**Coverholder udit Scope**

**Coverholder Audit Scope**

**Version 3.1**

**Q3 2025**

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**Version Control:**

|  |  |  |
| --- | --- | --- |
| Version | Date | Comments |
| Draft V1 | December 2016 | CAG Document distributed for 1st stage consultation |
| Draft V2 | Jan / Feb 2017 | Discussion documents used prior to second stage consultation, including addition of HPR detail and guidance notes |
| Draft V3 | March 2017 | Working Group document to be distributed for 2nd stage consultation |
| Pilot v1.0 | May 2017 | Version issued for use in pilot. |
| Pilot 1.01 | July 2017 | Minor formatting amendments to testing templates |
| Version 1.1 | February 2018 | Minor amendments to Scope and Guidance documents, including:* Additional risk added to claims section
* Amendment to risk within Customer Outcomes
* Minor amendments to language throughout document
* Minor amendments to testing templates
 |
| Version 2.1 | Q3 2019 | Refresh of all claims related content to align to new DCA Audit Scope |
| Version 3.0 | October 2019 | Minor changes |
| Version3.1 | September 2025 | Minor amendments to Scope and associated Guidance documents including:* General updates to align terminology / expectations to current Lloyd’s / LIC / market practices
* Addition of Scope content previously omitted from Guidance so both documents clearly align
* Addition of Immediate Priority Recommendation Table
* Minimum file review criteria amended to reflect requirements for an appropriate “cross-section”
* References to Lloyd’s Mandate of Lead Security / Crystal+ added
* Customer Outcomes updated to reflect vulnerable customers / good customer outcomes
* Financial oversight expanded to include any cascading risk transfer risks
* Additional clarity in Reporting section
* IT / Information Security expanded to reflect cyber and artificial intelligence risks
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**Next Review Due:**

One year from publishing date of document.

**Contributors and Thanks:**

The work contained herein would not have been possible without building on the work already done within the market to provide the earlier versions of the Lloyd’s common audit scope. The LMA extends its thanks to all involved in that work.

In respect of the drafting of the documents, the LMA would like to thank all contributors for their work and assistance.

## INTRODUCTION

**Purpose:**

A common audit scope has been compiled with the intention of improving consistency of audits and the audit process, making it easier for coverholders to work with the Lloyd’s market and to support both managing agents and coverholders in meeting the expectations of the Financial Conduct Authority (FCA) and in the case of managing agents, the Prudential Regulation Authority (PRA).

Whilst the use of this audit scope is not mandatory, and in certain situations a bespoke scope may be appropriate, it is intended that managing agents should as far as possible use this scope to reduce duplication, to promote consistency and to support coordinated audits wherever possible.

A separate accompanying document “Coverholder Audit Scope – Guidance Notes” provides guidance on these questions. It is recommended that the guidance notes are read by the auditor and managing agent prior to any audit planning or audits taking place.

This document lists the risks and areas to be considered by external auditors undertaking audits of coverholders on behalf of managing agents in the Lloyd’s market. The risks below are generic risks to ensure that key topics and areas are covered by the audit.

It is intended that the scope can be used in a modular way over the course of a few years.

In some regions and for some classes of business there may be additional topics which need to be examined, it is expected that the auditor and managing agent will discuss and agree these in advance of the audit. For many of the questions specified in the audit scope below, the auditor is expected to test and provide evidence where appropriate, unless instructed not to by the managing agent.

For example, by:

* Reviewing files, transactions, logs and examples.
* Looking at what has been documented and reported.
* Testing understanding, by asking if this happened what would you do?
* Requesting copies of documentation and examples as evidence where appropriate if these have not been provided in advance.

It is expected that the auditors will comment on the areas that they have tested and reviewed for the managing agents to take the appropriate action. This document is not concerned with self-certification by coverholders or audit co-ordination; these will be addressed by separate initiatives; however, it is hoped that the production of this document will assist with these.

**The approach:**

The scope has been written to ensure that auditors are able to focus on issues relevant to a coverholder, to allow them more flexibility in how an audit is undertaken. The format has moved away from a prescriptive and lengthy question set to a ‘Risk / Control / Conclusion’ format.

The scope contained herein states those risks posed to Insurers or policyholders. Auditors are expected to respond to these risks in two ways:

1. By assessing the effectiveness of the **controls** that the coverholder has in place through testing
2. By concluding whether that control is effective based on evidence gather on audit and if necessary, making recommendations from that **conclusion**.

Guidance is given in relation to issues that auditors should consider in relation to each question.

This guidance is not designed to be exhaustive. Auditors should use their own judgement and experience to highlight any potential issues at the coverholder in relation to those risks, supported by evidence found whilst on audit.

It is expected that auditors will make conclusions and recommendations based on the managing agent’s risk categorisation of the coverholder in question in conjunction with an approach that is proportionate to the size and sophistication of the coverholder

**EXECUTIVE SUMMARY**

|  |  |
| --- | --- |
| Coverholder |  |
| UMR |  |
| Location |  |
| Date of Fieldwork |  |
| Onsite/Remote/Hybrid Audit |  |
| System Access granted | Yes/Partial Access/Files to review only |
| All documents requested by the auditor provided |  |
| Interviewees were available as agreed |  |

**Summary of Findings:**

|  |  |  |
| --- | --- | --- |
| Section | In Scope | Summary of Finding(s) |
| 1 | **Underwriting** |  |  |
| 2 | **Underwriting Testing** |  |  |
| 3 | **Contract Documentation** |  |  |
| 4 | **Claims Controls (With Authority)** |  |  |
| 5 | **Claims Controls (Without Authority)** |  |  |
| 6 | **Claims Testing** |  |  |
| 7 | **Accounting** |  |  |
| 8 | **Accounting Testing** |  |  |
| 9 | **Reporting** |  |  |
| 10 | **Compliance** |  |  |
| 11 | **IT / Information Security** |  |  |
| 12 | **Customer Outcomes** |  |  |

**Material Changes:**

|  |
| --- |
| In the last twelve months, has there been any material change in the operations of the Coverholder that you feel should be brought to the attention of managing agents?  |
|  |

**Delegated Authority Contract Summary:**

|  |
| --- |
| Please provide a High-level summary of the contract being written to give the reader context as to the nature of the Binding Authority Agreement (BAA) / Coverholder Appointment Agreement (CAA). This should include EPI, limits, territories, products and/or classes of business and any material issues noted with the BAA/CAA in general. It should also include a summary of the target customer(s) for the product(s). |
|  |

##

## RECOMMENDATION TABLES

Immediate Priority Recommendations

Recommendations which are considered critical and urgent to the business including but not limited to breaches of the BAA or CAA or of local legislation/regulation.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| No. | Section / Area | Finding | Recommendation | Coverholder’s Response |
|  |  |  |  |  |
|  |  |  |  |  |

High Priority Recommendations

Recommendations which are considered critical to the business including but not limited to breaches of the binding authority agreement or of local legislation/regulation.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| No. | Section / Area | Finding | Recommendation | Coverholder’s Response |
|  |  |  |  |  |
|  |  |  |  |  |

Medium Priority Recommendations

Recommendations which are in line with best practice.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| No. | Section / Area | Finding | Recommendation | Coverholder’s Response |
|  |  |  |  |  |
|  |  |  |  |  |

Low Priority Recommendations

Recommendations which could improve the coverholder’s efficiency and risk management without being material (i.e., housekeeping type, operational / administrative issues).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| No. | Section / Area | Finding | Recommendation | Coverholder’s Response |
|  |  |  |  |  |
|  |  |  |  |  |

Prior Audit Findings

Recommendations which were raised at prior audits, and progress on these.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| No. | Section / Area | Finding | Recommendation | Auditor’s Comment |
|  |  |  |  |  |
|  |  |  |  |  |

Recommendations for London

Recommendations for action by the managing agent, London broker or by Lloyd’s / Lloyd’s Insurance Company SE (LIC) (as applicable).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| No. | Section / Area | Finding | Recommendation | Coverholder’s Response |
|  |  |  |  |  |
|  |  |  |  |  |

## UNDERWRITING

The purpose of this section is to verify that underwriting controls are sufficient to ensure all risks are bound in accordance with the terms and conditions of the subject BAA / CAA and all applicable regulations.

|  |
| --- |
| Underwriting Overview |
| Target customer classification | Commercial / Consumer |
| Target customer description |  |
| Person with overall underwriting responsibility |  |
| Number of staff binding risks |  |
| Extent of delegation | Full / Pre-determined rate / Non discretion / Prior-Submit |
| Location of underwriters if different from main office |  |

|  |  |
| --- | --- |
| Area | Risk |
| Quotation | ***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.*** |
| Pre-Contractual | ***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.*** |
| Authorised / Approved persons | ***c) Risks are quoted and/or bound by persons without authority leading to uncontrolled underwriting.*** |
| Pre-Bind Due-Diligence | ***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. The risk/customer does not fit the target market of the product.*** |
| Insured Domicile / Risk Location | ***e) Underwriters could incur financial or regulatory penalty if risks are bound outside of the geographical limitations stipulated within the BAA/CAA.*** |
| Premium Calculation / Policy Terms | ***f) Premium calculation and the application of policy terms are not in accordance with the BAA/CAA and could result in adverse financial or regulatory exposure.*** |
| Fees | ***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 exposure.*** |
| Discretionary Discounts | ***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.*** |
| Tax Calculation | ***i) Inaccurate calculation of applicable taxes could result in adverse financial and regulatory exposures.*** |
| Underwriting Service | ***j) A poor service is provided to Insureds or Brokers resulting in failure to adhere to regulatory requirements and the potential for reputational damage.*** |
| Underwriting Records | ***k) Underwriting information is incomplete which may prevent future administration and/or dispute resolution, leading to potential regulatory and financial exposure.*** |
| Post Bind Requirements | ***l) The post bind requirements/ subjectivities (e.g. Surveys) are not conducted within appropriate timeframes resulting in potential financial exposure.*** |
| Remote Working/ Multi Office Locations (if applicable) | ***m) Staff bind from remote domicile or locations outside of the approved coverholder(s) listed on the BAA/CAA, without the relevant licenses appropriate systems, controls, management oversight or managing agent approval leading to potential regulatory and financial exposure.*** |
| Aggregate and Premium Monitoring | ***n) The maximum premium and insured value accumulations stated in the BAA/CAA are exceeded resulting in unintended exposure.*** |
| Systems | ***o) The system is not suitable to support the underwriting or recording of all risks bound under the subject BAA/CAA, leading to potential financial and reputational exposures.*** |

Please use the space below to provide any additional feedback on areas, that whilst not giving rise to an issue, would be of interest to managing agents;

|  |
| --- |
| General: |
|  |

## UNDERWRITING TESTING

Bordereaux Analysis

Perform a reconciliation of the information recorded on the bordereaux for the files being tested against the coverholder’s underwriting, finance or claims system. Identify any unreported risks, endorsements, claims or movements. Establish the cause of any under reporting.

Sampling Methodology

The file review sample should be representative of the business written under the BAA / CAA. In order to achieve this, the following areas should be covered:

1. The number of underwriting files identified in the instruction per BAA/CAA reflecting a reasonable and risk-based approach representation of the portfolio;
2. A cross section of files incorporating each line of business under the BAA/CAA should be reviewed;
3. Suitable spread throughout the period of the BAA/CAA i.e. six months. Where the audit has taken place within the first six month of renewal extend the sample to the previous binder period;
4. Range of premium values;
5. Small number of bordereaux anomalies such as unexpected company registrations (Ltd, GmbH, Pty etc…), exposure, territories;
6. A cross section of policies incorporating New / Renewal Business;
7. A cross section of policies incorporating cross border risks from multiple territories;
8. A cross section of policies incorporating cross capacities i.e. Lloyd’s and LIC, in the case of twin binders;
9. Policies incorporating Mid-Term Adjustments, including additional premium and cancellations as may be appropriate.

File Review

The information required to demonstrate an effective file review by an auditor can vary based on the class, territory and extent of delegation of the individual risk written. This means that a one size fits all approach to a file review sheet won’t be suitable however the following core information should be reported to identify a successful testing of the risk written against authority:

1. Risk location including factors which derive it (location of properties, where policyholder is usually resident, domicile of company registration), accuracy of coverholder’s decision. For guidance refer to Lloyds.com:

<https://crystalplus.lloyds.com/home>

1. Risk location specific issues (language of documents, signed copies of certificates received, etc.). For Lloyd’s / LIC business these will be available from Lloyd’s Crystal+ in the first instance:

<https://crystalplus.lloyds.com/home>

1. Rating factors where appropriate (turnover, number of employees), within authority, referred where relevant;
2. Documentation as required, issued within contract certainty, comment on accuracy and inclusion of all applicable endorsements and required wordings;
3. Within authority including rationale as to why not, referred to managing agents;
4. Dates of key stages in the process to give an indication of the efficiency of the binding process;
5. Required financial crime and aggregate limit checks;
6. Expressions of dissatisfaction on the file and/or recorded phone messages;
7. Accuracy of reporting through the bordereaux, complaints and financial crime logs;
8. Compliance and regulatory concerns including use of personal and sensitive data and recorded phone calls;
9. Any other topics which may be relevant which the auditor may want to report on due to distribution, file structure or at the auditor’s discretion;
10. Subjectivities/survey.

Underwriting File Review Results

1. Completed file review test sheets should be appended to the audit report;
2. Provide details of any control weaknesses identified as part of the file review, their cause and any supporting evidence;
3. Was any sub-delegation noted?

UNDERWRITING SUMMARY TESTING TABLE

A summary table is to be completed from the file review as part of the main body of the report. It can be provided in another format such as excel. It does not replace a full and proper underwriting review which is to be provided in the appendices or body of the report in line with the principal-based requirements as listed in the section above.

The template below is provided as an example. Other tables may be used or provided as agreed between the instructing managing agent and auditor.

The contents of the summary should be driven by the full-length file review, showing compliance with requirements as a proportion of the full file review.

|  |  |
| --- | --- |
| File Review Accuracy % | % |
| Required risk information obtained prior to quotation |  |
| Risk location correctly identified |  |
| Risks locations in accordance with BAA/CAA |  |
| Consideration to regulatory implications |  |
| Consideration of how sensitive or personal data is handled |  |
| Required pre bind checks (e.g. financial crime, aggregate) performed & evidenced on file |  |
| Bound in good time |  |
| Quoted / bound by authorised person employed by a Lloyd’s approved coverholder and listed on BAA/CAA (including key staff working from home or remotely from different offices) |  |
| Bound from approved location(s) |  |
| Deductibles correctly applied |  |
| Limits bound in accordance with BAA/CAA terms |  |
| Risks outside authority correctly referred and bound |  |
| Rated as agreed including discounts |  |
| Fees as agreed  |  |
| Additional coverages as agreed |  |
| Taxes correctly applied and stated |  |
| Broker and Coverholder Commissions taken in accordance with BAA/CAA terms |  |
| Policies/Evidence of Cover issued within required timeframe |  |
| Policy Documentation accurate |  |
| UMR correctly stated |  |
| Lloyd’s Mandate of Lead Security correctly addressed |  |
| Unauthorised combined certificate issued |  |
| Applicable endorsements and clauses applied as per BAA/CAA sub-section 20.1 |  |
| Policy Wording correct and consistent with T&Cs and IPID or equivalent (as applicable) |  |
| Required post bind activities (e.g. surveys) instructed and monitored |  |
| Risks invoiced in a timely manner |  |
| Underwriting record complete and well managed |  |
| Communication reviewed clear and timely |  |
| Any expressions of dissatisfaction identified as a complaint |  |
| Complaints Handling procedure correctly followed as per BAA/CAA, Lloyd’s and LIC guidance |  |
| Complaints correctly handled with appropriate segregation of duties between claims, underwriting and complaints handling teams |  |
| Accurately declared on bordereaux / Lineage (as applicable) |  |
| Accurately declared on internal logs as appropriate (e.g. complaints) |  |
| Accurately declared to managing agents within correct year of account bordereaux |  |

##

## CONTRACT DOCUMENTATION

The purpose of this section is to verify that the controls around the creation and issuance of pre-contractual and policy documentation issued to policyholders are sufficient to ensure compliance with the terms and conditions of the subject binding authority agreement(s).

|  |  |
| --- | --- |
| Area | Risk |
| Documentation Format | ***a) The policy documentation is not being issued in accordance with the binding authority agreement leading to potential regulatory and financial exposure.*** |
| Documentation Accuracy | ***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*** |
| Issuance Timeframes | ***c) Policy documentation is issued outside of regulatory requirements or other agreed timeframes, leading to regulatory exposure and poor customer outcomes.*** |
| Clarity | ***d) Policy terms are not presented in a clear and concise manner which could mislead the customer and result in unsatisfactory outcomes.*** |
| Claim & Complaints Submission | ***e) Policy documentation is not clear on how to submit a claim and/or make a complaint*** |
| Document Retention  | ***f) Coverholder fails to retain all documentation in adherence to both local regulatory requirements and/or the terms set out in the BAA/CAA, leading to financial and regulatory exposure***  |
| Marketing Materials | ***g) Potential damage to Lloyd’s / LIC’s or managing agent’s international reputation due to failure to adhere to Lloyd’s / LIC branding guidelines in marketing materials.***  |

Please use the space below to provide any additional feedback or observations that you feel may be of interest or require remedial action:

|  |
| --- |
| General: |
|  |

## CLAIMS CONTROLS (WITH AUTHORITY)

The purpose of this section is to verify that the coverholder possesses suitable practices, processes and controls to adequately handle claims against policies of insurance issued under the binding authority agreement

|  |
| --- |
| Coverholder Claims Overview |
| Person with overall claims responsibility |  |
| Number of staff handling claims for the BAA/CAA |  |
| Location of claims team if different from main office |  |
| Authority for denials, ex-gratia and without prejudice payments |  |
| Financial level of delegation |  |
| Average Caseload |  |

|  |  |
| --- | --- |
| Area | Risk |
| Claims Operation: Claims Structure, Management and Resources | ***a) The department responsible for the handling and settlement of claims under this BAA/CAA 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.*** |
| Claims Handling and File Management | ***b) 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.***  |
| Claims Reserving | ***c) Reserving is not consistent, timely, accurate and inclusive of all potential costs and indemnities thereby affecting managing agents’ ability to monitor financial performance.*** |
| Subrogation & Recoveries | ***d) Recoveries are not identified or pursued which may lead to adverse financial exposure*** |
| Supplier Management | ***e) 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.*** |
| Claims Systems | ***f) Inappropriate systems could lead to ineffective claims monitoring, settlement delays, inaccurate reporting and poor customer outcomes.***  |
| Self-Assessment and Performance Management | ***g) Measurement and review of claims management should be proportionate and performed on an appropriately regular basis.******The absence of proportionate quality assurance and claims feedback to underwriting could lead to the deterioration of service standards.*** |
| Authorised / Approved persons | ***h) Claims are handled and/or settled by persons without authority leading to ineffective controls around claims payments.*** |
| Customer Outcomes | ***i) 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 and poor treatment of vulnerable customers.*** |

Please use the space below to provide any additional feedback or observations that you feel may be of interest or require remedial action:

|  |
| --- |
| General |
|  |

## CLAIMS CONTROLS (WITHOUT AUTHORITY)

In all instances where the coverholder does not have claims authority but is involved in the routing of claims either to the appointed claims handler or back to the policyholder, the following risk should be considered.

|  |  |
| --- | --- |
| Area | Risk |
| Claims Routing | ***a) Poor or inconsistent routing of claims to the appropriate party results in poor service levels, under-reported complaints and regulatory exposure.*** |

Please use the space below to provide any additional feedback on areas, that whilst not giving rise to a finding, would be of interest to managing agents:

|  |
| --- |
| General: |
|  |

## CLAIMS TESTING

Bordereaux Analysis

Perform a reconciliation of the bordereaux against the coverholder’s claims system. Identify any unreported claims or movements. Establish the cause of any under reporting.

Sampling Methodology

The file review sample should be representative of the business written under the BAA/CAA selected based on activity in the selection period and rather than being limited to claims attaching to the current binding authority. In order to achieve this, the following areas should be covered:

The sample should include:

1. A representative spread across the period, authority and activity;
2. Small reserves with large costs;
3. Nominal reserves;
4. Key words from the description which indicate unusual claims activity;
5. Any examples of claims denials;
6. Any examples of claims with recoveries, salvage or subrogation identified.

File Review

The following is to be considered during a claims file review:

1. Adequacy & timeliness of Coverage decisions;
2. Appropriateness of investigations into liability & quantum;
3. Management and oversight of external experts;
4. Identification of and, where appropriate, follow-up on subrogation and recoveries;
5. Accuracy of expert fees and indemnity reserves, in line with any agreed reserving strategy;
6. Accuracy of claims handling fees charged where applicable;
7. Fairness and reasonableness of adjustment and settlement of claims;
8. Proactive litigation management;
9. The effectiveness and proactivity of general file management;
10. Compliance with authority limits and referral triggers;
11. The quality of communications;
12. The fairness and reasonableness of customer outcomes;
13. Delivery against contracted SLAs;
14. Reconciliation of claim reserves and settlements;
15. Accuracy of reporting;
16. Complaints identified and reported;
17. Denials, WP, ex gratia;
18. Financial crime screening.

A base file review work sheet can be provided. The base file review may not be complete for the business bound and may require enhancements to meet the above requirements.

Claims File Review Results

Provide details of any control weaknesses identified as part of the file review, their cause and any supporting evidence.

Was any unauthorised sub-delegation noted?

As a result of testing the claims processes:

1. Provide a comment on the noted management of claims costs.
2. Provide a comment on the initial reserving accuracy.

CLAIMS TESTING SUMMARY TABLE

The below table should be completed as a summary from the claims file review as part of the report if using the claims testing template provided. The score should represent the weighted average section scores based on the file audits completed. The table can be provided in a different format such as Microsoft Excel.

It does not replace the full and proper claims review testing sheet. If using a different testing template, please provide an appropriate summary.



## ACCOUNTING

The purpose of this section is to provide assurance that the practices and procedures for the accounting of premiums and claims are appropriate for the business bound under the subject BAA(s)/CAA(s).

|  |  |
| --- | --- |
| Area | Risk |
| Accounts (status and security) | ***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).***  |
| Structure | ***b) Inappropriate segregation of duties and responsibilities that could result in the misuse of managing agent monies.*** |
| Accounting Procedures | ***c) Premium monies are not collected and settled accurately to managing agents within the agreed timeframes, cascading risk transfer (as applicable) is inappropriately identified and/or managed, increasing credit risk to managing agents.*** |
| Accounting Systems | ***d) The accounting systems are not operationally suitable to support the management of all financial transactions for business bound under the subject BAA/CAA, leading to ineffective credit control processes and adverse financial risk to managing agents.*** |
| Tax Settlement | ***e) Inaccurate calculation and settlement of applicable taxes in accordance with local requirements could incur financial penalties.*** |
| Transactional Accounting | ***f) A failure to correctly account for and process individual transactions results in serious financial exposure for managing agents in relation to the business.*** |
| Loss Funds | ***g) Claims funding is poorly managed, leading to inadequate funding, delayed settlements and financial inconsistencies.*** |

Please use the space below to provide any additional feedback or observations that you feel may be of interest or require remedial action;

|  |
| --- |
| General: |
|  |

## ACCOUNTING TESTING

The below table should be completed to demonstrate the accounting review as part of the report, and as distinct from the underwriting and claims this is the full testing sheet for this section. It can be provided in another format such as Excel. A template with pre-loading calculations will accompany this document.

In the event that accounting testing is shared across multiple BAAs/CAAs with different instructing leads, no personally identifiable information should be included within the testing template. Therefore, no specific reference to the name of the policyholder should be included. In addition, the auditor should endeavour to spread the sample evenly across the BAAs/CAAs being reviewed.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Transaction 1** | **Transaction 2** | **Transaction 3** | **Transaction 4** | **Transaction 5** | **Transaction 6** |
| **UMR risk attaches to** |   |   |   |   |   |   |
| **Lead MA** |   |   |   |   |   |   |
| **Office bound from** |   |   |   |   |   |   |
| **Policy number** |   |   |   |   |   |   |
| **Premium** |   |   |   |   |   |   |
| **Date bound** |   |   |   |   |   |   |
| **Inception date** |   |   |   |   |   |   |
| **Invoice issue date** |   |   |   |   |   |   |
| **Invoicing timescale1** |   |   |   |   |   |   |
| **Paid to cover- holder** |   |   |   |   |   |   |
| **Payment timescale2** |   |   |   |   |   |   |
| **Remitted** |   |   |   |   |   |   |
| **Remitted timescale (Inception)3** |   |   |   |   |   |   |
| **BAA/CAA terms of trade** |  |  |  |  |  |  |
| **Remitted timescale (Received)4** |   |   |   |   |   |   |
| **Remitted within BAA/CAA terms of trade?** |  |  |  |  |  |  |

1 Invoicing timescale = days between inception and invoicing. This can be a negative number.

2 Payment timescale = days between the coverholder invoicing the risk and receiving the money.

3 Payment Remitted to Coverholder timescale = days between the end of the month when the risk incepted and sending the money to managing agent.

4 Payment Remitted to Insurers timescale = days between the end of the month when premium was paid to Coverholder and when premium was paid to Insurers.

## REPORTING

The purpose of this section is to verify that the reporting requirements stipulated within the subject BAA/CAA are complied with in an accurate and timely manner.

|  |  |
| --- | --- |
| Area | Risk |
| Data Accuracy and Regulatory Requirements  | ***a) Risk level data declared may be inaccurate or incomplete leading to performance and regulatory reporting being inaccurate.******b) Managing agents are unable to effectively monitor the performance of the BAA/CAA due to reports and Bordereaux (Risk, Premium, Claims, Aggregate and Regulatory) not being provided as per agreed bordereaux template(s).******c) The Insurer does not meet their Lloyd’s / LIC and/or regulatory reporting requirements due to the Coverholder failing to collect relevant data in an accurate manner.*** |
| Data Reporting System | ***d) The systems utilised are unable to meet reporting requirements resulting in manual workaround with the potential for increased human error.*** |
| Data Timely Submissions | ***e) Bordereau submissions are poorly managed, not submitted within the times specified within the BAA/CAA terms leading to inadequate funding, delayed settlements and financial inconsistencies.*** |

Please use the space below to provide any additional feedback or observations that you feel may be of interest or require remedial action:

|  |
| --- |
| General: |
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## COMPLIANCE

The purpose of this section is to verify that the Coverholder understands the laws and regulations that govern the management of business for the subject class/territory and can demonstrate effective controls are embedded.

The scope guidance document details the information required from the review and necessary testing of the processes and procedures in place against the relevant policies on each of the risk areas.

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| Area | Risk |
| Structure and Accountability | ***a) Failure to embed an appropriate operational framework for regulatory oversight leading to regulatory attention and reputational harm.*** |
| Financial Crime | ***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.*** |
| Licensing | ***c) Exposure to regulatory penalties due to the transaction of business by inappropriately licenced companies and/or individuals.*** |
| Conflicts of Interest | ***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.*** |
| External Producers and Counterparties | ***e) The Coverholder does not adequately identify and/or manage their external producers including any fee structure, leading to increased regulatory and financial exposures.*** |

Please use the space below to provide any additional feedback or observations that you feel may be of interest or require remedial action:

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## I.T. / INFORMATION SECURITY

The purpose of this section is to verify that the system(s) used for the operation of business within the subject Binding Authority Agreement(s) are adequate.

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| Area | Risk |
| Culture  | 1. ***a) That the Coverholder’s culture and governance arrangements do not have sufficient oversight in relation to IT, Cyber Security, Artificial Intelligence 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.***
 |
| Access | ***b) Unauthorised or inappropriate access to systems or data leading to financial loss, reputational damage and regulatory exposure.*** |
| Outsource Providers | ***c) Inadequate management of outsource providers leads to service interruption, poor customer outcomes, regulatory exposure and reputational damage.*** |

Please use the space below to provide any additional feedback or observations that you feel may be of interest or require remedial action:

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## CUSTOMER OUTCOMES

The purpose of this section is to verify that the Coverholder possesses suitable attitudes, practices, processes and controls to deliver good outcomes for customers, with regard to Lloyd’s / LIC requirements and local regulatory expectations in the territories in which it does business.

Risks are the same regardless of the sophistication of the customer, the complexity of the product and the length of the distribution chain.

The scope guidance document details the information necessary for a risk-based approach in line with the conduct risk rating of the business written under the BAA/CAA.

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| Area | Risk |
| Culture and Governance Arrangements | ***a) That the Coverholders culture and governance arrangements do not have sufficient oversight to achieve good outcomes for customers.*** |
| ***b) That Coverholder remuneration and/or staff incentives or reward schemes conflict with the interest of customers.*** |
| Product & Service Suitability  | ***c) The product design, pricing, distribution channels and/or marketing does not meet the needs of the customers resulting in poor customer outcomes and creating the potential for reputational damage.*** |
| ***d) Product information / policy documentation is misleading or unclear preventing customers from making informed decisions***  |
| Sales and Distribution | ***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.*** |
| ***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.*** |
| Complaints Management | ***g) Customers receive poor outcomes due to insufficient identification, investigation and resolution of complaints in accordance with regulatory requirements, including EEA complaints.*** |
| Post Sale Barriers | ***h) Negative customer outcomes and adverse publicity due to unreasonable post-sale barriers.*** |
| Embedded Culture | ***i) Poor customer outcomes due to controls surrounding fair treatment of customers, including vulnerable customers not being embedded.*** |

Please use the space below to provide any additional feedback or observations that you feel may be of interest or require remedial action:

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