority Ref. No.	Certificate No.

1. Name and address of the Assured:

2. Effective from   to
both days at 12:01 a.m. standard time.

3. Insurance is effective with certain UNDERWRITERS AT LLOYD'S, LONDON.
Percentage: %

4.	Amount	Coverage	Rate	Premium

5. Forms attached hereto and special conditions:

6. Service of Suit may be made upon:

7. In the event of a claim, please notify the following:

Dated   by

Correspondent

Different territories have different requirements for certificate formats; coverholders can use their own format, but these must meet the requirements as set out on the table on the next page.

What does Lloyd's require for certificates and why?

Insurance documentation evidencing contracts of insurance and issued by an approved coverholder must include the following information, provisions and terms:

Lloyd's requirements	Why is that important?
Each certificate will be issued using a consistent standardised referencing system to enable individual certificates to be traced back to a particular coverholder.	Each certificate should have a unique number so it can be used as a reference tool by the managing agent and the Lloyd's broker.
The name and address of the coverholder.	This ensures that the policyholder knows who to contact in the event of a claim or to notify of any changes.
All relevant terms and conditions that relate to the contract of insurance entered into by the coverholder including: • Relevant wordings, exclusions and limitations • The maximum period of cover • The limits of liability	This informs the policyholder of what is and what is not insured.
The amount of the premium and any other information relating to the cost of the contract of insurance that is required by applicable laws or requirements to be disclosed.	This tells the policyholder what the insurance will cost them and whether there are any deductions.
Information about the procedures for handling claims arising under the contract of insurance and for the resolution of any complaints.	This tells the policyholder what they need to do in the event of a claim or if they have a complaint.
The law and jurisdiction applicable to the contract of insurance.	This tells the policyholder which laws apply to the insurance contract and which courts would consider any disputes.
Any other provisions required under the laws or requirements of the jurisdiction in which the contract was concluded, where the insured is domiciled or of any other relevant jurisdiction.	This highlights local regulatory requirements.
Every insurance document issued to a policyholder will contain an appropriate several liability clause.	This reflects that each member is on risk for its own share and not on behalf of any other member.
All insurances sold will comply with local regulatory requirements.	Regulators in different countries will often have specific requirements that will apply to the contract and the coverholder must comply with these. This ensures that both Lloyd's and the managing agent are protected against potential regulatory action.
The wording of the certificates is prescribed in the schedule of the binding authority agreement.	This ensures that the certificates will have been seen and agreed by the managing agent.

What is contract certainty and how does it apply to certificates?

Contract certainty means that:

- All certificates must be issued by the coverholder within 30 days of inception of the policy and within 5 working days of inception of the policy for UK retail business.
- Under the binding authority agreement, the coverholder will report to their managing agent that they have met the 30 day (or 5 working days) service level.
- The certificate must contain all terms and conditions relevant to the insurance contract.

How is this monitored?

- The coverholder should record the date the certificate was issued as part of the regular risk reporting to insurers.
- The coverholder audit will also help to assure the managing agent that the coverholder is meeting these contract certainty requirements.

What if there are other companies on a risk?

Where these are Lloyd's syndicates and other insurance companies providing insurance cover for a risk, the coverholder is not allowed to issue a single "Lloyd's certificate" including the insurance companies on it, at the same time. Normally there should be two separate certificates. However, in rare circumstances the managing agent may agree that a coverholder may issue a single certificate reflecting both Lloyd's and non-Lloyd's security.

This is known as a "combined certificate" (or sometimes a "joint certificate").

If the managing agent has agreed, the coverholder can issue a combined certificate and the Lloyd's broker will help the coverholder to ensure they meet the relevant requirements.

Relevant links and guidance

Extract from the Code of practice – delegated underwriting - explaining the requirements for Insurance documents:

7.1 Introduction

The managing agent must be satisfied with the format and content of the insurance documents the coverholder will issue under the binding authority. It is essential that the managing agent clearly sets out the Coverholder's responsibilities and set appropriate service standards relating to producing and issuing insurance documents.

To satisfy Contract Certainty requirements with regard to the timely delivery of insurance documents, managing agents should require each Coverholder to confirm that insurance documents have been issued within required timescales.

The form and frequency of this return from coverholders should reflect the managing agent's assessment of risk, while ensuring that returns are received at least annually from each coverholder.

7.2 Content of insurance documentation

Insurance documentation evidencing contracts of insurance issued by an approved coverholder or by a restricted coverholder must include the following information, provisions and terms:

Table 7.2

(a) the name and address of the coverholder;

(b) all relevant terms and conditions that relate to the contract of insurance entered into by the coverholder including:

(i) relevant wordings, exclusions and limitations;

(ii) the maximum period of cover; and

(iii) the limits of liability.

(c) the amount of the premium and any other information relating to the cost of the contract of insurance that is required by applicable laws or requirements to be disclosed;

(d) information about the procedures for handling claims arising under the contract of insurance and for the resolution of complaints;

(e) the law and jurisdiction applicable to the contract of insurance; and

contd

(f) any other provisions required under the laws or requirements of the jurisdiction in which the contract was concluded, where the insured is domiciled or of any other relevant jurisdiction and any other provisions as required by the relevant representative or agent of the Society.16

The managing agent must also ensure that every insurance document issued to a policyholder contains an appropriate several liability clause. This applies whether or not the binding authority is entered into by one or more syndicates and whether or not there is any non-Lloyd's security on the binding authority.

The certificate issued must have a consistent standardised referencing system whereby individual certificates can be traced back to a particular binding authority. This may be the UMR as per the binder, or another similar referencing system.

In most territories there are requirements governing how the insurance should be sold to policyholders (for example, in the UK there is FSA and ABI guidance). It is essential that the managing agent is satisfied that the insurance to be sold by the coverholder on underwriters' behalf complies with any local regulatory requirements.

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CHAPTER 6: PREMIUM HANDLING

This chapter gives an introduction to what premiums are, the process for handling premiums and what the coverholder needs to know.

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Background

In the coverholder distribution channel, both brokers and coverholders are involved in the processing of premiums, on behalf of the managing agent. This chapter outlines the related process, roles and responsibilities.

What are the coverholder's obligations with premium collection and reporting?

The coverholder is given authority to write risks on behalf of the managing agents via binding authority agreements. Part of the coverholder's contractual obligation is that they will collect premiums on risks written and regularly report and pay the premiums collected to the managing agent via the Lloyd's broker.

In many territories, there are local obligations to pay taxes and to report to tax authorities and regulators. Some of these are dealt with by local Lloyd's offices (see **chapter 3 Lloyd's offering**) and coverholders may also be required to report details of premiums to the Lloyd's local office so that these commitments can be met.

In Canada, Lloyd's provides a system called Lineage which assists with premium handling, claims handling and regulatory reporting (see **chapter 9 Coverholder systems used by Lloyd's** for detail on Lineage).

Lloyd's has an online business tool known as Crystal to provide coverholders with quick and easy access to international regulatory and taxation requirements (see **chapter 12 Understanding regulatory requirements** for further details).

What do premiums consist of?

Gross premium received may include:

- Net premium due to the underwriter for the product
- Retail broker commission (if applicable)
- Coverholder's commission
- Applicable taxes and fees

What are credit control and terms of trade?

Credit control:

- Credit control is the process by which the managing agent monitors that all premiums have been paid on time.

Terms of trade:

- Payment of premiums is made by the coverholder via the Lloyd's broker within the maximum number of days specified in the binding authority agreement.

How does it happen and who is responsible for what?

The binding authority agreement (see **chapter 4 Binding authority agreements**) will be between the coverholder and one or more managing agents. The coverholder may place risks across more than one binding authority agreement which means that premiums are often shared between several managing agents.

The steps for the premium handling process are:

1. The coverholder collects the gross premiums from the policyholders.

2. The coverholder deducts their commission and any fees and taxes that they have had to pay local authorities. In some situations they may be permitted to offset the claims against the premiums. They will then report and pay the remaining premium to the managing agent via the Lloyd's broker.

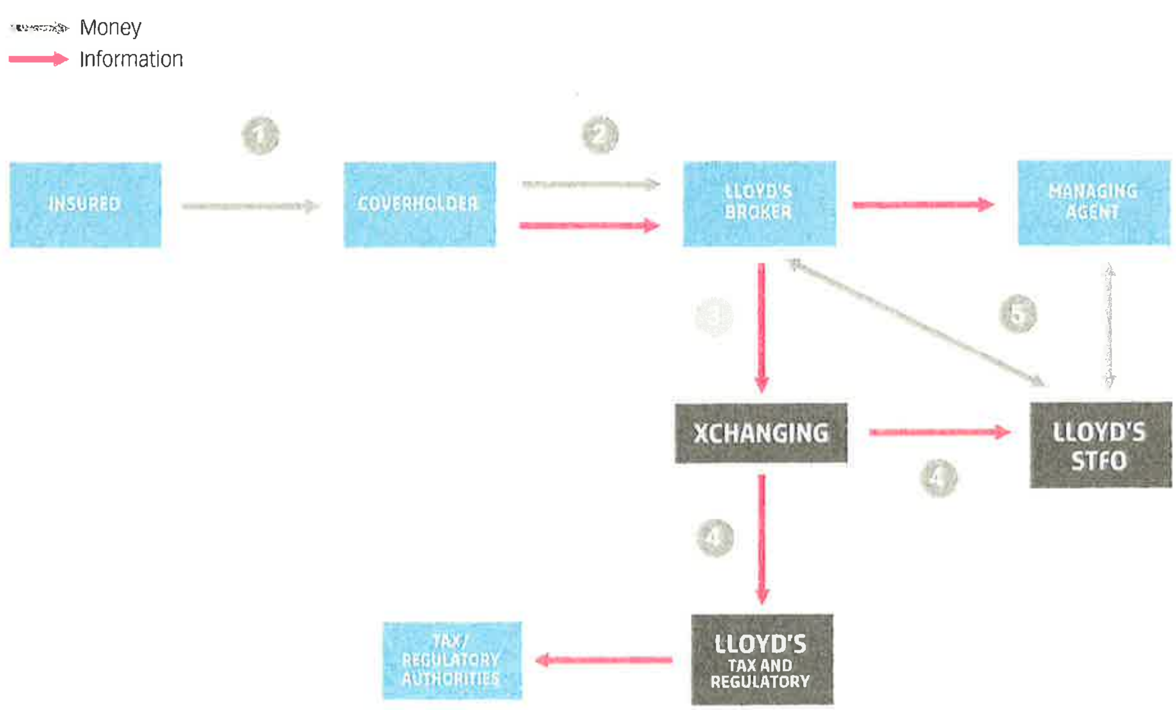
3. The Lloyd's broker produces the London Premium Advice Note (LPAN) and sends to Xchanging Ins-sure Services (XIS).

4. XIS will:

- Perform various checks and controls:
  - *Document checking*
  - *Data entry*
  - *Numbering and policy signing*
- Provide information to Lloyd's to enable tax and regulatory commitments to be met.
- Provide information to Lloyd's central settlement department which is known as the Settlement and Trust Fund Office (STFO) so that the correct premiums can be paid to the market participants.

5. STFO settle payments between the managing agent and the Lloyd's broker.

Premium handling process



What is XIS?

Lloyd's managing agents delegate aspects of their back office process to a third party called Xchanging. Within Xchanging there is:

XIS (Xchanging Ins-sure Services) which manages premium payments and makes sure that premium and reporting information is recorded accurately to enable Lloyd's to fulfil its overall tax and reporting obligations.

What are the coverholder reporting standards?

Lloyd's has introduced standards for coverholders to report premiums. Part of the contractual agreement of the binding authority contract is that the coverholder regularly reports the premiums they have collected to the managing agent.

To make this flow of information consistent Lloyd's has introduced standards for coverholders to report premiums. These standards are mandatory for new coverholders and strongly recommended for all existing coverholders.

What are the benefits of having reporting standards for premium handling?

- A clear statement of the information coverholders need to provide for the whole of the Lloyd's market
- A consistent list of requirements around which processes and systems can be designed
- Standard information flows into the Lloyd's market so long as the required information can be produced
- Freedom to use your own systems and technologies

(A detailed explanation of premium standards and reporting can be found in **chapter 8 Lloyd's coverholder reporting standards**).

Relevant links and guidance

- More information on taxation and regulation for each territory can be found at:
  http://www.lloyds.com/Crystal

- More information on the standards for premium handling can be found at:
  http://www.lloyds.com/coverholderreportingstandards

LLOYD'S

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CHAPTER 7: CLAIMS HANDLING

This chapter gives an introduction into claims handling at Lloyd's, what you need to know as a coverholder authorised to handle claims and the appointments process for Third Party Administrators (TPAs) and loss adjusters.

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Background

Lloyd's seeks to strengthen its reputation for the fast and fair handling of claims by providing excellent customer service in responding promptly and professionally to all claims made against any Lloyd's policy, worldwide. This chapter outlines the claims handling process relevant to the coverholder distribution channel.

What role does a coverholder have with claims handling?

A coverholder may be given claims handling authority. This will be agreed in the binding authority agreement; typically this agreement will prescribe the circumstances when a claim has to be referred back to the managing agent.

What are the requirements for a coverholder to obtain claims handling authority?

The coverholder has to confirm (via the application process):

- Whether they are applying for claims handling authority on behalf of a managing agent.
- Which entity will be handling claims and details of any potential TPA that may be used.
- That they will have a clear segregation of duties between those who are underwriting and those who are claims handling to prevent conflicts of interest:

Examples of potential conflict:

- When the coverholder acts as a broker and an agent
- Where an individual underwrites risks and agrees claims
- Where one individual has the authority to both settle claims and issue payments

- That there is an internal audit and peer review process for claims handling.
- There is also an expectation that coverholders will know, based on local conduct of business requirements, what is required from under local regulations and imposed on Insurers when handling claims.

In summary the coverholder needs to have the skills, resources and processes to service a claims function to the Lloyd's required standards. This function will include customer service, assessment of likely exposure to each claim, and the ability to manage information in relation to all claims notified throughout the life cycle of the claims.

What are the different levels of claims handling authority?

The managing agent will work with the coverholder and set a level of authority that they think is appropriate to allow the coverholder to handle claims, dependent on the level of expertise and resources available at the coverholder:

- Full authority - the coverholder has unlimited claim handling authority.
- Part authority – the coverholder has a claim handling authority up to a defined limit (or restrictions within such) and then refers all notified claims that are notified that have a potential value above this limit to the TPA or managing agent to handle.
- No authority – all claims are sent to the TPA or managing agent to handle.

What other parties could be involved when setting up the claims handling authority?

At the point of setting the binding authority agreement up (refer to **chapter 4 – Binding authority agreements**), there will be a number of other parties that will be linked to the claims process:

THIRD PARTY ADMINISTRATOR (TPA)

- **What is a TPA?**
  - A company that specialises in handling insurance claims

- **What do they do?**
  - TPAs are contracted by the managing agent to handle claims on behalf of managing agents and coverholders, often at the request or on the recommendation of the coverholder.

- **If there is a TPA, how does that fit into the binding authority agreement?**
  - This will depend on the level of claims handling authority given to the coverholder and agreed in the binding authority agreement in the claims handling procedure.
  - The role of the TPA should be specified in the binding authority.

- **Why use a TPA?**
  - The coverholder may not have the skills, resources or appetite to provide a claim handling service, particularly if there is likely to be a high volume of claims.
  - There should be a contract between the managing agent and the TPA.

- **What is there available for TPAs?**
  - For TPAs there is a model contract available (see link at the end of the chapter) or a standard agreement utilised by the managing agent will be provided.

(It is important that the roles of the coverholder, TPA and managing agent in the claims process are all clearly set out so that they are able to work effectively together).

LOSS ADJUSTER

- **What is a loss adjuster?**
  - A person who is appointed to investigate the circumstances of a claim under an insurance policy and advise on the amount that is payable to the policyholder (claimant) in order to settle that claim.

- **How do they fit in?**
  - When a claim needs further investigation and an assessment of the loss confirmed then loss adjusters are used to inspect, work out cause of loss and provide estimated loss figures.

- **How do they tend to be used?**
  - This will depend on who has claims handling authority and also on the terms of the binding authority agreement or TPA agreement, which will specify whether the coverholder or TPA has authority to appoint loss adjusters on behalf of the managing agent.

- **Is there a list of Lloyd's approved loss adjusters?**
  - No, Lloyd's would expect the loss adjusters appointed by a coverholder or TPA to be appointed by the coverholder or TPA's own panel of loss adjusters.

The terms on which loss adjusters and any other service providers are appointed should be documented in the binding authority and should include service levels to achieve the Lloyd's objective that claims are responded to promptly, efficiently and fairly and valid claims are paid without delay.

Who appoints these other parties?

The managing agent is directly responsible for claims handling and ultimately it is their decision as to who is involved in the claims handling process and what their role will be.

It is important that, if the coverholder will not have claims handling authority, a TPA is appointed, and a TPA agreement is in place before inception of the binding authority agreement to prevent any delays in handling future claims.

How does the claims process work?

The policyholder notifies the retail broker of the claim.

The retail broker submits the claim to the coverholder or the TPA if nominated for receipt of notification.

Where the claim is within its claim handling authority, the coverholder will (subject to validation) investigate, authorise and pay claim to the policyholder, and submit details of the claim to the managing agent through their Lloyd's broker or the TPA if nominated as such.

If the claim is outside the coverholder's agreed authorisation limit then they will submit the claim to the managing agent via their Lloyd's broker, TPA or loss adjuster, as outlined in the claims agreement established at commencement of the contract.

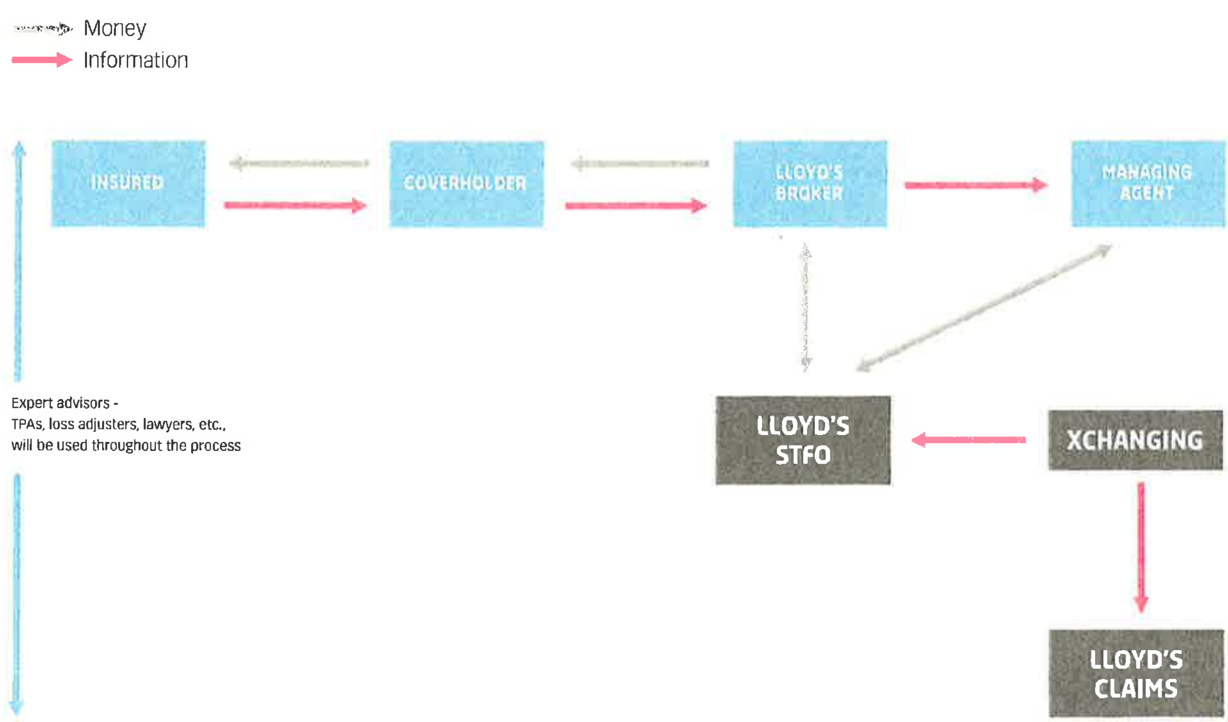
The managing agent will communicate to the coverholder their instructions for dealing with the claim, for example to investigate further or to pay. If the managing agent authorises payment to the Lloyd's broker, payment will be made via Xchanging Claims Services (XCS) and the Lloyd's central settlement system.

The coverholder or TPA submits the details of the claim to the Lloyd's broker (either at the end of a specified period, for example, monthly, on a report or bordereau or as and when the claim is notified).

Expert advisers (loss adjusters or lawyers) may be used to advise on the claim throughout the process.

The binding authority agreement will contain the identity of who is handling the claims, and the limit of the coverholder's claims handling authority, if any. If the coverholder does have claims handling authority the binding authority will also contain the frequency of claim reporting required by the managing agent.

Claims handling process



When does a claim need to be referred back to the managing agent?

Managing agents set a limit on any authority delegated to coverholders that have claims handling authority. This limit will be based partly on the value of the claim and partly on its complexity. For example a managing agent is likely to want to deal with any claim that is the subject of a complaint or litigation.

In some jurisdictions there are very strict regulatory timeframes imposed for responding to and handling claims. A coverholder with claims handling authority is expected to be familiar with all such local regulatory requirements and it is important these requirements are met and appropriate service levels are in place with any third parties that will impact on the ability of the coverholder to meet the requirements.

What are the implications of not doing this?

The risk of failing to meet regulatory requirements includes damage to the reputation of Lloyd's, loss of Lloyd's trading licence, involvement in protracted and costly court proceedings, and exposure to substantial fines or claims for extra contractual damages.

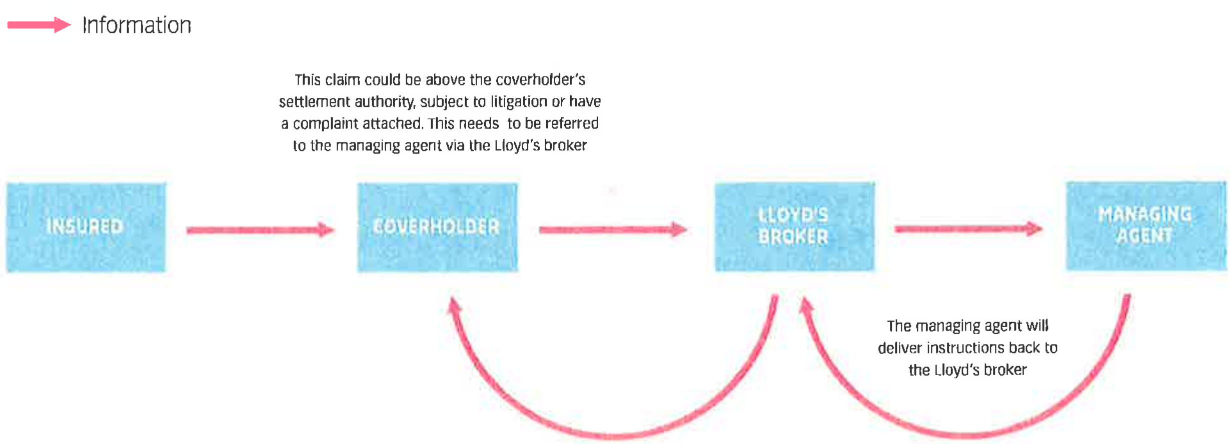
What is the process if a claim is declined?

A coverholder very rarely has authority to decline a claim without referring the matter back to the managing agent.

What should a coverholder do if a policyholder is not happy with the way their claim is being handled?

It is usually a provision in binding authority agreements that any complaints should be referred as soon as possible to the managing agent (via the Lloyd's broker). There is a formal Lloyd's complaints procedure which the policyholder is likely to be asked to use.

Referring a claim



What is the process for a coverholder to refer claims and issues back to the managing agent?

Claims are referred back to the managing agent normally via the Lloyd's broker.

Which parties are responsible for payment of large claims?

Coverholder – Payment of claims up to agreed limit (identified within the binding authority agreement)

Lead managing agent – Authorisation and payment of those claims above coverholder limit up to a maximum of £100,000 (or currency equivalent)

Lead managing agent and second managing agent – Authorisation payment of those claims above £100,000 (or currency equivalent)

How does the money move and where does it go?

1. The coverholder or appointed claim specialist checks if the claim is valid.
2. The coverholder then identifies if the claim is within their authority to pay or whether it needs to be referred onto the managing agent via the Lloyd's broker.
3. If the claim is within the coverholder's authority and valid, the coverholder pays the claim to the policyholder and then it would go through the reporting process back through the Lloyd's broker to the managing agent to report that the claim was paid.
4. The coverholder would then use that report to collect the claim from the managing agents as reimbursement.
5. If the claim is not within the coverholder's authority, then the coverholder will pass on the documentation for the claim to the Lloyd's broker who will obtain agreement from the managing agent.
6. Once the claim has been agreed by the managing agent, the coverholder will be advised that the claim can be paid. The coverholder would pay the claim and then use the bordereau (reporting) process [1] to claim from the managing agents as reimbursement.
7. The coverholder will deliver a premium bordereau (report) and a paid claims bordereau (report) and ask for funds. In some cases they will net the balances to either remit funds to the managing agent (via the Lloyd's broker) or ask for funds.

1 See chapter 9 – Reporting and reporting standards

How long does it take once the coverholder has passed the claim to the managing agent?

Once notified to the managing agent and dependent on the circumstances, the claim should be resolved promptly.

How does the money get paid to the coverholder?

Payment is through the claims reporting process via the Lloyd's broker (see **chapter 8 – Lloyd's coverholder reporting standards**).

If there is a problem where does the coverholder need to go?

The coverholder's first point of contact should be with the Lloyd's broker who will assist with resolving issues and queries and will speak to the managing agents on their behalf if there is a claims query.

How quickly can a coverholder expect to be advised if a claim is not covered?

Managing agents have a set of principles and standards for claims management, one of which states that they will provide an appropriate level of service to brokers or policyholders in the circumstances of the claim, including communication of actions and progress where appropriate.

If the coverholder wants to find out where the claim is, what should they do?

The coverholder should ask the Lloyd's broker.

Claims funds

What is it?

There are occasions when a coverholder may need to have a claims fund, for example if a coverholder was operating in a territory where there is likely to be a large number of claims because of a catastrophe. The managing agent may provide the coverholder with a pool of money from which they can fund the claims.

Why do we have it?

It enables the coverholder to settle within authority and low value claims quicker and faster and reduce the impact of the catastrophe on policyholders.

What arrangements must a coverholder have in place for a claims fund?

The claims fund is managing agents' money and therefore it has to be accounted for properly. The coverholder or TPA, where held by them, must arrange for the money to be held in a separate segregated trust account. The coverholder should also ask the relevant bank to acknowledge the status of the account.

There should be regular statements provided to the managing agent of the balance in the claims fund. The frequency should be specified in the binding authority.

What are the coverholder reporting standards?

Lloyd's has introduced standards for coverholders to report claims.

These standards are mandatory for new coverholders and strongly recommended for existing coverholders.

What are the benefits of having reporting standards for claims handling?

- A clear statement of the information coverholders need to provide for the whole of the Lloyd's market.
- A consistent list of requirements around which processes and systems can be designed.
- Standard information flows into the Lloyd's market so long as the required information can be produced.
- Freedom to use their own systems and technologies.

Detailed explanation of the claims standard and reporting can be found in **chapter 8 – Lloyd's coverholder reporting standards.**

Relevant links and guidance

- The model contract for the TPA can be found in the downloads section of:
  http://www.lloyds.com/The-Market/Tools-and-Resources/Resources/Code-of-practice-for-delegated-underwriting-new

LLOYD'S

COVERHOLDER TOOLKIT | 8

CHAPTER 8: LLOYD'S COVERHOLDER REPORTING STANDARDS

This chapter gives an introduction into the information that is required from the coverholder and the standards Lloyd's has developed for reporting that information. Lloyd's coverholder reporting standards are explained, together with their benefits and how they should be implemented.

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Background

Coverholders are required to submit information about risks and premiums and about the claims that they handle to Lloyd's managing agents with whom they have a binding authority contract. The binding authority contract will include details of reporting requirements.

What information is required from coverholders?

The following information is typically required:

- Details of written risks and premiums
- Details of paid premium transactions
- Details of any claims managed by the coverholder
- Details of US property risks

The following are examples of the sort of information needed:

- Policy details – for example: inception date, expiry date, the name of the insured
- Risk information – for example, the class of business and tax and regulatory information
- Details of the premium that is being paid to the managing agent – for example a monthly instalment of premium, additional premium for a change to the policy, return of premium because of a cancellation
- Loss details – for example, the location, cause of loss, the date of the loss
- Status of the claim – for example is the claim paid or outstanding? Has it been referred to the managing agent?

Note - the coverholder need only report on the claims they have managed.

Full details of the information needed are given in the coverholder reporting standards user guide.

Why is the information needed?

Information is needed from the coverholder to ensure that:

- The right money can be moved between the different parties
- Lloyd's and the managing agent can meet their tax and regulatory reporting responsibilities
- Premiums can be monitored
- Claims can be managed
- Accumulated risk exposures can be managed, for example. if there is an earthquake or flood

How should the coverholder submit the information?

The coverholder may submit the information in a variety of ways:

- By sending a monthly spreadsheet known as a bordereau to the Lloyd's broker. Lloyd's has produced recommended spreadsheet templates, but coverholders are not obliged to use these.
- By using a system that has been provided by the Lloyd's broker or managing agent.
- By sending an XML message which includes all the information needed to the Lloyd's broker.

The coverholder should discuss the method they wish to use with the Lloyd's broker and managing agent.

contd.

Does the coverholder have any additional requirements to report to Lloyd's local offices?

The Lloyd's offices

Reporting requirements
In some territories, there is a requirement for the coverholder to report information to the local Lloyd's office. This information is usually required to enable Lloyd's to meet its local regulatory responsibilities. Such reporting may include information on risks and claims. Coverholders may also be required to provide certificates or other documents. It is expected that these requirements would be discussed and agreed by the coverholder with the local Lloyd's office.

Canada

Reporting requirements
In Canada Lloyd's provides a system called Lineage which covers Lloyd's local office information requirements (see **chapter 9 – Coverholder systems used by Lloyd's**).

Local tax authorities

Reporting requirements
In some jurisdictions there is a requirement for the local coverholder to report and pay taxes direct to authorities. Coverholders are expected to work with their local tax authorities, agree any such reporting and make all tax payments due on time.

Background – Lloyd's coverholder reporting standards

In order to make the flow of risk, premium and claim information consistent between coverholders and the Lloyd's market; a series of standards has been introduced for reporting core risk information, paid premium transactions, claims and US property risk exposures.

What are Lloyd's coverholder reporting standards?

- **Premium reporting standards**
  The premium reporting standards include core information about the risk, information about paid premium transactions and class specific underwriting information.

- **Claims reporting standards**
  The claim reporting standards include information about the loss and status of the claim.

  Lloyd's premium and claims reporting standards include information which is mandatory and must be provided in all circumstances, and other information which is conditional, dependent on the circumstances of the risk; for example the location of the risk or the location of the insured might be a consideration.

- **US property risks exposure reporting (ACORD ER3001)**
  - The standard includes the information required by managing agents to enable them to manage US property exposures.
  - The standard asks the coverholder to report details of risks in force at the time the report is produced. The standard is very comprehensive and coverholders will not necessarily be expected to include all the information listed. The coverholder needs to agree the information they will provide with their Lloyd's broker and managing agent.
  - The standard was originally designed for US property business but is also being used in Canada and can be used as a basis for reporting on property risks elsewhere in the world.

New versions of the standards

Lloyd's will periodically release new versions of the standards to include tax and regulatory changes. The most current version of the standards can be found here:-
www.lloyds.com/coverholderreportingstandards

What are the benefits of Lloyd's coverholder reporting standards?

- A clear statement of the information coverholders need to provide for the whole of the Lloyd's market.
- A consistent list of requirements around which processes and systems can be designed.
- Standard information flows.
- Freedom to use your chosen systems and technologies.

Next steps

Lloyd's coverholder reporting standards apply to all territories and classes of business and have been mandatory from 1st April 2011 for all new coverholders approved by Lloyd's. It is recommended that new coverholders work with their Lloyd's brokers and managing agents to ensure that the information they submit meets the standards.

Existing coverholders and TPAs are strongly encouraged to use the standards. It is recommended that existing coverholders and TPAs compare the information they currently submit to what is requested by the standards and work with their Lloyd's brokers and managing agents to agree a plan to meet the standards.

Relevant links and guidance

To access the coverholder reporting standards user guide, go to:
http://www.lloyds.com/coverholderreportingstandards

LLOYD'S

COVERHOLDER TOOLKIT

CHAPTER 14: THE APPLICATION PROCESS FOR NEW AND EXISTING COVERHOLDERS

14

This chapter gives an introduction to the application process for new and existing coverholders. It explains what it is, why it's required and what the coverholder needs to know.

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Background

Lloyd's coverholders require Lloyd's approval, including Lloyd's brokers who act as Lloyd's coverholders. Lloyd's approval will typically permit a coverholder to accept risks and issue documentation on behalf of managing agents in the coverholder's own territory or other authorised regions.

Why does Lloyd's approve coverholders?

Lloyd's approves coverholders because Lloyd's want managing agents to delegate underwriting only to well managed and financially secure coverholders that:

- Are competent to manage business on behalf of managing agents.
- Have a good reputation.
- Comply with local regulatory and Lloyd's requirements.

This ensures that policyholders' interests are properly protected and also protects and enhances Lloyd's reputation in the local territory.

Who is involved in the application process?

All applications must be sponsored by a managing agent and normally also by a Lloyd's broker. All coverholder applications are handled by the Delegated Authorities team at Lloyd's.

The applicant coverholder is encouraged to participate in the approval process by entering information onto Atlas, the Lloyd's system that is used to manage coverholder business. This may also be done on the coverholder's behalf by the Lloyd's broker.

Once Lloyd's receives the following they will review the application:

- A fully completed application on Atlas.
- Supporting letter which details background, assessment and rationale for the application.
- Evidence of due diligence which confirms checks made and issues addressed on the applicant.

Local Lloyd's country representatives known as Country Managers are usually involved in the review of the application process and may also carry out a visit to the offices of the applicant coverholder.

How does Atlas fit into the application process?

Atlas is an online system that holds coverholder information from the application stage and throughout the time the coverholder has approved status. Atlas is used to make the application to be a Lloyd's coverholder.

Information on Atlas can only be accessed by the coverholder themselves and those Lloyd's brokers and managing agents which have a registered interest in the coverholder and the Lloyd's Delegated Authorities team.

(For further details on Atlas see **chapter 9 – Coverholder systems used by Lloyd's**).

What does the application form look like?

The online application form on Atlas consists of a series of screens broken down into specific topics:

Company information

What is required?

Details of the company name, registration, address and contacts

Business strategy

What is required?

Details of business and business plan.

Ownership of the company

What is required?

Details of company ownership.

Key staff

What is required?

Details of principal personnel.

Reputation and standing

What is required?

Details of reputation, character and financial standing.

Lloyd's and binding authority experience

What is required?

Details of previous binding authorities and/or conducting business with Lloyd's.

Professional indemnity

What is required?

Details of the professional indemnity cover.

Financials

What is required?

Details of Financial Accounts.

Bank accounts

What is required?

Details of bank accounts including segregated accounts.

Systems and controls

What is required?

Details of the systems and processes for underwriting management.

Business continuity plan

What is required?

Details of BCP.

Licenses

What is required?

Details of licences, permits authorisations required.

Underwriting and claims

What is required?

Details of underwriting authority sought.

Class of business

What is required?

Details of classes of business required.

Regions

What is required?

Details of regional extensions applied for.

Each topic requires data to be entered into the appropriate fields. Each screen must be completed before the application is submitted to the managing agent, who then carries out its due diligence.

It is very important that an applicant coverholder discloses all relevant information during the application process.

An important part of the application form is the "Coverholder Undertaking" that all applicants for coverholder approval are asked to sign. This Undertaking sets out in clear terms what Lloyd's expects of coverholders when they deal with customers, clients, Lloyd's brokers, managing agents and Lloyd's (for full details on the Coverholder Undertaking - see **chapter 3 - Lloyd's offer**)

Lloyd's provides additional guidance on completing the application form process. A link to the user guide and an example copy of the application form can be found in relevant links and guidance at the end of this chapter.

What is the Lloyd's application process?

Overall the application process consists of the provision of required data and supporting information by the coverholder (or its Lloyd's broker) followed by a period of due diligence by the sponsoring managing agent.

In assessing a new coverholder the managing agent needs to consider the suitability criteria for a Lloyd's approved coverholder, including:

- The suitability of individuals authorised to enter into contracts of insurance, issue insurance documents and agree claims.
- The company's reputation and standing.
- The company's ability to operate a binding authority.
- The company's financial standing.
- The company's underwriting plan for any proposed binding authority which should be reviewed to ensure that it fits with the managing agent's strategy.
- The ability of the company to comply with all relevant insurance, fiscal and taxation laws and requirements in the jurisdiction in which it is domiciled, trades or provides services under the binding authority.

Once the managing agent who is sponsoring the coverholder is satisfied with the application, they submit it to Lloyd's Delegated Authorities team via Atlas. The Delegated Authorities team reviews the information thoroughly, before making their decision as to whether the coverholder is suitable to be approved by Lloyd's. This usually involves clarifying information and seeking further supporting background information where queries arise.

How long does the application take?

Once Lloyd's has received a complete application on Atlas, the service standard for approval of the application for a new coverholder is 5 weeks.

How does the coverholder know when they are approved?

The Lloyd's broker will advise the applicant of progress throughout the approval process and also when they have been approved, following confirmation from the Lloyd's Delegated Authority Team. The approval from Lloyd's may specify which countries, classes and other parameters that the coverholder is allowed to operate in.

Applicant coverholders can also check on Atlas, at any time, on the status of their application within the approval process.

Once approved all approved coverholders are listed on the Lloyd's Coverholder Directory - see:
www.lloyds.com/The-Market/Directories/Coverholders

How does an existing coverholder add an office?

Lloyd's coverholder approval is made at branch level. Any office that requires delegated authority under a binding authority agreement must be approved by Lloyd's before it starts binding risks. To add an office there is a specific application form which is available on Atlas and must be completed on Atlas.

How does an approved coverholder add to existing permissions?

Any amendments to the existing permissions of a coverholder need to be considered and approved by the Lloyd's Delegated Authority team. The coverholder should submit any requested changes via Atlas.

When considering extending a coverholder's approval of additional classes of business, key considerations are:

- Background including the reason for requesting the additional class.
- Capabilities of the coverholder writing the class of business concerned.
- The extent of the underwriting authority to be delegated.

When considering extending a coverholder's approval for regional extensions, key considerations are:

- Background including the reason for requesting the regional extension and how it will be done
- Details of licence or regulatory permission
- Compliance capabilities for the region

It helps to discuss these with the Lloyd's broker initially, so that any required supporting information can be provided. However, Atlas does contain clear guidance online as to information requirements.

How does a coverholder notify Lloyd's of any significant changes?

Lloyd's expects the coverholder to advise Lloyd's and their Lloyd's broker of any material changes to its circumstances, such as ownership, company name, changes to key personnel or any regulatory matters affecting the coverholder and also any other material matters that may impact on the coverholder's ongoing suitability to be a Lloyd's approved coverholder.

Significant changes are notified to Lloyd's via Atlas.

Who can approve any changes to the coverholder information within Atlas?

New coverholder application

Who approves?

Requires the approval of the sponsoring managing agent and Lloyd's Delegated Authorities team.

Extending coverholder existing permissions (e.g. Classes of Business, Regions, Underwriting and Claims)

Who approves?

Submitted by the Lloyd's broker and requires a sponsoring managing agent and approval from Lloyd's Delegated Authorities team.

Changing coverholder details (e.g. Company information, Key staff, Ownership)

Who approves?

Notified by the coverholder or Lloyd's broker and requires approval by Lloyd's Delegated Authorities team.

Updating coverholder core information (e.g. professional indemnity, bank accounts, financial information and licences)

Who approves?

Uploaded directly by the coverholder or Lloyd's broker.

Relevant links and guidance

For further details on the application process, application form and guidance notes, go to:
http://www.lloyds.com/The-Market/Tools-and-Resources/Resources/The-coverholder-application-process

To access the Suitability Criteria within the Code of Practice – Delegated Underwriting go to:
http://www.lloyds.com/The-Market/Tools-and-Resources/Resources/Code-of-practice-for-delegated-underwriting-new

For information on background on Atlas, getting started, coverholder application form, login access and latest news go to:
www.lloyds.com/Atlas

Also see **chapter 9 –Coverholder systems used by Lloyd's.**

Contact details for the Delegated Authorities team are:

- Atlas helpdesk: +44 (0)20 7327 6276
- Fax: +44 (0)20 7327 6688
- Email: coverholders@lloyds.com

To access the Lloyd's coverholder directory, go to:
www.lloyds.com/The-Market/Directories/Coverholders

LLOYD'S

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CHAPTER 15: A-Z GLOSSARY

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Glossary

- **Atlas** - Atlas is an online system for the storage of information about coverholders. It is structured as a collection of individual coverholder records and files.

- **Annual compliance** - For a company to prove their ongoing suitability to be an approved Lloyd's coverholder, an annual compliance must be completed on Atlas. The annual compliance process allows the coverholder to confirm and update the basic information that Lloyd's managing agents use when completing their due diligence before entering into or renewing a binding authority.

- **Audit scope** - The audit consists of a suitably qualified person attending the coverholder's office and undertaking an assessment of the coverholders adherence to the terms and conditions of the binding authority as well as the suitability of the coverholder's business systems, governance and controls over the risks.

- **Binding authority** - 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.

- **Bordereau** - Often a report used to present information from the coverholder to the managing agent on risks bound, premiums to be paid and claims to be collected.

- **Bribery Act** - The UK Bribery Act came into force 1 July 2011 and provides for four offences: bribing a person, being bribed, bribery of a foreign public official and failure of a corporate entity to prevent bribery being committed on its behalf. This last offence includes failure of commercial organisations to prevent bribery undertaken by an 'associated person' and the only defence which exists is for a commercial organisation to demonstrate that it has "adequate procedures" in place to prevent bribery or corruption.

- **Code of Practice (Delegated Underwriting)** - An introduction to delegating underwriting including the relevant terminology and guidance as to the standards Lloyd's expects of managing agents.

- **Conflict of interest** - Generally means any circumstance which may give rise (or could be perceived to give rise) to a situation which may pose a risk of damage to the interests of the managing agent or a policyholder, or which may compromise the objectivity of the coverholder's performance of its obligations.

- **Contract certainty** - expectation of the UK regulator, that for Certificates – it refers to the situation where the terms of an insurance or reinsurance contract are agreed before the inception date of the contract rather than being negotiated afterwards. For the binding agreement - it provides that there shall be complete and final agreement of all terms between the parties, before the binding authority incepts.

- **Corporation of Lloyd's** - The executive of the Council of Lloyd's, Lloyd's Franchise Board and their respective committees. The Corporation does not underwrite insurance or reinsurance itself but provides the licences and other facilities that enable business to be underwritten on a worldwide basis by managing agents acting on behalf of members.

- **Country manager** - The Lloyd's Country Manager represents and promotes Lloyd's across 25 countries and has excellent local market relationships in the countries they are based in.

- **Coverholder** - A company or partnership authorised by a managing agent to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate managed by it, in accordance with the terms of a binding authority.

- **Crystal** - A database providing comprehensive information for each of the territories in which Lloyd's is licensed and basic information for those territories where Lloyd's is not licensed.

- **Crystal Assist** - Crystal Assist is an online tutorial for Lloyd's market participants. It provides an introduction to the regulatory and fiscal information held within Crystal and demonstrates how it can be used when placing/writing international insurance business.

- **Delegated Authorities Team** - Lloyd's department responsible for the approval and oversight of Lloyd's coverholders.
- **DOPRINT** - Is a web service designed by Lloyd's that enable Lloyd's coverholders to print insurance documentation in Italy.
- **Franchise** - The Lloyd's brand, worldwide trading licences, financial strength rating, mutual security and other support services that enable members to underwrite insurance and reinsurance at Lloyd's on a global basis.
- **FSA** - Financial Services Authority – Set up by the UK government as an independent body responsible for regulating the financial services industry within the UK.
- **International sanctions** - Sanctions are implemented for a number of reasons, for example to bring about a change in another country's or individual's activities or policies; particularly if breaches of international law or human rights have occurred, or democracy is seen to be under threat.
- **Lineage** - Lineage is an online system for reporting and transacting Canadian Dollar Binding authority business.
- **LLMIT** - The Lloyd's and London Market Introductory Test is a multiple choice examination for those who are new to the London Insurance Market, or for those who want to gain a wider understanding of how the market operates.
- **Lloyd's broker** - A firm that is listed in the register of Lloyd's brokers maintained under the Intermediaries Byelaw which is permitted to broke insurance business at Lloyd's. A syndicate can generally only accept insurance business that has been through a Lloyd's broker.
- **London market / Lloyd's market** - This term may refer to the place where business is transacted between managing agents and Lloyd's brokers, or to the syndicates that provide cover at Lloyd's.
- **Lloyd's Market Association (LMA)** - The LMA provides representation, information and technical services to underwriting businesses in the Lloyd's market.
- **Lloyd's members** - A person (either individual or corporate) admitted to membership of the Society.
- **Loss adjuster** - A person who is appointed to investigate the circumstances of a claim under an insurance policy and to advise on the amount that is payable to the policyholder in order to settle that claim. Loss adjusters are generally appointed by underwriters but sometimes policyholders appoint their own loss adjusters to negotiate claims on their behalf.
- **Managing agent** - An underwriting agent which has permission from Lloyd's to manage a syndicate and carry on underwriting and other functions for a member.
- **MOCHA** - Is a web-based system designed by Lloyd's to assist Lloyd's coverholders in the issuance of Lloyd's insurance documentation in Italy.
- **Money laundering** - Is defined as the process used by criminals to disguise the origin and ownership of the proceeds of their criminal activities so it appears that monies in their possession have come from a legitimate sources. This assists criminals to avoid prosecution, conviction and confiscation of their proceeds of crime.
- **Policyholder** - The person who is insured under a contract of insurance.
- **Retail broker** - The person who arranges transactions between the buyer (policyholder) and the seller (Coverholder).
- **Scheme Canada** - Lineage process which provides a clearing service which nets off premiums and claims, pays taxes and then moves the monies to the appropriate eligible settlement parties.
- **Standards (reporting)** - Standards for coverholder reporting on risks, premiums and claims on monthly bordereau to managing agents with whom they have a binding authority agreement.

- **STFO** - Lloyd's Settlement and Trust Fund Operations is responsible for a variety of business-critical functions, most crucially the organization's settlement function, which settles insurance transaction monies between managing agents and Lloyd's brokers.

- **Syndicates** - A member or group of members underwriting insurance business at Lloyd's through the agency of a managing agent or a substitute agent to which a syndicate number is assigned by the Council. Except where it is expressly otherwise provided the several groups of members to which in different years a particular syndicate number is assigned by or under the authority of the Council shall be treated as the same syndicate, notwithstanding that they may not comprise the same members with the same individual participations.

- **Third Party Administrator (TPA)** - a company that specialises in handling insurance claims.

- **Xchanging** - An outsource provider of policy, premium and claims processing services to the Lloyd's market and others. These services are delivered via its operating subsidiaries, Ins-Sure Services and Xchanging claims services.

- **XIS** - Xchanging Ins-sure Services (Part of Xchanging) which manages premium payments and makes sure that premium and reporting information is recorded accurately to enable Lloyd's to fulfil its overall tax and reporting obligations.

United States of America

Non-Marine

Binding Authority Agreement

LMA3018 (Direct)
(20/07/2006)

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UNITED STATES OF AMERICA
NON-MARINE
BINDING AUTHORITY AGREEMENT

This Binding Authority Agreement, the Schedule attached hereto and any endorsements hereon ('the Agreement') is made by and between the Underwriting Members of Lloyd's whose syndicate numbers and proportions are shown in the attached table ('the Underwriters'), and the Coverholder whose name and address is stated in the Schedule.

Whereas the Coverholder has sought authority to bind insurances on behalf of the Underwriters and has agreed to co-operate with and assist the Underwriters, their representatives in all matters pertaining to the Agreement, it is mutually understood and agreed between the Underwriters and the Coverholder as follows:-

FORMATION, SCOPE AND TERMINATION

SECTION 1

EFFECTIVE DATE

1.1 The Agreement shall take effect only when the Underwriters have acknowledged in writing receipt of a copy of the Agreement signed by the Coverholder;

1.2 Any amendment to the Agreement shall be evidenced in writing and endorsed hereon. All amendments shall be acknowledged in writing by the Coverholder;

1.3 Any renewal of the Agreement shall take effect only when the Underwriters have received from the Coverholder signed written acceptance of the terms of the renewal.

SECTION 2

PERIOD

Subject to Section 1, the Agreement is effective during the period stated in the Schedule unless cancelled or terminated in accordance with Sections 4.2 and 16.

SECTION 3

PERSONS RESPONSIBLE FOR OPERATION AND CONTROL

3.1 Notwithstanding 3.2 and 3.3, the person(s) named in 3.1 of the Schedule is(are) responsible for the overall operation and control of the Agreement;

3.2 The person(s) authorized to bind insurances is(are) named in 3.2 of the Schedule;

3.3 The person(s) with overall responsibility for the issuance of documents evidencing insurances bound is(are) named in 3.3 of the Schedule;

3.4 The person(s) authorized to exercise any claims authority granted by the Agreement is(are) named in 3.4 of the Schedule.

SECTION 4

GRANT OF AUTHORITY

4.1 The Underwriters hereby authorize the Coverholder to bind insurances and amendments thereto for the Underwriters' account;

4.2 The Coverholder shall comply with any direction, condition or requirement, including any direction to cancel or terminate the Agreement, given by Lloyd's to the Underwriters;

4.3 In respect of every insurance bound, the Coverholder has a duty to:-

4.3.1 issue certificates of insurance, endorsements and such other documents evidencing cover as may be agreed in writing by the Underwriters;

4.3.2 collect and process premiums and return premiums on the Underwriters' behalf;

4.3.3 handle claims and/or settle claims if authorized;

4.4 The grant of authority under 4.1 and 4.3 shall be in accordance with the terms and conditions contained in the Agreement;

4.5 Nothing in the Agreement shall be construed as creating the relationship of employer and employee between the Underwriters and the Coverholder.

SECTION 5

DELEGATION OF AUTHORITY

5.1 The grant of authority to bind insurances and issue documents evidencing insurances bound shall not be delegated by the Coverholder to any other person, firm, company or any branch office;

5.2 If any authority(ies) or responsibility(ies) other than those described under 5.1 is(are) delegated to a third party(ies), any such delegation must be in writing and the Underwriters must be a party to the written contract of delegation to the third party(ies).

SECTION 6

AUTHORIZED CLASS(ES) OF BUSINESS AND COVERAGE(S)

The Coverholder is authorized to bind insurances only of the class(es) and for the coverage(s) stated in the Schedule, subject to the exclusions stated in Section 7.

SECTION 7

EXCLUDED CLASS(ES) OF BUSINESS AND COVERAGE(S)

The following shall not be bound:-

7.1 war and civil war risks;

7.2 nuclear risks;

7.3 risks of financial guarantee, financial default, bankruptcy or insolvency;

7.4 master policies issued to a group, association, organisation or club for the benefit of its members under a group or mass marketed program except in accordance with the U.S. General Cover Conditions attached hereto;

7.5 any other class(es) of business or coverage(s) as stated in the Schedule.

SECTION 8

PERIOD OF INSURANCES BOUND

8.1 No insurance shall be bound for a period greater than that stated in the Schedule;

8.2 Every insurance bound shall commence during the period of the Agreement;

8.3 No insurance shall be bound further in advance of its inception date than the number of days stated in the Schedule;

8.4 Each insurance bound shall run to its contractual expiry date, unless cancelled or terminated in accordance with its individual cancellation or termination provisions;

8.5 In the event of cancellation or termination of any insurance bound the Coverholder shall comply with any applicable law relating to the cancellation or termination of such insurance and to the return of premium, commission, fees, charges and taxes.

SECTION 9

MAXIMUM LIMITS OF LIABILITY/SUMS INSURED

The Coverholder is authorized to bind insurances only up to the limits of liability or sums insured stated in the Schedule.

SECTION 10

GROSS PREMIUM INCOME LIMIT

10.1 The Coverholder shall not bind total gross premium income in excess of the limit stated in the Schedule;

10.2 The Coverholder shall monitor the total gross premium income bound and notify the Underwriters immediately if it becomes apparent that the total gross premium income is likely to exceed the percentage of the limit stated in the Schedule;

10.3 For the purposes of this Section, gross premium income shall be defined as all premiums, additional premiums less return premiums (before any deductions).

SECTION 11

TERRITORIAL LIMITATIONS

Subject to the US General Cover Conditions attached hereto:-

11.1 The Coverholder is authorized to bind insurances only for risks located in the territory(ies) stated in the Schedule;

11.2 The Coverholder is authorized to bind insurances only for insureds domiciled in the territory(ies) stated in the Schedule;

11.3 The territorial limits of each insurance bound shall not be greater than those stated in the Schedule.

SECTION 12

AGGREGATES

12.1 The Coverholder shall record and monitor the aggregate exposures as defined in the Schedule;

12.2 The Coverholder shall advise the Underwriters of the aggregate exposures at the intervals stated in the Schedule;

12.3 The Coverholder shall not bind total aggregate limits in excess of the amounts stated in the Schedule.

SECTION 13

PREMIUMS, DEDUCTIBLES AND EXCESSES FOR INSURANCES BOUND

13.1 All gross premiums for insurances bound shall be calculated as stated in the Schedule;

13.2 The Coverholder shall incorporate Deductibles and/or Excesses in insurances bound as stated in the Schedule.

SECTION 14

OTHER CONDITIONS AND/OR REQUIREMENTS RELATING TO THE OPERATION OF THE AGREEMENT

14.1 The Coverholder shall comply with the US General Cover Conditions incorporated by reference and attached hereto and any other conditions and/or requirements as stated in the Schedule or endorsed hereon;

14.2 The Coverholder shall comply with any amendments to the Agreement as stated in the Schedule or endorsed hereon.

SECTION 15

AUTOMATIC RENEWAL OF INSURANCES BOUND

15.1 The Coverholder shall maintain adequate records to identify and monitor, within any applicable time frames, all insurances bound which provide for or are subject to law granting automatic renewal or any extension of the period of any insurance bound;

15.2 The Coverholder shall review each insurance bound prior to its individual renewal date in order to offer renewal terms or to decline the renewal. This process shall be carried out in compliance with any applicable automatic renewal law;

15.3 The Coverholder is responsible for the necessary, timely and proper issuance of any notice of non-renewal for individual insurances bound to prevent their automatic renewal;

15.4 In the event of expiry, cancellation or termination of the Agreement, the Coverholder shall provide the Underwriters with details of the following as soon as possible:-

15.4.1 all insurances in force at the date of expiry or the effective date of cancellation or termination of the Agreement, which are or may be subject to automatic renewal;

15.4.2 all insurances for which terms have been offered preceding the date of expiry or the effective date of cancellation or termination of the Agreement, which could be bound and may be subject to automatic renewal;

15.4.3 all insurances where automatic renewal cannot be or has not been prevented;

15.5 After the initial report by the Coverholder, the Coverholder shall continue to provide details of all such insurances on a monthly basis.

SECTION 16

CANCELLATION AND TERMINATION

16.1 Without prejudice to the terms of 16.2 and 16.3, the Agreement may be cancelled at any time by either party giving to the other not less than:-

16.1.1 the number of days notice in writing as stated in the Schedule; or

16.1.2 the minimum notice period, if any, required by State law;

Any such notice will be effective from the date given, and the Agreement will terminate upon the expiration of the period of such notice;

16.2 Unless the Underwriters specifically agree to the contrary in writing, the Agreement will be automatically terminated in the event the Coverholder shall:-

16.2.1 become the subject of voluntary or involuntary rehabilitation or liquidation proceedings;

16.2.2 become the subject of an action in bankruptcy;

16.2.3 make or propose any composition with its creditors or make any assignment for the benefit of its creditors or otherwise acknowledge its insolvency;

16.2.4 have imposed by a court of competent jurisdiction the appointment of an administrator or administrative receiver or equivalent office holder;

16.2.5 have a receiver or equivalent office holder appointed for the whole or any part of the Coverholder's business;

16.2.6 be merged with, acquired by or otherwise absorbed by any individual, corporation or other business entity or organisation of any kind;

16.2.7 being a partnership, be dissolved by agreement between the partners or by operation of law;

16.2.8 have any relevant license or authority to conduct business suspended, removed or impaired by any order or decree of any judicial or regulatory authority having jurisdiction over the Coverholder;

16.3 The Underwriters and Coverholder specifically agree that the Underwriters reserve the right to cancel the Agreement at any time with immediate effect upon the occurrence of any of the events set out in 16.3.1 to 16.3.2 inclusive;

The Underwriters shall give written notice of such cancellation and the Agreement shall terminate at the date specified in the notice;

16.3.1 The Coverholder fails to comply with any of the provisions of the Agreement;

16.3.2 Any past or present director, officer, partner or employee of the Coverholder or any individual named in the Agreement is convicted of or charged with any criminal offence involving fraud or dishonesty or any other criminal offence that may materially affect the operation of the Agreement;

16.4 The Coverholder shall inform the Underwriters immediately upon becoming aware of the occurrence of any of the events set out in 16.2, 16.3.1 and 16.3.2. Any failure by the Coverholder so to advise shall not affect the automatic termination of the Agreement under 16.2, or the Underwriters' rights under 16.3;

16.5 The receiving party shall immediately acknowledge in writing receipt of any notice of cancellation or termination given by the other party. However, failure to acknowledge receipt of any notice will not prejudice the effect of the notice of cancellation or termination;

16.6 Notice of cancellation or termination shall be sent by prepaid registered mail to the address(es) of the parties as stated in the Schedule. Proof of mailing shall be sufficient proof of notice having been served.

SECTION 17

EFFECT OF EXPIRY, CANCELLATION OR TERMINATION

17.1 At any time during any period of notice of cancellation or termination of the Agreement, the Coverholder shall have no authority to extend insurances already bound without the prior written consent of the Underwriters;

17.2 With effect from the date of expiry, cancellation or termination of the Agreement:-

17.2.1 except as stated in 17.3 below, the Coverholder shall have no authority to offer terms, bind insurances, renew, cancel, extend, amend or alter in any way insurances already bound, without the prior written consent of the Underwriters. Such written consent shall only be effective where it is not in contravention of local law;

17.2.2 the Coverholder remains under a duty to perform its obligations in accordance with the terms and conditions of the Agreement until every insurance has expired or has otherwise been cancelled or terminated and, in respect of claims arising under such insurances, until all such claims have been paid or otherwise resolved unless otherwise instructed by the Underwriters;

17.2.3 the Coverholder shall deliver promptly to the Underwriters or their appointed representative all unused certificates of insurance, other documents and other unused materials which it possesses in connection with the Agreement and ensure that any electronic storage and/or production of such documents ceases;

17.2.4 the Underwriters' rights to receive monies due in respect of insurances bound shall not be affected and the Coverholder agrees not to challenge these rights; provided always that, if the Underwriters at their written option collect monies from insurance brokers or other insurance intermediaries, insureds or others from whom monies may be due in respect of insurances bound, the Underwriters shall give the Coverholder credit for such sums;

17.3 With effect from the date of expiry of the Agreement, unless the Underwriters instruct the Coverholder otherwise, the Coverholder shall retain the authority under the Agreement to cancel, amend or alter insurances already bound until every such insurance has expired or has otherwise been cancelled or terminated and, in respect of claims arising under such insurances, until all such claims have been paid or otherwise resolved.

DOCUMENTATION FOR INSURANCES BOUND

SECTION 18

APPLICATIONS OR PROPOSAL FORMS

Any specific application or proposal form to be used by the Coverholder shall be agreed by the Underwriters prior to use and if appropriate identified in the Schedule.

SECTION 19

DOCUMENTS ISSUED

19.1 The Coverholder shall issue a certificate in respect of every insurance bound and an endorsement in respect of every change made to each insurance bound:-

19.1.1 Certificates issued shall be uniquely numbered and shall include the Agreement Number stated in the Schedule;

19.1.2 Endorsements, if any, shall be uniquely and consecutively numbered for the certificate concerned;

19.2 Each certificate and endorsement issued shall bear the signature of one or more of the persons named in 3.1, 3.2 or 3.3 of the Schedule;

19.3 If local law or the insured requires that an insurance is evidenced by a policy instead of a certificate, the Coverholder shall request a policy and such policy shall be issued by the Underwriters and any certificate issued shall be void;

19.4 Immediately upon binding the Coverholder shall issue evidence of insurance to the insured or the insured's agent. Certificates and endorsements shall be issued as soon as practicable, but in any event, no later than 30 days after inception, or in accordance with local law;

19.5 The Coverholder shall retain a copy of all documents issued;

19.6 Unless otherwise stated in the Schedule or upon request, the Coverholder shall send a copy of all such documents issued to the Underwriters.

SECTION 20

FORMAT AND APPROVAL OF CERTIFICATES

The format of any certificate or renewal certificate to be issued by the Coverholder shall be as stated in the Schedule and agreed by the Underwriters prior to use.

SECTION 21

WORDINGS, CONDITIONS, CLAUSES, ENDORSEMENTS, WARRANTIES AND EXCLUSIONS APPLICABLE TO INSURANCES BOUND

21.1 All insurances bound shall be subject to the wordings, conditions, clauses, endorsements, warranties and exclusions as stated in the Schedule;

21.2 Each certificate must contain the full text of each wording, condition, clause, endorsement, warranty, exclusion and any other document(s) forming part of the individual contract of insurance. Furthermore all included wordings, conditions, clauses, endorsements, warranties, exclusions and other documents shall be identified and itemised in or upon the certificate;

21.3 Each certificate must contain a statement to the effect that all inquiries and disputes should be addressed to the Coverholder whose name and address must be clearly stated on the certificate;

21.4 Each certificate shall contain a Several Liability Notice as stated in the Schedule;

21.5 Each certificate must identify the law and jurisdiction applicable to the contract of insurance, the period of insurance, the limits of liability or sums insured, the amount of the premium and any other applicable provisions that may be required under relevant local laws and regulations.

SECTION 22

JOINT CERTIFICATES

No Joint Certificate shall be issued under the Agreement except in accordance with the U.S. General Cover Conditions attached hereto.

SECTION 23

SECURITY OF DOCUMENTS

All stocks of certificates of insurance, endorsements and other documents and any electronic method of storing and/or producing documentation shall be kept secure at all times. If requested by the Underwriters, the Coverholder shall promptly return or destroy all unused documents relating to the Agreement and ensure that any electronic storage and/or production of such documents ceases.

SETTLEMENT OF CLAIMS FOR INSURANCES BOUND

SECTION 24

PROCEDURE FOR THE HANDLING AND SETTLEMENT OF CLAIMS

The procedure for the handling and settlement of claims shall be as stated in the Schedule.

ACCOUNTING AND COMMISSIONS

SECTION 25

BORDEREAUX, ACCOUNTS AND SETTLEMENTS

25.1 All premiums, paid claims, outstanding claims and expenses relating to insurances bound shall be allocated and declared to the Agreement;

25.2 The Coverholder shall prepare premium bordereaux at the interval stated in the Schedule until every insurance bound has expired or has otherwise been cancelled or terminated. For each surplus lines insurance bound such premium bordereaux shall include the name of the surplus lines broker including the surplus lines license number and the state of filing;

25.3 If the Coverholder is responsible for the production of claims bordereaux as indicated in the Schedule, the Coverholder shall prepare claims bordereaux for paid claims and outstanding claims at the claims bordereaux interval stated in the Schedule until every insurance bound has expired or has otherwise been cancelled or terminated and all such claims have been paid or otherwise resolved;

25.4 The Coverholder shall produce premium bordereaux and, if due from the Coverholder, claims bordereaux in a format(s) agreed in advance by the Underwriters;

25.5 All bordereaux due from the Coverholder shall be sent to the Underwriters within the number of days of the end of such bordereaux interval(s), as stated in the Schedule. In the event of there being no activity during a particular bordereau interval, the Coverholder shall advise the Underwriters accordingly within the number of days of the end of such bordereau interval as stated in the Schedule;

25.6 If the Coverholder is responsible for the production of claims bordereaux, the Coverholder shall also produce and render to the Underwriters a summary account showing:-

25.6.1 the premium declared on the bordereau, gross and net of commission, taxes and any other deductions;

25.6.2 the amount declared on the paid claims bordereau;

25.7 Settlements shall be remitted to the Underwriters within the maximum number of days of the end of each such bordereaux interval(s) as stated in the Schedule;

25.8 Any fees or charges that are agreed to be reimbursed by the Underwriters to the Coverholder as a deduction from the premium shall be deducted from the premium bordereaux. Such deductions are as stated in the Schedule.

SECTION 26

COMMISSION(S)

26.1 The Coverholder's Commission shall be as stated in the Schedule;

26.2 Contingent or Profit Commission shall be as stated in the Schedule.

SECTION 27

REFUND OF UNEARNED COMMISSIONS

The Coverholder shall refund to the Underwriters commissions on all cancelled insurances and return premiums, at the same rates at which such commissions were originally allowed to the Coverholder.

GENERAL REQUIREMENTS

SECTION 28

INTERNET TRADING

28.1 The Coverholder shall not offer, negotiate, accept, decline, process or otherwise transact insurances to be bound via any internet site, portal or similar system except as may be agreed by the Underwriters;

28.2 The Coverholder shall provide, without any restriction or limitation, the Underwriters or their representatives with any details or information pertaining to such systems which the Underwriters or their representatives may at any time request. The Coverholder shall allow the Underwriters or their representatives to inspect such systems at any time;

28.3 The Underwriters have the right to require the Coverholder to cease offering, negotiating, accepting, declining, processing or otherwise transacting insurances to be bound via such systems in whole or in part.

SECTION 29

FEES AND CHARGES

Policy, service and other fees and charges applied by the Coverholder must not breach any local law(s) or regulatory practice(s) which may be in force at the time. All such policy, service and other fees and charges must be shown separately and not concealed from the insured or the Underwriters.

SECTION 30

EXPENSES

The Coverholder shall bear and pay all charges and expenses incurred by the Coverholder in the operation of the Agreement except as agreed under 25.8.

SECTION 31

LICENSES, TAXES AND FILINGS

31.1 It is the responsibility of the Coverholder to ensure that it maintains all appropriate licenses and to ensure that all business is placed through a properly licensed broker in respect of insurances bound;

31.2 It is the responsibility of the Coverholder alone to ensure collection and disbursement of any applicable excess/surplus lines and other applicable premium tax(es) and refunds of such tax(es) due to and from the appropriate authorities and insureds in respect of insurances bound;

31.3 All excess/surplus lines and other applicable premium tax(es) must be shown separately on the certificate issued to the insured and not concealed from the insured or the Underwriters.

SECTION 32

PREMIUM FINANCE CONTRACTS

32.1 The Coverholder shall not enter into or permit others to enter into premium finance arrangements in the name of and on behalf of the Underwriters;

32.2 If the Coverholder or any other party enter into a premium finance arrangement in respect of premium(s) for insurance(s) bound, the arrangement(s) shall be solely in the name and entirely for the account of the Coverholder or such other party and the Underwriters will not accept responsibility for any such arrangement(s).

SECTION 33

SEPARATE BANK ACCOUNTS

All monies received by the Coverholder, from or on behalf of the Underwriters, shall be received by the Coverholder in a fiduciary capacity on behalf of the Underwriters and shall be:-

33.1 deposited immediately into an account separate from the Coverholder's general or operating account for onward transmission for the purposes set out in 33.3 and shall not be otherwise held or retained;

33.2 identified in the Coverholder's book of account, separately from other funds similarly held by the Coverholder for other insurers;

33.3 used solely for the purpose of settling accounts with the Underwriters or the payment of the commissions, premium refunds, claims or any other transaction authorized by the Underwriters.

SECTION 34

RECORDS AND STATISTICAL INFORMATION REQUIRED BY THE UNDERWRITERS

34.1 The Coverholder shall establish and maintain complete records relating to all insurances bound. Such records shall be and shall remain the property of the Underwriters;

34.2 The Coverholder shall prepare statistical information as stated in the Schedule at the interval(s) stated in the Schedule until every insurance bound has expired or has otherwise been cancelled or terminated. The Coverholder shall send such information to the Underwriters within the maximum number of days of the end of each interval as stated in the Schedule;

34.3 The Underwriters or their representatives shall have the right at any time, without any restriction or limitation, to inspect and audit any records and statistical information of the Coverholder relating to insurances bound and to the operation of the Agreement and shall have the right to make copies or extracts of any such records;

34.4 The Underwriters reserve the right for themselves or their representatives to access the premises of the Coverholder at any time for the purpose of carrying out any inspection or audit;

34.5 The Coverholder shall retain all records relating to all insurances bound for a minimum of 5 years or for such longer period as may be required by applicable State law.

SECTION 35

ADVERTISING

35.1 The Coverholder may only refer (or permit any other party to refer) to Lloyd's in any publicity, letterheads, directories or advertising material, whether in print, electronic or any other form or media, in accordance with the rules and guidelines issued by Lloyd's and with the agreement of the Underwriters and subject to all local insurance regulatory requirements. Details of the current rules and guidelines are available to the Coverholder from the Underwriters or from Lloyd's;

35.2 The Coverholder must agree with the Underwriters any specific marketing material to be used in relation to the insurances to be bound.

SECTION 36

INDEMNITY INSURANCE

36.1 The Coverholder shall maintain, for the duration of the Agreement, indemnity insurance acceptable to the Underwriters providing coverage in connection with the operation of the Agreement for any liability arising out of negligent acts, errors or omissions by the Coverholder including any past or present director, officer, partner or employee of the Coverholder;

36.2 The Coverholder shall provide the Underwriters or their representatives with evidence acceptable to the Underwriters confirming such insurance if requested;

36.3 The Coverholder shall inform the Underwriters of any changes to the indemnity insurances providing coverage in connection with the operation of the Agreement.

JURISDICTION AND DISPUTES

SECTION 37

COMPLIANCE WITH THE LAW

Without prejudice to any of the rights or obligations otherwise specified in the Agreement, the Coverholder shall comply with all applicable laws for the legal and proper handling of all insurances bound or intended to be bound, and shall use its best endeavours to ensure that any other parties with whom it deals in carrying out its duties under the Agreement comply with such laws where applicable.

SECTION 38

COMPLAINTS OR PROCEEDINGS

The Coverholder shall notify the Underwriters immediately upon becoming aware of any matter arising out of the operation of or in connection with the Agreement which has resulted or could result in a complaint to any regulatory authority or gives rise to litigation or proceedings against the Underwriters, or the Coverholder.

SECTION 39

JURISDICTION AND GOVERNING LAW

The Coverholder and the Underwriters agree that all matters in difference between them arising under, out of or in connection with the Agreement, shall be submitted to the Federal District Court sitting in the State specified in the Schedule. In the event that the Federal District Court determines it does not have jurisdiction over any such matter, the parties expressly agree that such matter shall be submitted to the appropriate State Court in the State specified in the Schedule. All matters shall be governed by and construed in accordance with the substantive laws of the State specified in the Schedule.

SECTION 40

ENFORCEABILITY CLAUSE

In the event any portion of the Agreement is found to be invalid or unenforceable, the remainder shall remain in full force and effect.

SECTION 41

SEVERAL LIABILITY

The liability of the Underwriters is several and not joint and is limited solely to the extent of their individual proportions as shown in the attached table. The Underwriters are not responsible for the subscription of any co-subscribing underwriter or any other insurer or co-insurer who for any reason does not satisfy all or part of its obligations.

SECTION 42

GENERAL INTERPRETATION

In the Agreement, words importing the singular shall include the plural and vice versa. Headings are included for ease of reference and convenience only and shall not affect the interpretation of the Agreement. References to "law" include references to any applicable, common, or customary law and any treaty, constitution, statute, legislation, decree, rule, regulation, judgement, order, writ, injunction, determination, award or other legislative or administrative measure or judicial or arbitral decision in any jurisdiction which has the force of law or compliance with which is in accordance with the general practice of such jurisdiction. References to "State" includes any state of the United States, the District of Columbia, Puerto Rico, Guam, and the United States Virgin Islands.

LMA3018 (Direct)

20/07/2006

SCHEDULE

This Schedule forms part of and incorporates by reference LMA3018 and LMA5058 (the 'Agreement'), which Agreement is identified by the Agreement Number and Unique Market Reference Number stated below. For the purposes of interpretation, the contents of this Schedule shall have meaning only as provided for in the Agreement.

Agreement Number:	
Unique Market Reference Number:	
The Coverholder: Address:	
The Underwriters: Address:	

AGREEMENT SECTION NUMBER	**NARRATIVE**
Section 2	**PERIOD:** From: *{Inception Date}* To: *{Expiry Date}* Both days inclusive, any time zone
Sub-section 3.1	**THE PERSON(S) RESPONSIBLE FOR THE OVERALL OPERATION AND CONTROL:**
Sub-section 3.2	**THE PERSON(S) AUTHORIZED TO BIND INSURANCES:**
Sub-section 3.3	**THE PERSON(S) WITH OVERALL RESPONSIBILITY FOR THE ISSUANCE OF DOCUMENTS EVIDENCING INSURANCES BOUND:**

Sub-section 3.4	**THE PERSON(S) AUTHORIZED TO EXERCISE ANY CLAIMS AUTHORITY:**
Section 6	**AUTHORIZED CLASS(ES) OF BUSINESS AND COVERAGE(S):** (subject to the terms, conditions, exclusions and limitations of the Agreement)
Sub-section 7.5	**OTHER EXCLUDED CLASS(ES) OF BUSINESS OR COVERAGE(S):** (and subject always to the provisions of the US General Cover Conditions)
Sub-section 8.1	**PERIOD OF INSURANCES BOUND:** { } months **MAXIMUM PERIOD OF INSURANCES BOUND:** { } months including odd time
Sub-section 8.3	**MAXIMUM ADVANCE PERIOD FOR INCEPTION DATES:** { } days
Section 9	**MAXIMUM LIMITS OF LIABILITY/SUMS INSURED:**
Sub-section 10.1	**GROSS PREMIUM INCOME LIMIT:**
Sub-section 10.2	**NOTIFIABLE PERCENTAGE OF THE LIMIT NOT TO EXCEED:**
Sub-section 11.1	**RISKS LOCATED IN:**
Sub-section 11.2	**INSUREDS DOMICILED IN:**
Sub-section 11.3	**TERRITORIAL LIMITS:**
Sub-section 12.1	**BASIS OF MONITORING AGGREGATE EXPOSURES:**
Sub-section 12.2	**REPORTING INTERVALS:**
Sub-section 12.3	**MAXIMUM TOTAL AGGREGATE LIMIT(S):**
Sub-section 13.1	**BASIS FOR THE CALCULATION OF GROSS PREMIUMS:**

Sub-section 3.4	**THE PERSON(S) AUTHORIZED TO EXERCISE ANY CLAIMS AUTHORITY:**
Section 6	**AUTHORIZED CLASS(ES) OF BUSINESS AND COVERAGE(S):** (subject to the terms, conditions, exclusions and limitations of the Agreement)
Sub-section 7.5	**OTHER EXCLUDED CLASS(ES) OF BUSINESS OR COVERAGE(S):** (and subject always to the provisions of the US General Cover Conditions)
Sub-section 8.1	**PERIOD OF INSURANCES BOUND:** { } months **MAXIMUM PERIOD OF INSURANCES BOUND:** { } months including odd time
Sub-section 8.3	**MAXIMUM ADVANCE PERIOD FOR INCEPTION DATES:** { } days
Section 9	**MAXIMUM LIMITS OF LIABILITY/SUMS INSURED:**
Sub-section 10.1 **Sub-section 10.2**	**GROSS PREMIUM INCOME LIMIT:** **NOTIFIABLE PERCENTAGE OF THE LIMIT NOT TO EXCEED:**
Sub-section 11.1 **Sub-section 11.2** **Sub-section 11.3**	**RISKS LOCATED IN:** **INSUREDS DOMICILED IN:** **TERRITORIAL LIMITS:**
Sub-section 12.1 **Sub-section 12.2** **Sub-section 12.3**	**BASIS OF MONITORING AGGREGATE EXPOSURES:** **REPORTING INTERVALS:** **MAXIMUM TOTAL AGGREGATE LIMIT(S):**
Sub-section 13.1	**BASIS FOR THE CALCULATION OF GROSS PREMIUMS:**

Sub-section 26.2	**CONTINGENT OR PROFIT COMMISSION:**
Sub-section 34.2	**STATISTICAL INFORMATION REQUIRED BY THE UNDERWRITERS:** **REPORTING INTERVAL(S):** *monthly / quarterly **(Delete as applicable)* **MAXIMUM NUMBER OF DAYS:** { } days
Section 39	**JURISDICTION AND GOVERNING LAW STATE:**

Agreement Number:	
Unique Market Reference Number:	

SIGNATURE OF THE COVERHOLDER

In accordance with Section 1 of LMA3018, the Agreement is signed on behalf of the Coverholder as acceptance of the terms and conditions of the Agreement inclusive of any attachments identified in the Schedule.

Signed and accepted on behalf of the Coverholder

Name and Position of Signatory

Date of Signature

ACKNOWLEDGEMENT OF THE UNDERWRITERS

Signed and accepted on behalf of the Underwriters

Date of acknowledgement

LMA3018 (Direct)

20/07/2006

GLOSSARY

Glossary of insurance related terms used by Lloyd's and market participants. The following definitions are intended for general guidance. They do not override or qualify any definition that appears in any Lloyd's byelaw or regulation, in any contract or in any other document.

Ab initio

Latin for from the beginning.

Accident year

The calendar or accounting year in which a loss occurs.

Accreditation

The process by which a firm may obtain registration as a Lloyd's broker.

Accredited Lloyd's broker

A Lloyd's broker.

Active Underwriter

The individual at the underwriting box with principal authority to accept insurance and reinsurance risk on behalf of the members of a syndicate.

Actual Total Loss

This term derives from section 57 of the Marine Insurance Act 1906 (MIA) and refers to situations in marine insurance where:(a) the subject matter of the insurance is destroyed (b) the subject matter of the insurance is so damaged as to be no longer be capable of still being described as the thing insured; or (c) the insured is deprived of the subject matter of the insurance forever. Section 58 of the MIA adds that where there is no news of a missing ship then after a reasonable period an actual loss may be presumed.

Adjuster

See loss adjuster.

Adjustment premium

An additional or return premium that is payable in relation to a deposit premium depending on the performance of an insurance or reinsurance contract.

Agent

Someone who acts for another person (the principal) usually for reward. There are four main classes of agent that may be involved in the underwriting of insurance and reinsurance risks by Lloyd's underwriters: members' agents, managing agents, brokers and coverholders. In addition, there are Lloyd's agents which are independent businesses that provide surveys and loss adjusting services to managing agents, insurance companies and others on a worldwide basis. Further in some situations one underwriter may act as the agent of other underwriters (see general underwriters' agreement).

Aggregate

Total (limit of indemnity, premium, retention etc).

Aggregate excess of loss reinsurance

A form of excess of loss reinsurance in which the excess and the limit of liability are expressed as annual aggregate amounts.

Agreed business plan

A syndicate business plan that has been approved by or on behalf of Lloyd's Franchise Board. No managing agent may underwrite for a syndicate without an agreed syndicate business plan. Agreed syndicate business plans may be amended with the agreement of the Franchise Board or someone acting on its behalf.

Agreed value policy

An insurance contract under which the insurer agrees to pay the insured a stated amount in the event of the total loss of the property insured without any adjustment for depreciation or appreciation.

Aligned Member

A corporate member of a syndicate that is directly or indirectly owned by the same firm that owns the managing agent of the syndicate.

All risks

A property insurance which covers any accidental loss or damage that is not specifically excluded under the policy.

Allocated Capacity

This may refer to a member's allocated capacity or syndicate allocated capacity.

Annual accounting

The reporting of syndicate results on a calendar year basis, with profit taking being restricted to earned premiums.

Annual venture

This term refers to the reconstitution of a syndicate as an annual business venture where insurance and reinsurance business is written on a year of account basis.

Appreciation

In the context of property insurance an increase in value of the property insured.

Approved person

An individual who has been approved by the Financial Services Authority (FSA) to perform a FSA controlled function for an authorised person.

Approved run-off company

A company that is permitted by Lloyd's to perform specified functions that would normally be performed by a managing agent of a run-off syndicate on behalf of that agent or a substitute agent.

Assured

Another name for an insured.

Attachment date

Another term for inception date, being the date on which an insurance or reinsurance contract comes into force.

Attorney in Fact

A person appointed by a power of attorney to act on behalf of another person. A Lloyd's attorney in fact is a representative appointed by Lloyd's to represent Lloyd's and Lloyd's underwriters in a particular country or US state. An attorney in fact may be a natural person or a company and performs a similar role to a Lloyd's General Representative.

Authorised person

A person (usually a firm) that has been approved by the Financial Services Authority (FSA) to carry on one or more FSA regulated activities.

Average

If the sum insured under non-marine insurance is expressed to be "subject to average" and that sum is less than the value of the subject matter of the insurance then any claim that is agreed under the policy will be reduced proportionately to reflect the under insurance. Section 81 of the Marine Insurance Act 1906 say that an insured shall be his own insurer as regards any under insurance. In marine insurance the term average may also refer to one of two types of loss, general average and particular average.

Avoidance of a contract ab initio

The cancellation of an insurance or reinsurance contract from its beginning by an insurer or reinsurer on the basis of the misrepresentation and/or non-disclosure of material facts. The result is that the insurer/reinsurer has no liability under the contract but must repay the premium to the insured/reassured.

Back years

See prior years.

Bailee

A person who holds the property of another person (the bailor) under a contract or agreement according to which the property held is to be returned to the bailor or delivered somewhere to his order. A bailee for reward is paid for his services.

Basis (of insurance) clause

A clause that makes the declarations contained in an insurance proposal form the "basis" of any contract of insurance that is made in consequence of the completion of that form. Such declarations are thereby converted into warranties with the result that if one of them is found to be untrue then the insurer may disclaim all liability under the relevant contract from the date of the breach, regardless as to whether the false declaration was material to the underwriting of the contract or causative of any loss. Basis of insurance clauses are not normally found in personal lines insurance contracts sold in the United Kingdom and, where they appear in other contracts, they may be qualified by the inclusion of a term in the proposal form that the declarations made in that document are true to the best of the knowledge and belief of the person making the declarations.

Beyond economic repair

Where the cost of repairing the insured property, eg a car, exceeds the market value of that property. In such circumstances the insurer will pay the insured the market value of the insured property at the date of loss, subject to the terms of the policy (assuming the insurer is not under any obligation to provide a replacement).

Binding authority

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.

Bordereaux

A list of premiums payable and claims paid or due which is prepared by a coverholder for a managing agent or by a reassured for its reinsurer. Bordereaux are commonly produced on a monthly or quarterly basis. They breakdown block premium payments that are made to underwriters and detail claim payments made on behalf of or due from underwriters.

Box

Each syndicate has a box in the underwriting room at Lloyd's from which business may be transacted with Lloyd's brokers. Each box comprises a couple of opposite facing benches and desks at which the underwriters employed by the managing agent of the syndicate sit, plus some stools for the visiting Lloyd's brokers to sit on. Most boxes have computer terminals as well as access to other information technology.

Broker

There are two types of broker involved in arranging insurance and reinsurance at Lloyd's: insurance brokers and reinsurance brokers. Some brokers act both as insurance brokers and reinsurance brokers.

Brokerage

The commission that is payable to a broker for placing an insurance or reinsurance contract with an insurer or a reinsurer. Compare fee for service. Although brokerage is payable by the insured as part of the gross premium the amount of brokerage is agreed by the insurer. The insured may request his broker to state the amount of his brokerage on a given placement. Similar considerations apply to reassureds under reinsurances. Sometimes the term brokerage may be used to refer the business of a broker.

Business process reform

An initiative to increase the speed and efficiency with which business is transacted at Lloyd's and also to reduce of the cost of doing business at Lloyd's. It includes the promotion of contract certainty.

Buy back

In the context of general insurance this refers to the purchase of cover in respect of an otherwise excluded peril by means of the payment of additional premium.

Byelaws

The primary rules made by the Council of Lloyd's regarding the conduct of insurance business at Lloyd's.

Cancellation clause

A clause in an insurance contract which permits an insurer and/or an insured to cancel the contract before it is due to expire. The clause may provide for a return of premium in respect of the unused portion of the policy.

Capacity

This term may refer to: (a) a member's allocated capacity (b) syndicate allocated capacity (c) the total underwriting capacity of all syndicates combined; or (d) the underwriting capacity of an insurance company or reinsurance company.

Capacity auction

A procedure which allows a member to sell his participation rights in one or more syndicates for the following year of account to one or more other members, a managing agent or a members' agent operating a MAPA by means of electronic bidding at specific times. Individual members and some corporate members buy and sell capacity through their members' agents.

Capital provider

As regards a Lloyd's syndicate, its member(s). As regards a company, its shareholders.

Carrier (of risk)

An insurer or reinsurer.

Cash call

A request for funds made by a managing agent to members of a syndicate.

Casualty

Refers to a loss, particularly the loss of a ship.

Casualty book

A book which stands in the centre of the underwriting room and which records details of vessels which are or are likely to become total losses. The entries are made a by Lloyd's waiter using a quill pen.

Casualty business

Another term for liability insurance.

Cedant

A syndicate or company that transfers a risk exposure under a reinsurance contract.

Cedant's line

The retention under a surplus lines treaty.

Cede

To transfer a risk exposure under a reinsurance contract.

Central accounting

A facility is that is operated by the Corporation of Lloyd's whereby sums due to and from individual Lloyd's brokers and syndicates are processed centrally and their accounts debited and credited on a net basis regularly. Urgent one off payments may be made more quickly.

Central Fund

See New Central Fund.

CentreWrite Limited

A subsidiary of the Society that is permitted to underwrite run-off reinsurance contracts for syndicates in run-off and estate protection reinsurance for Names.

Certificate of insurance

Depending on the context this term may refer to: (a) A document which evidences the existence of insurance cover but which does not detail all its terms which are contained in a separate policy of insurance. Certain certificates are required as a matter of law in the United Kingdom, for example for motor insurance. (b) A document that is issued by a coverholder which evidences the existence of insurance cover and details the terms of such cover. No policy of insurance is issued where such a certificate is issued.

Cession

A particular risk exposure that is transferred under a reinsurance treaty.

Claim

Depending on the context this term may refer to: (a) a demand made by a policyholder on his insurer(s) for payment or some other contractual benefit under an insurance policy; (b) a demand made by an insurer on its reinsurer(s) to be paid under a reinsurance contract; or (c) a demand made by a third party on a policyholder to be compensated for some injury, damage or loss for which the third party blames the policyholder. A claim is payable under an insurance or reinsurance contract if it is caused by an insured peril and it is not excluded under the terms of that contract.

Claimant

The person making a claim.

Claims made policy

A policy which only pays claims that are notified to the insurer during a specified period.

Claims notification clause

A clause in an insurance or reinsurance contract which sets out the procedure that the insured or reassured must follow in order to make a claim under the contract. Such clauses frequently provide for prompt notification of claims and events which may gives to claims in the future.

Classes of business

The Lloyd's market underwrites five main classes of insurance and reinsurance business: marine, non-marine, motor, aviation and term life insurance. The market rules that previously prevented marine underwriters writing more than one class of business have been abolished. However, the premiums and claims relating to term life insurance must be kept separate from those relating to other classes of business and the rules of the Financial Services Authority (FSA) prohibit a syndicate writing both general insurance and long term insurance as defined by the FSA. Term life may constitute long term insurance.

Closed Year

A year of account that has been closed into another year of account by means of a reinsurance to close contract. Historically most Lloyd's syndicates have operated a three year underwriting account according to which the profit or loss of an underwriting account is determined by the managing agent 36 months after the beginning of that account which is always the start of a calendar year. According to this system the normal closure date of the 2009 year of account (which commenced on 1 January 2009) was 31 December 2011, with the calculation of the reinsurance to close as at that date being finalised in or about February/March 2012.

Coinsurance

This may refer to either of the following situations: (a) Where two or more insurers underwrite the same risk with several liability such that each insurer is not bound to follow the decisions of any co-insurer unless it has agreed to do so. (b) Where the insured acts as its own insurer for a specified proportion of the sum insured.

Combined ratio

The claims and expenses of an insurer/reinsurer for a given period divided by its premium for the same period. It is normally expressed as a percentage with any figure in excess of 100% signifying a technical underwriting loss.

Coming into line

A biannual procedure currently undertaken in June and November each year which requires members to demonstrate that they have sufficient eligible assets to meet their current underwriting liabilities and to support future underwriting before they may underwrite for the next following year of account.

Commercial lines

Insurance which is sold to firms. This term is used in contrast to personal lines.

Commutation

The termination of a reinsurance contract by agreement of the parties on the basis of one or more lump sum payments by the reinsurer which extinguish its liability under the contract. The payment made by the reinsurer commonly relates to incurred losses under the contract.

Constructive total loss

Section 60 of the Marine Insurance Act 1906 states that, subject to any policy provision, a constructive total loss arises where the subject matter of an insurance is reasonably abandoned to the insurer by the insured on account of its actual total loss appearing unavoidable or because it could not be preserved from actual total loss without an expenditure that would exceed its value. The term is sometimes used to refer to insured property, e.g. a car, which is damaged beyond economic repair.

Contract certainty

Refers to the situation where the terms of an insurance or reinsurance contract are agreed before the inception date of the contract rather than being negotiated afterwards.

Conversion arrangement

A scheme sponsored by a members' agent which allows an individual member to switch from underwriting on an unlimited liability basis to underwriting on a limited liability basis.

Coordinating agent

A members' agent who is appointed by a member who has more than one member's agent to co-ordinate the administration of the member's affairs at Lloyd's.

Corporate member

A member of the Society which is a body corporate (including for the avoidance of doubt limited liability partnerships) or a Scottish limited partnership.

Corporate member syndicate

A syndicate with a single corporate member as its only member.

Corporation of Lloyd's

The executive of the Council of Lloyd's, Lloyd's Franchise Board and their respective committees. The Corporation does not underwrite insurance or reinsurance itself but provides the licences and other facilities that enable business to be underwritten on a worldwide basis by managing agents acting on behalf of members.

Council of Lloyd's

The Council of Lloyd's was constituted as the governing body of Lloyd's by Lloyd's Act 1982. It currently comprises 6 external members, 6 working members and 6 nominated members and is empowered to make byelaws governing the conduct of insurance business at Lloyd's. Since 2003 the Council has acted by Lloyd's Franchise Board as regards the development and direction of the implementation of the commercial policy of the Lloyd's franchise and the direction and regulation of the business of insurance of Lloyd's.

Cover

Insurance or reinsurance as it applies to one or more specific risk exposures.

Cover note

A document issued by a broker pending the issue of a policy which confirms the arrangement of cover for the named insured/reassured. Motor insurance cover notes that are issued in the United Kingdom (which incorporate a certificate of insurance) are usually of short duration.

Coverholder

A company or partnership authorised by a managing agent to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate managed by it, in accordance with the terms of a binding authority.

Declinature

The refusal of an insurer or reinsurer to offer terms of cover.

Dedicated vehicle

A corporate member that only participates on one or more syndicates that are managed by the same managing agent or group of managing agents. The term is often used interchangeably with the expression aligned member.

Deductible

The amount that is deducted from some or all claims arising under an insurance or reinsurance contract. The practical effect is the same as an excess: the insured or reassured must bear a proportion of the relevant loss. If that loss is less than the amount of deductible/excess then the insured or reassured must bear all of the loss (unless there is other insurance in place to cover the deductible). An increase in deductible should result in a reduction in premium.

De-emption

Where a managing agent reduces the underwriting capacity of a syndicate, for example when it expects to write less business in future. The participations of the members of the syndicate are reduced proportionately.

Deposit premium

A premium that is payable at the inception (start) of an insurance or reinsurance contract and in respect of which an adjustment premium (usually an additional premium) is due depending on the performance of the contract including, possibly, the amount of the business that is ceded thereunder. Compare minimum premium.

Depreciation

The decrease in the value of an item due to age, use or wear and tear. Such devaluation is not covered under a contract of indemnity. However an insurer may agree to provide cover on "a new for old" basis which represents a modification of the principle of indemnity and avoids the need to determine rates and amounts of deprecation when settling claims.

Deterioration in reserves

Where the reserves of an insurer or reinsurer for prior years are insufficient to meet the estimated liabilities of one or more loss exposures and therefore require to be increased.

Direct business

Insurance placed with an insurer direct and not through an intermediary.

Duty of disclosure

The duty of every person seeking insurance or reinsurance to inform the insurer/reinsurer from whom a quotation for insurance/reinsurance is sought of every material fact. The duty arises when seeking new insurance/reinsurance, when seeking a variation of cover (but only as regards a change in risk where the carrier is the same as before) and at renewal (but only as regards a change in risk where the carrier is the same as before). The scope of the duty may be modified by the terms of a proposal form. Should a person seeking insurance/reinsurance fail to disclose a material fact then this may lead to the avoidance of the relevant insurance or reinsurance by the underwriter. The consequences of non-disclosure may be modified by the terms of the relevant insurance/reinsurance.

Earned premium

The proportion of premium that relates to a used period of cover.

Endorsement

A document that is attached to a slip, cover note or policy which evidences one or more changes in the terms of the insurance or reinsurance contract to which it refers.

Equitas Reinsurance Ltd

A reinsurance company that was formed by the Society of Lloyd's for the purpose of accepting reinsurances to close of non-life syndicates for the 1992 and prior years of account in 1996. The company is not a subsidiary of the Society of Lloyd's and operates independently of it.

Establishment business

See freedom of establishment.

European Union/European Economic Area - definition of a risk

A risk is deemed to be located in an European Union or European Economic Area member state if it is: (a) a building (and its contents issued under the same policy) situated in that state; (b) a motor vehicle, ship, yacht or aircraft registered in that state; (c) a travel policy for four months or less taken out in that state. For any other type of insurance (including a life insurance) it is an individual if the policyholder is habitually resident in the member state or a business or an organisation if the establishment to which the contract relates is situated in that state.

European Economic Area

The member states of the European Union plus Norway, Iceland and Liechtenstein.

European Union

The European Union is made up of 27 Member States: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

Ex gratia payment

A payment made by underwriters "as a favour" or "out of kindness" without an admission of liability so as to maintain goodwill.

Excess

The amount or proportion of some or all losses arising under an insurance or reinsurance contract that is the insured or reassured must bear. If the loss is less than the amount of the excess then the insured/reassured must meet the cost of it (unless there is other insurance in place to cover the excess). Compare deductible and retention. Excesses may either be compulsory or voluntary. An insured which accepts an increased excess in the form of a voluntary excess will receive a reduction in premium.

Excess of loss

A type of reinsurance that covers specified losses incurred by the reassured in excess of a stated amount (the excess) up to a higher amount, for example £5 million excess of £1 million. An excess of loss reinsurance is a form of non-proportional reinsurance.

Exclusion

A term in an insurance or reinsurance contract that excludes the insurer or reinsurer from liability for specified types of loss. An exclusion may apply throughout a policy or it may be limited to specific sections of it. In certain circumstances an exclusion may be limited or removed altogether following the payment of an additional premium.

Extended reporting period

The period after the expiry of a claims made policy in which claims under that policy must be made if they are to be covered. It may be possible for an insured to extend this period on payment of an additional premium.

External member

A member who is not a working member or a nominated member.

Facultative/obligatory treaty

A reinsurance contract which allows the reassured to select which risks of a given type are to be ceded to the reinsurer. The reinsurer is obliged to accept all the cessions made by the reassured provided they fall within the scope of the treaty.

Facultative risk

A reinsurance risk that is placed by means of separately negotiated contract as opposed to one that is ceded under a reinsurance treaty.

Fee for service

Where a broker is remunerated on the basis of a fee agreed with its client instead of brokerage. The benefit to the broker is that, subject to the terms of agreement, the fee will be payable whether or not cover is placed whereas brokerage is only payable in respect of the placement of cover.

Fidelity insurance

A type of insurance which is designed to protect a firm from losses caused by the dishonest acts of its employees.

Following underwriter

An underwriter of a syndicate or an insurance company that agrees to accept a proportion of a given risk on terms set by another underwriter called the leading underwriter.

Franchise (Lloyd's)

The Lloyd's brand, worldwide trading licences, financial strength rating, mutual security and other support services that enable members to underwrite insurance and reinsurance at Lloyd's on a global basis.

Franchise Board

See Lloyd's Franchise Board.

Franchise goal

The creation and maintenance of a commercial environment at Lloyd's in which the long term return to all capital providers is maximised.

Franchisee

A managing agent.

Franchisor

Lloyd's in the form of the Council, Franchise Board and their respective committees and executives.

Freedom of establishment

The right of an insurer located in one European Economic Area (EEA) member state to underwrite a risk located in another EEA member state by establishing a permanent presence in that EEA member state. (Please see the 'Definition of risk location' section on Crystal for clarification of the correct location for a risk.) This permanent presence can be in the form of a local branch, agency or subsidiary. At Lloyd's, a permanent presence in another EEA member state is created by having local coverholders with full binding authority agreements and a local Lloyd's General Representative. (A full binding authority agreement is one where the coverholder may enter into contracts of insurance without first consulting the syndicate.) Freedom of establishment business is that underwritten under a full binding authority where the coverholder and the risk are located in the same EEA member state outside the UK.

Freedom of services

The right to provide business services on a cross-border basis within the European Economic Area (EEA). For insurance contracts, this means that the contract can be underwritten in an EEA member state that is different from the member state where the risk is located. (Please see the 'Definition of risk location' section on Crystal for clarification of the correct location of a risk.) Freedom of services business consists of open market business written from the UK (with or without the involvement of a local intermediary), business written under a full binding authority where the coverholder is located in a different member state from where the risk is located and business that is written under a prior submit binding authority agreement. (A prior submit binding authority agreement is one where the coverholder does not have authority to enter into contracts of insurance without first consulting the syndicate that granted the binding authority).

Funds at Lloyd's

Funds of an approved form that are lodged and held in trust at Lloyd's as security for a member's underwriting activities. They comprise the members deposit, personal reserve fund and special reserve fund and may be drawn down in the event that the member's syndicate level premium trust funds are insufficient to cover his liabilities. The amount of the deposit is related to the member's premium income limit and also the nature of the underwriting account. (See risk based capital).

General average

A loss that arises from the reasonable sacrifice at a time of peril of any part of a ship or its cargo for the purpose of preserving the ship and the remainder of its cargo together with any expenditure made for the same purpose. An example of a general average loss would include jettisoning cargo to keep a ship afloat and an example of general average expenditure would include towing a stricken vessel into port. An average adjuster calculates the value of each saved interest to each interested party which is then obliged to contribute towards the general average loss or expenditure proportionately. Subject to the terms of the policy, insurance will generally only apply if the loss was incurred to avoid or in connection with the avoidance of an insured peril.

General Representative

A person appointed by Lloyd's to represent Lloyd's and Lloyd's underwriters in a particular country or territory. A General Representative may be a natural person or a company. An agreement between Lloyd's and the General Representative sets out the General Representative's duties and responsibilities.

General underwriters' agreement

An agreement between insurers and reinsurers on a subscription risk specifying the terms on which the leading underwriter shall act as the agent of the following underwriters as regards the agreement of amendments to coverage terms.

Grace period

A short period during which cover under an annual policy may be extended beyond its expiry date to allow for the payment of a renewal premium. The privilege will be lost if the insured rejects the proposed renewal terms, by his actions or words. There are no grace periods in motor or marine insurance.

Gross claims

Claims under contracts of insurance underwritten by the members of a syndicate plus internal and external claims settlement expenses less salvage or other recoveries, but before the deduction of reinsurance recoveries.

Gross line

The amount of risk that an insurer or reinsurer is carrying before taking account of any applicable reinsurance that reduces that risk.

Gross premium

Original and additional inward premiums, plus any amount in respect of administration fees or policy expenses remitted with a premium but before the deduction of outward reinsurance premiums.

Hard market

When the availability of some or all classes of insurance or reinsurances is limited relative to demand for such insurance or reinsurance resulting in increased premiums and coverage restrictions.

Hazard

Something that causes an exposure to injury, loss or damage.

Hazardous pursuits

Certain sports and activities are termed hazardous pursuits and are excluded from travel insurances although it may be possible to have them included on payment of an additional premium.

Inception

Commencement or beginning (eg of cover).

Inception date

The date on which an insurance or reinsurance contract comes into force.

Incurred but not reported (IBNR) losses

Estimated losses which an insurer or reinsurer, based on its knowledge or experience of underwriting similar contracts, believes have arisen or will arise under one or more contracts of insurance or reinsurance, but which have not been notified to an insurer or reinsurer at the time of their estimation.

Incurred losses

The aggregate of the paid and outstanding claims of an insurer or reinsurer for a year of account or some other given period of time. These losses represent known losses to an insurer or reinsurer and, subject to issues of proof of liability and the determination of the final amount payable in the case of outstanding claims, are relatively certain.

Indemnity

The principle according to which a person who has suffered a loss is restored (so far as possible) to the same financial position that he was in immediately prior to the loss, subject in the case of insurance to any contractual limitation as to the amount payable (the loss may be greater than the policy limit). The application of this principle is called indemnification. Most contracts of insurance are contracts of indemnity. Life insurances and personal accident insurances are not contracts of indemnity as the payments due under those contracts for loss of life or bodily injury are not based on the principle of indemnity.

Indication

A non-binding statement by an underwriter of the likely level of premium that he would charge to underwrite a risk, subject to the provision of additional information. Compare quotation.

Individual member

A member of the Society who is an individual (as opposed to a corporate member).

Insurable interest

If an insured wishes to enforce a contract of insurance before the Courts he must have an insurable interest in the subject matter of the insurance, which is to say that he stands to benefit from its preservation and will suffer from its loss. In non-marine insurances, the insured must have insurable interest when the policy is taken out and also at the date of loss giving rise to a claim under the policy. In life insurance the insured must have insurable interest must when the policy is taken out and in marine insurance the insured must generally have insurable interest at the date of loss giving rise to a claim under the policy.

Insurance

A contract whereby an insurer promises to pay the insured a sum of money or some other benefit upon the happening of one or more uncertain events in exchange for the payment of a premium. There must be uncertainty as to whether the relevant event(s) may happen at all or, if they will occur (eg death) as to their timing.

Insurance broker

An individual or firm that acts as agent for an individual, body or firm in arranging insurance cover and in presenting claims under such cover. At present only Lloyd's brokers may arrange cover directly with or on behalf of underwriters in the underwriting room.

Insurance contract

Determines what insurance coverage is in place and determines the legal framework under which the content of an insurance policy is enforced.

Insurance intermediary

A person through whom an insurance contract is effected. It normally refers to an insurance broker and/or an agent of an insurer such as a coverholder.

Insurance policy

See policy.

Insured

A person who is insured under a contract of insurance. Where there is one insured this person may also be referred to as the policyholder.

Insured peril

A harmful event which is covered under a contract of insurance.

Insurer

A provider of insurance. If the insurance is underwritten at Lloyd's the insurer(s) will be the members of one or more syndicates. If the insurance is not underwritten at Lloyd's the insurer(s) will be one or more insurance companies. Some insurances may be underwritten by syndicates and insurance companies.

Integrated Lloyd's vehicle (ILV)

A company which owns a corporate member of a syndicate and the managing agent of that syndicate.

Intervening cause

An event that prevents a loss being attributable to another event by breaking the chain of causation. Compare proximate cause.

Investment income

That part of the income of an insurer or reinsurer that comes from the investment of premiums and reserves.

Inward reinsurance

Reinsurance that is assumed by a Lloyd's syndicate or other carrier as distinct from outward reinsurance.

Jewellers block policy

A form of property insurance that is provided to jewellers.

Jurisdiction clause

A clause in an insurance or reinsurance contract which states to which territory's courts any contractual dispute shall be referred for resolution.

Key person insurance

A policy that protects a firm from loss caused by the death or disability of a 'key person' within the company.

Large Risks

An official term used in EEA insurance regulation. The formal definition of "Large Risks" is found in the EU's 2nd Non-Life Insurance Directive (88/357). It can be summarised as meaning: (i) Risks classified as: Railway rolling stock Aircraft (including aircraft liability) Ships (sea, lake and river and canal vessels) (including liability) Goods in transit (including merchandise, baggage, and all other goods). (ii) Risks classified as Credit or Surety where the policyholder is engaged professionally in an industrial or commercial activity or in one of the liberal professions, and the risks relate to such activity. (iii) Risks classified as: Fire and natural forces Other damage to property General liability Miscellaneous financial loss in so far as the policyholder exceeds the limits of at least two of the following three criteria: - balance-sheet total: 6.2 million euros, - net turnover: 12.8 million Euros, - average number of employees during the financial year: 250. If the policyholder belongs to a group of undertakings for which consolidated accounts are drawn up, the criteria mentioned above is applied to the consolidated accounts.

Leading underwriter

The underwriter of a syndicate or insurance company who is responsible for setting the terms of an insurance or reinsurance contract that is subscribed by more than one syndicate or insurance company and who generally has primary responsibility for handling any claims arising under such a contract. Where an insurance or reinsurance contract that is underwritten by more than one syndicate Xchanging Claims Services normally acts as the representative of the following underwriters as regards the agreement of claims under the contract. In certain situations a managing agent of a following syndicate will be appointed together with Xchanging Claims Services to represent the following underwriters. However some matters require to be referred to all the following underwriters on risk and an insured may always insist that its claim is shown to each following underwriter.

Leading underwriter's agreement

An agreement that allows for certain changes to the terms of an insurance or reinsurance contract to be agreed by the leading underwriter(s) without reference to the following underwriters.

Liability insurance

An insurance which covers the insured against third party claims or, in the case of employer's liability insurance, claims by employees, subject to specified terms and conditions.

Life assurance

Another term for life insurance.

Life assured

The person whose life is insured under a life insurance.

Life insurance

A policy that pays a specified sum to beneficiaries upon the death of the life assured, or upon the assured surviving a given number of years, depending on the terms of the policy. Life insurance policies may be for fixed or indefinite term. See term life as regards fixed term policies.

Limit of indemnity

Another term for policy limit. It refers to the maximum amount payable under a policy of insurance or reinsurance, either overall or with reference to a particular section of a policy.

Line

The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept. When it refers to a line that is entered on a slip it is commonly expressed as a percentage of the limit of indemnity.

Lloyd’s

Depending on the context this term may refer to - (a) the society of individual and corporate underwriting members that insure and reinsure risks as members of one or more syndicates. Lloyd’s is not an insurance company; (b) the underwriting room in the Lloyd’s Building in which managing agents underwrite insurance and reinsurance on behalf of their syndicate members. In this sense Lloyd’s should be understood as a market place; or (c) the Corporation of Lloyd’s which regulates and provides support services to the Lloyd's market.

Lloyd's Act 1982

The most recent of seven private Acts of Parliament that define the powers of the Society of Lloyd's. The Council of Lloyd’s was made the governing body of Lloyd’s under this Act.

Lloyd’s Agent

A firm that is appointed to conduct or arrange surveys of ships and cargoes for Lloyd’s underwriters, other insurers and commercial interests throughout the world. Many Lloyd's agents also undertake non-marine surveys, act as loss adjusters and provide information about shipping movements and losses. There are over 300 Lloyd's agents, 160 of whom have authority to settle claims on behalf of Lloyd’s underwriters and insurance companies.

Lloyd’s American Trust Fund

A trust fund that is maintained in the USA for the protection of holders of US dollar denominated policies which incepted between August 1939 (when the fund was established) and 31 July 1995. It is a premiums trust fund. Compare Lloyd’s Dollar Trust Funds.

Lloyd's broker

A firm that is listed in the register of Lloyd's brokers maintained under the Intermediaries Byelaw which is permitted to broke insurance business at Lloyd's. A syndicate can generally only accept insurance business that has been broked or placed from or through a Lloyd's broker.

Lloyd's Canadian Trust Fund

A trust fund that is maintained in Canada for the protection of holders of insurance policies covering Canadian risks. It is a premiums trust fund.

Lloyd's Dollar Trust Funds

These funds are maintained in the USA for the protection of holders of US dollar denominated policies which incepted on or after 1 August 1995 (when the fund was established). They are premiums trust funds. Compare Lloyd's American Trust Fund.

Lloyd's Franchise Board

The board established by the Council of Lloyd's which is responsible for developing and directing the implementation of the franchise policy to create an maintain a commercial environment at Lloyd's in which the long term return to all capital providers is maximised. The Council delegates certain of its powers to the Board which may operate within limitations set by Council.

Lloyd's market

This term may refer to the place where business is transacted between managing agents and Lloyd's brokers, or to the syndicates that provide cover at Lloyd's.

Lloyd's Market Board

The committee of the Council of Lloyd's that was formerly responsible for the development and growth of Lloyd's worldwide business. It was abolished in 2002 in anticipation of the transfer of its responsibilities to Lloyd's Franchise Board.

Lloyd's Policy Signing Office Ltd

Lloyd's Policy Signing Office used to be part of the Corporation of Lloyd's. Following its incorporation it is now part of the Xchanging group of companies.

Lloyd's Regulatory Board

The committee of the Council of Lloyd's that was formerly responsible for the regulation of the Lloyd's market. It was abolished in 2002 in anticipation of the transfer of its responsibilities to Lloyd's Franchise Board.

Lloyd's solvency test

A test that is undertaken annually to ensure that members of the Society have sufficient eligible assets to meet their underwriting liabilities. The test is undertaken at member level and also on an aggregate basis for all members taking in account the centrally held assets of the Society such as the New Central Fund. Any member that fails the solvency test at member level will be required to provide additional funds or cease underwriting. The centrally held assets of the Society must be sufficient to cover any shortfall of assets at member level.

Lloyd's underwriters

This term may variously refer to - (a) the professional underwriters who are employed by managing agents to underwrite insurance and reinsurance business on behalf of the members of the syndicates that those agents manage. (b) the members of one or more syndicates that underwrite a particular policy; or (b) all members (of the Society) collectively.

Lloyd's waiter

A liveried member of Lloyd's staff.

LMP slip

A standard form slip that managing agents must use to underwrite insurance at Lloyd's except (a) if the insured requires some other slip to be used; or (b) the slip relates to motor business, personal lines including motor business or term life business and the slip will not be processed by LPSO Ltd. For further information visit www.lmp2001.com. Please note: Lloyd's accepts no responsibility for the content of external sites.

Long tail (risk)

This refers to a type of insurance where claims may be made many years after the period of the insurance has expired. Liability insurance is an example of long tail business. The opposite of long tail business is short tail business.

Loss

This term generally refers to some injury, harm, damage or financial deteriment that a person sustains. Losses may be insured or uninsured. Whether a loss is covered by a policy or certificate of insurance depends on the terms of that document and local law.

Loss adjuster

A person who is appointed to investigate the circumstances of a claim under an insurance policy and to advise on the amount that is payable to the policyholder in order to settle that claim. Loss adjusters are generally appointed by underwriters but sometimes policyholders appoint their own loss adjusters to negotiate claims on their behalf.

Loss event

The event which causes a loss, for example a fire or hurricane.

Managing agent

An underwriting agent which has permission from Lloyd's to manage a syndicate and carry on underwriting and other functions for a member.

Managing agents agreement

A standard form agreement between a member and the managing agent of a syndicate on which the member participates which sets out the powers of the managing agent and the obligations of the managing agent and the member towards one another. There are two forms of managing agent's agreement: the managing agent's agreement (general), which applies to every member that has a members' agent and the managing agent's agreement (corporate) which applies to every member that does not have a members' agent. Copies of current versions of these agreements are annexed to the Agency Agreements Byelaw.

Mandataire General

The title used by a Lloyd's General Representative in certain countries, predominantly those that are French speaking.

Market agreement

An agreement between all the underwriters in a certain section of the Lloyd's market.

Mass risks

An official term used in EEA insurance regulation. It means any risk that is not a 'large risk'. See large risks.

Material fact

This refers to any fact which would influence the judgment of a prudent underwriter in deciding whether to accept an insurance/reinsurance risk and the terms on which he would be willing to grant cover. See duty of disclosure.

Material representation

A statement that is made to an underwriter during the negotiation of cover or the amendment or renewal of cover which would have influenced the judgment of a prudent underwriter in deciding whether to accept an insurance/reinsurance risk and the terms on which he would be willing to grant cover.

Means

The minimum level of wealth that a member must demonstrate he, she or it has in order to underwrite at Lloyd's. The means of all members must be held in approved form and must be maintained in value so long as the member has actual or potential outstanding underwriting liabilities.

Member (of the Society)

A person (either individual or corporate) admitted to membership of the Society.

Members' agent

An underwriting agent which has permission from Lloyd's to be appointed by a member to provide services and perform duties of the same kind and nature as those set out in the standard members' agent's agreement. These services and duties include advising the member on which syndicates he should participate, the level of participation on such syndicates and liaising with the member's managing agents.

Members' agent Pooling Arrangement (MAPA)

An arrangement operated by a members' agent whereby a number of members combine pool some or all of their underwriting capacity thus enabling them to participate in a wider range of syndicates than would otherwise be the case.

Members' agent's agreement

A standard form of contract between a member and his member's agent, which sets out the services, duties, powers and remuneration of the member's agent and obligations of the member. The terms of the contract with the exception of the amount of the members' agent's remuneration are set by the Council of Lloyd's. A copy of the current versions of the members' agent's agreement is annexed to the Agency Agreements Byelaw.

Member's allocated capacity

That part of overall premium limit of a member that is allotted to a particular syndicate for a given year of account. It represents the amount of premium that the Member may accept in respect of that syndicate for that year of account.

Minimum premium

The minimum amount that is payable to an insurer or reinsurer as a premium in respect of a insurance or, more commonly, reinsurance contract which provides for a deposit premium. The minimum premium may be the same as the deposit premium or a different figure.

Misrepresentation (of risk)

A misstatement of fact that is made by the insured or his broker to an underwriter during the negotiation of the placement, amendment or renewal of cover which causes the underwriter to grant, amend or renew cover on an incorrect basis of fact. If the misrepresentation is material the underwriter may avoid the contract on the basis that the insured has breached his duty of utmost good faith. Compare duty of disclosure.

Mixed syndicate

A syndicate which is made up of Names and/or MAPAs and corporate members.

Moral hazard

Those personal characteristics of a prospective insured or its employees or associates that may increase the probability or size of an insurance loss.

Name

An individual member underwriting with unlimited liability. Since 6 March 2003 no person has been admitted as a new member to underwrite on an unlimited liability basis.

Nameco

A company that is a corporate member whose members consist of a single individual or a group of connected individuals or their nominees. Many Namecos were formed by Names who wished to cease underwriting on an unlimited liability basis.

Net claims

Gross claims less reinsurance recoveries.

Net premium

The amount of the premium that is left after the subtraction of some or all permitted deductions such as brokerage and (for certain types of business) profit commission.

New Central Fund

The fund held, managed and applied by the Society pursuant to the New Central Fund Byelaw (No. 23 of 1996).

Nominated member

A member of the Council of Lloyd's who is not an external member or a working member and whose appointment has been approved by the Governor of the Bank of England.

Non-disclosure (of a material fact)

See duty of disclosure.

Non-proportional reinsurance

A type of reinsurance in which the reinsurer does not share similar proportions of the premiums earned and the claims incurred by the reassured plus certain associated expenses. Compare proportional reinsurance. Excess of loss reinsurance is an example of non-proportional reinsurance.

Open market basis

See open market business.

Open market business

Insurance business that may be offered to and placed with any managing agent that is willing to underwrite it on behalf of its managed syndicate. It excludes business that is underwritten pursuant to a binding authority.

Open market correspondent

A firm that produces business to a Lloyd's broker for placement on an open market basis. Lloyd's requires that firms in certain overseas territories must be approved or registered by its attorney in fact or general representative before they can produce business to one or more sponsoring Lloyd's brokers for placement on an open market basis.

Open year of account

A year of account of a syndicate which has not been closed by reinsurance to close. There are two types of open year of account; naturally open years of account and run-off accounts. Syndicates are required to keep each year of account open for a minimum of three years before it may be closed by reinsurance to close. In normal circumstances a syndicate will therefore have three naturally open years of account at any point in time: the third year of one year of account, the second year of the following year of account; and the first year of the next year of account. Thus in 2005 the 2003 year of account is in its third year, the 2004 year of account is in its second year and the 2005 year of account is in its first year. Where the liabilities attaching to a particular year of account of a syndicate (including any prior year of account closed into that year) cannot be quantified after three years then that year of account will be left open until such time as a reinsurance to close may be effected or all the liabilities attaching to that year of account are extinguished.

Order

This may refer to - (a) the communication by a broker to an underwriter of a client's acceptance of his quotation; or (b) the amount of the sum insured that is covered by a particular slip where more than one slip is used to arrange cover.

Outwards reinsurance

The reinsurance of a syndicate or of an insurance company as distinct from inwards reinsurance.

Overall premium limit (or overall premium income limit) (OPL)

In relation to a member, the limit for the time being prescribed on the amount of insurance business which is to be underwritten on his behalf from time to time, such limit being expressed as the maximum permissible amount of his premium income allocable to any year of account.

Overriding commission

A commission that is paid by a reinsurer to the reassured to cover the latter's overheads in administering the reinsurance.

Overwriting

Where a syndicate exceeds its allocated capacity. Depending on the scale of the problem the managing agent of the syndicate may be required to cease underwriting some or all new business and the members may be required to make available additional funds at Lloyd's to cover the overwriting.

Particular average

A partial loss of a ship or cargo which is caused by an insured peril and which is not a general average loss. The term partial loss may be used instead.

Peril

A harmful event which may be covered under a contract of insurance or reinsurance as an insured peril or excluded from it.

Personal accident insurance

A type of insurance which provides for the payment of specified sums in the event that the insured suffers some bodily injury as a result of an accident.

Personal lines insurance

Insurance which is sold to individual consumers such as buildings, contents and travel insurance. This term is used in contrast to commercial lines.

Personal reserve fund

A reserve of cash or investments held on behalf of a member and comprising part of his funds at Lloyd's. The reserve, which is held within the premiums trust fund of the member, may be built up by setting aside a proportion of past profits or by the setting aside of funds from other sources. It is separate from any special reserve fund the member may have.

Placement (of cover)

Where a broker effects an insurance or reinsurance contract with underwriters on behalf of its client.

Placing broker

This term may refer to an individual broker or a broking firm that places cover directly with one or more underwriters. Compare producing broker.

Placing slip

See slip.

Policy

The wording of a contract of insurance or reinsurance.

Policy holder

The person who is insured under a contract of insurance.

Policy limit

Another term for limit of indemnity. It refers to the maximum amount payable under a policy of insurance or reinsurance, either overall or with reference to a particular section of the policy.

Pre-emption

Where a managing agent increases the underwriting capacity of a syndicate, for example when it expects to write more business in future. The participations of the members of the syndicate are increased proportionately to the extent the managing agent's pre-emption offer is taken up.

Premium

The amount charged by an insurer or reinsurer as the price of granting insurance or reinsurance cover, as stated before or after the subtraction of brokerage and other deductions.

Premiums trust fund (PTF)

The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities. The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia Trust Fund. These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and (once a year of account has been closed) any profit that is payable to the member.

Prior years

Earlier years. This term usually refers to earlier years of account which have been closed into another year of account by reinsurance to close.

Pro rata cancellation

When an insurance contract is terminated mid-term by an insurer, the return premium will usually be calculated on a pro rata basis. For example this means that if a 12 month contract is cancelled 4 months before its expected expiry date then the insured would receive back 4/12 of its premium.

Producing broker

This term may refer to (a) the individual broker who obtains a proposal for insurance or reinsurance for the broking firm for which he works; or (b) a broking firm or individual broker that is responsible for introducing a proposal for insurance or reinsurance to another broking firm. The original producing broker will be the person who deals directly with the client. The term producing broker is often used in contrast to the term of placing broker although it is common for individual brokers and broking firms to undertake both functions.

Profit commission

A commission that is payable according to a pre-determined formula as an incentive and reward for profitable underwriting. The following are examples of profit commission: (a) the commission paid to a coverholder by a managing agent for underwriting a profitable account; (b) the commission paid by a Member to a managing agent in respect of the profitability of its syndicate in a given year of account; and (c) the commission paid by a reinsurer to an insurer in respect of a profitable reinsurance treaty.

Proportional Reinsurance

A type of reinsurance in which the reinsurer shares similar proportions of the premiums earned and the claims incurred by the reassured plus certain associated expenses. Compare non-proportional reinsurance. Quota share treaties and surplus line treaties are examples of proportional reinsurance.

Proposal form

A standard form which is prepared by an insurer and which contains a number of questions which a person seeking insurance is required to answer for the purpose of enabling the insurer to decide whether or not it is willing to grant cover and, if so, the terms on such cover. See duty of disclosure.

Proposer

A person who seeks insurance (frequently by means of completing a proposal form).

Proximate cause

An insurer will only be liable to pay a claim under an insurance contract if the loss that gives rise to the claim was proximately caused by an insured peril. This means that the loss must be directly attributed to an insured peril without any break in the chain of causation. Compare intervening cause.

Pure year of account

A year of account viewed in isolation, which is to say disregarding any prior years that may have been reinsured into by means of reinsurance to close.

Qualifying quota share (QQS) reinsurance

A quota share treaty that may be purchased by a managing agent with the permission of Lloyd's so as to increase the underwriting capacity of its managed syndicate, subject to a specified limit and subject to the treaty complying with certain terms and conditions.

Quantum

Latin for amount. Where an insured or reassured makes a claim it must first be established whether the insurer or reinsurer is legally liable to pay the claim (ie it must be shown the relevant loss is covered under the insurance or reinsurance). If the insurer or reinsurer is liable to pay the claim it must then be established how much is the insurer must pay. For example, there may be deductions for an excess, under insurance or depreciation.

Quota share treaty

A reinsurance treaty which provides that the reassured shall cede to the reinsurer a specified percentage of all the premiums that it receives in respect of a given section or all of its underwriting account for a given period in return for which the reinsurer is obliged to pay the same percentage of any claims and specified expenses arising on the reinsured account.

Quotation

A statement of the premium that an underwriter requires to underwrite an insurance/ reinsurance risk based on the information supplied by the person seeking cover, either directly or via their broker. A quotation may be conditional, eg it may be subject to the provision of further information, or not. If a quotation is accepted before it is withdrawn, then subject to the satisfaction of any conditions that may attach to the quotation, an insurance/reinsurance contract will be made. Compare indication.

Rate

The premium expressed as a percentage of the sum insured or limit of indemnity.

Recognised accountant [*]

An individual or firm entitled to act as a recognised accountant in accordance with the Audit Arrangements Byelaw (No. 7 of 1998).

Reinstatement of cover

The restoration of cover following its exhaustion as a result of a loss by payment of an additional (reinstatement) premium. Many reinsurances provide for one or more automatic reinstatement of covers.

Reinsurance

A contract under which a reinsurer agrees to pay specified types and amounts of underwriting loss incurred by an insurer or another reinsurer in return for a premium. Reinsurance serves to 'lay-off' risk. Reinsurance may be proportional or non-proportional and may take the form of a cover in respect of an individual risk exposure (see facultative risk) or cover in respect of multiple risk exposures (see treaty). Reinsurance accounts for more than half of Lloyd's total business.

Reinsurance to close (RITC) [*]

A reinsurance which closes a year of account by transferring the responsibility for discharging all the liabilities that attach to that year of account (and any year of account closed into that year) plus the right to any income due to the closing year of account into an open year of account of the same or a different syndicate in return for a premium. Where a reinsurance to close is effected between members of the same syndicate the reserves of the closing year of account constitute the premium for a reinsurance to close. This premium must be equitable as between the members of the two years of account concerned which means that neither the reinsured nor the reinsuring members should expect to profit from the transaction at the time it is concluded. Where a reinsurance to close is effected between members of different syndicates the managing agent of the reinsuring members will want to make a profit from the transaction for those members and will set the reinsurance to close premium accordingly. This usually involves a loading on the reserves of the closing year of account.

Reinsurer

An underwriter of reinsurance. If the reinsurance is underwritten at Lloyd's the reinsurer(s) will be one or more syndicates. If the reinsurance is not underwritten at Lloyd's the reinsurer(s) will be one or more insurance companies. Some reinsurances may be underwritten by both syndicates and insurance companies.

Replacement

Where an insurer agrees to replace irreparably damaged or stolen goods with goods of a similar type and quality under a contract of indemnity instead of paying a cash sum to the insured.

Representation

A statement of fact or expectation. Representations made as to material facts at the time of the negotiation of the placement, amendment or renewal of cover must be true whereas representations as to a matter of expectation must be made in good faith.

Reserves

The amount of money that has been set aside by an insurer or reinsurer to meet outstanding claims, incurred but not reported losses and any associated expenses.

Retention

The amount of any loss or combination of losses that would otherwise be payable under an insurance/reinsurance contract which the insured/reassured must bear itself before the insurer or reinsurer becomes liable to make any payment under that contract. Compare deductible and excess. An insured or reassured may be able to insure its retention with another insurer/reinsurer.

Retrocedant

A reinsurer that is reinsured under a retrocession.

Retrocession

A reinsurance of a reinsurer by another reinsurer. It serves to 'lay-off' risk.

Retrocessionaire

The reinsurer under a retrocession.

Risk

This term may variously refer to - (a) the possibility of some event occurring which causes injury or loss; (b) the subject-matter of an insurance or reinsurance contract; or (c) an insured peril.

Risk based capital

The determination of a member's capital requirement according to the spread of syndicates in which he participates and the nature of business that those syndicates underwrite.

Run-off account

A year of account which has not been closed as at the date at which it would normally have been closed and which remains open.

Run-off syndicate

A syndicate with one or more run-off years of account.

Salvage

This may refer to – (a) property that is rescued from danger on land or at sea; or (b) an award that is paid to someone for voluntarily rescuing property at sea from a marine peril.

Salvage value

The estimated cash amount that would be received if damaged property were to be sold.

Service Company

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.

Services business

See freedom of services.

Several liability

Each member underwrites for his own account and is liable accordingly for his share of all claims and expenses that are incurred by the syndicates in which he participates.

Short-rate cancellation

When an insurance contract is terminated prior to its expiry date by the insured any return premium that is payable will usually be calculated on a time on risk basis. The result is that the insured will receive less return premium than would be the case if the return premium was calculated on a pro rata basis (see pro rata cancellation).

Short-tail (risk)

A type of insurance where claims are usually made during the term of the policy or shortly after the policy has expired. Property insurance is an example of short tail business. The opposite of short tail business is long tail business.

Signed line

This refers to the amount of a given risk that an underwriter has agreed to accept. It may be the same as the underwriter's written line or, if there is signing down, a lower amount. The amount of a syndicate's signed line should be shown in a table in the policy, where one is issued.

Signing Down

Where a risk is oversubscribed, which is to say that the underwriters' written lines exceed 100% then, absent some contrary instruction, those lines will be proportionally reduced ('signed down') by the broker until they total 100%. An underwriter may insist on preserving his written line in which event the written lines of the other underwriters will be proportionally reduced until they total 100% when added to the preserved written line of the other underwriter.

Signing slip

See slip.

Slip

There are two types of underwriting slip: a placing slip and a signing slip. A placing slip is a document created by a broker that contains a summary of the terms of a proposed insurance or reinsurance contract which is then presented by the broker to selected underwriters for their consideration. Underwriters may delete, amend or add terms on a slip as they consider appropriate for the purpose of providing an indication or a quotation. A signing slip is a document that is created by a Lloyd's broker after a quotation has been accepted for the purpose of processing premiums under the contract that is evidenced by the placing slip. It is a cleaned up version of the final placing slip and shows underwriters' stamps, signed lines and underwriting references, these details being inserted by each underwriter at the request of the broker. Provided that it shows the underwriters' stamps, signed lines and underwriting references a placing slip may be used as a signing slip.

Slip policy

A signed slip which is agreed to be a policy where the insured or the reassured does not require a separate policy.

Society of Lloyd's [*]

The Society incorporated by Lloyd's Act 1871 by the name of Lloyd's.

Soft market

When the availability of some or all classes of insurance or reinsurances is high relative to demand for such insurance or reinsurance. Competition amongst insurers and reinsurers leads to downward pressure on premiums and to the availability of more extensive coverage terms. Compare hard market.

Special reserve fund

A reserve that is held on behalf of a member and comprising part of his funds at Lloyd's. The reserve, which is held within the premiums trust fund of the member, may be only built up by setting aside a proportion of past profits and funds can only be withdrawn from it in the event of the payment an overall underwriting loss or on the death or resignation of the member following the closure of all years of account in which he underwrote. It is separate from the personal reserve fund of a member.

Spread vehicle

A corporate member which participates in a number of syndicates.

Stop loss reinsurance

Also known as excess of loss ratio reinsurance. This is a form of excess of loss reinsurance which provides that the reinsurer will pay some or all of the reassured's losses in excess of a stated percentage of the reassured's premium income in respect of its whole account or a specified account, subject (usually) to an overall limit of liability which may be expressed as a percentage of the relevant premium income or an amount.

Subrogation

The right of an insurer which has paid a claim under a policy to step into the shoes of the insured so as to exercise in his name all rights he might have with regard to the recovery of the loss which was the subject of the relevant claim paid under the policy up to the amount of that paid claim. The insurer's subrogation rights may be qualified in the policy. In the context of insurance subrogation is a feature of the principle of indemnity and therefore only applies to contracts of indemnity so that it does not apply to life assurance or personal accident policies. It is intended to prevent an insured recovering more than the indemnity he receives under his insurance (where that represents the full amount of his loss) and enables his insurer to recover or reduce its loss.

Subscriber

A person that bids for underwriting capacity in a capacity auction.

Substitute agent [*]

A person or body appointed in accordance with part K of the Underwriting Byelaw.

Sum insured

The maximum amount that an insurer will pay under a contract of insurance. The expression is usually used in the context of property and life insurance where (subject to the premium cost) the insured determines the amount of cover to be purchased.

Sunrise clause

A clause that provides retroactive cover in respect of losses occurring before the inception of a (re) insurance contract.

Sunset clause

A clause which restricts cover to claims notified during the period from the inception of a (re) insurance contract to a specified date after the expiry of that contract.

Surplus lines insurance

These are insurance risks that have been certified by a local broker as having been declined by a prescribed number (usually three or four) of licensed insurers in a given state in the United States of America and which therefore be underwritten as 'surplus lines'.

Surplus lines insurer

An insurer that underwrites surplus lines insurance in the US. Lloyd's underwriters are surplus lines insurers in all jurisdictions of the US, except Kentucky and the US Virgin Islands.

Surplus treaty or surplus lines treaty

A type of reinsurance under which bands of cover known as lines are granted above a given retention which is referred to as the cedant's line. Each line is of equivalent size and the capacity of the treaty is expressed as a multiple of the cedant's line so that with a retention of £2 million, a three line treaty would provide reinsurance cover of £6 million (£2 million X 3) excess of £2 million. The reinsurer receives an equivalent proportion of the full risk premium. A surplus treaty is a form of proportional reinsurance.

Surrender

The termination of a life insurance policy while the life assured is still alive in return for a cash sum.

Syndicate [*]

A member or group of members underwriting insurance business at Lloyd's through the agency of a managing agent or a substitute agent to which a syndicate number is assigned by the Council. Except where it is expressly otherwise provided the several groups of members to which in different years a particular syndicate number is assigned by or under the authority of the Council shall be treated as the same syndicate, notwithstanding that they may not comprise the same members with the same individual participations.

Syndicate allocated capacity [*]

In relation to a syndicate, the aggregate of the member's syndicate premium limits of all the members for the time being of the syndicate.

Syndicate business forecast

A statement of the expected range of results of each open year of account of a syndicate that is submitted to Lloyd's by its managing agent in mid year together with the managing agent's expectations for the next year of account.

Syndicate business plan

A plan of the underwriting of a given syndicate for a given year of account that is prepared by the managing agent of a syndicate and submitted to Lloyd's for approval in advance of the commencement of underwriting for that year of account.

Syndicate number

The unique identifying number assigned to a syndicate by the Council of Lloyd's.

Syndicate pseudonym

A series of letters used to identify a syndicate which together with its number are contained in the underwriting stamp of the syndicate.

Syndicate reinsurance

The reinsurance of a syndicate by one or more reinsurers. Such reinsurance can only be arranged by a Lloyd's broker.

Syndicate stamp

This term may refer to – (a) a document which lists the names of the members of a syndicate for a given year of account and the amount of each member's overall premium limit that is allocated to that syndicate; (b) the syndicate allocated capacity of a syndicate; or (c) the underwriting stamp of a syndicate.

Tenderer

A member that seeks to sell some or all of his underwriting capacity in a capacity auction.

Term life insurance

A life insurance policy that pays the sum insured only if the life assured dies within the period of the policy which is for a fixed period.

Terms of business agreement TOBA

Each Lloyd's broker that wishes to do business with a managing agent must enter into an agreement with the managing agent which records the general terms and conditions on which business will be conducted between them.

Third party

Someone other than the insured or his insurer who has suffered injury or loss.

Third party liability

The liability that an insured has to a third party.

Total loss

Where the subject matter of an insurance is lost, destroyed or damaged beyond repair.

Treaty

A reinsurance contract under which the reassured agrees to offer and the reinsurer agrees to accept all risks of certain size within a defined class.

Uberrima fides

Latin for utmost good faith.

Unaligned member

A member that is either (a) not affiliated to the managing agent of a particular syndicate; or (b) not affiliated to any managing agent.

Under insurance

Where the sum insured does not represent the true value of the property insured. See average for an explanation of the consequences of under insurance.

Underwrite

This term may refer to (a) The process of evaluating, defining and pricing insurance and reinsurance risks including where appropriate the rejection of such risks. (b) The acceptance of the obligation to pay or indemnify the insured or reassured under a contract of insurance or reinsurance.

Underwriter

Depending on the context this term may refer to: (a) the individual who is responsible for underwriting a particular insurance or reinsurance contract and who is either an employee of a managing agent, an insurance company or reinsurance company or an employee of a coverholder or any similar underwriting agent. (b) an individual member or company that insures or reinsures a risk.

Underwriters

Depending on the context this term may refer to: (a) the employees of managing agents, insurance companies and reinsurance companies and their respective underwriting agents that underwrite insurance or reinsurance risks; (b) the members or other carriers that underwrite a particular contract of insurance or reinsurance; (c) members collectively; or (d) insurers and reinsurers collectively.

Underwriting agent [*]

A managing agent or a members' agent.

Underwriting capacity

Depending on the context this term may refer to: (a) a member's allocated capacity (b) syndicate allocated capacity, with or without the addition of cover from qualifying quota share reinsurance; (c) the total underwriting capacity of all syndicates combined, with or without the addition of cover from qualifying quota share reinsurance; or (d) the underwriting capacity of an insurance company or a reinsurance company. Underwriting stamp The stamp that is applied to a slip by an underwriter to signify his acceptance of a risk. It shows the number and pseudonym of the syndicate or the name of the (re)insurance company for whom the underwriter acts and has a space for his underwriting reference to be inserted. The underwriter will insert his line on a slip next to his underwriting stamp.

Unearned premium

The proportion of premium that relates to the unused period of cover.

Utmost good faith

Contracts of insurance and reinsurance are contracts of utmost good faith. In the event that either party fails to observe utmost good faith towards the other in regard to the negotiation of cover then the other party may avoid the contract. The duty of utmost good faith requires each party to inform the other all material facts during the negotiation of the placement, renewal or alteration of cover. An insured has a separate duty of good faith when making a claim under an insurance policy.

Glossary Term

Valued policy

See agreed value policy.

Void policy

A contract which has no legal effect and is therefore unenforceable in a court of law. For example, an insurance contract where the policyholder does not have an insurable interest.

Voidable contract

A contract which may be voided at the option of either party. For example, an insurer may avoid a policy from inception for the misrepresentation or non-disclosure of material facts during the negotiation of the placement, renewal or alteration of cover. A insurer may also avoid a policy from the date of the presentation of a fraudulent claim.

War and civil war risks exclusion agreement

An agreement between Lloyd's underwriters and non-marine insurance companies that they will not cover certain war and civil war risks on land.

War risk waterborne agreement

A marine market agreement whereby underwriters will only cover goods against war risks whilst they are on the vessel subject to a time limit after arrival at the port of destination. There is reduced cover for offloading and transhipment at the port of destination.

Warranty

Where an insured or reassured promises that something will or will not be done during the period of cover or that a particular state of affairs exists or does not exist at the inception of cover. If the promise is untrue or is not kept then the insurer/reinsurer may disclaim all liability under the policy from the date of the breach, regardless as to whether the false declaration was material to the underwriting of the contract or causative of any loss.

Wear and tear

The amount deducted from a claims payment in recognition of the depreciation of the property insured through usage of it over time. Where cover is provided on a 'new for old basis' ie where the insurer agrees to replace an old item with a similar new one, no such deduction is made.

Working member

A member who occupies himself principally with the conduct of business at Lloyd's by a Lloyd's broker or underwriting agent, or a member who has retired but who immediately before his retirement occupied himself in this way.

Written line

The amount of a risk that an underwriter is willing to accept on behalf of the members of the syndicate or company for which he underwrites. This is commonly expressed as a percentage of the sum insured which is written on the broker's placing slip. If, on completion of the broking exercise, the written lines exceed 100% then, absent some contrary instruction, they will be signed down by the broker, which is to say they will be reduced proportionately so that they total 100%.

Xchanging

An outsource provider of policy, premium and claims processing services to the Lloyd's market and others. These services are delivered via its operating subsidiaries, Ins-Sure Services and Xchanging claims services.

Year of account

The year in which an insurance or reinsurance contract that is underwritten by a syndicate is allocated for accounting purposes and into which all premiums and claims arising in respect of that contract are payable. Insurance or reinsurance contracts are generally allocated to years of account according to the calendar year of their inception date so that a contract that commences in 2005 will normally be allocated to the 2005 year of account. Historically syndicates have operated a three year accounting system which means that each calendar is normally left open for two further years before a profit or loss is determined. A year of account is normally closed by reinsurance to close at the end of 36 months. Compare open year of account and run-off account.