# TPA AUDIT SCOPE

Version 2.0
Q1 2019

INSIGHT CONSENSUS INFLUENCE

**Version Control:**

| Version | Date | Comments |
|---|---|---|
| **Version 2.0** | Q1 2019 | Creation of document based on V1.2 of CH audit scope, and refreshed to include updated claims focus. |

**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 this document in particular, 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 TPAs to work with the Lloyd's market and to support both managing agents and TPAs in meeting the expectations of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA).

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 in order to reduce duplication, to promote consistency and to support coordinated audits wherever possible.

A separate accompanying document "TPA 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 TPAs 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 number of 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 TPAs 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.

**Change in approach:**

This TPA audit scope is based on the coverholder audit scope published in February 2018 (although released as a pilot in May 2017) and follows the same approach and headings which ensures that auditors are able to focus on issues relevant to a TPA, and 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.

Where the modular sections of the audit scope appear on both the coverholder and TPA audit scopes, the content is broadly consistent.

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 TPA 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 TPA 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 agents risk categorisation of the TPA in question in conjunction with an approach that is proportionate to the size and sophistication of the TPA.

## EXECUTIVE SUMMARY

| | |
|---|---|
| **TPA** | |
| **UMR** | |
| **Location** | |
| **Date of Fieldwork** | |

### Summary of Findings:

| Section | | In Scope | Summary of Finding(s) |
|---|---|---|---|
| **1** | **Claims Controls** | | |
| **2** | **Claims Testing** | | |
| **3** | **Accounting** | | |
| **4** | **Reporting** | | |
| **5** | **Compliance** | | |
| **6** | **IT / Information Security** | | |
| **7** | **Customer Outcomes** | | |

### Material Changes:

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

### Classes of Business Handled and Types of Claim:

| Please provide a summary of the classes of business being handled by the TPA, and typical claims administered as part of the portfolio. |
|---|
| |

## RECOMMENDATION TABLES

**High Priority Recommendations**

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

| No. | Section / Area | Finding | Recommendation | TPA's Response |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| | | | | |
| | | | | |

**Medium Priority Recommendations**

Recommendations which are in line with best practice.

| No. | Section / Area | Finding | Recommendation | TPA's Response |
|---|---|---|---|---|
| | | | | |
| | | | | |

**Low Priority Recommendations**

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

| No. | Section / Area | Finding | Recommendation | TPA'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.

| No. | Section / Area | Finding | Recommendation | TPA's Response |
|---|---|---|---|---|
| | | | | |
| | | | | |

## 1. CLAIMS CONTROLS

The purpose of this section is to verify that the TPA possesses suitable practices, processes and controls to adequately handle claims where they are appointed as the TPA.

| TPA Claims Overview | |
|---|---|
| **Person with overall claims responsibility** | |
| **Number of staff handling claims under the TPA agreement** | |
| **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 TPA agreement 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.* |
| Due Diligence | *b) There is a discrepancy between the due diligence submitted annually and the actual position, resulting in unfounded assumptions of capabilities* |
| Claims Handling and File Management | *c) 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 | *d) Reserving is not consistent, timely, accurate and inclusive of all potential costs and indemnities thereby affecting managing agents' ability to monitor financial performance.* |
| Recoveries | *e) Recoveries are not identified or pursued which may lead to adverse financial exposure* |
| Supplier Management | *f) 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 | *g) Inappropriate systems could lead to ineffective claims monitoring, settlement delays, inaccurate reporting and poor customer outcomes.* |

| | |
|---|---|
| **Self Assessment and Performance Management** | ***h) Measurement and review of claims management should be proportionate and performed on an appropriately regular basis.***<br>***The absence of proportionate quality assurance and claims feedback to underwriting could lead to the deterioration of service standards.*** |
| **Authorised / Approved persons** | ***i) Claims are handled and/or settled by persons without authority leading to ineffective controls around claims payments.*** |
| **Customer Outcomes** | ***j) Through the claims handling and management activities of the TPA, customers are not receiving a fair and consistent outcome leading to exposure to regulatory intervention 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.

| General |
|---|
| |

## 2. CLAIMS TESTING

### Bordereaux Analysis

Perform a reconciliation of the bordereaux against the TPA'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 binding authority 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 in to liability & quantum;
3. Management and oversight of external experts;
4. Identification of and, where appropriate, follow-up on subrogation and recoveries;
5. Accuracy of fee and indemnity reserves, in line with any agreed reserving strategy;
6. Fairness and reasonableness of adjustment and settlement of claims;
7. Proactive litigation management;
8. The effectiveness and proactivity of general file management;
9. Compliance with authority limits and referral triggers;
10. The quality of communications;
11. The fairness and reasonableness of customer outcomes;
12. Delivery against contracted SLAs;
13. Reconciliation of claim reserves and settlements;
14. Accuracy of reporting;
15. Complaints identified and reported;
16. Denials, WP, ex gratia;
17. Financial crime screening.

A base file review work sheet can be provided. The base file review may not be complete for the claims handled 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~~It~~ can be provided in a different ~~nother~~ format such as Microsoft E~~e~~xcel.

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

| Section | Risk | Score (%) |
|---|---|---|
| A | Coverage | |
| B | Investigation | |
| C | Supplier Management | |
| D | Subrogation / Recoveries | |
| E | Reserving | |
| F | Adjustment and Settlement | |
| G | Litigation | |
| H | File Management | |
| I | Claims Authority | |
| J | Communications, Conduct and Customer Outcomes | |
| K | Commentary | |

| ~~-~~ | ~~File Review Accuracy~~ | ~~%~~ |
|---|---|---|
| ~~Coverage~~ | ~~Was coverage properly evaluated within policy terms?~~ | ~~-~~ |
| | ~~Was the evaluation of coverage timely?~~ | ~~-~~ |
| | ~~Was the coverage decision properly documented on the file?~~ | ~~-~~ |
| | ~~Were adequate policy documents on file?~~ | ~~-~~ |
| | ~~Did any communication to the customer addressing policy coverage issues properly identify and explain the position?~~ | ~~-~~ |
| ~~Investigation~~ | ~~Were appropriate investigations undertaken to determine legal liability under the policy?~~ | ~~-~~ |
| | ~~Were investigations to determine legal liability undertaken timely?~~ | ~~-~~ |
| | ~~Was an appropriate investigation undertaken to determine quantum?~~ | ~~-~~ |
| | ~~Were investigations to determine quantum undertaken timely?~~ | ~~-~~ |
| | ~~Were all fraud indicator flags adequately considered and escalated as appropriate?~~ | ~~-~~ |
| ~~Supplier Management~~ | ~~Were all external experts instructed where required?~~ | ~~-~~ |
| | ~~Where an external expert was appointed, was the scope of their appointment clear, and where relevant, in accordance with the TPA agreement or as directed otherwise by Underwriters?~~ | ~~-~~ |
| | ~~Where appropriate, was a fee budget requested / established with the external expert(s)?~~ | ~~-~~ |
| | ~~Were all external experts managed effectively?~~ | ~~-~~ |
| ~~Subrogation /~~ | ~~Have potential subrogation, contribution or salvage opportunities been correctly identified?~~ | ~~-~~ |

| | | |
|---|---|---|
| ~~Recoveries~~ | ~~Where subrogation, contribution or salvage opportunities have been identified, were appropriate and timely steps taken to pursue?~~ | - |
| ~~Reserving~~ | ~~Were all indemnity reserves created in a timely manner (including reconciliation against settlements) and within the timeframe specified in any applicable SLA?~~ | - |
| | ~~Were all indemnity reserves reassessed in a timely manner (including reconciliation against settlements) and within the timeframe specified in any applicable SLA?~~ | - |
| | ~~Were all expert fee reserves created in a timely manner (including reconciliation against settlements) and within the timeframe specified in any applicable SLA?~~ | - |
| | ~~Were all expert fee reserves reassessed in a timely manner (including reconciliation against settlements) and within the timeframe specified in any applicable SLA?~~ | - |
| | ~~Were all indemnity reserves appropriate at the time they were set and in keeping with the applicable reserving philosophy?~~ | - |
| | ~~Were all expert fee reserves appropriate at the time they were set and in keeping with the applicable reserving philosophy?~~ | - |
| | ~~Are all current reserves appropriate?~~ | - |
| | ~~Is appropriate documentation to support the reserves (in respect of both costs and indemnity potential) held on file?~~ | - |
| ~~Adjustment and Settlement~~ | ~~Was the adjustment / settlement of the claim accurate taking into account coverage impact(s), limits, sub-limits, and deductibles?~~ | - |
| | ~~Were appropriate settlement / negotiation opportunities identified and pursued in a timely and proactive manner?~~ | - |
| | ~~Were efforts made, if it was appropriate, to make an interim indemnity payment(s)?~~ | - |
| | ~~Were all claim payments made timely and within the timeline specified in any applicable SLA?~~ | - |
| | ~~Does the file evidence that appropriate financial crime screening has been conducted prior to the release of claim payments and that outcomes were appropriately actioned and escalated?~~ | - |
| | ~~Were all claim payments approved by authorised signatories?~~ | - |
| | ~~Is appropriate documentation to support all claim payments, including a rationale for the payment, held on file?~~ | - |
| ~~Litigation~~ | ~~Were appropriate and adequate steps taken to prevent litigation where possible?~~ | - |
| | ~~Was litigation handled appropriately and in accordance with any applicable law and regulation?~~ | - |
| ~~File Management~~ | ~~Was the claim recorded within the claims management system in accordance with the timeline specified in any applicable service level agreement (SLA)?~~ | - |
| | ~~Is the file complete, well organised and documented?~~ | - |
| | ~~Is there an adequate strategy note on file evidencing the investigation and settlement strategy?~~ | - |
| | ~~Was the claim proactively handled and regularly reviewed with evidence of proactive use of diary to manage the claim?~~ | - |
| | ~~Is documentation and data appropriately stored, processed and controlled in accordance with applicable law and regulation?~~ | - |
| | ~~Was the claim reported to the required authorities (for example, DWP / CRU / ELTO / Medicare reportable incidents)?~~ | - |
| | ~~Is the information on the claim file consistent with that reported on the most recent claims bordereaux?~~ | - |

| | | |
|---|---|---|
| | ~~Are any claims handling charges in accordance with agreed billing rates (where applicable)?~~ | - |
| ~~Claims Authority~~ | ~~Was the claim handled within the terms of the delegated authority, with financial and non-financial triggers referred to Underwriters as appropriate?~~ | - |
| | ~~Was the claim appropriately triaged to a handler with the appropriate expertise?~~ | - |
| | ~~Was the claims handler appropriately licenced within the given territory/state to handle the claim?~~ | - |
| | ~~If the individual handler's internal authority limit has been exceeded has the correct internal referral process been adhered to and appropriate action taken?~~ | - |
| | ~~Was the nature of any required supervision appropriate and effective given the skill level of the claims handler and complexity of the claims file?~~ | - |
| | ~~Was the claim clear of any unauthorised sub-delegation of authority?~~ | - |
| ~~Communications, Conduct and Customer Outcomes~~ | ~~Was the policyholder able to submit and progress their claim without any unreasonable barriers?~~ | - |
| | ~~Was the claim acknowledged within the specified SLA?~~ | - |
| | ~~Was the acknowledgement of the claim clear and transparent?~~ | - |
| | ~~Was there evidence that once coverage had been confirmed it was communicated without unreasonable delay and within the timeline specified in the applicable SLA?~~ | - |
| | ~~If ROR or WP were issued and subsequently withdrawn, was the policyholder/broker informed of the withdrawal within a reasonable time period?~~ | - |
| | ~~Was the policyholder regularly updated within a reasonable time period (within any timeline specified in the applicable SLA) throughout the claim lifecycle and made aware of the next steps?~~ | - |
| | ~~Were any questions or concerns raised by the policyholder throughout the life of the claim appropriately addressed?~~ | - |
| | ~~Were all written forms of communication to the policyholder concise, informative and appropriate for the intended recipient?~~ | - |
| | ~~If the claim was denied, were the reasons clearly communicated to the policyholder?~~ | - |
| | ~~In the event of a complaint or expression of dissatisfaction, was this identified and dealt with appropriately, within regulatory timeframes and reported where appropriate to the lead Underwriter and Lloyd's?~~ | - |
| | ~~If there is evidence of a peer review on file, was the review effective, and have any issues identified been appropriately addressed?~~ | - |
| | ~~Have any potential conflicts of interest been identified, and appropriately managed?~~ | - |
| | ~~Overall, did the claim deliver a fair customer outcome?~~ | - |
| ~~Commentary~~ | ~~Commentary to be provided to validate the scores allocated. Where the response is a "No", an explanation is required so the reviewer of the audit can easily understand where/how the failing occurred.~~ | - |

## 3. ACCOUNTING

The purpose of this section is to provide assurance that the practices and procedures for the accounting of claims are appropriate for claims handled under the subject TPA agreement.

| Area | Risk |
|---|---|
| Accounts (status and security) | *a) Adverse financial exposure as a result of the inappropriate use of 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.* |
| Systems | *c) The systems are not suitable to support the management of all financial transactions for business bound under the subject TPA agreement, leading to ineffective credit control processes and adverse financial risk to managing agents.* |
| Transactional Accounting | *d) 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 | *e) 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: |
|---|
| |

## 4. REPORTING

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

| Area | Risk |
|---|---|
| **Data Capture** | ***a) Claims data declared may be inaccurate or incomplete leading to performance and regulatory reporting being inaccurate*** |
| **TPA Agreement Reporting Requirements** | ***b) Managing agents are unable to effectively monitor the performance of the binder due to reports and Bordereaux (Risk, Premium, Claims, Aggregate and Regulatory) not being provided in accordance with the TPA agreement terms.*** |
| **Bordereau Reporting** | ***c) Bordereau submissions are poorly managed, leading to inadequate funding, delayed settlements and financial inconsistencies.*** |
| **Regulatory Reporting** | ***d) The Insurer does not meet their Lloyd's and/or regulatory reporting requirements due to the TPA failing to collect relevant data in a timely and accurate manner.*** |
| **Systems and Process** | ***e) The systems utilised are unable to meet reporting requirements resulting in manual workaround with the potential for increased human error .*** |

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

| General: |
|---|
| |

## 5. COMPLIANCE

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

| 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 TPA 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 TPA fails to recognise conflicts of interest within their business which could result in decisions being made that are not in the best interests of customers or managing agents.*** |

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

| General: |
|---|
| |

## 6. 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 TPA Agreement are adequate.

| Area | Risk |
|---|---|
| **Culture** | ***a) That the TPA's culture and governance arrangements do not have sufficient oversight in relation to IT 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;

| General: |
|---|
| |

## 7. CUSTOMER OUTCOMES

The purpose of this section is to verify that the TPA possesses suitable attitudes, practices, processes and controls to deliver fair treatment of customers, with regard to Lloyd's 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.

Additional guidance is provided under the 'enhanced guidance' section. Managing agents should instruct auditors whether deeper review of the customer outcomes section should be undertaken, in which case the enhanced guidance should be used.

| Area | Risk |
|---|---|
| **Culture and Governance Arrangements** | ***a) That the TPAs culture and governance arrangements do not have sufficient oversight to achieve fair outcomes for customers*** |
| | ***b) That TPA remuneration and/or staff incentives or reward schemes conflict with the interest of customers*** |
| **External Experts** | ***c) The failure of an outsource provider or a third party- on behalf of the TPA to adequately perform their duties leads to poor customer outcomes.*** |
| **Complaints Management** | ***d) Customers receive poor outcomes due to insufficient identification, investigation and resolution of complaints in accordance with regulatory requirements*** |
| **Post Sale Barriers** | ***e) Negative customer outcomes and adverse publicity due to unreasonable post-sale barriers*** |
| **Embedded Culture** | ***f) Poor customer outcomes due to controls surrounding fair treatment of 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;

| General: |
| --- |
| |