

Lloyd's terms for overseas Insurers and Lawyers

In our experience, Lloyd's terminology is often misunderstood and incorrectly described, not only by certain overseas insurers and lawyers, but also by some of their domestic counterparts. This is dangerous when dealing with such a significant and unique market.

This table will assist overseas insurers and lawyers when dealing with the Lloyd's Market, and will shed some light on its complex terminology and practices.

Definition	Comprehension	Misconception
<p>Syndicate</p> <p>A group of underwriting Members who underwrite insurance through the agency of a Managing Agent, to which a particular Syndicate number is assigned by the Council of Lloyd's.</p>	<p>Each underwriting Member (described below) may join in one or more Syndicates, whereby each Syndicate has its own authorised underwriter to underwrite insurance risks, and a staff who have the responsibility of accepting risks, fixing premium rates and authorising the payment of claims on behalf of the Members in the Syndicate.</p>	<p>A Syndicate does not sell insurance and has no capacity to contract with anyone. It has no legal existence, assets or liabilities and cannot be ordered to pay anything to anyone.</p> <p>A Syndicate should not be sued, and instead any redress should be sought from the individual Members within the Syndicate.</p>
<p>Lloyd's and the Council of Lloyd's</p> <p>The word Lloyd's denotes solely from Section 3 of the Lloyd's Act 1871, and is both a society and an insurance market place.</p> <p>Society - The Lloyd's Act 1971 incorporated the Society into a 'Society and Corporation', comprising the Members of Lloyd's for the time being and all rights and property that are collectively theirs.</p> <p>Insurance Market - Lloyd's is an insurance market where, with few exceptions, any insurable risk can be placed with a Lloyd's Underwriter through a Lloyd's broker.</p>	<p>Lloyd's is governed by the Council of Lloyd's (established by the Lloyd's Act 1982) whereby the Council has the management and overall responsibility for the affairs of the Society, and has the power to regulate and direct business of insurance at Lloyd's.</p>	<p>Lloyd's is not an insurer and instead provides a physical site for its Members to conduct the buying and selling of insurance risks. Lloyd's, therefore, takes no liability.</p> <p>Further, Lloyd's is not the primary regulator of insurance within the United Kingdom. The activities of the Society are in fact governed by statute, principally the Lloyd's Acts 1871-1982 and the Financial Services and Market Act 2000 (which gives the Financial Services Authority responsibility for the regulation of insurance)</p>
<p>Managing Agents</p> <p>Lloyd's underwriting agents, which must be partnerships or limited companies and not sole traders, are a link between the Syndicates and the Names. The Managing Agents are responsible for all aspects of running the Lloyd's Syndicate.</p>	<p>The Managing Agent is responsible for the Syndicate's underwriting and accordingly is responsible for appointing the active underwriter of each of its managed Syndicates.</p> <p>Other responsibilities include the following; determining the underwriting and reinsurance policy for the Syndicate, accepting risks on behalf of the Syndicate, managing the reinsurance programme and settling and paying claims on behalf of the Syndicate. In short, the Managing Agent is the compulsory instrument through which every Syndicate year of account participant conducts every aspect of his insurance business. It is the only operation authorised by self-regulators at Lloyd's to conduct that business.</p>	<p>The Managing Agent is not synonymous with the Syndicate, and can manage more than one Syndicate at the same time.</p> <p>The Managing Agent manages the business of the participants within the Syndicate collectively and uniformly, which gives the illusion of a single entity. In reality however, the Managing Agent makes contracts of insurance not on behalf of the Syndicate, but on behalf of each participant individually. Nonetheless, this must not be confused with the idea that each participant should be sued separately for his share of the liability, as in practice they are all identical except for the individual exposure to liability.</p>



Definition	Comprehension	Misconception
<h2 data-bbox="20 90 230 165">Members and their liability</h2> <p data-bbox="20 174 300 358">Underwriting Members alone are entitled to accept insurance business, and can be either corporate Members (also known as 'incorporated names') or individual Members (also known as 'individual names'). Each Syndicate Member is liable to the full extent of his or its share of risks accepted.</p>	<p data-bbox="337 174 620 315">There is no liability in respect of other Members' shares; thus within each Syndicate, each individual Member is fully and personally liable for their share of all the business written on behalf of their syndicate by the underwriter it employs.</p> <p data-bbox="337 339 620 438">The liability of each Member in the Syndicate is several and not joint, so therefore every Member is bound to each risk underwritten each for his own part and not one for another.</p>	<p data-bbox="650 174 934 420">As all Members must contribute to a Central Fund (which may be disbursed in order to protect the interests of the Members in connection with the business carried on by them), it is often misconceived that the Members liability is joint. However, each Member is only liable to contribute to the Central Fund an amount which is based upon its planned underwriting, subject to certain minimum levels.</p>
<h2 data-bbox="20 465 314 577">Year of Account and Year of Account participants</h2> <p data-bbox="20 587 284 671">The Year of Account is the year to which a risk is allocated and to which all premiums and claims in respect of that risk are attributed.</p> <p data-bbox="20 695 303 877">A Syndicate admits a new year of account at the beginning of each calendar year, although in reality each year of account continues until it is able to divert itself of the accumulated liabilities of the Syndicate participants by outward reinsurance-to-close (which normally occurs after 36 months).</p>	<p data-bbox="337 587 620 733">All participants in a particular Syndicate year of account are required to personally, individually, and directly delegate authority to manage every aspect of their respective individual insurance businesses to their mutual Managing Agent.</p> <p data-bbox="337 757 620 917">The 'several liability rule' dictates that regardless of contrary provisions in local law, one should not sue one participant for the insurance liabilities of another, even if they are on the same syndicate year of account ('each for his own part and not one for another' – Lloyd's policy boilerplate)</p>	<p data-bbox="650 587 927 709">A year of account, despite its name, is not a time period but is instead a collectivisation and accounting device. It does not contract with anyone, nor does it sell anything or employ anyone.</p>
<h2 data-bbox="20 939 284 977">Binding Authority</h2> <p data-bbox="20 990 292 1136">A binding authority can be granted by an Insurer or Reinsurer to an agent, known as a Coverholder, whereby that agent is entitled to accept, within the terms of the agreement, risks on behalf of the Insurer or Reinsurer.</p>	<p data-bbox="337 990 620 1215">A binding authority is an agreement between the Coverholder and the Underwriter, which involves the Underwriter granting some extent of his underwriting authority to another party. The principal effects of a binding authority are that the Coverholder can make rapid decisions on acceptance of risk, and can give a much faster service when issuing documentation.</p> <p data-bbox="337 1240 620 1343">Coverholders must be approved by Lloyd's before they can accept risks or issue documentation on behalf of Lloyd's Syndicates, and must also be registered with Lloyd's.</p>	<p data-bbox="650 990 934 1196">A binding authority is not an agreement between the Coverholder and the managing agent of the Syndicate, even though in practice the managing agent will be responsible under its managing agent's agreement with the Syndicate members for the Underwriters' role in negotiating and concluding the agreement on their behalf.</p> <p data-bbox="650 1221 934 1403">A binding authority is not a delegation by the Underwriter to the Coverholder, as it is an agreement under which the Coverholder is authorised to write risks on behalf of the underwriting members themselves. The binding authority puts the members of the Syndicate and the Coverholder into a direct agency relationship.</p>
<h2 data-bbox="20 1433 311 1470">Additional Premium</h2> <p data-bbox="20 1480 284 1536">An extra premium payable by the Insured or Reinsured, usually recorded in a Policy endorsement.</p>	<p data-bbox="337 1480 620 1620">This premium is commonly charged in addition to the annual premium in response to changes affecting the insurance or reinsurance arrangements. For example, in motor insurance, for a change of car to one in a higher rating group.</p>	<p data-bbox="650 1480 934 1620">Additional premiums is usually confused with adjustment premiums. The latter is due after the expiry of the contract, and is usually charged for commercial insurance policies, for example under a Motor Trader's policy.</p> <p data-bbox="650 1645 934 1864">Using this motor policy example, an adjustable premium will be due whereby, on renewal of the policy, the policyholder has submitted a declaration which confirms that there has been additional vehicles or drivers relating to that policy during the policy period. This constitutes the premium required for the contract, and the annual premium will be adjusted accordingly.</p>