

## GUIDANCE NOTES APPLYING TO MRC (MASTER AND GROUP POLICIES) TEMPLATE

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### Introduction

The London Market Group (LMG) has published a new MRC standard for Master and Group Policies following work carried out by an LMA Working Party to assist in developing the standard.

Master and Group policies are a common arrangement in the Lloyd's market and are widely used in some classes (such as the Personal Accident market) and in a number of territories (for example the USA). The new MRC standard is intended to complement the existing suite of MRC standards published by LMG and will provide the market with a market-agreed approach to the placement of Master and Group policies.

This note is intended to provide practitioners with some additional guidance notes for consideration when placing Master/Group policies.

For U.S. - specific guidance, members can access additional guidance produced by Drinker Biddle & Reath LLP for Lloyd's which is available on crystal at [www.lloyds.com/crystal](http://www.lloyds.com/crystal).

### What are Master or Group Policies?

In its '[Code of Practice - Delegated Underwriting](#)' Lloyd's has defined a Master/Group policy as follows:

"A master or group policy is an insurance policy issued to a master or group policyholder (the "policyholder") who purchases the insurance to provide the benefit of insurance coverage for others, usually individuals (the "covered parties"). The individuals who are covered parties, however, are not parties to the insurance contract."

While the Master or Group Policyholder will typically provide the covered parties with evidence of cover, Master/Group Policies are not considered by Lloyd's to be a form of delegated underwriting. Under Master/Group Policies, cover is provided by underwriters automatically to anyone who is within the defined group. In many cases this cover may be automatic by reason of the covered party being a member of a group or association. For example employees of a company may automatically have the benefit of their employer's group life policy by being an employee. In other cases, the covered party may only obtain the benefit of the Master/Group Policy if they elect to be covered. To obtain this benefit the Master/Group Policyholder may (but may not always) require that the individual in question pays a specified contribution to the premium.

### Issues to consider when placing Master or Group Policies

Lloyd's has provided guidance on the writing of Master/Group Policies. These are set out in the '[Code of Practice - Delegated Underwriting](#)'. Where the policy does not meet the conditions set out by Lloyd's then the business may need to be written via a binding authority arrangement.

The following are some general points that Lloyd's market participants should consider when placing Master or Group policies.

- **Are Master or Group Policies delegated underwriting?**

As already noted, where written within its guidelines, Lloyd's does not consider Master or Group Policies to be delegated underwriting.

An important part of deciding whether a policy can be written as a Master or Group Policy will depend on ensuring that there is a clearly identifiable group or association which will have the benefit of the insurance. (See '[Code of Practice - Delegated Underwriting](#)' for more details of Lloyd's criteria.)

To ensure that the Master/Group Policy is not delegated underwriting under Lloyd's requirements, it is also important that the Master or Group Policyholder does not provide any advice regarding coverage and also does not take underwriting decisions, including regarding who can be covered and the terms of the coverage. However, this does not prevent the Master/Group Policies providing different options to proposed covered parties who wish to obtain the benefit of the Master/Group Policy. For example, a group health scheme may offer different options for family and individual cover with the rates varied according to the package adopted.

The Master or Group Policyholder should also not produce insurance documentation on behalf of Underwriters. The Master or Group Policyholder may, however, provide covered parties with evidence of cover. The LMA has produced a model Evidence of Cover for this purpose (LMA3135). Any marketing/promotional materials must also make clear that the only insuring document is the Master/Group Policy document, a copy of which should be made available to all covered parties.

Note that, even though Lloyd's does not consider Master/Group Policies to be delegated underwriting, arrangements which permit the Master or Group Policyholder to declare, post-inception, additional covered parties to the policy are in some ways similar to delegated underwriting. As such, particular care must be taken to comply with applicable local laws and regulations for selling and marketing policies, as well as any applicable intermediary licensing requirements.

- **Regulatory/Licensing issues for Master and Group Policies**

Master/Group Policies must comply with Lloyd's international licences and tax obligations. Further information on this case can be found on Crystal ([www.lloyds.com/crystal](http://www.lloyds.com/crystal)). Local regulatory requirements (for example in the USA) could include filing of wordings, as well as the approval of sales literature and complaints handling.

Consideration should be given to the location both of the Master or Group Policyholder and the covered parties. Where covered parties are in multiple locations this may require consideration of the location of the risk for regulatory licensing purposes. It cannot be assumed that because the Master or Group Policyholder is located in one territory that that is the only territory where regulations apply. The location of the covered parties may also require consideration.

Note that in certain jurisdictions, notably the USA and Australia, there are a number of detailed rules that apply to the writing of Master/Group Policies. As a result, Lloyd's has additional requirements for where Master/Group Policies are to be written in these territories. More detail on Lloyd's requirements and the applicable local rules can be found in the Lloyd's '[Code of Practice - Delegated Underwriting](#)' and on Crystal.

- **Does the Master or Group Policyholder (or their administrator) require an insurance licence?**

In some territories, certain conduct on the part of the Master or Group Policyholder in administering the Master/Group Policy may constitute regulated intermediary activity. Whether the Master or Group Policyholder is carrying on regulated activities will depend on the rules of the local territory and the activities that the Master or Group Policyholder will be required to perform. Particular care should be taken to ensure that the Master or Group Policyholder has the necessary regulatory licenses to undertake regulated administrative activities.

- **Marketing/Promotion by the Master or Group Policyholder**

In many jurisdictions, solicitation of members of the public requires appropriate licensing. As a result, advertising coverage or contacting insureds directly may trigger certain regulatory requirements. Particular caution should be taken in jurisdictions where Underwriters at Lloyd's are not licensed. For example, it is important to understand how the insured members are initially informed about the coverage available, and to review all coverage related promotional and marketing materials to existing or potential group members. Consider how, to whom, and by whom such materials will be distributed.

In addition, any advertising using the Lloyd's name must be done only with the permission of the lead Underwriter and in accordance with the Lloyd's Branding Guidelines.

- **The role of the Master or Group Policyholder in administering the policy (including the use of an Administrator)**

It is important that the parties are clear about what activities the Master or Group Policyholder will be responsible for in administering the Master/Group Policy. This is especially important where the actions of the Master or Group Policyholder could amount to carrying on insurance activities in the local territory. It is important to note, however, that the Master or Group Policyholder is not the agent or representative of underwriters. The Master or Group Policyholder is the client. Nevertheless, underwriters should have a good understanding of how the Master or Group Policyholder will be administering the policy, in particular where it will be marketing the policy to the covered parties.

The LMA has produced LMA5239 (Master Policy General Terms and Conditions) which sets out some terms that underwriters may wish to address in making clear the basis on which the Master or Group Policyholder is to administer the policy. LMA5239 can be incorporated into the Master/Group Policy by referring to it under the 'Conditions' heading of the MRC template.

Where the Master or Group Policyholder is using an administrator to administer the Master/Group Policy then there should be an outsource agreement between the Master or Group Policyholder and the Administrator, which should specify the role to be played by the Administrator (including any service levels). In appropriate cases the underwriters may wish to review the agreement with the Administrator. It is important to note, however, that the primary obligation for administering the Master/Group Policy remains with the Master or Group Policyholder (even if the Administrator is the Managing Agent's Coverholder and the Master/Group Policy has been written under the Coverholder's binding authority).