Insurance Day
www.insuranceday.com The best insurance coverage - every day

Identifying potential DUA problems

John Hibbert

FROM unfashionable beginnings, coverholder business has emerged as an attractive and profitable source of income for Lloyd's managing agents; a popularity recognised by Lloyd's which has given delegated underwriting authorities (DUA) a high priority within its three-year plan.

Indeed, DUAs have been referred to as the "new chocolate". With the first application received from a Russian coverholder, the model looks set to continue to add critical international distribution and diversity for Lloyd's syndicates battling away for premium growth in a challenging market.

All that glitters...

All good news then, you would think. Yet,can we be confident the coverholder model is really as healthy as it appears?

At the recent PRO Insurance Solutions seminar, Peter Montanero, head of DUA business at Lloyd's, voiced concern only two out of 2,622 coverholders had failed within the last 18 months.

He noted the potential for problems bubbling under the surface and the need to work out how to find them.

The starting point for brokers and managing agents is, he said, credit control and cash flow. The onus, of course, is on managing agents to closely manage the relationship with the coverholder and there are a number of ways to identify trouble before it becomes catastrophic.

The signs to look out for are any unusual fluctuations in cash flow or delays in receiving bordereaux from the coverholder.

This should bring immediate attention from the broker and managing agent.

Coverholders will then know they have to be completely up-front about any issues they are facing, in order to avoid undue attention.

As programmes develop, underwriting activities need to be closely monitored and consistently reviewed for compliance with the binding authority agreements in place.

Stringent monitoring of the business placed enables the capture of essential records, encourages close adherence to underwriting guidelines and is easier than dealing with the consequences of incorrectly bound risks.

Equally, paying closer attention to claims activity and the feedback it provides in regard to risk management, is probably as good a method as any for understanding the true quality of a coverholder.

Different priorities

The intrinsic problem is coverholder and managing agent have different priorities and motivations, simply because the managing agent bears the risks written. Every partnership will end in run-off at some point in the future.

The coverholder may well go on to write risks for another insurer or managing agent. So, what might be two businesses aligned one day, might be parties with opposing interests the next.

This situation demands the roles and responsibilities in the relationship are clearly established and complied with from the outset.

Getting the governance and consistency right for DUA is critical. This must be a high priority for managing agents.

Failure to do so could lead to Lloyd's mandating the current guidelines that accompany its three-year plan.

The view from Lime Street is that this might be counter-productive if audit scope and bordereaux standards, for example, were seen as obligatory rather than something worth adopting as best practice.

Coverholders are more than likely to be meeting the guidelines anyway, and a requirement from managing agents to follow them should not, therefore, prove to be an onerous task.

In any case, coverholders new to Lloyd's will find the guidelines mandatory.

Some may not like it, but the guidelines for providing premium bordereaux standards, for example, can only help with issues such as consistency of data, which is an ongoing challenge for the market.

Using technology

Effective management of coverholders should also be aided by the growth in the use of technology.

Service providers have a key role to play here, in helping to develop the systems that reduce management time.

This will increase control and reduce the possibility of mistakes. Technology would also play a pivotal role in helping underwriters deal with the flood of new regulation, heralded by Solvency II and laws such as the Bribery Act. However, softer factors will continue to be important when assessing and monitoring the relationship.

Insurance is, after all, a people business and there are some checks and balances technology will never supplant.

Raising standards

Looking to the future, Lloyd's has revealed it is working to making it easier for good business to come into the market on a DUA basis.

How so, you may think, if standards and levels of compliance are being raised at the same time? The point is, the two need not be mutually exclusive.

If standardisation is adopted across the market, then good businesses should not be put off and will not find it any more difficult to start writing business.

At our seminar, Peter Montenaro told us the guidelines which go along with Lloyd's three-year plan come from the best ideas and suggestions coming from market groups. The result has formed a commonsense, streamlined code of practice. This has the means of making the practice of DUA business easier for all the parties involved.

With more than a third of Lloyd's business taken up by DUA, and Lloyd's expects this figure to grow over the next five years, the potential harm to the market, both financially and from a reputational perspective, if coverholders are not managed properly could be significant.

Therefore, the application of the DUA guidelines can only be a good thing, a key stone, around which both coverholders and managing agents can build profitable relationships.

John Hibbert is a senior consultant at PRO Insurance Solutions