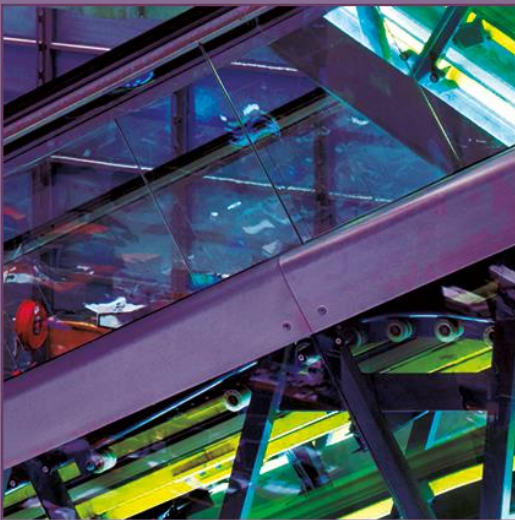




# COVERHOLDER AUDIT SCOPE

## GUIDANCE



Version 2.0  
Q1 2019



INSIGHT CONSENSUS INFLUENCE

## GENERAL GUIDANCE

Guidance notes are presented in the following ways:

Level	Description
<b>General Guidance</b>	This is guidance at an overall level, outlining the expectations of pre-audit organisation, greater detail on approach and general expectations of auditors.
<b>Section Guidance</b>	This is guidance as to the overall approach in relation to each section. Guidance will include a list of items that should be considered prior to audit which should be provided by the managing agent or broker where available, and for testing against while the audit is ongoing. It will also contain examples of 'What good looks like'
<b>Risk Guidance</b>	<p>This is guidance presented at an individual risk level. This may be presented as issues to consider, examples of questions that might be asked or examples of business practice being presented.</p> <p>Guidance presented at a risk level is not designed to be exhaustive. The auditor is expected to use their experience and judgement to consider issues which might be relevant when assessing each individual risk.</p>

### General Approach to Audit:

From the file reviews, review of relevant policy/process/procedure documentation, interviews and observations, auditors are expected to use their knowledge and experience to identify any areas that may or do lead to ineffective practices. For each section of the review, auditors should:

- Assess management and staff awareness of and culture of compliance with applicable controls, including reference to the dissemination of relevant information;
- Identify the individuals with specific responsibilities;
- Test the policies, processes and procedures in place to determine compliance;
- Identify any material variance from previously stated controls or due diligence provided, and comment on the size of any variation, the cause and the potential impact within the relevant risk.
- Comment on the adequacy of the controls in operation, identifying any concerns; and
- Recommend actions for remediation, with priority ratings and suggested timeframes for completion.

### Expectations of Auditors

The below outline general expectations of auditors

- There is an expectation that auditors be familiar with Lloyd's minimum standards and any local regulatory requirements, both of the coverholder and any locations where risks are located or claims are to be handled. It should be noted that Lloyd's minimum standards apply to managing agents - managing agents implement these standards in different ways and the standards do not directly apply to coverholders;
- Where the auditor makes recommendations as a result of ineffective controls, those recommendations should consider the sophistication of the coverholder;
- Findings within the audit should be supported by evidence and the auditors experience;
- If the auditor is unsure at any point of how to proceed on audit, the instructing managing agent(s) should be contacted for further instruction;
- Guidance within this document in respect of issues to consider at a risk level is given as an example of issues which might affect those risks. These lists are not designed to be

exhaustive and the auditor is expected to use their experience and judgement to consider issues which might be relevant when assessing each individual risk;

- The guidance contained herein is given to standardise the core elements of a coverholder audit. It may be the case that individual managing agents issue further instructions or appendices to auditors for completion in addition to the sections contained within the main scope. It may also be the case that individual managing agents may issue additional guidance to auditors around the completion of the scope sections.

### Report Format:

Auditors should discuss the preferred reporting style with instructing managing agents as they may prefer a narrative report or another format of their choosing. A reporting template is provided to auditors for usage where appropriate.

### Pre-Audit:

Clear instructions should be provided to auditors by the instructing managing agents when organising an audit. This should include any sections and appendices to be reviewed and any material issues known to the managing agent which will require further attention by the auditor.

Once the audit has been instructed, managing agents, brokers and the auditors should endeavour to collate as much information from sources other than the coverholder as necessary. This should include at first instruction and as necessary immediately prior to the audit. An information cascade should be in place whereby auditors collate information from the source as stated on each section, then following the cascade as below.



Lack of proper instruction by the managing agent as to which documents would be appropriate to collect from the coverholder could result in additional requirements or requests being placed on the coverholder which they are not already aware of and may not be appropriate, so it is important that these issues be discussed prior to audit.

When contacting the coverholder for the first time to arrange dates for the audit, the auditor should ensure they confirm the location of all key functions to be reviewed in the audit and plan interviews / their review strategy accordingly.

**Summary of information to be provided prior to an audit:**

A number of items should be provided to auditors in all instances:

- A full copy of the binding authority agreement, schedule, rating guide, appendices and endorsements;
- Any previous recommendations and follow up actions as appropriate;
- Any relevant risk ratings and managing agent expectations of the impact of those ratings;
- Any issues or concerns.

Beyond this, auditors should tailor their pre-audit information requests dependent on the scope issued by the instructing managing agent - information is listed under the guidance for each section.

For ease of reference, the information to be provided for all sections is listed as per the below.

The auditor should source the following from central market due diligence systems:

- Bank account details;
- Any compliance policies or procedures, to include as appropriate;
- Sanctions procedure;
- Anti-bribery procedures;
- Anti money laundering / suspicious transactions procedures;
- Anti fraud procedures;
- Complaints procedures / log;
- Conflicts of interest procedures / log;
- Treating customers fairly / ethics / code of conduct (if appropriate);
- Whistleblowing procedures (if appropriate);
- Information security/data protection policies;
- Cyber liability insurance policy (if in place);
- Business continuity plans / disaster recovery plan for IT;
- Complaints procedures;
- Any procedures relating to conduct risk / customer outcomes.

The managing agent / broker should provide you with the following:

- Claims handling agreement;
- Claims bordereaux;
- Claims reserving philosophy (if separate from claims handling agreement);
- Premium / claims bordereaux;
- Any current credit control issues;
- Details of any loss funds across all years of account (where appropriate);
- Risk, premium and claims bordereaux.

The managing agent / broker may provide you with the following:

- Details regarding the target customer for products sold by the coverholder.
- Any agreed pre-contractual documentation;
- Any agreed policy documentation, to include:
  - Certificates;
  - Schedule;
  - Wordings;
- Standard TOBA used with policyholder's/producing brokers;
- Any agreed reporting formats or non contractual agreements regarding reporting;
- Any other management information provided by the coverholder (as applicable);
- Details of any system(s) used for (but not limited to): rating and/or quoting, binding (including wordings) or amending cover; policy issuance; reporting; accounting; claims and internet / web trading;
- Report from any IT specific audit previously undertaken;
- Consumer product binding authority questionnaire or other internal assessment materials (if available);
- Any conduct risk management information available;
- Any complaints information;
- Policies regarding claims declinatures, without prejudice or ex gratia payments;;
- Telephone scripts (if available);
- Any customer focused training materials or training records.

The coverholder may provide you with the following:

- Any service level agreements in place between the coverholder and their outsource providers;
- Any IT specific certification (EG - ISO 27001).

### The Role of Lloyd's Local Offices:

Lloyd's local offices can add value to the audit process. The local offices are in contact with coverholders and will often be aware of their specific circumstances (from a legal, regulatory and business point of view). The local offices are aware of the applicable legislation and regulatory requirements that coverholders should meet in their regions.

Local Lloyd's offices will always seek, as far as possible, to support the work of the auditor, prior, during and after the audit process.

### Wrap up Meetings:

Auditors are expected to share findings with the coverholder in a wrap up meeting with a senior person at the end of the audit, and should detail the coverholders initial responses in the executive summaries and reports. Best practice guidance for this may be to either undertake in person on site or via email - in either event written notes / correspondence should be retained to ensure there is clarity of potential expectations in post audit actions.

### Useful documents:

The Lloyd's website contains a number of useful documents and which may assist with the audit. Most of these can be found within the Delegated Authorities section of the website, at <https://www.lloyds.com/the-market/i-am-a/delegated-authority>:

- Code of Practice - Delegated Authorities
- Service Company Code of Practice
- Definitions Bylaw
- Intermediaries Bylaw
- Coverholder Undertaking
- Service Company Undertaking
- Coverholder Reporting Standards
- Lloyd's Brand Guidelines
- Model Binding Authority Agreements

### Useful tools:

Lloyd's / the London Market also provides a number of tools for use by the market, which may assist auditors:

#### Central market due diligence systems:

Access to central market due diligence systems is encouraged as they should provide auditors with up to date copies of many of the documents that may be required prior to audit. Where appropriate or required, the managing agent is responsible for requesting access to central market due diligence systems for the auditor

#### Crystal:

Crystal provides Lloyd's market participants with quick and easy access to international regulatory and taxation requirements.

When using Crystal market participants or auditors may either access publically available content or register as a user and benefit from:

- Access to premium content
- Risk location guidance
- Regular updates on regulatory and fiscal requirements via Lloyd's Regulatory Communications newsletter

- Access to Crystal Assist, an online tutorial that provide an introduction to Lloyd's licences and regulatory / fiscal requirements
- Ability to save favourite searches.

Access to Crystal and full details on how to register are available at [www.lloyds.com/crystal](http://www.lloyds.com/crystal).

#### Risk Locator Tool:

Lloyd's provides the Risk Locator tool to assist market participants in establishing the correct regulatory and tax location for a specific risk or insured. Use of the tool will assist coverholders writing on a cross border basis in ensuring that they are writing within the terms of the binding authority, complying with Lloyd's / local regulatory requirements and applying the correct tax.

Market participants can gain access to the tool by registering for an account on Lloyds.com.

#### E-Learning Modules:

Lloyd's provides a number of E-learning tools which may assist auditors and coverholders on a number of topics, which can be found on the Lloyd's website:

- Sanctions
- Anti Bribery
- Anti Money Laundering
- Conduct Risk
- UK Complaints Handling

# 1. UNDERWRITING

## Overview:

This part of the audit is intended to verify that underwriting controls or procedures are sufficient to ensure that quotations, binding risks, post bind surveys/inspections, policy and endorsement issuance and renewals are in accordance with the binding authority agreement and managing agents' expectations.

## Pre-Audit Information

The managing agent / broker should provide you with the following:

- Risk bordereaux;
- Details regarding the target customer for products sold by the coverholder.

The auditor should be knowledgeable on the regulations relevant to the territory in which the coverholder is domiciled and any potential triggers relating to risk location.

A clear understanding of the target customer will be important for the auditor to assess if products are being sold to those that the product has been developed to provide cover for.

Area	Risk	Guidance
Quotation	<i>a) Quotation is issued based upon inaccurate or incomplete information which could result in under-pricing or binding of risks outside of appetite, leading to adverse financial exposure.</i>	Only permitted customers and risks should be quoted for under the BAA.  How does the coverholder obtain underwriting information on which to quote and how do they ensure that it is consistently accurate e.g. Factfinder, proposal form, online portal?
Pre-Contractual	<i>b) Pre-Contractual processes are not followed in line with the binding authority agreement and local regulatory requirements, resulting in reputational damage and regulatory exposure.</i>	The auditor might consider the following when addressing pre-contractual processes: <ul style="list-style-type: none"> <li>• Local regulatory requirements for pre-contractual documentation;</li> <li>• Timeliness of renewal notifications;</li> <li>• Any requirements around tacit renewal;</li> <li>• Any complaints noted regarding pre-contractual documentation.</li> </ul>
Authorised / Approved persons	<i>c) Risks are quoted and/or bound by persons without authority leading to uncontrolled underwriting.</i>	There is an expectation that quotations should be produced or sanctioned by authorised persons. Any automated systems used to quote or bind at the request of the agent with no intervention by the coverholder should be approved by the managing agent.  The coverholder should have controls in place to ensure only authorised persons are quoting, binding or issuing risks, in line with the terms of the binding



		authority agreement.
<b>Pre-Bind Due-Diligence</b>	<i>d) The Coverholder does not have appropriate pre-bind checks to identify their customers and their relationship to the risk, which may result in insurance being provided to inappropriate policyholders, resulting in adverse regulatory exposure.</i>	<p>The auditor should consider non underwriting checks made by the coverholder in line with procedures, for example</p> <ul style="list-style-type: none"> <li>• Politically Exposed Persons (PEPS);</li> <li>• Public officials;</li> <li>• Sanctions;</li> <li>• Credit checks;</li> <li>• Risk location;</li> <li>• Insurable interest.</li> </ul>
<b>Insured Domicile / Risk Location</b>	<i>e) Underwriters could incur financial or regulatory penalty if risks are bound outside of the geographical limitations stipulated within the BAA.</i>	<p>What tools does the coverholder use to ensure that they identify the policyholder's domicile, risk location and location of the subject of insurance from a tax and regulatory perspective and how is this kept up to date. How is evidence of these checks retained?</p> <p>Cross border risks are where the insured or risk is domiciled or located in a different territory to the coverholder, and in which different regulatory controls are in operation.</p> <p>Access to the Risk Locator Tool and Crystal, Lloyd's online global trading tools for assistance with establishing legal location of a risk and country specific tax and regulatory requirements is encouraged.</p>
<b>Premium Calculation / Policy Terms</b>	<i>f) Premium calculation and the application of policy terms are not in accordance with the BAA and could result in adverse financial or regulatory exposure.</i>	<p>This risk should not apply where the binding authority agreement is written on a prior submit basis.</p> <p>Is the rating guide/online rating tool referred to in the BAA being followed?</p> <p>How are any rating tools controlled / protected to ensure consistency and accuracy in line with their authority.</p> <p>If the coverholder has full authority to decide their own rates/terms, how do they ensure that rating/policy terms are applied consistently and fairly?</p>
<b>Fees</b>	<i>g) Fees charged to policyholders are charged outside the terms of the binding authority, market practice or local regulatory requirements, resulting in reputational damage, financial loss or regulatory</i>	<p>The auditor might consider the following when addressing fees charged by the coverholder to the policyholder:</p> <ul style="list-style-type: none"> <li>• Any fees charged should be in line with the BAA, any other guidelines agreed by managing agents and any local regulatory requirements;</li> <li>• Fees should be calculated and applied consistently in line with agreed procedures and criteria;</li> <li>• Fees should be disclosed at the relevant points within the underwriting process in line with those agreed procedures and local regulatory</li> </ul>

	<i>exposure.</i>	requirements.
<b>Discretionary Discounts</b>	<i>h) Discretionary discounts are applied in a way that is inconsistent with an underwriting guide or managing agent's expectations, leading to inaccurate feedback into pricing models and adverse financial exposure.</i>	<p>The auditor should consider the usage of discretionary discounts by the coverholder. Usage should be in line with any agreed underwriting guidelines.</p> <p>Usage in a significant number of cases may indicate that the agreed rating schedule may be inaccurate, potentially affecting the profitability of the portfolio.</p> <p>In the event that discretionary discounts are applied through commission sacrifice, this could also undermine the operations of the coverholder.</p>
<b>Tax Calculation</b>	<i>i) Inaccurate calculation of applicable taxes could result in adverse financial and regulatory exposures.</i>	<p>This refers to the administration of local tax for which the coverholder is responsible.</p> <p>It is not expected that the auditor will assess or review tax payments further down the distribution chain where the coverholder is not responsible for those payments. In these instances the auditor should comment on any structures the coverholder has in place at an entity level with producers - e.g. requirements within a TOBA between the coverholder and any producing agent.</p> <p>It is expected that an auditor will look to validate and provide evidence that relevant local taxes are being paid correctly and in a timely manner to the correct body where the coverholder is directly responsible for payment of the tax, or forwarded on to the managing agent for settlement in accordance with regulations. The auditor should detail the process the coverholder uses to make returns to relevant local authorities and provide details of the evidence of this process including details of the frequency and accuracy of reports.</p>
<b>Underwriting Service</b>	<i>j) A poor service is provided to Insureds or Brokers resulting in failure to adhere to regulatory requirements and the potential for reputational damage.</i>	<p>The auditor should consider aspects of underwriting service when considering this risk, throughout the lifecycle of the policy. Areas that might be considered would include, for example:</p> <ul style="list-style-type: none"> <li>• Timeliness of communications;</li> <li>• Ease of making mid term adjustments and cancellations and any potential barriers to policyholders through these processes;</li> <li>• Any complaints specifically related to underwriting service;</li> <li>• Any peer review of internal audit processes of underwriting service being followed;</li> </ul>

		<ul style="list-style-type: none"> <li>Any internal monitoring of performance in underwriting service;</li> <li>Any training of client facing staff, including ongoing requirements for individual licencing requirements.</li> </ul>
<b>Underwriting Records</b>	<i>k) Underwriting information is incomplete which may prevent future administration and/or dispute resolution, leading to potential regulatory and financial exposure.</i>	<p>Coverholders should maintain complete records of risks bound including correspondence throughout the binding process. Records should be maintained in a consistent manner. Controls may include:</p> <ul style="list-style-type: none"> <li>Peer review or internal audit process to review underwriting records;</li> <li>File standards;</li> <li>UW file checklists;</li> <li>Complete records of email and telephone correspondence.</li> </ul>
<b>Post Bind Requirements</b>	<i>l) The post bind requirements/ subjectivities (e.g. Surveys) are not conducted within appropriate timeframes resulting in potential financial exposure.</i>	<p>How does the coverholder ensure that any subjectivities are clear and not misleading, followed up and not overlooked?</p> <p>If cover is bound with subjectivities (e.g. Proposal form, survey) is this stated clearly to the policyholder, including cover provided in the meantime including terms that may apply, a deadline for the subjectivity to be completed and the consequences of non-compliance.</p> <p>Are subjectivities handled in accordance with the Contract Certainty Code of Practice? Is a suitable diary procedure in place to track subjectivities applied?</p> <p>Have any fees been charged to the assureds for actions which have not been followed up (e.g. Surveys)?</p>
<b>Remote Workers / Multi Office Locations (if applicable)</b>	<i>m) Staff bind from remote locations without appropriate systems, controls, management oversight or managing agent approval leading to potential regulatory and financial exposure..</i>	<p>Coverholders are increasingly able to quote and bind risks remotely (e.g. whilst at home) via the use of laptops and remote internet connections. This may be from a home address or other location not shown in the BAA.</p> <p>Issues may arise where a worker is based away from an approved office and is carrying out coverholder activities with the agreement of their employer. These should be agreed with managing agents to ensure they are aware of and can manage any potential issues.</p> <p>Issues that can be caused by unauthorised homeworking can include:</p> <ul style="list-style-type: none"> <li>Unauthorised sub delegation;</li> <li>Licencing;</li> <li>Data protection and security.</li> </ul>
<b>Aggregate and Premium Monitoring</b>	<i>n) The maximum premium and insured value accumulations stated in the BAA are exceeded resulting in unintended exposure.</i>	<p>If aggregate or premium monitoring is a requirement of the BAA, an appropriate process to monitor business written should be in place to prevent a breach of the agreed limitations.</p> <p>The coverholder may have controls in place which are run prior to binding of each risk or on a regular basis.</p>
<b>Systems</b>	<i>o) The system is</i>	Does the coverholder have a system of sufficient

	<p><i>not suitable to support the underwriting or recording of all risks bound under the subject BAA, leading to potential financial and reputational exposures.</i></p>	<p>quality and adequacy for the conduct of its business under the BAA:</p> <ul style="list-style-type: none"> <li>• To comply with appropriate service standards for its customers;</li> <li>• For underwriting administration and underwriting risk, including monitoring and renewing policies and maintenance of records.</li> </ul> <p>Auditors should consider the systems used in accordance with the volume of transactions placed under the BAA, and the effectiveness of any workarounds or tasks that are undertaken outside of the system.</p>
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### 3. CONTRACT DOCUMENTATION

#### Overview:

The purpose of this section is to verify that the controls around the creation and issuance of Policy Documentation are sufficient to ensure compliance with the terms and conditions of the subject binding authority agreement(s)

It is expected that auditors will review one example of each policy wording issued by the coverholder to verify all required conditions and exclusions as stated within the BAA. Any examples of clauses required under the BAA, but not contained within the template wording, should be verified through checks of the schedule during individual file testing.

#### Pre-Audit Information:

The managing agent / broker may provide you with the following:

- Any agreed pre-contractual documentation
- Any agreed policy documentation, to include:
  - Certificates;
  - Schedule;
  - Wordings;

Area	Risk	Guidance
<b>Documentation Format</b>	<i>a) The policy documentation is not being issued in accordance with the binding authority agreement leading to potential regulatory and financial exposure.</i>	<p>Insurance documentation evidencing contracts of insurance issued by an Approved coverholder must be issued in accordance with Lloyd’s requirements and agreed formats.</p> <p>The auditor might consider the following when addressing this risk:</p> <ul style="list-style-type: none"> <li>• Are documents issued in accordance with the binding authority agreement, or as agreed with managing agents?</li> <li>• Does the documentation include the correct Unique Market Reference?</li> <li>• What controls does the coverholder have in place to ensure consistency of templates?</li> <li>• Are the appropriate several liability clauses used?</li> <li>• If Joint Certificates (known as ‘Subscription Policies’ in Canada) are permitted under the binding authority agreement, are these issued in line with Lloyd’s requirements?</li> <li>• What processes are in place to ensure appropriate oversight of documentation issuance by persons named and approved within the binding authority agreement?</li> </ul>
<b>Documentation Accuracy</b>	<i>b) Policy documentation is issued stating incorrect terms which could be misleading for the customer and incur adverse financial or regulatory exposure for managing agents</i>	<p>What controls are in place to ensure documentation issued in respect of risks bound under the binding authority agreement are accurate?</p> <p>How does the coverholder ensure that the certificates, wordings, warranties, exclusions and endorsements are issued in line with the requirements of the binding authority and any applicable regulations?</p> <p>Where policy documentation/certificates are produced via an online system provided by the coverholder and used by them, its sub-brokers or the policy holder to “auto-issue”</p>

		<p>policy documents, what controls are there around the templates being used for risks bound? How are any changes agreed?</p> <p>If documents are produced manually, how is consistency achieved and what peer review/checking system is implemented.</p>
<b>Insurance Timeframes</b>	<i>c) Policy documentation is issued outside of regulatory requirements or other agreed timeframes, leading to regulatory exposure and poor customer outcomes.</i>	<p>What processes/management oversight is in place to ensure policy documentation is issued in accordance with managing agent / regulatory requirements?</p> <p>Auditors might consider:</p> <ul style="list-style-type: none"> <li>• Based on file review testing, are documents issued in line with the binding authority requirements and local regulatory requirements?</li> <li>• Internal monitoring of document issuance by the coverholder;</li> <li>• Any diary systems that might be in place.</li> </ul>
<b>Clarity</b>	<i>d) Policy terms are not presented in a clear and concise manner which could mislead the customer and result in unsatisfactory outcomes.</i>	<p>What controls are in place to ensure clear documentation is issued?</p> <p>A lack of clarity can result in increased claims costs as the customer misunderstands coverage, increased claims costs due to unfair contract with ineffective exclusions.</p> <p>Claims disputes, legal fees and unplanned claims payments can arise from a lack of clarity in policy wordings.</p> <p>Claims and complaints management information could be utilised to monitor customers understanding of policy terms and conditions.</p>
<b>Claims Submission</b>	<i>e) Policy documentation is not clear on how to submit a claim and/or make a complaint</i>	<p>Are policy documents clear on how a policyholder needs to submit a claim or complaint, and does that align to the requirements laid out in the binding authority agreement.</p>
<b>Document Retention</b>	<i>f) Coverholder fails to retain all documentation in adherence to both local regulatory requirements and the terms set out in the BAA, leading to financial and regulatory exposure</i>	<p>Although documents are more and more being kept in digital format, coverholders are required to ensure that all issued and signed documents are kept for certain minimum retention timeframes, and are fully accessible for the managing agent and its regulators.</p> <p>Auditors might consider:</p> <ul style="list-style-type: none"> <li>• Whether the coverholder has a consistent approach to document retention, including any written procedures, and if these have been followed;</li> <li>• Local regulatory requirements for timelines of document retention.</li> </ul>
<b>Marketing Materials</b>	<i>g) Potential damage to Lloyd's or managing agent's international reputation due</i>	<p>Auditors should consider the coverholders use of either Lloyd's branding guidelines or individual managing agent branding guidelines (where applicable) in the following circumstances:</p> <ul style="list-style-type: none"> <li>• Websites;</li> </ul>

	<i>to failure to adhere to branding guidelines in marketing materials.</i>	<ul style="list-style-type: none"><li>• TOBAs;</li><li>• Presentations / communications to brokers;</li><li>• Leaflets / mailshots;</li><li>• Social media.</li></ul>
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## 4. CLAIMS CONTROLS

### Overview:

The *Claims Controls (with authority)* section is appropriate for use where claims authority has been delegated to the coverholder and guidance regarding this section is given below.

Where the coverholder has no specific delegated claims authority the managing agent should consider whether the coverholder is involved in a communications channel involving claims (for example, receipt and referral of first notification of loss). In these instances the *Claims Controls (without authority)* section should be used to confirm the coverholder has effective processes in place to manage any involvement in the claims process.

Auditors are expected to review claims controls and the operation of those controls against each claim reviewed, but not to attempt to re-adjust or undertake technical peer review of the claims themselves.

The guidance below highlights the key issues to be considered against the risk posed. These lists are not exhaustive, and not applicable in all circumstances, but should be an aide memoire on the key areas to test. This should be supported by the auditors local knowledge.

### Pre-Audit Information:

**The managing agent / broker should provide you with the following:**

- Claims handling agreement;
- Claims bordereaux;
- Claims reserving philosophy (if separate from claims handling agreement);
- Details of any loss funds across all relevant years of account (where appropriate)
- Details and examples of SLAs and KPIs;

**The managing agent / broker may provide you with the following:**

- Any agreed reporting formats;
- Any claims related policies / procedures;
- Any additional claims due diligence information as may be appropriate;

Area	Risk	Guidance;
<b>Claims Operation: Claims Structure, Management &amp; Resources</b>	<i>a) The department responsible for the handling and settlement of claims under this BAA is inappropriately structured, managed, resourced or experienced resulting in the potential for service delays, decisions being made that are not in line with policy conditions and increased claims costs.</i>	<p>Auditors are expected to review and comment on the effectiveness of the coverholders governance structures and resourcing in practice.</p> <p>When formulating an opinion, consideration should be given to the following areas:</p> <ul style="list-style-type: none"> <li>• Structure and management;</li> <li>• Where required within any contract, any licenced claims handlers are identified.</li> <li>• Number of staff and workload relating to the binding authority and in the general context of the coverholder (including a review of average portfolio size);</li> <li>• Review (a sample) of staff performance against job descriptions and objectives</li> <li>• A process to monitor and manage backlogs</li> <li>• Resource planning, including plans for dealing with events that can generate high volumes of claims or increased customer interaction</li> </ul>



		<ul style="list-style-type: none"> <li>• Staff expertise, including identification and delivery of claims training needs (soft skill, technical, financial crime etc.) and recording continuous professional development;</li> <li>• Consistent application of agreed authority limits;</li> <li>• Conflict of Interest - is there adequate segregation of duties between underwriting and claims with regards to processing claim transactions;</li> <li>• Adequacy of business continuity &amp; if relevant CAT response plans, including how up to date they are, when last tested, and the addressing of any issues identified from the last test;</li> <li>• Awareness (where appropriate) of need to report claims to ISO.</li> </ul>
<b>Claims Handling and File Management</b>	<i>c) Claims are not handled and settled in an appropriate, accurate and proactive manner, in line with policy terms and conditions, with internal authority limits and in compliance with applicable regulatory requirements.</i>	<p>Provide an evidenced based opinion as to whether appropriate controls around management of claims are in place to ensure effective file management and claims handling. Comments should include whether the coverholder is consistently following agreed claims handling procedures, as well as expected norms for claims handling in respect of the type of portfolio.</p> <p>Commentary should also include an overview of the accuracy of reporting on agreed SLAs, identifying where those measures reported are not supported by evidence within the coverholder.</p> <p>Consideration should be given to the following:</p> <ul style="list-style-type: none"> <li>• Variation of SLA delivery against that reported to the managing agency, including an overview of accuracy of any system used to record SLA performance. Should also include commentary on resolution plan where under performance identified, and how this has been delivered.</li> <li>• Claim triage and assignment to an appropriately skilled and licenced adjuster;</li> <li>• Availability and awareness of up to date internal claims procedures and SLAs to claims staff</li> <li>• Sanctions checking / financial crime at settlement stage (where appropriate);</li> <li>• Issues outside of authority (coverage, reserve or settlement) are being promptly referred and identified in reporting;</li> <li>• Adherence to internal referral processes;</li> <li>• Procedures and controls around litigation management;</li> <li>• File management and effectiveness of diary systems;</li> <li>• Fraud identification, screening and escalation in accordance with any internal policy or procedure, and ensuring any screening list is appropriate for that territory;</li> <li>• Adherence to any local regulatory handling requirements, and adequacy of any controls.</li> </ul>
<b>Claims Reserving</b>	<i>d) Reserving is not consistent, timely,</i>	Provide an evidenced based opinion as to whether the controls in place to ensure effective reserving practices

	<i>accurate and inclusive of all potential costs and indemnities thereby affecting managing agents' ability to monitor financial performance.</i>	<p>are being followed in line with the managing agents' claims reserving philosophy.</p> <p>Consideration should be given to the guidance detailed below where claims reserving should at all times be:</p> <ul style="list-style-type: none"> <li>• in line with the applicable managing agent reserving philosophy;</li> <li>• consistent;</li> <li>• timely (at all times in line with applicable binding authority agreement SLAs);</li> <li>• accurate (taking into account both possible costs and indemnity potential);</li> <li>• diarised and followed up effectively;</li> <li>• effectively documented on each claim file.</li> <li>• supported by control reports to track reserve movements, nil reserves, timeliness of reserves, static claims etc.</li> </ul>
<b>Recoveries</b>	<i>e) Recoveries are not identified or pursued which may lead to adverse financial exposure</i>	<p>Are the controls in place for the identification of recovery opportunities, their ongoing handling and final resolution appropriate, operative and effectual? Is the coverholder undertaking a cost benefit analysis prior to pursuing recoveries? Is the coverholder maximising recovery returns to managing agents?</p> <p>Auditors should consider all aspects of recoveries, including salvage and subrogation.</p>
<b>Supplier Management</b>	<i>f) Insufficient procurement and proactive management procedures in the selection and use of third parties (e.g. Loss Adjusters/Assessors) may result in adverse financial and customer outcomes.</i>	<p>Provide an evidence based opinion as to whether appropriate controls are in place to ensure effective procurement, appointment and management of external experts.</p> <p>The coverholder should employ disciplined procurement and pro-active management processes in the selection and use of third party claim providers and external experts, including any sub- delegation of the authority to a third party to handle claims on the instructing managing agent's behalf (and where the managing agent acts on behalf of Lloyd's Brussels, it is clear in the instruction by the coverholder that this is on behalf of Lloyd's Brussels).</p> <p>Appropriate processes addressing the selection, engagement and appointment of external experts should be in place, as well as efficient ongoing management of external experts, including the monitoring of performance, budget and charges.</p> <p>Consideration should be given to the key areas listed below:</p> <ul style="list-style-type: none"> <li>• use of approved panels and ongoing review of those panels;</li> <li>• rationale for experts appointed outside of panels;</li> <li>• clear setting and communications of goals and budget;</li> <li>• monitoring of performance of third party experts and appropriate follow up from variances;</li> </ul>

		<ul style="list-style-type: none"> <li>checking of invoices against written agreements and variances.</li> </ul>
<b>Claims Systems</b>	<p><i>g) Inappropriate systems could lead to ineffective claims monitoring, settlement delays, inaccurate reporting and poor customer outcomes.</i></p>	<p>Provide an evidence based opinion as to whether the coverholder has an adequate claims management system(s) in place and whether it is appropriately managed.</p> <p>Consideration should be given to the below:</p> <ul style="list-style-type: none"> <li>System capabilities - is the system adequate and effective in supporting the fair adjustment, recording, management oversight and reporting of claims;</li> <li>Correct use of any market systems;</li> <li>Root cause of any system downtime impacting claims delivery;</li> <li>Management information: effective production and use of management information;</li> <li>Correct year of account allocation;</li> <li>System controls to prevent claims adjustment outside individual handler or delegation authority, or outside policy coverage;</li> <li>Management of any manual processes used to supplement software system functionality.</li> </ul>
<b>Self Assessment and Performance Management</b>	<p><i>h) Measurement and review of claims management should be proportionate and performed on an appropriately regular basis.</i></p> <p><i>The absence of proportionate quality assurance and claims feedback to underwriting could lead to the deterioration of service standards.</i></p>	<p>Based on the results of the file review and appropriate off and on-site enquiries, are agreed controls in place and being followed to ensure adequate self assessment and performance management?</p> <p>Proportionate in respect of this risk will refer to the volume and complexity of the claims caseload being handled by the coverholder and the size and sophistication of the coverholder itself.</p> <p>Consideration should be given to the below:</p> <ul style="list-style-type: none"> <li>Internal monitoring of performance through use of Key Performance Indicators (KPIs);</li> <li>Effective file / peer review, with results documented</li> <li>Training to address any issue areas identified through the peer review process</li> </ul>
<b>Authorised / Approved persons</b>	<p><i>i) Claims are handled and/or settled by persons without authority leading to ineffective controls around claims payments.</i></p>	<p>Based on the results of the file review and appropriate off and on-site enquiries, please provide commentary on any claims that have been handled or settled by unauthorised persons.</p> <p>Any evidence of a breach should be discussed with the coverholder to identify any additional information or reasons for that breach.</p> <p>Consideration should be given to the below:</p> <ul style="list-style-type: none"> <li>Details of any specific incidents or evidence from the file review</li> <li>Identification of whether this is a one off incident or a regular occurrence</li> <li>Any controls that are in place to prevent unauthorised claims handling or settlement, root cause analysis of any specific points of</li> </ul>

		failure, and how those controls could be enhanced to prevent future breaches.
<b>Customer Outcomes</b>	<i>j) Through the claims handling and management activities of the coverholder, customers are not receiving a fair and consistent outcome leading to exposure to regulatory intervention and reputational damage.</i>	<p>Based on the results of the file reviews and appropriate off and on-site enquiries, provide an evidence based opinion as to whether appropriate controls are in place to ensure the coverholder is focused on fair, transparent and consistent claims handling.</p> <p>The coverholder should have appropriate documented controls in place to ensure that it handles claims fairly and in line with good business practices, legislation and regulatory requirements in the territory in question.</p> <p>Consideration should be given to the areas listed below:</p> <ul style="list-style-type: none"> <li>• prompt and fair handling of claims;</li> <li>• lack of barriers to submitting and progressing a claim;</li> <li>• suitable communications with claimants, considering the sophistication of the customer type;</li> <li>• effective identification, handling and recording of all appropriate complaints, ensuring compliance with any requirements identified in the outsource contract;</li> <li>• root cause analysis on complaints, including solutions to address recurring issues;</li> <li>• handling of denials and without prejudice claims;</li> <li>• ongoing evidence of training of claims handlers.</li> </ul>

## 7. ACCOUNTING

### Overview:

The purpose of this section is to ensure that all the insurance funds (i.e. non-operational) held by the company are protected and are held in the correct type of accounts, as defined by the binding authority agreement; that these are clearly ring fenced and that the reconciliation on the accounts is being completed in a satisfactory manner. Furthermore this section is intended to ensure that receipt and transmission of monies from or onto third parties or managing agents is completed in line with all requirements.

Where an audit is undertaken on a coverholder where the accounting function is in a separate location the auditor should consider use of telephone interview or video conferencing with follow up as may be required.

### Pre-Audit Information:

The auditor should source the following from central market due diligence databases:

- Bank account details.

The managing agent / broker should provide you with the following:

- Premium / claims bordereaux;
- Any current credit control issues;
- Details of any loss funds across all years of account (where appropriate).

The managing agent / broker may provide you with the following:

- Standard TOBA used with producing brokers.

Area	Risk	Guidance
<b>Accounts (status and security)</b>	<i>a) Adverse financial exposure as a result of the inappropriate use of premium or claims funds prior to settlement to managing agents (including mingling with general operating funds).</i>	Auditors should consider: <ul style="list-style-type: none"> <li>• How does the coverholder ensure appropriate protection for managing agent monies with consideration to separate operating, premium and claim accounts, trust accounts?</li> <li>• Testing that the monies stay in the trust account until remittance;</li> <li>• Effective management of loss funds, including reconciliations and management of all years of account;</li> <li>• Unauthorised premium / claims offsetting;</li> <li>• Appropriate management of any cascading risk transfer authority.</li> </ul>
<b>Structure</b>	<i>b) Inappropriate segregation of duties and responsibilities that could result in the misuse of managing agent monies.</i>	Auditors should consider whether there is appropriate separation of duties, dual authorisation and reconciliation processes? Controls should be proportionate and appropriate to the size and structure of the organisation, and should be reviewed in relation to the binding authority agreement in question.
<b>Accounting Procedures</b>	<i>c) Premium monies are not collected and settled accurately to managing agents within the agreed timeframes, increasing</i>	Auditors should consider the effectiveness of accounting procedures through evidence gathered during testing. This might include consideration of the following:

	<i>credit risk to managing agents.</i>	<ul style="list-style-type: none"> <li>• Timely processing of bordereaux transactions to / from the broker within agreed timeframes, including root cause analysis of any variances;</li> <li>• Effective credit control processes in place at the coverholder;</li> <li>• Evidence of aged debt monitoring and follow up including escalation or cancellation as appropriate;</li> <li>• The current aged debt position.</li> </ul>
<b>Systems</b>	<i>d) The systems are not suitable to support the management of all financial transactions for business bound under the subject BAA, leading to ineffective credit control processes and adverse financial risk to managing agents.</i>	<p>What systems are in place to support the appropriate management of all accounting responsibilities under this BAA?</p> <p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• Timely and effective movement of data between underwriting, claims and ledger systems;</li> <li>• System generated reports and actions of any exceptions;</li> <li>• Credit control / aged debt monitoring;</li> <li>• The complexity, consistency and effectiveness of any workarounds required outside of systems.</li> </ul>
<b>Tax Settlement</b>	<i>e) Inaccurate calculation and settlement of applicable taxes in accordance with local requirements could incur financial penalties.</i>	<p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• Whether procedures are in place to calculate, declare and settle the applicable tax liabilities, and if these are operating effectively?</li> <li>• Does the coverholder have any cross border risks and how do they calculate tax?</li> <li>• How does the coverholder ensure that the taxes are accurate e.g. Use of Crystal/Risk Locator/contact broker/managing agent/tax office?</li> <li>• How does the coverholder manage tax changes e.g. UK Insurance Premium Tax?</li> <li>• For risks bound under the BAA, where the coverholder is responsible for the payment of taxes, how do they ensure all taxes due are paid in line with local requirements.</li> </ul>
<b>Transactional Accounting</b>	<i>f) A failure to correctly account for and process individual transactions results in serious financial exposure for managing agents in relation to the business.</i>	<p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• What controls does the coverholder have in place to ensure that all account transactions for the declarations bound are in accordance with the terms of the BAA?</li> <li>• If the correct payments are not being made in a timely manner, this could be indicative of more serious operational failings within the coverholders operation;</li> <li>• Do the coverholders transaction processing accounting practices meet the settlement timeframe shown in the BAA?</li> <li>• Do the coverholders transaction processing accounting practices ensure that funds are</li> </ul>

		<p>correctly allocated;</p> <ul style="list-style-type: none"> <li>• Are staff aware of the agreed timeframes and the internal process for monitoring, recording and reporting late transactions;</li> <li>• Based on testing, are transactions effected in line with the coverholder accounting procedures and the binding authority agreement?</li> <li>• Test the efficiency of these procedures for ensuring the timely and correct settlement of transactions. The table provided in Section 8 is intended to assist the auditor to evidence where sample transactions have either met or failed the agreed settlement deadlines;</li> <li>• Has the coverholder identified any failings? How have they tried to address that?</li> </ul>
<p><b>Loss Funds</b></p>	<p><i>g) Claims funding is poorly managed, leading to inadequate funding, delayed settlements and financial inconsistencies.</i></p>	<p>Review the processes and controls over the maintenance and adequacy of any agreed loss fund to facilitate payments.</p> <ul style="list-style-type: none"> <li>• All claims funds should be held in non-interest-bearing bank accounts, separate to any business account, and should be maintained in trust by the coverholder for the sole purpose of settling claims and related loss expenses on behalf of the managing agent(s);</li> <li>• Ensure any MA specific instruction on how funds are to be held (i.e. co-mingling or not with other carrier funds) are followed.</li> <li>• The adequacy of funds should be reviewed periodically to ensure the fund value is set appropriately (including the return of excess funds), and maintained with adequate funds to facilitate payment of all claims;</li> <li>• Any shortfalls or delays with funding are escalated in a timely manner to MAs.</li> <li>• The coverholder should be able to fully reconcile all financial transactions in any given reporting period;</li> </ul> <p>Settlement of agreed claims, including appropriate use and allocation from loss funds;</p>

## 9. REPORTING

### Overview:

The purpose of this section is to provide assurance that reporting provided is an accurate reflection of business conducted under the subject binding authority. This is with particular regard to the accuracy of data being entered into systems, the effectiveness of those systems and provision of data in line with requirements within the binding authority agreement, or as agreed between managing agents and the coverholder.

### Information to be provided:

The managing agent / broker should provide you with the following:

- Risk, premium and claims bordereaux.

The managing agent / broker may provide you with the following:

- Any agreed reporting formats or non contractual agreements regarding reporting;
- Any other management information provided by the coverholder (as applicable).

Area	Risk	Controls
<b>Data Capture</b>	<i>a) Risk level data declared may be inaccurate or incomplete leading to performance and regulatory reporting being inaccurate</i>	<p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• The effectiveness of any controls in place to ensure that complete and accurate data is captured and reported to managing agents;</li> <li>• Data quality monitoring or testing;</li> <li>• Rekeying into different systems;</li> <li>• Training in respect of systems for data entry staff;</li> <li>• Understanding of importance of data quality for data entry staff.</li> </ul>
<b>BAA Reporting Requirements</b>	<i>b) Managing agents are unable to effectively monitor the performance of the binder due to reports and Bordereaux (Risk, Premium, Claims, Aggregate and Regulatory) not being provided in accordance with the BAA terms.</i>	<p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• Agreed bordereaux format and data items;</li> <li>• Timeliness of bordereaux provision;</li> <li>• Nil declarations being made to managing agents;</li> <li>• Consistency of format over time and any reasons for variance in that format (e.g. Additional / removed fields).</li> </ul>
<b>Bordereau Reporting</b>	<i>c) Bordereau submissions are poorly managed, leading to inadequate funding, delayed settlements and financial inconsistencies</i>	<p>Identify any discrepancies from the bordereau to the system of record.</p> <p>For Lloyd's Brussels business, confirmation is required that all fee and VAT entries are complete and compliant with Lloyd's Coverholder Reporting Standards.</p>



<b>Regulatory Reporting</b>	<i>d) The Insurer does not meet their Lloyd's and/or regulatory reporting requirements due to the Coverholder failing to collect relevant data in a timely and accurate manner</i>	<p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• What systems and controls are in place to ensure accurate capture, recording and reporting of regulatory reporting;</li> <li>• Reporting requirements outside of bordereaux reporting;</li> <li>• Monitoring and awareness of regulatory timelines;</li> <li>• Awareness of all regulatory reporting requirements;</li> <li>• Awareness of local regulatory reporting where cross border trading takes place under the binding authority.</li> </ul>
<b>Systems and Process</b>	<i>e) The systems utilised are unable to meet reporting requirements resulting in manual workaround with the potential for increased human error</i>	<p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• Workarounds outside of any systems;</li> <li>• Spreadsheet control, including versioning and filing;</li> <li>• Systems enhancements over time to support changes to reporting requirements.</li> <li>• Is reporting resource adequate?</li> </ul>

## 10. COMPLIANCE

### Overview:

The purpose of this section is to ensure that the coverholder complies with all applicable compliance requirements as agreed with managing agents and in line with local regulation.

### Information to be provided:

The auditor should source the following from central market due diligence databases:

- Any compliance policies or procedures, to include as appropriate:
- Sanctions procedure
- Anti bribery procedures
- Anti money Laundering / suspicious transactions procedures
- Anti fraud procedures
- Complaints procedures / logs
- Conflicts of interest procedures / log
- Treating Customers Fairly / ethics / code of conduct (if appropriate)
- Whistleblowing procedures (if appropriate)

Area	Risk	Controls
<b>Structure and Accountability</b>	<i>a) Failure to embed an appropriate operational framework for regulatory oversight leading to regulatory attention and reputational harm.</i>	The auditor should consider the root cause of any non adherence to the BAA, procedures or local regulatory requirements due to: <ul style="list-style-type: none"> <li>• Procedures not being embedded;</li> <li>• Lack of regular review of policies and procedures;</li> <li>• Lack of staff awareness of procedures;</li> <li>• Lack of monitoring at an appropriate level per the procedures;</li> <li>• Lack of controls in monitoring regulatory change in the target market;</li> <li>• Evidence of insufficient resource;</li> <li>• Insufficient training.</li> </ul>
<b>Financial Crime</b>	<i>b) The Coverholder does not possess an adequate level of understanding, embedded controls and systems to mitigate the risk of breaching financial crime legislation, leading to adverse regulatory attention, financial and criminal sanctions.</i>	The auditor should consider the following: <ul style="list-style-type: none"> <li>• The attitude and culture of the coverholder in respect of financial crime controls and legislation;</li> <li>• Any training programs in place;</li> <li>• Specific responses and comments on each of the following areas, with reference to agreed requirements: <ul style="list-style-type: none"> <li>• Sanctions;</li> <li>• Bribery;</li> <li>• Anti money laundering;</li> <li>• Anti fraud;</li> </ul> </li> <li>• Monitoring of the above through use of breach logs or near miss logs as may have been agreed in procedures;</li> <li>• Escalation of any material issues to managing agents or the relevant regulatory authority.</li> </ul>
<b>Licensing</b>	<i>c) Exposure to regulatory penalties due to the transaction of business by inappropriately</i>	What controls and procedures are in place to ensure that the coverholder and all relevant persons hold the appropriate license(s) for transactions conducted and claims handled (where appropriate) under the subject BAA

	<i>licenced companies and/or individuals</i>	<p>The auditor should consider:</p> <ul style="list-style-type: none"> <li>• Consistent assessment of risk location to ensure licencing requirements are met;</li> <li>• Testing against any licencing procedures or processes held by the coverholder;</li> <li>• Management of individual licences ensuring key requirements diarised and logged;</li> <li>• Management of corporate licences ensuring key requirements diarised and logged;</li> <li>• Exams and training as may be appropriate in respect of licences or undertaking regulated activities.</li> </ul>
<b>Conflicts of Interest</b>	<i>d) The Coverholder fails to recognise conflicts of interest within their business or distribution network which could result in decisions being made that are not in the best interests of customers or managing agents.</i>	<p>The auditor should consider:</p> <ul style="list-style-type: none"> <li>• How does the coverholder identify and control potential conflicts of business within their organisation?</li> <li>• Conflicts beyond the register;</li> <li>• Any other conflicts identified;</li> <li>• Were conflicts managed in line with procedures;</li> <li>• Any customer detriment noted as a result of any conflicts;</li> <li>• Any adverse impact on managing agents as a result of any conflicts;</li> <li>• Staff awareness of procedures.</li> </ul>
<b>External Producers and Counterparties</b>	<i>e) The Coverholder does not adequately manage their external producers, leading to increased regulatory and financial exposures.</i>	<p>How does the coverholder manage their relationships with external producers?</p> <p>It is not expected that the auditor reviews entities further down the distribution chain, but it is expected that the auditor should understand how the coverholder manages this structurally.</p> <p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• TOBA management;</li> <li>• Regular due diligence of producing brokers;</li> <li>• Any arrangements that appear to be sub-delegation;</li> <li>• Mis-selling;</li> <li>• Cascading risk transfer;</li> <li>• Any use of management information to monitor producers.</li> </ul>

## 11. I.T. INFORMATION SECURITY

### Overview:

The purpose of this section is to evidence that the coverholder understands the importance of robust IT security and Data Protection, has appropriate controls in place to prevent breaches and/or failures and performs regular testing to ensure the coverholder and responsible parties (internal or outsource providers) can respond quickly and effectively mitigate any failures.

### Information to be provided:

**The auditor should source the following from central market due diligence databases:**

- Information security/Data Protection policies;
- Cyber Liability insurance policy (if in place);
- Business Continuity Plans / Disaster Recovery Plan for IT.

**The managing agent / broker may provide you with the following:**

- Details of any system(s) used for (but not limited to): rating and/or quoting, binding (including wordings) or amending cover; policy issuance; reporting; accounting; claims and internet / web trading;
- Report from any IT specific audit previously undertaken.

**The coverholder may provide you with the following:**

- Any Service Level Agreements in place between the coverholder and their outsource providers;
- Any IT specific certification (EG - ISO 27001).

Area	Risk	Guidance
Culture	<i>a) That the Coverholders culture and governance arrangements do not have sufficient oversight in relation to IT and Data protection, leading to an ineffective framework around IT and information security on an ongoing or temporary basis, causing poor service, reputational damage and financial exposure.</i>	<p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• The effectiveness of the overall IT and Information security framework;</li> <li>• Is the management of the coverholder aware of where their highest risks are in relation to the business and prioritising protections around those risks?</li> <li>• How does the coverholder ensure management direction and support for information security activities?</li> <li>• How does the coverholder manage information security activities?</li> <li>• How does the coverholder ensure that employees and contractors meet security responsibilities necessary for their role including documenting any training?</li> <li>• How recently were business continuity arrangements updated and have they been tested?</li> <li>• How does the coverholder ensure that systems are securely designed and managed throughout their lifecycle?</li> <li>• Does the coverholder have an approach to the maintenance and update of their systems landscape? This would incorporate potential long / medium term investment in hardware and software to ensure resilience in the IT infrastructure.</li> </ul>

<p><b>Access</b></p>	<p><i>b) Unauthorised or inappropriate access to systems or data leading to financial loss, reputational damage and regulatory exposure</i></p>	<p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• How does the coverholder determine the necessary protection for information and devices and establish responsibility?</li> <li>• How does the coverholder ensure user access to information is appropriate, and prevent unauthorised access with consideration to sensitive personal information and multiple facilities?</li> <li>• How does the coverholder control sensitive or personal data held on underwriting / claims files?</li> <li>• How does the coverholder physically protect equipment and working areas?</li> <li>• What procedures and responsibilities are in place for security operations; including malware, backup, logging, software control including security patch management, technical vulnerabilities and audit?</li> <li>• How does the coverholder protect networks and facilities, and control information transfers?</li> <li>• How does the coverholder identify and respond to information security incidents?</li> <li>• What controls are in place to mitigate the exposure to intentional or accidental loss or manipulation of records?</li> <li>• Are bordereaux encrypted or given passwords prior to transmission?</li> </ul>
<p><b>Outsource Providers</b></p>	<p><i>c) Inadequate management of outsource providers leads to service interruption, poor customer outcomes, regulatory exposure and reputational damage</i></p>	<p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• How does the coverholder manage outsource providers for IT and systems?</li> <li>• Are outsourcing agreements in place, including service level agreements. Are these monitored?</li> <li>• Do outsource arrangements include support contracts?</li> <li>• If personal data is hosted in outsourced systems, is it clear where the data is held and is this in line with local data protection regulation?</li> </ul>

## 12. CUSTOMER OUTCOMES

### Overview:

#### Customer Outcomes:

The purpose of this section is to ensure that the coverholder possesses suitable attitudes, practices, processes and controls to deliver fair outcomes for customers. The auditor's approach should be proportionate to both the size of the coverholder, any local regulatory requirements or market practices and the potential risks involved to consumers.

It is expected that the auditor will not only test against the information provided by the instructing managing agent, but will also advise on the corporate culture of the coverholder, and will provide an overview of the appropriateness and effectiveness of the way that the coverholder ensures fair outcomes for customers.

#### Enhanced Review Only:

Where a managing agent has advised the auditor to undertake an enhanced review of this section, it is expected that significantly more detail will be provided by the auditor. Controls in place should be heightened, giving due regard to effective and proportionate product controls, appropriate to the level of product complexity, with consideration of the reasonable expectations of the customer. The auditor should also consider the potential Sales, Product and Service Risk posed by the distribution of the product, and management of the product throughout the lifecycle of the policy.

### Information to be provided:

**The auditor should source the following from central market due diligence databases:**

- Complaints procedures;
- Any procedures relating to conduct risk.

**The managing agent / broker may provide you with the following:**

- Consumer Product Binding Authority Questionnaire or other internal assessment materials (if available);
- Any conduct risk management information available;
- Any complaints information;
- Policies regarding claims declinations;
- Telephone scripts (if available);
- Any customer focused training materials or training records.

Area	Risk	Guidance
<b>Culture and Governance Arrangements</b>	<i>a) That the Coverholders culture and governance arrangements do not have sufficient oversight to achieve fair outcomes for customers</i>	<p><b>Guidance:</b></p> <p>The auditor should consider the following based on discussions and interviews with senior management and members of staff who have specific responsibilities in relation to the binding authority agreement under which business is bound and a review of files and sample documentation:</p> <ul style="list-style-type: none"> <li>• Is the coverholder following any procedures related to fair outcomes for customers?</li> <li>• Are fair outcomes considered at a board or senior management level?</li> <li>• What management information is provided to and reviewed by the coverholders senior management / board?</li> <li>• Is any training in place to ensure fair outcomes for policyholder customers? This might incorporate customer service training, complaints training, any local regulatory training relating to dealing with customers;</li> <li>• If a code of conduct or similar is in place, is it understood and easily available to all staff involved in business placed under the binding authority agreement?</li> </ul> <p><b>Enhanced Review Guidance:</b></p> <p>Where a managing agent has instructed the auditor to undertake an enhanced review, the auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• Regular frequency of review of management information at a board level or by senior management;</li> <li>• Detailed root cause and trend analysis of MI to ensure any customer challenge is considered appropriately;</li> <li>• Granularity of management information by different risk factors;</li> <li>• Performance objectives based around customer outcomes for staff involved in the binding authority agreement;</li> <li>• If the coverholder has training programmes or requirements in place, including regular updates and ongoing training for relevant staff.</li> </ul>
<b>Culture and Governance Arrangements</b>	<i>b) That Coverholder remuneration and/or staff incentives or reward schemes conflict with the interest of customers</i>	<p><b>Guidance:</b></p> <p>The auditor should review controls or procedures that the coverholder has in place to identify remuneration and/or staff incentives or reward schemes that may conflict with the interest of customers and how are potential conflicts managed</p>

		<p><b>Enhanced Review Guidance:</b></p> <p>Where a managing agent has instructed the auditor to undertake an enhanced review, the auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• Does the coverholder have a clear remuneration and incentive structure?</li> <li>• Is any management information produced at board level to monitor remuneration against other indicators?</li> <li>• Are any potential conflicts caused by remuneration identified on a conflicts log (up to date) in line with agreed procedures?</li> </ul>
Product Suitability	<p><i>c) The product design and/or marketing does not meet the needs of the customers resulting in poor customer outcomes and creating the potential for reputational damage</i></p>	<p><b>Guidance:</b></p> <p>Do the products offered through this BAA meet the needs of all customers and does the coverholder have access to appropriate information that would identify any adverse trends. What controls and performance indicators are in place to ensure that any product offered through this BAA meets the needs of all customers?</p> <p><b>Enhanced Review Guidance:</b></p> <p>Where a managing agent has instructed the auditor to undertake an enhanced review, the auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• The coverholder may have a regular and diarised product review - wordings, documentation, marketing materials, clauses etc.;</li> <li>• The coverholder should have procedures regarding handling of complaints and declinatures which are clearly understood by all staff potentially involved in these processes and visibility of these instances by senior management;</li> <li>• Assessment of technical understanding of customer needs and consumer outcomes by decision makers in these processes;</li> <li>• Strong controls regarding changes to regulatory requirements.</li> </ul>
Product Suitability	<p><i>d) Product information / policy documentation is misleading or unclear preventing customers from making informed decisions</i></p>	<p><b>Guidance:</b></p> <p>The auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• How does the coverholder ensure that all information provided during the binding process is clear and concise;</li> <li>• Was underwriting correspondence and documentation clear with all key terms and conditions brought to the attention of the customer?</li> <li>• Does the coverholder comply with all local regulations and requirements regarding documentation (e.g. local language requirements)?</li> </ul> <p><b>Enhanced Review Guidance:</b></p>



		<p>Where a managing agent has instructed the auditor to undertake an enhanced review, the auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• Language used in communications and documentation should be appropriate for the target customer;</li> <li>• Any financial promotions and advertising should be clear, fair and not misleading;</li> <li>• Have any complaints regarding product information been considered and if appropriate acted upon?</li> <li>• Is clear signposting present on documentation and websites in relation to claims and complaints?</li> <li>• Does the coverholder comply with all local consumer protection regulation and requirements regarding documentation (e.g. local language requirements, transparency requirements)?</li> </ul>
<b>Sales and Distribution</b>	<i>e) The product being distributed fails to meet the needs of the customer when the policy is sold, after any mid term adjustments and throughout the lifetime of the policy.</i>	<p><b>Guidance:</b> How does the coverholder ensure they understand the needs of the customer and take reasonable care to ensure the suitability of the advice given</p> <p><b>Enhanced Review Guidance:</b> Where a managing agent has instructed the auditor to undertake an enhanced review, the auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• Review of sales scripts (as applicable);</li> <li>• Call recording (as applicable volume dependent);</li> <li>• Call monitoring programs including their frequency;</li> <li>• Feedback loop from proposal forms into target customers;</li> <li>• Due consideration given to suitability of cover in the event of a mid term adjustment.</li> </ul>
<b>Sales and Distribution</b>	<i>f) The failure of an outsource provider or a third party (including producing agents) on behalf of the coverholder to adequately perform their duties leads to poor customer outcomes.</i>	<p><b>Guidance:</b> What controls and procedures are in place to ensure that where the coverholder outsources, that their own customer treatment ethics and policies are adhered to and that their culture around customer outcomes extends where appropriate. This will include the outsource to an external claims expert (such as a lawyer or loss adjuster).</p> <p><b>Enhanced Review Guidance:</b> Where a managing agent has instructed the auditor to undertake an enhanced review, the auditor should consider the following:</p> <ul style="list-style-type: none"> <li>• Ongoing TOBA management and regular due diligence of producers;</li> <li>• Effective management of outsource providers for non insurance functions, including management information and service level agreements;</li> <li>• Effective monitoring of producing agents through use of management information, which might</li> </ul>

		<p>include: Retention rates, new business hit ratios, cancellation rates, cancellation during cooling off periods, any complaints relating to producers;</p> <ul style="list-style-type: none"> <li>Evidence of the above produced through meeting minutes or agendas.</li> </ul>
<b>Complaints Management</b>	<i>g) Customers receive poor outcomes due to insufficient identification, investigation and resolution of complaints in accordance with regulatory requirements</i>	<p><b>Guidance:</b></p> <ul style="list-style-type: none"> <li>Are staff aware of what to do in the event of a complaint?</li> <li>What controls, procedures and staff training is in place to ensure complaints are identified, handled and monitored in accordance with regulatory and Lloyd's/BAA requirements. Are procedures being followed?</li> <li>If a complaints log is in place is this maintained;</li> <li>Is the coverholder aware of regulatory timelines and are these diarised.</li> </ul> <p><b>Enhanced Review Guidance:</b> Where a managing agent has instructed the auditor to undertake an enhanced review, the auditor should consider the following:</p> <ul style="list-style-type: none"> <li>Ongoing training around complaints handling processes;</li> <li>Understanding of complaints requirements in different territories if cross border risks are sold;</li> <li>Escalation of complaints and management information at a senior management or board level;</li> <li>Root cause analysis of complaints.</li> </ul>
<b>Post Sale Barriers</b>	<i>h) Negative customer outcomes and adverse publicity due to unreasonable post-sale barriers</i>	<p><b>Guidance:</b></p> <p>What steps are in place to ensure customers can cancel/amend a policy, present a claim or make a complaint easily?</p> <p>Were there any unreasonable post-sale barriers noted during the audit?</p> <p><b>Enhanced Review Guidance:</b> Where a managing agent has instructed the auditor to undertake an enhanced review, the auditor should consider the following:</p> <ul style="list-style-type: none"> <li>Administration fees applied are proportionate and in line with expectations in the event of cancellation or mid term adjustment;</li> <li>Is the process for making post sale amendments reasonable?</li> <li>Root cause analysis of reasons for cancellation.</li> </ul>
<b>Embedded Culture</b>	<i>i) Poor customer outcomes due to controls surrounding fair treatment of</i>	<p><b>Guidance:</b></p> <p>Based on the review of the coverholders controls, the coverholders approach to customer outcomes, and testing of those controls, the auditor should comment on how well</p>

	<p><i>customers not being embedded.</i></p>	<p>embedded the culture, controls and processes are.</p> <p>This should include analysis as to when processes may have been implemented, and any comments from the coverholder regarding their expectations of the amount of time for new controls to become embedded.</p> <p><b>Enhanced Review Guidance:</b></p> <p>Where a managing agent has instructed the auditor to undertake an enhanced review, the auditor should also consider the following:</p> <ul style="list-style-type: none"> <li>• Further enquiries and testing of controls, in particular those identified by the coverholder as part of their customer outcome framework;</li> <li>• Root cause analysis of any material failures in controls.</li> </ul>
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