



22 February 2018: This form will be formally adopted on 1 October 2018

Application for Authorisation

Supplement for Lloyd's managing agents - notes

Please take time to read these notes carefully. They will help you fill in the supplement form.

When completing the application forms you will need to refer to the PRA and FCA Handbook. .

If after reading these notes you need more help please:

- check the PRA website: www.bankofengland.co.uk/PRA and FCA website: WWW.FCA.org.uk
- consult the relevant section of the PRA and FCAs' Handbook: www.fshandbook.info/FS/index.jsp.
- call the Authorisation Helpline: 020 3461 7000; or
- email PRAFirm.Enquiries@bankofengland.co.uk

These notes, while aiming to help you, do not replace the rules and guidance in the Handbook.

Terms in this form

These notes use the following terms:

- 'you' refers to the person(s) signing the form on behalf of the applicant firm;
- 'they' and 'firms' refers to firm financial services firms
- 'the applicant firm' refers to the firm applying for authorisation;
- 'we' refers to PRA and or FCA
- 'the PRA' refers to Prudential Regulatory Authority and FCA refers to the Financial Conduct Authority;
- FSMA refers to the Financial Services and Markets Act 2000;
- words in italics are defined terms which you can find in Handbook Glossary at: www.fshandbook.info/FS/html/handbook/Glossary.

Important information

At the point of authorisation we expect the applicant firm to be ready, willing and able to start business.

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1 Regulatory business plan

We need to know about the business the applicant firm proposes to carry on so we can ensure it is authorised for the correct regulated activities, investment types and client types. It also allows us to assess the adequacy of its resources and its suitability to carry on that business.

We see the applicant firm's description of its proposed business as an important regulatory tool for both the applicant firm and us in measuring its business risk and control over any regulatory concerns. You can find further information about this in:

www.appropriate-regulatorshandbook.info/APPROPRIATE-REGULATORS/html/handbook/SYSC/3/2.

For the threshold conditions, we need to be satisfied the applicant firm can:

- identify all the regulated activities and any unregulated business that it intends to carry on;
- identify all the likely business and regulatory risk factors;
- explain how it will monitor and control these risks; and
- take into account any intended future developments.

Please remember your description of the applicant firm's proposed business is an important part of the overall application and integral to our decision making. The amount of detail you give us should be proportionate to the scale and complexity of the business the applicant firm intends to carry on. The level of detail should also be appropriate to the risks to the applicant firm's prospective clients of its proposed business.

You can find more information about our requirements and expectations for business plans at www.appropriate-regulatorshandbook.info/APPROPRIATE-REGULATORS/html/handbook/COND/2/4.

1.1 Background

1.1.1 Briefly explain why the applicant firm has been established to carry on the business it is seeking authorisation for.

No additional notes.

1.1.2 Summarise the business of the applicant firm's controllers and related group entities shown on the group structure chart provided with the Owners and Influencers appendix.

Who are your proposed investors? Please explain:

- what are they (e.g. investment fund/corporation etc.);
- provide background/key activities/rating/capitalisation;
- who are the key people/decision makers; and
- have any members agents pledged capital?

1.1.3 Provide details of the source of the funds the applicant firm's controllers are intending to inject into the applicant firm to support its proposed business activities.

No additional notes.

1.2 Description of proposed business

Give details for the following areas of the applicant firm's proposed business:

Strategy:

- The applicant firm's strategy for at least the first three years.

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- An assessment of the main risks and key dependencies for the first 12 months of trading.
- The strategy for each syndicate which the applicant firm intends to manage including details of classes of business, total premium by class, forecast income and loss ratios. This should be for at least three years.

Risk strategy

- Describe the risk appetite of each syndicate to be managed by the applicant firm e.g. risk retention, aggregate risk levels, reinsurance strategy.
- Explain how the applicant firm will implement its risk management framework together with performance measures.
- The key risks to the business and how they will be managed and who has ownership of each specific area of risk.

Stress and Scenario testing

- Give three-year financial projections:
 - syndicate P&L account (GAAP and Lloyd's basis);
 - syndicate expense budget; and
 - syndicate cash flow forecasts (working capital and catastrophe loss).
- What are the key assumptions that drive these projections?
- Give stress tests of these projections, including:
 - impact of soft market (80% income);
 - impact of major catastrophe (200 year return); and
 - impact of soft market (year one) followed by major catastrophe (year two).
- Give details of your expected realistic disaster scenarios (gross/net loss).

Historical performance information

- If you have it, please give past trading information for any books of business which the applicant firm intends to write through one or more syndicates.

Reserving

- Describe your overall approach and policies for reserving.

Underwriting

- Give details of what underwriting controls will be in place.
- Explain the applicant firm's intentions for the use of delegated authorities.

Claims handling

- Explain the proposed arrangements for the handling of claims.

Operations

- Set out the nature of the management information that will be generated and used within the business, in particular, the information which will be given to the board of directors.

Syndicate capital providers

- Set out the nature and source of capital for the syndicate(s) the applicant firm will be managing and give details of the relationship between the applicant firm and capital providers.

Other regulated business

- For example, details of any insurance distribution activities to be carried on by the applicant firm.

Unregulated business

- Any other unregulated business.

1.3 Corporate governance and management structure

- 1.3.1 Provide full details of the proposed board composition together with a) terms of references for the board; b) job descriptions for each board member; and c) job descriptions of all other staff in senior management positions.**

No additional notes

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- 1.3.2 Provide full details for all committees which the applicant firm is proposing to establish containing terms of reference and composition for each committee. Where the applicant firm intends to rely on group committees, such as an audit committee, details of these arrangements should be explained.**

No additional notes

- 1.3.3 Please provide an organogram for the applicant firm showing all senior management positions.**

No additional notes

1.4 Internal systems and controls

- 1.4.1 Describe how each of the following areas will operate within the applicant firm:**

- risk management;
- compliance;
- internal audit; and
- external audit arrangements.

We are seeking to understand the applicant firm's risk management framework for these areas.

- 1.4.2 Provide details of the IT business continuity and the disaster recovery plans the applicant firm will put in place to ensure business continuity.**

No additional notes

1.5 Outsourcing

Will the applicant firm be outsourcing any functions to third parties?

Please note that third parties include other group entities.

1.6 Complex IT systems

If the applicant firm's proposed business will be heavily dependent on complex IT systems, there will be greater risks to the proposed business if its IT systems fail or have an error. In these cases, we will need additional information on the applicant firm's IT systems, and the control framework for managing the risks posed by them.

- 1.6.1 Are the applicant firm's IT systems applications complex?**

We will regard an applicant firm's IT systems applications as complex where they involve one or more of:

- complex functionality and/or business logic;
- significant volumes of straight-through processing;
- an automated business cycle for transaction capture, confirmation, accounting, settlement;
- initial releases of new business or infrastructure technology;
- significant amount of in-house development or customisation;
- high dependency on outsourced development and/or hosting facility.

- 1.6.2 Is the applicant firm's proposed business heavily dependent on its IT systems applications?**

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We will regard an applicant firm's proposed business as heavily dependent on its complex IT systems applications where the IT systems applications involve one or both of:

- significant business volume processing where availability is key (manual processes are not viable); and
- high availability environment, e.g. 24x7.

1.6.3 Will the applicant firm's IT systems applications automatically interface with customers/counterparties?

The IT systems applications will automatically interface with customers/counterparties in one or more of the following sets of circumstances:

- if they receive transactions automatically, e.g. from the internet;
- if they generate transactions to a third party, e.g. for electronic transfer of payments/payments instructions, settlements, confirmations, customer deposits; and
- if they generate payments via the internet.

Please click on the following link to the [Detailed IT controllers form](#).

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Scope of Permission required

Background

The Financial Services and Markets Act (FSMA) states that no person may carry on a regulated activity in the UK, or purport to do so, unless they are either authorised or exempt. This is known as the general prohibition. If the applicant firm carries on a regulated activity that is not set out in its permission notice then it could be subject to enforcement action.

Getting the applicant firm's permission notice right at the outset is fundamental.

It is the applicant firm's responsibility to make sure the Scope of Permission it applies for fully and accurately reflects the business it is proposing to carry on.

The permission notice shows the range of regulated activities the applicant firm will be authorised to carry on, as well as the types of investments and clients for which it can carry on business for each respective regulated activity. It will also contain what we refer to as 'requirements' and 'limitations'. Broadly speaking, limitations are included in the descriptions of specific regulated activities (e.g. not to carry on business with retail customers) and requirements are on the firm to take or not to take specified actions (e.g. not to hold client money).

Finally, please be aware that these details are recorded on Financial Services Register, available at: www.appropriate-regulators.gov.uk/Pages/register.

Wording of the Scope of Permission Notice

The Scope of Permission Notice will follow the wording in the Perimeter Guidance PERG 2 (Annex 2). You can find this at: www.appropriate-regulatorshandbook.info/APPROPRIATE-REGULATORS/html/handbook/PERG/2.

Regulated activities

You can find a full description of each regulated activity in PERG 2.7 at:

www.appropriate-regulatorshandbook.info/APPROPRIATE-REGULATORS/html/handbook/PERG/2/7.

You may also find it useful to look at the Glossary Handbook: www.appropriate-regulatorshandbook.info/APPROPRIATE-REGULATORS/html/handbook/Glossary

Investment types

You can find a full description of each investment type, including guidance on what is excluded from each definition, in PERG 2.6 (specified investments: a broad outline) at:

www.appropriate-regulatorshandbook.info/APPROPRIATE-REGULATORS/html/handbook/PERG/2/6.

Client types

For the definitions of the respective client types, please refer to the Glossary Handbook:

www.appropriate-regulatorshandbook.info/APPROPRIATE-REGULATORS/html/handbook/Glossary

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2.1 Insurance business at Lloyd's

Regulated activities, investment and client types

A managing agent will usually carry on the combination of regulated activities shown in the pro-forma table.

2.2 Lloyd's managing agents also carrying on insurance distribution business

Insurance distribution business Permission Profile table

You must look at the list of regulated activities and decide which are relevant to the applicant's firm's proposed business. **You should use the answers given in Section 1, Proposed business, to help you compile its permission profile.** You will then need to build up each of these regulated activities by selecting the appropriate investment and customer types and considering whether any additional requirements or limitations are applicable.

The applicable investment type for general insurance business is 'Non-investment insurance contract'.

The applicable customer types for general insurance business are 'Retail' and/or 'Commercial'.

2.3 Agreeing to carry on a regulated activity

Under the permission regime, 'agreeing to carry on a regulated activity' is a regulated activity in its own right. Most firms carry on this regulated activity (which is limited as standard to agreeing to carry on only the other regulated activities specified in a firm's Scope of Permission Notice) as a matter of course.

You can find more guidance on this in PERG 2 Annex 2:

www.appropriate-regulatorshandbook.info/APPROPRIATE-REGULATORS/html/handbook/PERG/2/Annex2

2.4 Other regulated activities

Is the applicant firm applying for permission to carry on any other regulated activities?

If a firm carries on a regulated activity that is outside the scope of its permission notice, then it could be in breach of FSMA. So, if the applicant firm has identified in Section 1 any other regulated business, or if the regulated activities set out in Table 2.1 do not cover its proposed activities as a Lloyd's managing agent, it must apply for permission for the appropriate regulated activity, together with the corresponding investment and client types.

2.5 Other limitations/requirements

Does the applicant firm need to limit the scope of any regulated activities?

Limitations are specific to a particular regulated activity and will limit in some way how it is carried on.

A limitation may come about because either you ask for one or we impose one.

Should any requirements apply to the applicant firm's permission?

Limitations apply to specific regulated activities (see above) whereas requirements apply to a firm. Requirements are placed on a firm to take or not to take a specified action, for example, the firm must not to hold or control client money.

As with limitations, a requirement may be because you request it or we decide to impose one. If it is the latter, we will discuss this with you when we process your application.

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3 Financial resources

3.1 Financial resources

The applicant firm must demonstrate that its capital will meet the financial resources requirements for a managing agent by providing the following information:

You must provide forecasts for the first three years of trading for the following:

- (a) profit and loss account;
- (b) balance sheet;
- (c) cash flow; and
- (d) capital resources requirement calculation.

You must also outline the assumptions on which the applicant firm's forecasts are based.

You should read the following Lloyd's market bulletin for further guidance:

[http://www.bulletins.lloydsolondon.com/bulletins/mktcirc.nsf/mktBulletins/Y3086/\\$file/Y3086.pdf](http://www.bulletins.lloydsolondon.com/bulletins/mktcirc.nsf/mktBulletins/Y3086/$file/Y3086.pdf)

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4 Personnel

Controlled functions

4.1 List the names of the persons for whom you are applying for approval to perform the following controlled functions. A person may perform more than one controlled function.

You must ensure no person performs a controlled function until the applicant firm has been authorised by us and we have approved that person to perform controlled function(s). If we grant approval, it is effective from the date of authorisation.

What is an approved person?

An approved person is a person who is approved by us to perform a controlled function for an authorised firm or an appointed representative. To be approved and continue to be approved to perform a controlled function, a person must:

- meet and maintain our criteria for approval (the 'fit and proper test'); and then
- perform their controlled function(s) in line with our Statements of Principle and Code of Practice for Approved Persons ('APER').

What is a controlled function?

A controlled function is a function for a regulated business that has particular regulatory significance.

For example, overseeing the firm's systems and controls and being responsible for compliance with our rules. There are different controlled functions relevant to the different types of businesses we regulate. Some controlled functions are required for every firm, others will depend on the nature of your business.

Each controlled function has a controlled function (CF) number. You can find a full list of all the controlled functions and an explanation of each one at: www.appropriate-regulatorshandbook.info/APPROPRIATE_REGULATORS/html/handbook/SUP/10

On the next page is a summary of the controlled functions relevant to a Lloyd's managing agent, although not all of them will be relevant to every Lloyd's managing agent. You may find it useful to review the description of each controlled function in the list and tick the ones that apply to the applicant firm.

If a member of staff is a director and responsible for the applicant firm's apportionment, you need to select CF1 and CF8.

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Function Type	CF No.	Name of Controlled Function	Who would need this?	Does my firm need this?
Governing functions	CF1	Director	A person (other than a non-executive director) responsible for directing a company's affairs on the firm's governing body will require this controlled function	
	CF2	Non-executive director	A director who has no responsibility for implementing the decisions or the policies of the governing body of a firm.	
	CF3	Chief executive	An individual at a firm who has the responsibility under the immediate authority of the governing body, for the conduct of the whole of the business.	
	CF 4	Partner	Partners within a partnership (including limited liability partnerships) responsible for directing affairs.	
Required functions	CF8	Apportionment & oversight	A director or senior manager responsible for the apportionment and the oversight function. This is dealing with the apportionment of significant responsibilities at the firm and overseeing the establishment and maintenance of systems and controls.	

4.2 Will any other controlled functions be performed for the applicant firm that are not listed in question 4.1?

Please list any other controlled functions that the applicant firm requires.
To see the full list of controlled functions, please refer to: www.appropriate-regulators handbook.info/APPROPRIATE_REGULATORS/html/handbook/SUP/10

4.3 You must fill in a 'Form A - Application to perform controlled functions under the approved persons regime' for each person who will be performing a controlled function that you have listed in 4.1 and 4.2.

This form is available in the build your own application form page.
Alternatively, you can find this form at: www.appropriate-regulators.gov.uk/pubs/other/ivreg_forma.pdf

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5 Compliance arrangements

Compliance procedures

When we assess this application we need to be satisfied the applicant firm has in place the appropriate compliance arrangements to meet its regulatory obligations, both when we authorise it and on an ongoing basis.

In assembling its compliance procedures, the applicant firm should consider our Handbook as a whole. The compliance procedures manual should be designed so it is specifically tailored to the applicant firm's proposed business, easy to use, and easy to amend and keep up to date. If you are in any doubt about what you need to put into the compliance procedures manual you should get professional advice.

5.1 You must confirm the applicant firm has in place a compliance procedures manual that relates specifically to the regulated business it is seeking permission for.

You are not required to send a copy of your compliance procedures manual with this application. However, an applicant firm must be able to produce a copy at any time while we are assessing the application, or in the future.

Compliance monitoring programme

The applicant firm must establish, maintain and carry on a programme of actions to check it carries on, and continues to carry on, its business in line with its compliance procedures. This is called a compliance monitoring programme.

The compliance monitoring programme must be relevant to, and tailored to reflect, the applicant firm's proposed business. Each applicant firm's compliance monitoring programme will therefore be unique.

A compliance monitoring programme must describe the actions that will be taken to ensure the applicant firm complies with our rules and guidance at all times. In particular, it must describe:

- the checks that will take place;
- how often the checks will take place, as appropriate to the procedure being checked – this might be daily, weekly, monthly, quarterly, annually or another period as specified;
- who will carry out the checks – this is the role of the person who will make the check, such as the Compliance Officer or the Money Laundering Reporting Officer; and
- what records of the checks will be kept to confirm they have taken place.

5.2 You must confirm the applicant firm has in place a documented compliance monitoring programme that relates specifically to its compliance procedures manual.

You are not required to send a copy of the applicant firm's compliance procedures manual with this application. However, the applicant firm must be able to produce a copy at any time while we are assessing the application, or in the future.

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Financial crime

5.3 You must describe steps the applicant firm has put in place to counter the risk that it might be used by others to further financial crime. This includes any offence involving: a) fraud or dishonesty; b) misconduct in, or misuse of information relating to, financial markets; or c) handling the proceeds of crime (SYSC 3).

- The applicant firm must adopt procedures to prevent it from being used to further financial crime. For fraud, this could be either by one of its own employees, or due to negligence allowing client details to be obtained and used illegitimately by third parties. Consider who will have access to client details, where they will be held, and, eventually, how these will be disposed of.
- The applicant firm must adopt procedures for assessing its exposure to the risk of money laundering and financial crime. It must also be able to demonstrate the procedures it will adopt to identify its customers and classify them according to their risk profile, including any additional due diligence requirements for customers identified as high risk.
- The applicant firm's transaction monitoring procedures must include provisions in the event that a suspicious transaction is identified, and the reporting lines and responsibility for suspicious transactions.
- The applicant firm must adopt procedures to ensure it is not party to financial crime. In this respect, it must not maintain relationships with businesses associated with crime, such as shell banks or terrorist organisations on the Bank of England sanctions list.

The above list is not exhaustive. We expect the applicant firm to have assessed and addressed the financial crime risk that it faces. For further details on financial crime, the applicant firm should refer to SYSC 3.2.6 and guidance issued by the Joint Money Laundering Steering Group.

Treating Customers Fairly

5.4 Principle 6 of the Principles for Business Handbook states that 'a firm must pay due regard to the interests of its customers and treat them fairly.' This includes Treating Customers Fairly (TCF). To help firms understand what treating customers fairly means in practice, six outcomes has been defined which they should deliver to retail consumers. Please briefly describe the steps the applicant firm has put in place to deliver the six consumer outcomes and demonstrate that it treats its customers fairly.

5.5

Treating Customers Fairly (TCF) is a regulatory requirement underpinned by some of our Principles, for example Principle 6 - a firm must pay due regard to the interests of its customers and treat them fairly. TCF is central to the delivery of our retail regulatory agenda as well as being a key part of our move to more principles-based regulation.

The Treating Customers Fairly (TCF) initiative focuses on the responsibility on a firm's management to deliver and demonstrate fair outcomes for consumers whilst offering the firm the flexibility to deliver these outcomes. Please briefly describe the steps the applicant firm has put in place to deliver and demonstrate fair consumer outcomes.

<http://www.appropriate-regulators.gov.uk/Pages/Doing/Regulated/tcf/index.shtml> gives more straightforward easy to read information about TCF, including the consumer outcomes we are looking for together with information on latest deadlines and supporting publications. It also has lots of good and poor practice and some very useful tools.

5.5 Can you please confirm that you have the procedures in place to comply with the management information requirements in respect of TCF?

No additional notes.