

FROM: Julian James, Managing Director, North America
LOCATION: 86/G12
EXTENSION: 5998
DATE: 17 November 1999
REFERENCE: Y2168
SUBJECT: ILLINOIS LICENSED BUSINESS
SUBJECT AREA(S): Revised basis of Illinois underwriting and the establishment of Illinois trust arrangements.
ACTION POINTS: **For information**
DEADLINE: **Applicable to 2000 year of account.**

The purpose of this market bulletin is to advise you of steps being taken to:

- Establish the underwriting of licensed insurance business in Illinois (Illinois business) to be on a normal syndicate stamp basis with effect from 1 January 2000.
- Document the internal syndicate arrangements applied to Illinois business up to 1 January 2000.
- Strengthen the manner in which underwriters' funds are held in Illinois by establishing approved trust arrangements in support of the funding of outstanding Illinois liabilities.
- Co-ordinate the establishment of the resulting documentation with the annual North American Deeds Signing Project.

1 Establish the underwriting of licensed insurance business in Illinois (Illinois business) to be on a normal syndicate stamp basis with effect from 1 January 2000.

- 1.1 During 1998 and 1999 Lloyd's Illinois Attorney in Fact has pursued a number of legislative amendments to the Illinois Insurance Code, relating to the abolition of the restriction limiting licensed underwriters' retention of any Illinois risk to 10% of

Lloyd's statutory deposit in Illinois, and the licensing of Lloyd's corporate members and Scottish limited partnerships. These amendments have now been enacted and enable Lloyd's to remove the internal syndicate arrangements that have been in operation since Lloyd's was first licensed in Illinois in the 1930's.

- 1.2 With effect from 1.1.2000 all members on syndicates underwriting Illinois business will need to be licensed in Illinois and the internal syndicate arrangements will be removed. This will enable single member corporate syndicates that are not currently licensed to write Illinois business for the 2000 year of account. Managing agents should review whether underwriting arrangements in respect of Illinois business that are, for instance, in place between the natural and parallel corporate syndicate under quota share arrangements need to be maintained. For the 2000 year of account, the quota share arrangement will not be necessary for Illinois business, although it will need to remain in place for the 1999 year of account.

2 Document the internal syndicate arrangements applied to Illinois business up to 1 January 2000.

- 2.1 In order to document the internal syndicate arrangements for business incepting in the period 1.1.93 – 31.12.99, documentation will be established that records (in accordance with the adequate arrangements proviso at clause 5(ca) of the standard managing agent's agreement) the cession of Illinois business retained by licensed members and the retrocession of business reinsured by unlicensed members to the members of the original syndicate. The documentation will be similar in form to that established in respect of Illinois underwriting for the 1992 and prior years of account as part of the Reconstruction and Renewal arrangements.
- 2.2 Managing agents will be required to sign for the members of those syndicates underwriting Illinois business with open years of account. The Council of Lloyd's will be asked to appoint a substitute agent to sign on behalf of members on any syndicate underwriting Illinois business for the 1993-1996 years of account, where the relevant year of account has closed. A copy of the proposed Cession/Retrocession agreement is available on request.

3 Strengthen the manner in which underwriters' funds are held in Illinois by establishing approved trust arrangements in support of the funding of outstanding Illinois liabilities.

- 3.1 Funds currently advanced by syndicates to meet outstanding Illinois liabilities are held on deposit in Illinois, under the control of the Attorney-in-Fact. In order to strengthen the security afforded to underwriters' funds in Illinois, it is proposed to establish new trust arrangements under which the amounts advanced by syndicates both currently and in the future will be held. It is intended that the new trust arrangements *will have minimal impact on current processes relating to the funding of outstanding Illinois liabilities.*
- 3.2 The proposed trust arrangements are currently being drafted in conjunction with the Lloyd's Illinois Attorney in Fact and will be subject to review and approval by both the Financial Services Authority and the Council of Lloyd's. *They will need to be signed by the managing agents of all syndicates underwriting Illinois business with open years of account and of syndicates commencing business on 1 January 2000*

that wish to write Illinois business. An explanatory note of the proposals will shortly be made available to the market.

4 Co-ordination with the annual North American Deeds Signing Project.

- 4.1 In order to minimise the logistics of establishing both the Cession/Retrocession Agreement and the new trust arrangements, it is proposed to collect relevant signatures from managing agents as part of the Year 2000 North American Deeds Signing Project. In the event that Illinois documentation at that point in time has not received final regulatory approval, Lloyd's will hold signatures to the order of managing agents pending such approval and the publication of the approved form of the new arrangements.

This market bulletin has been circulated to all managing agents, active underwriters, Finance Directors, Compliance Officers and Lloyd's recognised accountants. Any queries should be addressed to the North American Information Services Centre (x6677), or Michael Allen (x6378) or Susan MacKenzie (x6361), Legal Services Department.

Julian James
Managing Director
North America