P66SP

SPECIMEN PAPER

P66 – Delegated Authority

This Specimen Paper is intended as a guide to candidates preparing for an examination in Delegated Authority. It provides candidates with an insight into the different style of questions in the question paper and indicates the depth and breadth of answer sought by examiners. It also indicates the structure of the full question paper which will be presented to candidates when they sit the examination from April 2014.

The answers presented in the question paper provide an outline of the key points which candidates could beneficially cover in responding to the questions. They are not intended as a definitive answer to each of the questions; in many instances the examiners can allow scope for well reasoned, alternative views to gain good marks.

Careful preparation is a major factor in achieving examination success. Giving attention to these specimen questions should therefore help candidates to feel more confident that they are prepared for the forthcoming examination, and can demonstrate their knowledge to its full extent.

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Specimen Paper is to help you to understand how examiners seek to assess the knowledge and skill of candidates. You can then demonstrate to the examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Make sure you have a copy of the current Diploma in Insurance Information for Candidates
Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Diploma in Insurance Information for Candidates brochure, which is essential reading for all candidates. It is available online at www.cii.co.uk or from Customer Service.

Study the syllabus carefully
It is important to study the syllabus, which is available online at www.cii.co.uk or from Customer Service. The questions in the question paper are based directly on the syllabus, so it is vital that you are familiar with it.

Read widely
Your knowledge should be wider than the scope of one book. While books specifically produced to support your studies will provide coverage of the syllabus areas, you should be prepared to read around the subject. A reading list can be found at the end of the syllabus.

Make full use of the Specimen Paper
You can use Specimen Papers as ‘mock’ question papers, attempting them under examination conditions as far as possible, and then comparing your answers to the examples of good ones.

Understand the nature of assessment
Each Specimen Paper contains a full question paper and examples of good answers. The examples of good answers show the type of responses the examiners are looking for, and which would achieve high marks. However, you should note that there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown.

Know the structure of the examination
Familiarise yourself with the structure of the question paper and the time allowed to complete it. This information can be found on the question paper included within each Specimen Paper.

In the examination

Do justice to yourself in the examination

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two common sense rules:

1 Spend your time in accordance with the allocation of marks as indicated on the question paper. you do not complete the whole question paper, your chances of passing may be reduced considerably. Do not spend excessive time on any one question. If you have used up the time allocation for that question, leave some space, go on to the next question, and only return to the incomplete question after you have completed the rest of the question paper. The maximum marks allocated to each question and any constituent parts are given on the question paper; the number of marks allocated is the best indication of how much time you should spend answering it.

2 Take care to answer the precise question set. You will see that the examples of good answers provided in this Specimen Paper are quite focused and precise; alternative answers would only be acceptable if they still answer the question. However brilliantly you write on a particular topic, if it does not provide a satisfactory answer to the precise question as set, you will not score the marks allocated. Many candidates leave the examination room confident that they have written 'good' answers, only to be mystified when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires, before putting pen to paper.

Order of tackling questions

Tackle the questions in whatever order you feel most comfortable with. Generally, it is better to leave any questions which you feel less confident in answering until you have attempted those with which you are more familiar, but remember not to spend excessive time on your 'good' questions.

Handwriting

Provided your handwriting is legible, you will not lose marks if it is untidy. We recommend that you do not write in block capitals, because you will be slowed down so much by doing so and, paradoxically, block capitals can become more difficult to read than joined-up writing when done quickly.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs, since this allows you to communicate your thoughts in the most effective way in the shortest time. The good answers give an indication of which style is acceptable for the different types of question.

Calculators

If you bring a calculator into the examination room, it must be a silent, battery or solar powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. It is important that you show all the steps of any calculation in your answer. The examination is testing your ability to carry out all the appropriate steps in calculating a value. A proficient mathematician is someone who follows the correct method, i.e. carries out the appropriate steps. The majority of the available marks will be allocated for demonstrating the correct method of calculation.

After the examination

All Diplomas in Insurance examiners, one of whom will mark your answer book, are either active practitioners in the insurance industry or are experts on the subject. They have been specially trained to mark question papers using a detailed marking scheme.

The marking of each examiner is closely monitored by a Senior Examiner during the marking period and sampling of marked answer books is carried out.

After all the answer books have been marked, a moderation meeting is held, at which all available statistical information is considered, together with the views of the Senior Examiner for that unit and other assessment experts. At the meeting, a pass mark is set to ensure that the standard of knowledge and skills required to gain a pass in the examination is comparable with that of previous question papers.

P66

THE CHARTERED INSURANCE INSTITUTE

DIPLOMA

SPECIMEN PAPER

UNIT P66
Delegated Authority

THE CHARTERED INSURANCE INSTITUTE

P66 – Delegated Authority

Instructions to candidates

Read the instructions below before answering any questions

Three hours are allowed for this paper which carries a total of 200 marks, as follows:

Part I	14 compulsory questions	140 marks
Part II	2 questions selected from 3	60 marks

- You should answer **all** questions in Part I and two out of the three questions in Part II.
- You are advised to spend no more than two hours on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

PART I

Answer ALL questions in Part I

Note form is acceptable where this conveys all the necessary information

1. Define the following terms:

(a) Service Company. **(2)**

(b) Coverholder. **(2)**

(c) Managing General Agent (MGA). **(2)**

2. Explain briefly **two** of the main types of delegated authorities. **(8)**

3. Explain the **three** ways in which authority to accept risks can be delegated to a coverholder. **(12)**

4. **(a)** Outline the **two** types of contract in existence within a delegated authority arrangement. **(4)**

(b) Explain briefly the issues for coverholders relating to client assets as identified by the Client Assets Source Book (CASS) rules. **(6)**

5. **(a)** Identify **six** key issues an insurer should consider before deciding to delegate their authority. **(6)**

(b) Explain **one** of the key issues you have identified. **(6)**

6. **(a)** Identify the **six** key roles an insurance broker could play in the delegated authority arrangement. **(6)**

(b) Explain **one** of the roles you have identified. **(3)**

7. An insurance broker you work for has identified an opportunity to provide insurance for a niche group of potential clients.

You are considering approaching Lloyd's of London to seek approval as a coverholder. Before preparing your application, you make an initial approach to a managing agent to obtain their support.

(a) Identify **six** areas that the supporting managing agent will need to show Lloyd's of London that it has considered. **(6)**

(b) Identify **six** aspects of your application that Lloyd's of London will consider before approving you status as a Lloyd's of London coverholder. **(6)**

8. Explain the **five** different types of remuneration for coverholders. **(10)**

9. The coverholder you work for has a new delegated authority scheme. You have been tasked to establish a robust internal management reporting procedure to monitor the operation of the scheme.

(a) Explain **five** of the key considerations that must be regularly reviewed. **(10)**

(b) Explain briefly the value of peer reviews in the monitoring process. **(2)**

10. Identify the **three** parts of a standard binding authority contract typically used in the London Market and describe briefly their content. **(12)**

11. Describe briefly **four** of the individual processes within a delegated authority scheme that contribute to good claims handling by the coverholder. **(8)**

12. **(a)** Describe the **six** steps for the coverholder in the underwriting process. **(12)**

(b) Explain what is meant by exposure management. **(3)**

13. Explain briefly the **three** main options available for handling claims under the terms of a delegated authority. **(6)**

14. **(a)** Explain the **three** main areas where a coverholder could expect to generate new business. **(6)**

(b) Outline why is it important for a coverholder to have an effective new business plan. **(2)**

PART II

Answer TWO of the following THREE questions

Each question is worth 30 marks

15. **(a)** Identify and explain briefly **two** potential problems that may arise from a poorly constructed delegated authority contract for **each** of the following:

(i) The Insurer. **(5)**

(ii) Coverholder/Broker. **(5)**

(iii) Insureds. **(5)**

(b) Explain **five** of the main reasons why contracts of delegation may be cancelled prior to natural expiry and the implications of early termination. **(15)**

16. **(a)** **(i)** Identify the **five** practical steps that all parties to a delegated authority agreement have to follow in order to set up an agreement. **(5)**

(ii) Explain these steps from the perspective of the insurer, broker and coverholder. **(15)**

(b) State **ten** of the main topics that should be included in a coverholder's business plan. **(10)**

17. Discuss the benefits and challenges in setting up a delegated underwriting authority for:

(a) The insurer. **(15)**

(b) The coverholder. **(10)**

(c) The broker. **(5)**

Example answers for Part I (Compulsory questions)

1. **(a)** A Service Company is a coverholder of a delegated authority scheme which is part of the same group of companies as the insurer delegating the authority.

(b) A Coverholder is an entity to who delegated authority has been given by an insurer. The entity can be an independent organisation, such as an insurance broker, or it can be another company within the same group as the insurer.

(c) A Managing General Agent (MGA) is an organisation that underwrites insurance risks and who owes its primary duties to one or more insurance companies, Lloyd's syndicates or other providers of insurance capacity. They are different to general brokers and wholesalers of insurance.

2. Two of the main types of delegated authority are Binding Authorities and Lineslips.

Binding Authorities
This is a contract whereby insurer delegates specific tasks to a third party (known as a coverholder). The coverholder could be an independant organisation such as an insurance broker, it could be linked to the insurer or it could be a Managing General Agent. The binding authority allows the coverholder to independently 'bind' risks in accordance with the terms of the contract (it will state both factual and financial limitations e.g. class of business and the size of the risk). The binding authority can be used for any type of business, including reinsurance, but is most often used as a means to access business of a high volume/low value nature.

Lineslips
This is a contract put together by a broker as a means of pre-agreeing some security. The broker approaches various insurers who write similar business to join the lineslip which delegates the insurer's agreement to accept individual risks to one or two members of the market. When the broker has a risk that he has to place, he can consider whether the lineslip is appropriate security for the entire risk (i.e. if there is sufficient capacity) or combine various lineslips to complete the placement. The lineslip may also be combined with open market security to complete the placement. The lineslip will make clear the limitations in the same way as a binding authority agreement.

(Could also describe Consortia/Consortiums, Group/affinity programmes or Master Covers.)

3. The three ways in which authority to accept risks can be delegated to a coverholder are Prior Submit, Pre-agreed Rates and Full Authority.

Prior Submit
This is where no actual decision making authority has been delegated, but to an insured, the holder of the binding authority appears to be the one making the decision. Each risk is referred to the insurer before it is accepted in to the binding agreement. The insurer will apply terms (including price) before the coverholder can finalise acceptance.

Pre-Agreed Rates
Authority is delegated to the coverholder to decide and agree the acceptance of risks, but not the rate. Rates and risk criteria are provided by the insurer. Any risks that fall outside the criteria, but are still within the scope of the authority will have to be referred to the insurer for their agreement and pricing advice.

Full Authority
Here the coverholder has authority to both accept risks and also to set the rates independently without the need to refer back to the insurer, provided the risk falls within the criteria set out in the terms of the binding authority agreement.

4. **(a)** The two types of contract in existence within the delegated authority arrangement are the contract of delegation and the contract of insurance. The contract of delegation is issued between insurers and the coverholder and deals with the details of the binding authority agreement.

The contract of insurance is issued between the insurer and the insured, the coverholder is not normally a party to this contract.

(b) The issues for coverholders relating to Client Assets as identified by the CASS rules relate to the circumstances where the coverholder handles funds for both the insured and the insurer. The money must be held safely and used appropriately. The CASS rules apply to any funds being held in accordance with insurance mediation activity, or any funds received in relation to a binding authority. Client money must be held in a separate trust account. Where the coverholder is empowered to receive funds on behalf of the insurer, then the insurer is deemed in receipt of the funds as soon as the coverholder has them. It is not deemed as 'client money'. Coverholders must classify themselves in accordance with the CASS rules and how they are classified will influence the regulatory procedures they must then follow.

5. **(a)** The six key roles a broker could play in the delegated authority arrangement are as follows:

- Being the coverholder.
- Identifying suitable coverholders for an insurer.
- Identifying suitable capacity.
- Facilitation of the agreement process.
- Placing risks.
- Movement of funds and data.

(b) <u>Being the coverholder</u>

This is a common role for the broker who may have access to a niche market of risks. Entering into a binding agreement means they could have a unique insurance product for their clients. There is a potential for a conflict of interests as they represent both the insured and the insurer.

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7. **(a)** The six areas that the supporting managing agent will also need to show Lloyd's that it has considered are:

- The suitability of the individuals to be authorised.
- The company's reputation and standing.
- The company's ability to operate a binder.
- The company's financial standing.
- The company's strategy and whether it fits with the wider managing agent's strategy.
- The ability of the company to comply with all relevant fiscal, regulatory, and insurance requirements of where it is based or will be doing business.

(b) Six aspects of the coverholder application that Lloyd's will consider before approving you status as a Lloyd's coverholder are:

- The coverholder's compliance with appropriate principles of good corporate governance.
- The quality and adequacy of the coverholder's human resources.
- The quality and adequacy of the coverholder's other resources.
- The quality and adequacy of the coverholder's controls and procedures to manage its business.
- Whether the coverholder is of appropriate reputation and standing.
- Whether any person who controls the coverholder, or is connected or associated, is of appropriate reputation and standing.
- Whether the coverholder has adequate capital and financial resources.
- Whether the coverholder has adequate professional indemnity insurance.
- Whether the coverholder is capable and willing to comply with the terms of any undertaking given by Lloyd's.
- Whether the coverholder possesses all the licenses, approvals or authorizations in order to act as an approved coverholder wherever it will conduct insurance business in that capacity.

8. Coverholders create revenue in five main ways:

Commissions. This is a set rate charged within the premium of every risk written. The rate should be agreed beforehand within the delegated underwriting agreement and may vary between different classes of business.

Profit Commissions. This is a commission over and above the standard risk based commission, but is only paid if the scheme is profitable to the insurer. This has the added incentive of encouraging the coverholder to be selective about the types of risks they place and to make sure they are appropriately priced.

Overriders. This is paid in relation to the volume of business placed rather than the profitability, hence it can lead to poor decision making.

Brokerage. Where the coverholder is a broker, commissions can be earned in the usual way from insurers as well as the additional commission under the binder.

Fees. Coverholders can earn additional fees by providing additional services for their clients. For example, risk management services. Some coverholders may charge additional fees to their clients for adjustments for example.

9. **(a)** Five of the key considerations that must be regularly reviewed and analysed when operating a delegated authority scheme are:

- Line size. Have any authorities been breached?
- Aggregate position. Have there been any breaches?
- Premium Income. How does it relate to the authority given? Has it reached any trigger to ask for further authority?
- Locations. Have any locations been accepted which are outside the binder?
- Class of business. Are all risks written within the authorized classes under the binder?
- Claims handling. Is it being done in accordance with the agreement? Are the referrals being correctly carried out?
- Premium. Has it been collected and correctly accounted for to underwriters?
- Insurer funds held. Are they being regularly balanced and accounted for?

(b) The peer review process involves a second pair of eyes on any activity that will be reported on. The process captures the results and feeds them back in a continuous loop to ensure the ongoing improvement in practices.

10. **The binding authority schedule contains the following:**

- A summary of the contractual agreement between the insurer and coverholder.
- A statement of the purpose of the agreement and its conditions.
- Identifies the parties involved.
- Includes the signatures of each party.

The binding authority wording contains the following:

- Full details of the contract of delegation.
- Includes remuneration details.
- Includes underwriting and claims authority details.
- Must be read in conjunction with the schedule.

The Non-schedule sections contain:

- A mirror of the elements of the standard London Market MRC/slip.
- Fiscal details.
- Regulatory details.
- Include all the details not referred to in the other two parts.

11. Four of the individual processes that will contribute to good claims handling are:

- Notification – speedy and accurate claims notification will assist in the processing of claims. Clients need to have clear information on notification and the information should be captured in such a way that it can be reported on accurately.
- Review/adjustment and decision making. The process of reviewing claims should allow claims to be reviewed in a timely way and questions raised as soon as possible.
- Expert management. There should be a process in place that allows coverholders to refer requests for instruction of experts (loss adjusters) where they fall outside pre-agreed parameters and the associated fees should also be monitored in relation to the size of the claim.
- Payment. There should be a clear process for the payment of claims, where at least two people sign-off larger amounts.
- Communications. Copies of all communications in relation to all claims should be held on file. Speed of response to clients is essential.
- Referrals to insurers. The process must ensure that all claims handlers know the criteria for referral to insurers. Details of referrals must also be kept on file.
- Complaints handling. The process must ensure that all complaints are recorded, both the detail of the complaint and how it was resolved.

12. **(a)** The six steps in the underwriting process are:

- Consideration of the risk. Does the class of the risk actually fit the terms of the binder? If it does not it can be declined, or presented to the insurer in order to widen the limits of the agreement, or it could be placed as an open market risk.
- Check authority to quote. Does the risk profile allow the coverholder authority to provide terms or should it be referred?
- Assessment of the rating. Insurers will normally supply pre-agreed rates, but there may be discounts or adjustments that can be applied.
- Consideration of the share of risk to accept. Are there aggregate issues to consider, is there any limit of the number of risks that can be accepted, should the risk be spread between binders, are there any premium income levels that should be considered?
- Consideration of terms and conditions. The coverholder may have no flexibility in terms of the conditions that must be applied, but the appropriate wordings must be supplied.
- Referral decision. Anything outside the terms of the agreement can be referred, but referring specific cases may increase the level of trust between the insurer and coverholder.

(b) Exposure management is the activity performed by the insurer to enable it to accurately measure how severely it might be impacted should any particular events occur. This includes, but is not limited to catastrophe management, as an insurer could suffer a fundamental loss through a non catastrophe event merely by being unfortunate enough to have written every risk involved in a particular insured event, such as localised flooding or a ship casualty.

13. The three main options available for handling claims under the terms of a delegated authority are:

- No authority. All claims matters irrespective of their size or facts must be reported to the underwriter for their decisions. Claims notification can occur directly between the insured and the insurer as the coverholder plays no role.
- Limited authority. Claims settle authority is given to the coverholder, but strictly limited in terms of size of the claim or by certain facts that result in a referral.
- Authority given to a third party. This is where a limited claims authority is given to an independent third party, also known as a third party administrator (TPA).

14. **(a)** The three main areas where a coverholder could expect to generate new business are:

- Targeting a niche. Here a particular product can be designed to offer to a niche area of clients such as a business class or an affinity group (e.g. classic car owners) that no other insurer or broker is currently offering.
- Affinity relationships. The coverholder may have existing relationships with an affinity group such as a federation of organisations with a membership of similar profile organisations or individuals, who may be inclined to purchase their insurance through the federation.
- Existing clients. Coverholders may already have a volume of existing clients that an insurer wishes to access. By setting up a delegated scheme the product can be designed specifically for their needs.

(b) It is important for a coverholder to have an effective new business plan because they will need to explain to an insurer how they intend to attract clients and therefore attract the capacity it requires.

Example answers for Part II (Scenario questions)

15. (a) (i) From an insurer's perspective, a poorly constructed contract can cause a range of problems. Two examples are:

- Wider cover has been granted than desired. This could lead to a greater number of claims, or claims of a higher value than had been predicted or planed for. This would affect profitability of the scheme.
- Unclear termination provisions. If the termination provisions, where the insurer and coverholder clearly agree the duration of the individual insurance contracts between the insured and the insurer, are not made clear, the insurer may be left on risk for longer than they had expected or planned for. This, at best, can tie up capacity and at worst affect financial performance.

(ii) From the broker, acting as coverholders perspective:

- Authority is narrower than expected. The coverholder will have identified a client base they want to target for the cover they have arranged. If the agreement does not provide them with the tools they need, they may not have the take up rate they expected and the whole scheme could fail as it will not attract the new business it was intended to win.
- If the actual insurance contract is poorly worded, insurers may take longer dealing with claims due to queries over the wording. This has a reputational impact on the coverholder as they are the ones who have the relationship with the insured and the insured may assume that the coverholder is being slow to pay or deal with claims.

(iii) From the perspective of the insured:

- Where contracts of insurance are poorly worded and there are queries by the insurer over coverage following a claim, this will delay the claims process.
- If a contract is poorly worded and compulsory insurances, such as motor insurance for consumers or employer's liability insurance for commercial customers - there may be legal ramifications. The insured may assume that compulsory covers are being correctly provided for under the terms of the insurance contract, where this is not the case, in the event of a loss, it could lead to prosecution. In this event, the insured may hold the coverholder responsible and the coverholder may, in turn seek redress from the insurer. This ambiguity can be avoided if the original contract is clearly worded.

(b) The main reasons why contracts of delegation may be cancelled prior to natural expiry are as follows:

- Poor performance. The risks promised, for whatever reason, are not forthcoming.
- Discovery that the coverholder has acted outside their authority, leading insurers to have to ratify contracts of insurance that they would never have chosen to enter into normally. This can happen in the following three ways:
    - Accepting risks that are specifically excluded.
    - Accepting risks in the wrong jurisdictions.
    - Not monitoring aggregate positions.
- Financial issues, failure to remit premiums, inadequate management of claims funds, failure to account for taxes.
- Audit failure – where insurers have conducted an audit, found issues and those issues have been raised with the coverholder, but not remedied.
- Loss of authorisation – if the coverholder is an entity that is authorised by their home regulator such as a broker, such loss of authorisation will probably lead to cancellation of the authority.

- Change of ownership of the business – the ownership and management of the coverholder's business is a key part of the analysis done by an insurer and if the business is sold, the entity to whom it has been sold may not be a suitable business partner for the insurer. For example, it may be a sanctioned organisation. In the same way a new owner may have a completely different business plan and not wish to continue to conduct business through the scheme.

- Both the insurer and the coverholder will need to protect their own reputations. Short period cancellations may lead to animosity and can be difficult for all parties. However, the position of the innocent, insured clients must also be considered when dealing with non consensual termination of the contract. Regardless of the contract of delegation, an insurance contract remains in place between the insurer and the insured and the coverholder may still present claims to the insurer (depending on the wording of the contract of delegation). Regardless, the insureds should be kept informed of any changes.

16. (a) (i) The five practical steps that all parties to a delegated authority agreement have to do in order to set up an agreement are as follows:

- Step 1 Identify a suitable partner.
- Step 2 Obtain approvals.
- Step 3 Deal direct or via broker.
- Step 4 Construct Formal Agreement.
- Step 5 Processing the Agreement and Contractual Activity.

(ii) Step 1

- Insurer – needs to find a suitable coverholder, possibly one already engaged in their target business with a competitor.
- Broker – could identify a possible coverholder with whom they are doing business and approach insurer on their behalf.
- Coverholder – might approach either a broker or an insurer if they feel they have an opportunity.

Step 2

- Insurer – obtain approval from regulator and consider coverholder's business plan.
- Broker – assist coverholder with approval process, check coverholder for sanctions, check E + O insurance if acting as coverholder.
- Coverholder – produce business plan, go through Lloyd's approval if Lloyds market.

Step 3

- Insurer - consider using broker to set up initially regardless of coverholder.
- Broker – could be coverholder or intermediary.
- Coverholder – may need a broker to assist in finding security.

Step 4

- Insurer - either use in house wording or standard market wording, either way, contract certainty must be achieved.
- Broker – often assist by putting draft agreement together.
- Coverholder – review provisions of the draft contract to ensure an understanding and that it is in line with requirements.

Step 5

- Insurer – transfer details of agreement to their systems, receive risk and claim reports, providing funds as required. Consider contractual changes.
- Broker – record all risk info as required by regular bordereaux reporting and assist in moving money.

Coverholder – ensure all staff are trained, bind and handle risks, report regularly, receive and pay funds, ensure contractual amendments are made correctly (e.g. staff turnover).

(b) The main topics that should be included in a coverholder's business plan are as follows:

- Organisational structure – key personnel with CVs and the wider organisational structure.
- Capital and sources of finance – Where does the capital come from, is the coverholder part of a larger organisation?
- Authority – what is the scope of authority being sought?
- Which classes of business – is the coverholder a specialist or is this a new venture?
- Locations – where are the risks located and what resources does the coverholder have to match this?
- Access routes – what is the source of the potential business?
- Marketing strategy – what resources will be allocated?
- Premium Estimates Overall premium income and pricing analysis if relevant.
- Remuneration expectations – how they expect to be paid and how much.
- Outsourcing – will any process be outsourced, if so what?
- Holding of funds – clarify if handling claims.
- Data capture and reporting – demonstrate that systems are capable of capturing all the required data.

Regulatory controls. Explain how they deal with regulatory requirements such as financial crime, sanctions controls etc.

17. (a) There are many benefits for the insurer of entering into a delegated underwriting contract. However, there are also challenges. The benefits and challenges for the insurer are discussed below:

Benefits for the insurer

- By establishing a delegated underwriting contract with a coverholder, the insurer can gain access to desired risks that they would not ordinarily expect to insure in the traditional sense. This is particularly true for an insurer who may operate in a different geographical location to the coverholder. For example, by entering into a contract with a regional broker, a Lloyds syndicate gains access to new business.
- For smaller risks, it may provide a more cost effective way of providing cover, this is because by sharing the work load with a coverholder there are lower operating costs despite having to pay away commission to a coverholder.
- Provides access to knowledge, experience and reputation of the coverholder.
- Low risk strategy for venturing into a new area. Lower cost than employing specialist underwriters.
- Localised claims handling can provide swifter customer service and reduces insurers' administrative burden.

Challenges for the insurer

- Loss of control, insurer risks reputational damage.
- Data may not be reported accurately leading to false information and impact on financial performance.
- Premiums may not be accounted for or paid regularly or accurately, impacting financial performance.
- Regulatory exposure if local tax and other requirements are not complied with.
- If coverholder does not provide a good service, particularly in relation to claims, damage can be caused to brand and regulatory standing.
- Un-authorised sub-delegation of authority may occur.

(b) Benefits for the coverholder

- Provides access to high quality markets.
- Potential for a unique product, providing key advantage over competition.
- Reputational benefit through association with high quality insurers.
- Autonomy to run the business leading to enhanced customer service.
- Opportunity for enhanced remuneration in forms of commissions and profit share arrangements.

Challenges for the coverholder

- Where only one insurer is used, there may be a dependency which could expose the coverholder in the event of contract termination.
- Additional staff burden, training and expertise required, as more processes are retained in house, e.g. underwriting, claims documentation issuance.
- Reputational risk if insurer fails.
- Must be aware of regulatory requirements in relation to local tax obligations and charges.
- Potential for conflicts of interest where coverholder is agent of the insured and also representing the insurer.

(c) Benefits for the broker

- Ability to build a strong relationship with a local coverholder and have greater accessibility to them than they would an insurer.
- Efficient mechanism for obtaining cover for low value, high volume business through the coverholder.

Challenges for the broker

- Dependency on one coverholder for capacity if that coverholder ceases writing that business.
- Increased administrative burden where broker needs to assist coverholder in application process and ongoing regulation.
- Risk of losing relationship with other insurers if too dependent on coverholder for that class of business.