Market Bulletin

LLOYD'S

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FROM: Mike Wilson, General Manager, LPSO

LOCATION: LPSO/CH/L4

EXTENSION: 2113

DATE: 1 November 1994

REFERENCE: DF/js/X579

SUBJECT: Inception Date Allocation (IDA)

ACTION POINTS: To inform the market of the changes to business practices and procedures with regard to the introduction of IDA,

DEADLINE: Immediate

The purpose of this market bulletin is to inform those concerned of the changes to LPSO and market business practices and procedures following the introduction of IDA on 1 January 1995.

Business Procedures

For the vast majority of risks written in the Lloyd's market, the operation of IDA will be non-problematical as it will be a straightforward exercise to identify, at the time of writing a risk, which year of account that risk will attach to. There are, however, certain procedural/business issues that are set out in more detail in the attached appendix I entitled Business Procedures,

The main provisions of these procedures are as follows:

i) Inception date - unknown - that all slips/documentation be required to show the inception date of each relevant contract concerned or, where this is not known, the probable inception date as determined by the leading underwriter.

ii) Inception date - uniform times - where an inception date is qualified by a time, eg 12.0 lam LPSO will take the year of inception as the qualifying factor for the year of account,

iii) Long Term Risks - with effect from 1 January 1995 all long term contracts where underwriters require annual resigning or premium transfer the slip must clearly state the premium allocation to the various years of account and be applied by all participating underwriters on the risk in question

iv) Lineslips - it will be mandatory with effect from 1 January 995 for all lineslips to be registered at LPSO under the Year of Account Scheme or on an FDO basis.

v) Late Signings - that any 1994 and earlier inception date risks for signing in 1996 or later will be signed into the 1995 year of account.

vi) Continuous Contracts - the signing slip period of continuous contracts be limited at time of placement to 12 months (plus odd time, maximum of 6 months).

It is recognised that the change to IDA will involve brokers and underwriters in many alterations to their existing procedures. In this regard a question and answer fact sheet is attached at appendix II which it is hoped will deal with the majority of enquiries. However, should you need further guidance the following persons will be able to assist:

General advice and matters of principle		David Freer	Extn 5394	*
Non-marine related issues		Ray Taylor	Extn 2742	
		Ian Strange	Extn 2508	
Marine and Aviation related issues		Roy Augustus	Extn 2256	
Reinsurance related issues	- Proportional	Amanda Buckingham	Extn 2257	
	- Non-Proportional	Richard Forder	Extn 2161	
Regulatory matters		Keith Harris	Extn 6147	
		Andrew Adie	Extn 5659	

This market bulletin has been sent to all managing and members' agents, underwriters, Lloyd's brokers and known computer bureaux.

M Wilson
General Manager
Lloyd's Policy Signing Office

Appendix I

BUSINESS PROCEDURES

1 This appendix outlines the changes to business practices and procedures in respect of LPSO and the market in order to effect the introduction of IDA on 1 January 1995.

2(a) Inception Date - Unknown

i) It is possible that the commencement date of a risk may not be known at the time of placement, such as cargo risks. Such risks presently maybe processed through LPSO without an inception date since to do otherwise and to hold them back would distort terms of trade statistics etc. In circumstances where the commencement date is not known, the leading underwriter should indicate the probable inception date (month/year) to which year of account a risk will attach. There will be scope for the risk to be re-signed to a later year of account, if there is slippage in the commencement date and where the original allocation was made in good faith, Similarly, the risk may be allocated to an earlier year of account should the commencement date be brought forward.

ii) Where a commencement date is indicated by the leading underwriter, following underwriters wil1 have no authority to allocate that risk to a different year of account.

iii) All slips/documentation placed on or after 1 November 1994 must show the inception date of each relevant contract concerned or, where this is not known, the ‘probable’ inception date as determined by the leading underwriter. Any probable inception date should be shown in the Period/Voyage section of panel 2 of the slip. This will assist in the smooth transition to the mandatory requirement on and after I January 1995.

2(b) Inception Dates at Year End

i) It is quite common to have an inception date qualified by a time, eg 12.01 am or Noon. This particularly applies to United States business where states have uniform inception and expiry times. Other times commonly used are 4pm and Midnight.

ii) In order to clarify the year of account applicable to a risk LPSO will always use the year shown in the inception date as the qualifying factor. An inception date of 1 January 1995 at 12,01 am will have a 1995 year of account and 31 December 1994 at midnight will carry a 1994 year of account.

3.1 Long Term Risks

i) The market was advised on 26 November 1993 of the implications of the EC Insurance Accounts Directive in that like items must receive uniform treatment. It was therefore decided that premium and portfolio transfers would not be used for long term risks but that allowances for the unexpired element of a risk should be dealt with through the RITC.

ii) Reinsurance treaties are commonly written with provision for portfolio transfers and the market commented that an inability to continue this feature would result in a loss of business. In fact, the expression long term risks was not intended to include reinsurance treaties which, whilst they are underwritten on a continuous basis, provide for notice of cancellation at anniversary date. Portfolio transfers may therefore continue to be used on these contracts following the introduction of IDA providing that the contracts detail the precise way in which the premiums/claims are to be allocated to the various years of account so as to ensure that all participating underwriters are bound by the arrangements,

iii) With regard to long term risks more generally, if the slip specifies at the inception of the risk, the precise way in which the premium is to be allocated to the various years of account and this allocation properly reflects the risk which the Names on those years are accepting, premium transfers and portfolio transfers may continue to be used following the introduction of IDA. Circumstances may arise where a change in quantum of the liability at a particular time necessitates the reallocation of the premium to ensure that it more accurately reflects the liability accepted by each year of account. Any such alterations would not be in conflict with the principles of IDA and may continue to be achieved by premium transfers or portfolio transfers, providing again that <u>all underwriters</u> underwriting a particular risk allocate premiums in the same manner and agree the alternative.

v) With effect from 1 January 1995 all long term contracts where underwriters require annual resigning or premium transfers the slip must clearly state the premium allocation to the various years of account and be applied by <u>all particiuating underwriters</u> on the risk in question.

3.2 Binding Authorities

i) Binding authorities give a coverholder the authority to accept risks on behalf of a particular group of Names, and as such, premiums written under these facilities should be recognised accordingly. A binding authority should attach to a particular year of account, being the year of inception of the binding authority, Binding authorities should not run for more than 12 months without renewal. The date of any subsequent renewal will determine the year of account to which the binding authority will attach.

ii) Binding authorities can be declared under a lineslip if the lineslip, at the time of placing, allows for them either on a specific named coverholder basis, or in general terms stating which underwriters have to agree each coverholder. In the absence of such information all underwriters are required to agree to the issuance of a binding authority declared to a lineslip.

3.3 Lineslips (and other similar facilities)

i) Lineslips are slightly different in that a lineslip only becomes binding when a declaration is signed. This could be taken to indicate that lineslips are closely related to open-market risks. This, however, would ignore the fact that the lineslip, when established, gives an underwriter the authority to accept risks on behalf of a particular group of Names, as with a binding authority, and all risks accepted under such a facility should, therefore, attach in full to a particular specified year of account, being the year in which the lineslip incepts or is subsequently renewed, It will be mandatory, with effect from 1 January 1995, for all lineslips (and other similar facilities) to be registered at LPSO.

ii) A lineslip is a facility whereby a Lloyd's broker agrees with a market of underwriters that individual risks falling strictly within the terms of the lineslip can be accepted by a restricted number of the participating underwriters (most frequently just the leading underwriter) and binding upon ail the others.

At present there are 5 types of lineslip and other similar facilities:

1 <u>'Brokers' lineslip</u>

The lineslip is placed and retained in the brokers office and is not registered at LPSO. Each declaration (off-slip) must show all underwriters lines. Individual risks are signed into the year of account in which the off-slip is signed by LPSO.

2. <u>'T' Scheme</u>

The lineslip is submitted to LPSO and full details of the participating market are recorded and a reference number is allocated to the lineslip. The broker thereafter only has to show the line(s) of the syndicate(s) requiring to see each declaration and quote the reference number allocated on each off-slip. Individual risks are signed into the year of account in which the off-slip is signed by LPSO.

3. <u>Year of Account Scheme</u>

The operation is similar to that of 'T' Scheme <u>BUT</u> all declarations are signed into the year of account given to the lineslip when registered by LPSO.

4. <u>Bulking Lineslip</u>

As 'Year of Account Scheme' but premiums can be bulked and paid periodically to the lineslip FDO number, leaving the broker to prepare off-slips for the sole purpose of signing policies on an "extract" basis.

NB: 'Market' lineslips (meaning lineslips placed by one Lloyd's broker but available for use by others) exist on 'brokers' lineslip, 'T' Scheme and 'year of account' bases but the vast majority share common signing numbers and dates

5. <u>Open Covers</u>

Open covers, eg marine covers, merchant covers, manufacturers, freight forwarders etc. will not have to be registered at LPSO in the same manner as the Year of Account Scheme or the Bulking Lineslip Scheme. Instead open covers will continue on an FDO basis in order to establish the correct year of account for IDA purposes.

iii) Lineslip types 1 and 2 above will be withdrawn at 31 December 1994 and from this date LPSO will cease to issue 'T' Scheme registration numbers. Only lineslip types 3 and 4 and open covers type 5 will exist on and after 1 January 1995.

3.4 Late Signings

i) The current system of signing risks at LPSO when presented by the broker has led to risks being signed into a later year of account, One of the fundamental principles of IDA is that risks are allocated to the appropriate Names and year of account. With the introduction of IDA the signing date will no longer apply for the allocation of the year of account.

ii 1995 is a transitional year and late signings with inception dates of 1994 and earlier will be signed into the 1995 year of account. However, in 1996 risks will be allocated to either 1995 or 1996 depending on the inception date of the risk.

iii) Any 1994 and earlier inception date risks presented for signing in 1996 or later will be signed into the 1995 year of account.

3.5 Market Changes

i Inevitably it is necessary for a broker from time to time to amend his existing market because of syndicates ceasing to trade, unable to accommodate an increase in the sum insured or replacing co-insuring companies. This can apply to business under a facility or open market. If the syndicate participation is from inception date this is relatively straight forward as this premium will relate back to the year of account determined by the leading underwriter at the time of placing.

ii) However, mid-term changes are not clear cut and involve additional signings. Mid-term changes can include new syndicates where the inception date of the risk pre-dates the commencement of the syndicate.

iii) With the introduction of IDA it is considered a good opportunity to clearly set out the rules for dealing with market changes involving additional syndicates, either new or existing syndicates.

iv) All market changes involving additional syndicates will be processed as follows irrespective of how the business has been placed and signed through LPSO:

1) With effect from inception:

The syndicate ceasing or coming off is deleted from the existing market and the additional underwriter(s) added to the list of subscribing syndicates. The additional underwriter(s) will take the year of account allocated at the time of the original signing.

2) Mid-term - same year of account

Where additional syndicate(s) are involved in any mid-term change and the original inception date and the mid-term change date fall into the same year of account then this change can be processed as an additional premium. The additional syndicate(s) will take the year of account of the original signing.

3) Mid-term - different year of account

Where additional syndicates are involved in any mid-term change and the original inception date and the mid-term change date fall into different years of account then this change for those additional syndicates must be processed by way of a new premium signing. This is particularly important should the additional underwriter(s) be a new syndicate having started underwriting after the original inception date.

3.6 Continuous Contracts

i) Some business is written on a continuous basis and renewed annually (unless cancelled per slip terms and conditions). Currently LPSO request the signing slip to be limited (generally to 12 months) on the basis that at the end of the underwriting period new terms and conditions will be laid down (ie the contract renewed). However, some brokers do limit the signing slip to 12 months as a matter of course.

ii) It will be mandatory for the signing slip period to be limited at time of placement, to 12 months (plus odd time, maximum of 6 months).

4.0 Signing Number and Date

4.1 With the advent of the Lloyd's single market the only meaning attached to the LPSO number is the currency identification in the first digit. However, very often the market still equates the signing date with the year of account.

4.2 The market is reminded that no meaning should be attached to the signing number and date.

5.0 Terms of Credit and Terms of Trade (including SDDs)

The allocation of Settlement Due Dates for monitoring under Terms of Credit and Terms of Trade allows underwriters to advise the date by which they expect to receive the premium and to identify any late signings. The year of account into which the premium is paid has no relevance and as such the introduction of IDA will not affect current procedures regarding terms of credit/terms of trade.

6.0 Consortium Underwriting

The majority of consortium arrangements are identified by means of a registration number whereby each risk written by the consortium is currently signed into the same year of account as that in which it is presented to LPSO for signing. Under IDA each individual risk underwritten by the consortium will receive the year of account that corresponds with the inception date of the individual risk in question. Risks written under consortium arrangements will therefore, for signing purposes, be treated the same as open market risks.

7.0 Insurance Premium Tax (IPT)

7.1 The current basis for payment of IPT is any qualifying risk with an inception date on or after 1 October 1994.

7.2 In the light of this proposal there is no implication for IDA.

8.0 Terrorism

8.1 Where 'Pool Re.' members participate in Terrorism business, the coverage is provided on a 'buy-back' basis, ie Terrorism peril is <u>excluded</u> by an endorsement to the main perils policy, and the endorsement is negated by payment of an extra premium. There is possibly an area of dispute where the main perils attach in one Lloyd's year of account but the buy-back is not purchased until later, in the subsequent Pool Re. year of account.

8.2 Bearing in mind, however, the way in which the cover is provided (buy-back basis), it is obvious that the terrorism premium rightfully belongs in the same Lloyd's year of account.

Appendix II

SOME QUESTIONS AND ANSWERS

Q.1 Will brokers be able to place and underwriters accept lineslips off existing lineslips or binding authorities.

A.1 Yes, providing the lineslip expires at the same time as the existing lineslip or binding authority, and the necessary agreement is obtained from participating underwriters.

Q.2 What actioniil will LPSO take if a slip is submitted without either an inception date or a prohable inception date.

A.2 It will be referred to the broker for agreement by underwriter(s),

Q.3 Will LPSO sign a risk without a premium allocation being shown on a long term risk,

A.3 Yes, if underwriters do not require premium transfers to subsequent years of account,

Q.4 Will underwriters be allowed to amend long term risks to include premiun transfers after the inception of the risk ?

A.4 LPSO will accept an amendment to include premium transfer provisions providing this is agreed by <u>all underwriters</u>.

Q.5 Will LPSO accept premium transfer provision contained in the small print of brokers slips?

A.5 No. Any premium transfer must be specifically stated in slip conditions including the basis of premium allocation.

Q.6 How will LPSO sign a premium transfer where no allocation of premium is shown on the slip.

A.6 It will be referred to the broker for agreement by underwriter(s)

Q.7 What *action will LPSO take if a T Scheme lineslip is submitted after* 1 *January* 1995.

A.7 LPSO will automatically sign the lineslip under the Year of Account Scheme.

Q.8 *How should Year of Account Scheme items be submitted to LPSO?*

A.8 In accordance with Lloyd's Policy Signing and Central Accounting Manual, Pages 329-338.

Q.9 How *should a Bulking lineslip be registered at LPSO.*

A.9 In accordance with Lloyd's Policy Signing and Central Accounting Manual, Pages 359-364.

Q.10 *I have a lineslip which is not currently registered at LPSO. The majority of declarations incept in the following year to the inception date of the lineslip. I am concerned that when the lineslip is registered at LPSO the majority of premium income is earned in the following year. How can I best mitigate this situation?*

A.10 One way of dealing with this situation would be to change the inception date of the lineslip to 1 January, This may of course mean extending the current lineslip or canceling and replacing mid-term.

Q.11 *I have a lineslip where each and every declaration has to be agreed by each and every underwriter. As they are in a position to decline, the number of possible signing variations is considerable. I have therefore not registered the lineslip in the past, do I have to register from 1 1 95 as the work involved is so great?*

A.11 In principle Yes, but please discuss with LPSO

Q.12 *Currently Treaty lineslip declarations are signed in accordance with FDO procedures and receive a year of account based on the "signed by LPSO" date. Under IDA will ALL lineslips have to be registered or will it suffice for LPSO to keep a copy on file?*

A.12 All declarations will be signed to the same year of account as the lineslip irrespective of the inception date, therefore, every lineslip must be submitted to LPSO for registration.

Q.13 *How will continuous contracts be treated under IDA?*

A.13 Continuous contracts may still be written however the signing slip Period will have to be limited to 12 months (plus odd time, maximum of 6 months).

Q.14 *How will the principles of IDA affect Proportional Treaty Scheme premium and claim portfolio transfers?*

A.14 There will be no effect and portfolio transfers may continue to be provided for on proportional reinsurance contracts signed under the Treaty Schemes providing all underwriters subscribing to the risk agree.

Q.15 *Is it always necessary for the "actual" inception date to be advised to underwriters and LPSO if it differs from the probable date.*

A.15 Yes, this must be done in all cases where they are in different years.

Q.16 I have a contract where more than one inception date applies, also these attach in different years. Will it be necessary for the signing to be split.

A. 16 In most cases no, the earliest inception date will establish what year of account applies, unless the Leading Underwriter agrees a more appropriate date at the time the risk is placed.

Q.17 I *have a long term risk where underwriters have requested different terms, ie some require a portfolio transfer aid some do not. Can I submit* ***a*** *split signing?*

A. 17 No. All underwriters must agree to a single method of accounting.