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**FROM :** Manager, Solvency Department

**LOCATION :** SOLV/58/SW1

**EXTENSION :** 6032

**DATE :** 10 February 1994

**REFERENCE :** SOLV/GWS/AJA/smc/0665z.35-36/X319

**SUBJECT :** "PARTIAL REINSURANCE TO CLOSE"

**ACTION POINTS :** Active underwriters and managing agents to note that "partial RITCs" are not to be effected in the future.

**DEADLINE :** Effective immediately.

The review of the syndicate reports and accounts at 31 December 1992 has identified a number of managing agents which purported "partially to close" the 1990 year of account. This involved leaving the 1990 year of account open but paying forward a premium to the 1991 year of account in respect of that part of the account which the managing agent considered was readily quantifiable.

The Solvency and Reporting Committee (SRC) is concerned that this practice has the potential to disturb equity between Names. The SRC attached importance to the following matters in particular :-

- i) the agency agreements do not permit profit commission to be charged until such time as a year of account is closed. There is no restriction, however, on the use of those monies representing the "partial RITC" in the calculation for profit commission purposes upon the close of the 1991 year;
- ii) concern was expressed that those aspects of the book of business which the managing agent feels comfortable with closing into the following year may improve, leading to an ultimate over statement of reserves, which would work to the advantage of future Names, whilst those liabilities which remain in the open year were more likely to deteriorate at a rate greater than anticipated resulting in an under statement of reserves and a subsequent cash call. This cash call will not in any way be able to be ameliorated or delayed by an offset against any improving aspects of the book, if these have been transferred forward; and

iii ) concern was expressed that the syndicate auditor does not opine in true and fair terms on the premium going forward since it does not represent an RITC.

In view of the above, SRC has concluded that in future "partial RITCs" will not be permitted. In addition, at the request of SRC, the Solvency Department will be writing separately to those managing agents who have already effected a "partial" RITC with a view to addressing the difficulties outlined above.

Should anyone have any comments or queries regarding the above they should contact Andrew Adie (ext 5659).

This bulletin is being sent to all managing agents, active underwriters, recognised auditors and for information, members' agents.

A handwritten signature in black ink, appearing to be 'Gavin Steele', with a small dot to its right.

Gavin Steele  
Manager  
Solvency Department