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SUBJECT: LLOYD'S AUSTRALIAN TRADING ARRANGEMENTS
SUBJECT AREA(S): Australia
ATTACHMENTS: Membership and Underwriting (Australian Business)
Requirements 2000 and revised Guide to the Australian
Trust Fund Processing & Reporting Arrangements
ACTION POINTS: **Implementation with effect from 3 July 2000**
DEADLINE: **URGENT**

The new trading arrangements in Australia are due to commence on 3 July 2000 subject to the coming into force of amendments to the Australian Insurance Act 1973 relating to Lloyd's. The purpose of this market bulletin is to give notice of the Membership and Underwriting (Australian Business) Requirements 2000 and to provide a revised Guide to the Australian Trust Fund Processing & Reporting Arrangements. The original version of this document was issued to the market by way of a market bulletin dated 30 June 1998 (Ref. Y913).

Background to the new trading arrangements

Under the existing Australian insurance legislation, in order to maintain their status as authorised insurers and reinsurers in Australia, Lloyd's underwriters are required to secure a Deed of Covenant in Australia. Citibank Ltd of Sydney currently provides the Deed of Covenant that is funded via Additional Securities Ltd (ASL). Underwriters have been required to collateralise this Deed of Covenant to approximately 2.2 times annual premium income in Australia, a total of A\$217m in 1999. On 9 June 2000 Citibank agreed to release the collateral back to underwriters. Lloyd's underwriters are also required to make a statutory deposit with the Australian Treasurer of A\$500,000.

A review of this arrangement by Citibank NA suggested that underwriters could be liable to collateralise the Deed of Covenant to an amount equal to four years' relevant premium income. It was felt that to continue with such an arrangement would be an unacceptable financial burden on the market.

Accordingly, negotiations were commenced with the Australian government with a view to securing a revised regulatory basis for Lloyd's underwriters to carry on insurance and reinsurance business in Australia. This has now been achieved.

Description of the new trading arrangements

The new trading arrangements involve the creation of four security trust funds to be held in Australia to secure the liabilities of Lloyd's underwriters in respect of their Australian business. The trust funds will not operate as a claims paying mechanism but will be funds of last resort from which final judgements obtained in Australia against underwriters in respect of their Australian business can be satisfied.

Trust funds

In outline, the four trust funds to be established under the new arrangements are as follows:

(a) New business fund - Lloyd's Australian Trust Fund (*LAusTF*)

The assets of the LAusTF will be held to secure liabilities under policies incepting on or after 1 July 1998 as well as liabilities under policies written or incepting prior to that date which are initially covered by the interim fund and reinsured to close on or after 1 July 1998. This fund will be funded on a syndicate and year of account basis.

The value of assets held in respect of each syndicate and year of account will be adjusted on a quarterly basis in accordance with the funding requirements set out in subordinate legislation (the *Determination*) made under the Australian Insurance Act 1973.

(b) Interim fund – Lloyd's Australian Joint Asset Trust Fund (*LAusJATF(I)*)

A joint asset trust fund will be established in respect of business attaching to the 1993 to 1997 years of account and the first six months of the 1998 year of account. Members of all of the syndicates involved will contribute to this interim fund and the whole of that fund will be available to meet an eligible claim. The value of the fund will reduce as the liabilities to which it relates gradually reduce and as the liabilities in respect of relevant years of account are reinsured to close, provision then being made for such liabilities in the LAusTF.

The value of assets held in this trust fund will be adjusted annually in accordance with the *Determination*.

(c) Reserve fund – Lloyd’s Australian Joint Asset Trust Fund (*LAusJATF(2)*)

In addition to the LAusTF maintained in relation to the liabilities of specific syndicates for the period after 30 June 1998, Lloyd's underwriters will be required to maintain a small pooled trust fund. This fund can be used to pay any claims where the assets held in the LAusTF for a particular syndicate/year of account prove insufficient. Like the interim fund, the whole of the reserve fund will be available to meet an eligible claim.

This trust fund will contain assets equal in value to the higher of 6% of the aggregate of the funding requirements of the LAusTF or A\$3million and will be adjusted annually.

(d) Equitas fund - 1992 and Prior Business and other business reinsured by Equitas (*EAusTF*)

Liabilities in respect of 1992 and prior general business and any post-1992 business underwritten by Lloyd’s underwriters which has been reinsured by Equitas Reinsurance Ltd and retroceded to Equitas Ltd will be reserved for by Equitas Ltd in a separate fund, the EAusTF.

Each of the trust deeds under which the three Lloyd’s Australian trust funds will be held have been approved by the FSA as Overseas Regulatory Deposits within the meaning of the Premiums Trust Deed.

A detailed description of what constitutes an Australian policy and Australian liabilities for the purposes of each trust fund is set out in the attached Guide. It should be noted that policies in respect of which premiums have been paid or are payable US dollars are not required to be covered by the new arrangements as such policies are already covered by the US\$ trust fund arrangements.

The trust fund requirements are calculated by Market Reporting and Solvency Department (MRSD). MRSD apply actuarial formulae to cumulative premiums (net of brokerage and gross of reinsurance ceded) and gross known outstanding claims. The data required for this calculation will be captured centrally by LPSO and LCO-PSU. The calculation will arrive at an estimate of net outstanding liabilities (including IBNR), the actuarial formulae varying in accordance with the year of account in which the business was originally written, and whether the risk is classified as short tail or long tail

Security deposit

In addition to the Lloyd’s and Equitas trust funds, under the new trading arrangements a security deposit of A \$2m must be lodged with the Australian Treasurer. Unlike the current statutory deposit of A\$500,000, this new deposit cannot be used to pay policyholders but will be available to meet the expenses of any judicial trustee of the trust funds in the event of the funds being placed in judicial trusteeship. ASL will fund the security deposit from loans provided by underwriters.

Membership and Underwriting (Australian Business) Requirements 2000

A copy of the Membership and Underwriting (Australian Business) Requirements 2000 made by the Council on 10 May 2000 is attached. These set out members' obligations to fund the trust funds in accordance with the funding requirements laid down in the Australian legislation.

Investment management

Initially, Lloyd's Treasury Department will be responsible for the investment management of all three Lloyd's Australian trust funds, returns being allocated pro rata to syndicates. Details of the parameters for the investment of the funds are included in the attached "Guide to the Australian Trust Fund Processing and Reporting Arrangements" as Appendix 8. Investment reports will be submitted to agents on a quarterly basis, as the Department does for other syndicate assets that it manages. In addition, the detailed investment objectives, risk constraints and benchmark returns will be reviewed by the Lloyd's Investment Committee, and will be made available to the market.

In due course it is intended that in relation to the LAusTF agents will have the option of making their own investment management arrangements for the funds of the syndicates which they manage.

Currency element

In the Guide to the Australian Trust Fund Processing and Reporting Arrangements that was issued to the market under cover of the market bulletin dated 30 June 1998 (Ref.Y913) a description was given of the business to be covered by the new trading arrangements. It also included at Appendix 1 a note explaining how the definition would be applied to different risk situations incepting on or after the intended implementation date.

Bullet point 5 of paragraph '1.0 Currency element' of Appendix 1 to that Guide stated that:

“[where the] sum insured is expressed partly in Australian dollars and partly in currency other than Australian dollars, but the original premium is all Australian dollars; only that part of the risk where both sum insured and closing premium are Australian dollars is subject to Australian trust fund reserving. The remainder of the risk is not subject to Australian trust fund reserving.”

However, following discussions with the Australian regulator it has been agreed that the correct approach should be as amended as follows. Where part of the sum insured and part of the closing premium on a particular contract are in Australian dollars then the whole contract will be subject to trust fund reserving regardless of the currency of the remainder of the sum insured and/or premium. The exception to this is where the gross premium currency is US Dollars. However, where the contract provides that different coverages are separate contracts, each coverage will have its status determined independently (i.e. 'each vessel deemed a separate insurance' or 'each section deemed a separate contract').

LPSO will adopt this approach to Australian business processed on or after 1 July 2000. Any claims, returns and additional premiums processed on or after that date will continue to follow the trust fund status of the premium to which they relate.

Underwriters and brokers are reminded that to enable LPSO to record Australian business correctly, it is vital that all the necessary information is contained on the signing slip, and supporting documentation presented to LPSO. This is of particular importance where such risks are closed on a bulked accounting basis, with only summary details presented to LPSO.

Attached to this market bulletin is a revised copy of the revised "Guide to the Australian Trust Fund Processing and Reporting Arrangements" which reflects all relevant amendments appropriate to the new implementation date. The Guide gives a detailed explanation of the structure of the new trading arrangements and the procedures relating to the operation of the trust funds.

Should you have any questions regarding the new arrangements, please contact Maxine Hooper, International Department on Lloyd's extension 6291 or Keith Stern, Lloyd's General Representative in Australia on 00 612 9223 1433.

This market bulletin is being sent to all active underwriters and managing agents, brokers and market associations.

Frank Speight
Head of International
Business Development Unit

MEMBERSHIP AND UNDERWRITING (AUSTRALIAN BUSINESS)
REQUIREMENTS 2000

WHEREAS:

- (A) The Council of Lloyd's is desirous that it shall be a requirement of every member who has liabilities under or in respect of an Old or a New Australian Policy (whether or not for the time being he is underwriting or wishes to underwrite insurance business) that he shall at all times provide security for policyholders in Australia

- (B) The Council is also desirous of introducing new underwriting requirements to be complied with by underwriting members who wish to commence or to continue underwriting business in respect of New Australian Policies on or after the date on which Schedule 2 of the Insurance Laws Amendment Act 1998 of the Commonwealth of Australia comes into force

The Council of Lloyd's in exercise of its powers under section 6(1) of Lloyd's Act 1982 and in exercise of its powers under paragraphs 3, 20, 22 and 53 of the Membership Byelaw (No. 17 of 1993) and in exercise of its powers under paragraphs 2 and 2A of the Membership (Overseas Deposits) Byelaw (No. 2 of 1992) and in exercise of any and every other power it enabling HEREBY PRESCRIBES the following conditions and requirements.

1. Citation

These conditions and requirements may be cited as the Membership and Underwriting (Australian Business) Requirements 2000.

2. Conditions and Requirements

- (1) Without prejudice to sub-paragraph (2), no member shall underwrite any New Australian Policy as a member of a syndicate on or after the commencement date unless -
 - (a) he has in respect of each syndicate and year of account for which he is a member of that syndicate and year of account and to which the Lloyd's Australian Trust Deed applies provided or procured the provision of funds and

- (b) assets for the purpose of establishing and maintaining the Trust Fund created by the Lloyd's Australian Trust Deed in an amount not less than his share of the Minimum Amount for that syndicate and year of account so as to ensure that –
 - (i) the value of the assets held in the Trust Fund in respect of that syndicate and year of account is, not later than the 8 June 2000 (or such later date as the Council may specify), not less than the Minimum Amount for that syndicate and year of account calculated as at 31st March 2000; and
 - (ii) in relation to each rebalancing period thereafter, the value of assets held in the Trust Fund in respect of that syndicate and year of account is, not later than 50 days following the end of each rebalancing period, not less than the Minimum Amount for that syndicate and year of account calculated as at the last day of the rebalancing period; and
 - (b) the managing agent of the syndicate concerned has signed all and any agreements, directions, mandates, notices or other documentation relating to the establishment and operation of such Trust Deed and all banking, financial, investment and other ancillary arrangements relating thereto (including but not limited to any agreement, directions, mandates, notices and other documentation required by the Central Accounting systems of Lloyd's).
- (2) No member shall underwrite any New Australian Policy as a member of a syndicate on or after the commencement date unless -
- (a) he has in respect of each syndicate and year of account for which he is a member of that syndicate and year of account and to which the Lloyd's Australian Joint Asset Trust Deed (No. 2) applies provided or procured the provision of funds and assets for the purpose of establishing and maintaining the Trust Fund created by the Lloyd's Australian Joint Asset Trust Deed (No. 2) in an amount not less than his share of the proportion of the Minimum Amount attributable to that syndicate and year of account so as to ensure that -
 - (i) the aggregate value of the Trust Fund is, not later than 8 June 2000 (or

such later date as the Council may specify), not less than A\$3 million;
and

(ii) in relation to each rebalancing period thereafter, the aggregate value of the Trust Fund is, not later than 50 days following the end of each rebalancing period, not less than the Minimum Amount calculated as at the last day of the rebalancing period; and

(b) the managing agent of the syndicate concerned has signed all and any agreements, directions, mandates, notices or other documentation relating to the establishment and operation of such Trust Deed and all banking, financial, investment and other ancillary arrangements relating thereto (including but not limited to any agreement, directions, mandates, notices and other documentation required by the Central Accounting systems of Lloyd's).

(3) Every member (whether or not a member who for the time being is underwriting or wishes to underwrite insurance business) who has liabilities under or in respect of any Old Australian Policy or is liable under any contract of reinsurance to close in respect of such liability of another member shall in respect of each syndicate and open year of account for which he has as a member of that syndicate and year of account such liabilities and to which the Lloyd's Australian Joint Asset Trust Deed (No. 1) applies -

(a) provide or procure the provision of funds and assets for the purpose of establishing and maintaining the Trust Fund created by the Lloyd's Australian Joint Asset Trust Deed (No. 1) in an amount not less than his share of the proportion of the Minimum Amount attributable to that syndicate and year of account so as to ensure that -

(i) the aggregate value of the Trust Fund is, not later than 8 June]2000 (or such later date as the Council may specify), not less than the Minimum Amount calculated as at 31st March 2000; and

(ii) in relation to each rebalancing period thereafter, the aggregate value of the Trust Fund is, not later than 50 days following the end of each rebalancing period, not less than the Minimum Amount calculated as at the last day of the rebalancing period; and

- (b) procure that the managing agent of the syndicate concerned has signed all and any agreements, directions, mandates, notices or other documentation relating to the establishment and operation of such Trust Deed and all banking, financial, investment and other ancillary arrangements relating thereto (including but not limited to any agreement, directions, mandates, notices and other documentation required by the Central Accounting systems of Lloyd's).
- (4) Every member (whether or not a member who for the time being is underwriting or wishes to underwrite insurance business) who has liabilities under or in respect of any New Australian Policy or is liable under any contract of reinsurance to close in respect of such liability of another member shall in respect of each syndicate and open year of account for which he is a member of that syndicate and year of account such liabilities and to which the Lloyd's Australian Joint Asset Trust Deed (No. 2) applies provide or procure the provision of funds and assets in an amount not less than his share of the proportion of the Minimum Amount attributable to that syndicate and year of account so as to ensure that the aggregate value of the Trust Fund is, not later than 50 days following the end of each rebalancing period, not less than the Minimum Amount calculated as at the last day of the rebalancing period.
- (5) Every member (whether or not a member who for the time being is underwriting or wishes to underwrite insurance business) who has liabilities under or in respect of any New Australian Policy or is liable under any contract of reinsurance to close in respect of such liability to another member shall in respect of each syndicate and open year of account for which he is a member of that syndicate and year of account and to which the Lloyd's Australian Trust Deed applies provide or procure the provision of funds and assets in an amount not less than his proportion of the Minimum Amount for that syndicates and year of account so as to ensure that the value of the assets held in the Trust Fund in respect of that syndicate is, not later than 50 days following the end of each rebalancing period, not less than the Minimum Amount for that syndicate as calculated on the last day of the rebalancing period.
- (6) In this paragraph 2, the following words and phrases shall have the following meanings –

APRA means the Australian Prudential Regulation Authority, a body corporate established by the Australian Prudential Regulation Authority Act 1998 and includes any successor body appointed to carry out the functions of the Commissioner under the Insurance Act 1973 of the Commonwealth of Australia;

Australian Determination means the Insurance (Lloyd's Security Trust Fund Arrangements) Determination 1998 made under subsection 68(1) of the Insurance Act 1973 of the Commonwealth of Australia;

Australian Liabilities

- (i) in relation to a member and the Trust Fund held under the Lloyd's Australian Joint Asset Trust Deed (No. 1), has the meaning given to it in the Lloyd's Australian Joint Asset Trust Deed (No. 1);
- (ii) in relation to a member and the Trust Fund held under the Lloyd's Australian Joint Asset Trust Deed (No. 2), has the meaning given to it in the Lloyd's Australian Joint Asset Trust (Deed (No. 2)); and
- (iii) in relation to a member and the Trust Fund held under the Lloyd's Australian Trust Deed, has the meaning given to it in the Lloyd's Australian Trust Deed;

commencement date means the date on which Schedule 2 of the Insurance Laws Amendment Act 1998 of the Commonwealth of Australia comes into force;

Lloyd's Australian Joint Asset Trust Deed (No. 1) means the deed so entitled as approved by APRA and for the time being in force;

<i>Lloyd's Australian Joint Asset Trust Deed (No. 2)</i>	means the Deed so entitled as approved by APRA and for the time being in force;
<i>Lloyd's Australian Trust Deed</i>	means the Deed so entitled as approved by APRA and for the time being in force;
<i>Minimum Amount</i>	means – <ul style="list-style-type: none"> (i) in relation to a syndicate and year of account and to the Trust Fund held under the Lloyd's Australian Trust Deed, an amount calculated in accordance with paragraph 2.5 of Schedule 2 to the Australian Determination; (ii) in relation to the Trust Fund held under the Lloyd's Australian Joint Asset Trust Deed (No. 1), an amount equal to the value of the Australian Liabilities calculated in accordance with paragraph 2.4 of Schedule 2 to the Australian Determination; and (iii) in relation to the Trust Fund held under the Lloyd's Australian Joint Asset Trust Deed (No. 2), an amount equal to the greater of A\$3 million or 6% of the value of the Australian Liabilities calculated in accordance with paragraph 2.6 of Schedule 2 to the Australian Determination.
<i>New Australian Policy</i>	has the same meaning given to Australian Policy in the Lloyd's Australian Trust Deed;
<i>Old Australian Policy</i>	has the same meaning given to Australian Policy in the Lloyd's Australian Joint Asset Trust Deed (No. 1);

rebalancing period

means -

- (i) in relation to the Trust Fund held under the Lloyd's Australian Joint Asset Trust Deed (No. 1), each year commencing on 1st January;
- (ii) in relation to the Trust Fund held under the Lloyd's Australian Joint Asset Trust Deed (No. 2), each year commencing on 1st January; and
- (iii) in relation to the Trust Fund held under the Lloyd's Australian Trust Deed, each 3 months commencing on 1st January, 1st April, 1st July or 1st October.

3. **Revocations**

The Membership and Underwriting (Australian Business) Requirements 2000 are revoked.

4. **Commencement**

These conditions and requirements shall come into force

**Guide to the Australian
Trust Fund Processing & Reporting
Arrangements**

Affecting Australian business incepting on or after 1st July 1998

VERSION: 2.0

CONTENTS

	Page
1 Overview	1
1.1 New Trading Arrangements	1
1.2 Existing Trading Arrangements	1
1.3 Australian Prudential Regulatory Authority (APRA)	1
2 Structure of the New Trading Arrangements	2
2.1 Framework of the New Trust Funds	2
2.1.1 <i>Structure of the New Trust Funds</i>	2
2.1.2 <i>Definition of Lloyd's Underwriters' Australian Trust Fund Business (applicable for risks incepting on or after 1/7/98)</i>	4
2.1.3 <i>Definition of Lloyd's Underwriters' Australian Trust Fund Business (applicable for risks incepting prior to 1/7/98)</i>	5
2.2 Financial Framework	6
2.2.1 <i>Banking Arrangements</i>	6
2.2.2 <i>Investment Management</i>	6
2.2.3 <i>Funding of the New Trust Funds</i>	6
2.2.4 <i>Basis of Funding</i>	7
2.3 Reporting to APRA	7
3 Calculation of the Funding Requirement from Managing Agents	9
3.1 Lloyd's Australian Trust Fund (LAusTF)	9
3.1.1 <i>Definition of "relevant Australian business"</i>	9
3.1.2 <i>Determining the trust fund amount – the formulae</i>	9
3.1.3 <i>Year of account duration</i>	10
3.1.4 <i>Long or short tail</i>	10
3.1.5 <i>Calculation of the required trust fund amount</i>	10
3.2 Funding of the LAusJATF(1)	11
3.2.1 <i>Method of calculation</i>	11
3.3 Funding of LAusJATF(2)	11
3.4 Underlying data	11
3.4.1 <i>Premiums</i>	12
3.4.2 <i>Claims</i>	12
3.4.3 <i>Premiums and Claims not processed via Central Accounting</i>	12
3.5 Reconciliation	12
3.5.1 <i>Individual transactions</i>	13
3.6 Quarterly Reporting Timetable	14
4 Collection of the Funding Requirements	15
4.1 Collections for the LausTF, LAusJATF(1) and LAusJATF(2)	15
4.2 Supporting Information	15
5 Revised Processes	16
5.1 General	16
5.2 Service of Suit Clause	16
6 Commonly Asked Questions	18
Appendices	21

Contacts

Any queries regarding this document and queries relating to the set-up of these new arrangements should be addressed to Maxine Hooper of the International Department on Ext 6291 or Keith Stern, Lloyd's General Representative in Australia on 00 612 9223 1433.

Queries relating to the operation of the funding arrangements should be directed to Alison Mings on Ext 2920, in Lloyd's Accounting Services Department.

Queries relating to the presentation of documentation to LPSO, and subsequent processing thereof, should be referred to the LPSO Enquire help line on Ext. 2999.

1 Overview

1.1 New trading Arrangements

The new trading arrangements in Australia are due to commence on 3 July 2000 subject to the coming into force of amendments to the Australian Insurance Act 1973 relating to Lloyd's. These involve the creation of four security trust funds to be held in Australia to secure the liabilities of Lloyd's underwriters in respect of their Australian business. Funds were transferred into the four trust funds on 9 June 2000.

1.2 Existing Trading arrangements

Under the existing Australian insurance legislation, in order to maintain their status as authorised insurers and reinsurers in Australia, Lloyd's underwriters are required to secure a Deed of Covenant in Australia. Citibank Ltd of Sydney currently provides the Deed of Covenant that is funded via Additional Securities Ltd (ASL). Underwriters have been required to collateralise this Deed of Covenant to approximately 2.2 times annual premium income in Australia, a total of A\$217m in 1999. On 9 June 2000 Citibank agreed to release the collateral back to underwriters. Lloyd's underwriters are also required to make a statutory deposit with the Australian Treasurer of A\$500,000.

A review of this arrangement by Citibank NA suggested that underwriters could be liable to collateralise the Deed of Covenant to an amount equal to four years' relevant premium income. It was felt that to continue with such an arrangement would be an unacceptable financial burden on the market.

Accordingly, following consultation with the market and negotiations with the Australian government, a revised regulatory basis for Lloyd's underwriters to carry on insurance and reinsurance business in Australia has been agreed.

1.3 Australian Prudential Regulatory Authority (APRA)

The Australian Prudential Regulatory Authority is responsible for the regulation of the insurance industry in Australia. For the purposes of the new Australian trading arrangements, Lloyd's will have to satisfy APRA that it has met, and continues to meet the terms of the new arrangements.

2 Structure of the New Trading Arrangements

2.1 Framework of the New Trust Funds

2.1.1 Structure of the New Trust Funds:

The new trust funds will not operate as a claims paying mechanism but will be funds of last resort from which final judgements obtained in Australia against underwriters in respect of their Australian business can be satisfied.

In outline, the trust funds are as follows:

(a) New business fund - Lloyd's Australian Trust Fund (*LAusTF*)

The assets of the LAusTF will be held to secure underwriters' liabilities in respect of policies incepting on or after 1 July 1998 as well as liabilities in respect of policies written or incepting prior to that date which are initially covered by the interim fund and reinsured to close on or after 1 July 1998. This fund will be funded on a syndicate and year of account basis.

The value of assets held in respect of each syndicate and year of account will be adjusted on a quarterly basis in accordance with the funding requirements set out in subordinate legislation (the *Determination*) made under the Australian Insurance Act 1973.

(b) Interim fund – Lloyd's Australian Joint Asset Trust Fund (*LAusJATF(1)*)

The assets of this joint asset trust fund will be held to secure underwriters' liabilities in respect of business attaching to the 1993 to 1997 years of account and the first six months of the 1998 year of account. Members of all of the syndicates involved will contribute to this interim fund and the whole of that fund will be available to meet an eligible claim. The value of the fund will reduce as the liabilities to which it relates gradually reduce and as the liabilities in respect of relevant years of account are reinsured to close, provision then being made for such liabilities in the LAusTF.

The value of assets held in this trust fund will be adjusted annually in accordance with the Determination.

(c) Reserve fund – Lloyd's Australian Joint Asset Trust Fund (*LAusJATF(2)*)

In addition to the LAusTF maintained in relation to the liabilities of specific syndicates for the period after 30 June 1998, underwriters will be required to maintain a small pooled trust fund. This fund can be used to pay any claims where the assets held in the LAusTF for a particular syndicate/year of account prove insufficient. Like the interim fund, the whole of the reserve fund will be available to meet an eligible claim.

This trust fund will contain assets equal in value to the higher of 6% of the aggregate of the funding requirements of the LAusTF or A\$3million and will be

adjusted annually.

(d) Equitas fund - 1992 and Prior Business and other business reinsured by Equitas (EAusTF)

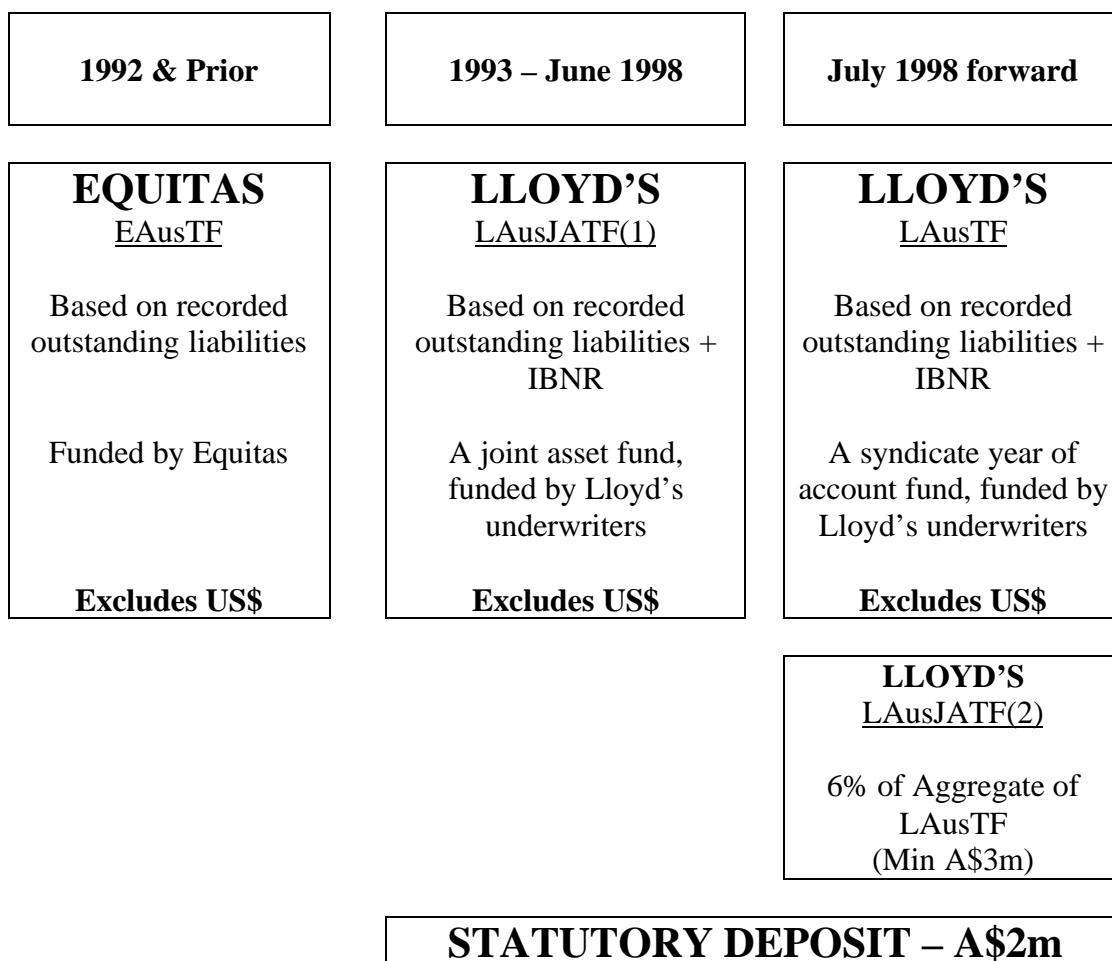
Liabilities in respect of 1992 and prior general business and any post-1992 business underwritten by Lloyd’s underwriters which has been reinsured by Equitas Reinsurance Ltd and retroceded to Equitas Ltd will be reserved for by Equitas Ltd in a separate fund, the EAusTF.

Each of the trust deeds under which the three Lloyd’s Australian trust funds will be held have been approved by the FSA as Overseas Regulatory Deposits within the meaning of the Premiums Trust Deed.

There will also be a statutory deposit of A\$2 million to be funded by ASL from loans provided by underwriters.

An illustration of the trust fund arrangements is shown in the following diagram, figure 2a. The purpose of this diagram is to show how the different trust funds take account of different years of business and to demonstrate the separate nature of the Equitas arrangements for liabilities from the 1992 and prior years of account.

Fig 2a.



2.1.2 Definition of Lloyd's Underwriters' Australian Trust Fund Business (applicable for risks incepting on or after 1/7/98)

Business satisfying the following definition, will be reserved for under the LAusTF:

“Any contract or policy of insurance or reinsurance incepting on or after 1 July 1998 (excluding any contract or policy underwritten on or after that date under a binding authority commencing before that date) in respect of:

- a) *real property, fixtures or buildings located in Australia;*
- b) *any other property of any kind (including but not limited to ships, aircraft, yachts and other moveable property) and any other risk of any kind where:*
 - *in the case of an insured which is a body corporate, that body corporate has a registered office or principal place of business in Australia, and,*
 - *in any other case, the insured has a residential address or place of business in Australia:*

or

- c) *in the case of any contract of reinsurance:*
 - *where the registered office of the ceding company which has reinsured with the Lloyd's underwriter is in Australia; or,*
 - *in the case of such a contract made with or through a branch office in Australia of the ceding company which has reinsured with the Lloyd's underwriter, where the ceding company is incorporated out of Australia.*

where the currency in which the contract or policy is expressed and in which the premium is paid is Australian.

The LAusTF will also cover liabilities originally covered by the LAusJATF(1) but which are reinsured to close on or after 1 July 1998.

However, the following are excluded from the reserving requirements for this trust fund:

- (a) 1992 and prior business and any later business which has been reinsured by Equitas;
- (b) policies in respect of which the premiums are or were paid or payable in US dollars;

It should be noted that the reference to binding authority also extends to include business written under lineslips, covers and any other form of bulk accounting contract.

Further notes on how to interpret this definition and apply it to individual risks are shown in Appendix 1.

2.1.3 Definition of Lloyd's Underwriters' Australian Trust Fund Business (applicable for risks incepting prior to 1/7/98)

Broadly, policies written or incepting prior to 1 July 1998 (including any contract or policy underwritten on or after that date under a binding authority commencing before that date), where the premiums received or due to underwriters are premiums to which the Australian Income Tax Assessment Act 1936 (the *Tax Act*) applies, must be reserved for in the interim fund, the LAusJATF(1).

However, the following are excluded from the reserving requirements for this trust fund:

- (a) 1992 and prior business and any later business which has been reinsured by Equitas;
- (b) policies in respect of which the premiums are or were paid or payable in US dollars; and
- (c) policies where the liabilities have been reinsured to close and have been reserved for in the LAusTF.

Reference to binding authority also extends to include business written under lineslips, covers and any other form of bulk accounting contract.

2.2 Financial Framework

2.2.1 Banking Arrangements

Following a competitive selection process, the Lloyd's Business Development Unit Board approved the selection of National Australia Trustees Ltd (*NAT*), a subsidiary of National Australia Bank (*NAB*), as trustee of the Lloyd's funds, with NAB as custodian. NAB is Australia's largest bank, has considerable experience both as a trustee and custodian, and provided a fee quote significantly less than those of alternative providers.

2.2.2 Investment Management

Initially, Lloyd's Treasury Department will be responsible for the investment management of all three Lloyd's Australian trust funds, returns being allocated pro rata to syndicates. Details of the parameters for the investment of the funds are included in the attached at Appendix 8. Investment reports will be submitted to agents on a quarterly basis, as the Department does for other syndicate assets that it manages. In addition, the detailed investment objectives, risk constraints and benchmark returns will be reviewed by the Lloyd's Investment Committee, and will be made available to the market.

In due course it is intended that in relation to the LAusTF agents will have the option of making their own investment management arrangements for the funds of the syndicates which they manage.

Agents should note that if they choose to make their own investment management arrangements they will be charged the additional bank fees and charges, together with the Accounting Services administration costs, that arise as a result of operating separately managed investment accounts.

2.2.3 Funding of the New Trust Funds

The last actuarial review of the Australian liabilities was based upon figures as at 31 December 1998. Lloyd's and Equitas' respective shares of the Deed of Covenant collateral are currently based upon this review. Agents should note that as a result Lloyd's funding requirement for the new arrangements is greater than the funding requirement under the deed of covenant. This reflects the fact that Lloyd's underwriters have benefited from a contribution towards the collateral by Equitas. Nevertheless the new level of funding compares favourably to the continuation of the Deed of Covenant which would have required an increase in collateral to about four times annual premium income (approximately A\$1 billion).

2.2.4 Basis of Funding

The Deed of Covenant collateral provided by ASL was collected from the market from the current year of account based upon the syndicate's share of the previous year's premium income.

Following consultation with the Australian Working Party (AWP) and the LUAA (Lloyd's Underwriting Agents Association) Finance Committee it was agreed that the collection for the new trusts would be on the basis of the reserving formula agreed with APRA. This is largely dependent upon outstanding claims and, to a much smaller extent, premium income.

2.3 **Reporting to APRA**

The Market Reporting and Solvency Department of Lloyd's (MRSD) are responsible for calculating the funding requirement, and producing the APRA reports, required under the new trading arrangements.

The determination of the trust fund amounts, and information to be reported to APRA, will be based on the collection and processing of various underwriting data by syndicate year of account, relating to:

- (a) cumulative premiums received (net of brokerage and gross of reinsurance ceded); and,
- (b) gross known outstanding claims (but not IBNR).

In addition, for the purpose of reporting to APRA only, information relating to gross claims paid in the period will be required.

The analysis of the premiums and claims data will be by reference to the originating year of account and whether the business is designated 'short tail' or 'long tail'; further information on how the trust fund amounts are calculated is provided in section 3.1.

i) Reporting on the Lloyd's Australian Trust Fund (LAusTF)

Quarterly, a report will be made to APRA comprising information relating to premiums received, gross claims paid and gross known outstanding claims, as well as the required LAusTF amounts by syndicate year.

ii) Reporting on the LAusJATF(1)

Annually, a report will be made to APRA in a similar format to LAusTF above, as well as the required LAusJATF(1) amount.

iii) Reporting on the LAusJATF(2)

Annually, the funding requirement for the LAusJATF(2) at the reporting date will be advised to APRA, together with a supporting schedule showing how the funding requirement has been determined.

Quarterly, MRSD will calculate the funding requirement and produce the APRA reports for the Equitas trust fund. The information will be passed to Equitas to complete their responsibilities under the new arrangements.

3 Calculation of the Funding Requirement from Managing Agents

3.1 Lloyd's Australian Trust Fund (LAusTF)

The funding requirement for the LAusTF is at syndicate year of account level and is determined on a quarterly basis. It is based on the value of the syndicate year's cumulative premium income, net of brokerage and gross of reinsurance, and gross known outstanding claims at the end of the quarter relating to relevant Australian business. These items are adjusted by a formula when determining the trust fund requirement, the formula varying depending on what year of account the business is written in and whether the business is designated 'short tail' or 'long tail'.

The fund is maintained in Australian dollars. Transactions in currencies other than Australian dollars are converted into Australian dollars for the purpose of this exercise at the reporting date rates of exchange.

3.1.1 Definition of “relevant Australian business”

The business upon which the trust fund amounts are determined is defined as:

- (a) for business incepting on or after 1 July 1998; the 'new' definition of Australian business as outlined in 2.1.2; and
- (b) where the syndicate year of account accepts by means of the reinsurance to close (RITC) mechanism on or after 1 July 1998, liabilities incepting as at 30 June 1998 or prior relating to the 'old' definition of Australian business, also as outlined in 2.1.2, the trust fund calculation takes into account premiums received and outstanding claims relating to such business as well, following the RITC.

3.1.2 Determining the trust fund amount - the formulae

The cumulative premiums received and known outstanding claims amounts at the end of the quarter, in relation to relevant Australian business, are adjusted by formulae in order to arrive at an estimate of net outstanding liabilities (including a provision for claims incurred but not reported). The formulae vary in accordance with the originating year of account of the business and whether the business is designated “short tail” or “long tail”. The formulae have been devised by Ernst & Young, following an actuarial review of claims development patterns of Australian business; the formulae are subject to review at periodic intervals.

The formulae are set out below:

Year of account duration	Long tail business		Short tail business	
	Premium factor	Outstanding claims factor	Premium factor	Outstanding claims factor
4 and older	Not applicable	0.90	Not applicable	0.51
3	0.10	1.00	0.00	0.81
2	0.33	1.00	0.07	1.00
1	0.35	1.00	0.09	1.00

3.1.3 Year of account duration

This relates to the amount of time (in calendar years) that has elapsed since a risk was originally written. Of course, as time goes by, the quantum of outstanding claims in relation to a risk would be expected to decline. Separate formulae are set only for the four most recent years of account; risks originally written five or more years ago are deemed to relate to the fourth youngest year of account. Thus, in calendar year 2000, the year of account duration relates to business originally written in the following years of account:

Year of account duration	Year(s) of account
1	2000
2	1999
3	1998
4	1997, 1996, 1995, 1994, 1993

3.1.4 Long tail or short tail

As part of the actuarial work performed by Ernst & Young in devising the reserving methodology, all business has been categorised as either 'short tail' or 'long tail'. Differing formulae are used when determining the trust fund amounts in relation to 'short tail' and 'long tail' business, as obviously the claims settlement patterns are different. Each risk code has been assigned as being either 'short tail' or 'long tail' for this purpose. Details of this assignment are set out at Appendix 4.

3.1.5 Calculation of the required trust fund amount

The method by which the required trust fund amount will be calculated is set out in two worked examples, set out at Appendix 5. The first worked example illustrates the trust fund calculation where the syndicate year in question is simply a 'pure' year; the second reflects the calculation where the syndicate year has accepted an RITC, post 30 June 1998, of an earlier year of account.

3.2 Funding of the LAusJATF(1)

The interim LAusJATF(1) fund will be a joint asset trust fund in relation to the liabilities of relevant Australian business written or incepting after 1 January 1993 up to and including 30 June 1998, where the syndicate year of account which has the liability or has assumed it under an RITC remains unclosed into a 1998 or later year of account at any time from 1 July 1998. The fund will then be adjusted annually, reflecting the position as at 31 December each year.

Although the LAusJATF(1) is a joint fund, it will be required to be funded from syndicates in accordance with their “share” of the trust fund requirement, the “share” to be calculated on a syndicate year basis on a similar basis as described for the LAusTF in 3.1.

The initial quantum of the LAusJATF(1) (established to be in place as at 30 June 2000) is determined on the basis of underwriting data as at 31 March 2000. Thereafter, the LAusJATF(1) will be adjusted on an annual basis, based on underwriting data as at 31 December of each year.

The fund will be maintained in Australian dollars. Transactions in currencies other than Australian dollars will be converted into Australian dollars for the purpose of this exercise at the rates of exchange ruling at the reporting date.

3.2.1 Method of calculation

The method of calculation of the LAusJATF(1) is exactly the same as that used for the LAusTFs as set out in 3.1, and is by reference to cumulative premiums received (net of brokerage and gross of reinsurance) and gross known outstanding claims at the period end, as adjusted by formulae (as above) which vary dependent on the originating year of account and whether the business is designated “short tail” or “long tail”.

3.3 Funding of LAusJATF(2)

The LAusJATF(2) is calculated, initially to be in place as at 30 June 2000, with an initial funding requirement of A\$3 million, and then annually in respect of the position as at 31 December. It is determined as the higher of A\$3 million or 6% of the aggregate of the LAusTFs at the reporting date.

As this trust exists to support the LAusTFs, it is funded in proportion to underwriters' contributions to the LAusTFs, for which the calculation method is described in 3.2.1.

3.4 Underlying data

In order to calculate the funding requirements MRSD will collect premiums and claims data for 1993 and post years of account from LPSO (Lloyd's Policy Signing Office). Equitas will provide claims data for 1992 and prior to MRSD via the LPSO and directly from Equitas in relation to data from 1 October 1999. There will,

however, be a separate, simple return collected from managing agents in respect of syndicates having written relevant Australian business (as defined in 2.1.2) which has not been processed via Lloyd's central accounting. This will be mainly in respect of Australian motor business and will affect relatively few syndicates. Details of this return will be provided to managing agents in due course.

3.4.1 Premiums

Where premium relates to risks or contracts falling within the definitions shown in section 2.1(ii) LPSO will allocate the premium to a trust fund based upon the inception date, and sum insured and original (closing) premium currency. A trust Fund indicator will be recorded on central systems. At this time, there are no plans to advise the indicator on syndicate signing messages.

Appendix 1 details how to apply the definition of Australian business to different risk situations.

3.4.2 Claims

It is essential that all claims are recorded to the same trust fund as the premium for the risk to which the claim relates. The claim will therefore generally follow the coding and allocation of the original risk signing for each of the three trust funds.

In the case of bulk accounting, the items making up the bulk will need to be split into separate accounting entries to enable the Australian claims to be clearly identified.

As per the market bulletin dated 22 September 1997, all singleton claims are to be advised to LPSO and LCO-PSU (Professional Services Unit) for capture centrally for inclusion within the quarterly reporting extracts.

LPSO and LCO-PSU will record the allocated trust fund indicator on the claim entry, however, as with premiums, this will not be advised.

3.4.3 Premiums and Claims not processed via Central Accounting:

Managing agents in respect of syndicates writing relevant Australian business that has not been processed via central accounting will be required to complete a simple syndicate return. This applies mainly to Australian motor business and affects relatively few syndicates.

3.5 **Reconciliation**

There is no legal requirement for syndicates to 'own' the data or sign off the reserving schedules to verify their funding requirements as there is with US surplus lines and reinsurance trading. Syndicates may choose not to carry out any checks on the Australian data at all and rely solely on the work carried out centrally by LPSO, LCO-PSU and MRSD.

3.5.1 Individual Transactions

A transaction file containing all applicable premium and claim transactions and trust fund indicators for business processed during the quarter will be available at the close of each quarter.

For full details of the layout and how the Reconciliation file please refer to Appendix 6.

The data used as a basis for determining the amount of reserves required to be held by each syndicate will be provided by LPSO. Gross premiums after deduction of brokerage but before outward reinsurance allowance will be recorded by LPSO for all risks subject to Australian trust fund reserving. Gross paid and outstanding claim amounts held at the close of the quarter will similarly be recorded by LPSO and LCO-PSU in respect of the 1993 and post years of account and Equitas in respect of 1992 and prior.

The transactions involved in the reserving exercise will be advised to syndicates on the USM (Underwriter Signing Message) and SCM (Syndicate Claims Message) in the usual manner. No specific details about Australian business will be shown on the BSM (Bureau Signing Message).

Syndicates will not be able to directly reconcile the raw data shown on the USM and SCM against the final amounts required to be passed to the Australian trust funds. This is due to the application of the additional processing carried out by MRSD to calculate the syndicate trust fund amounts.

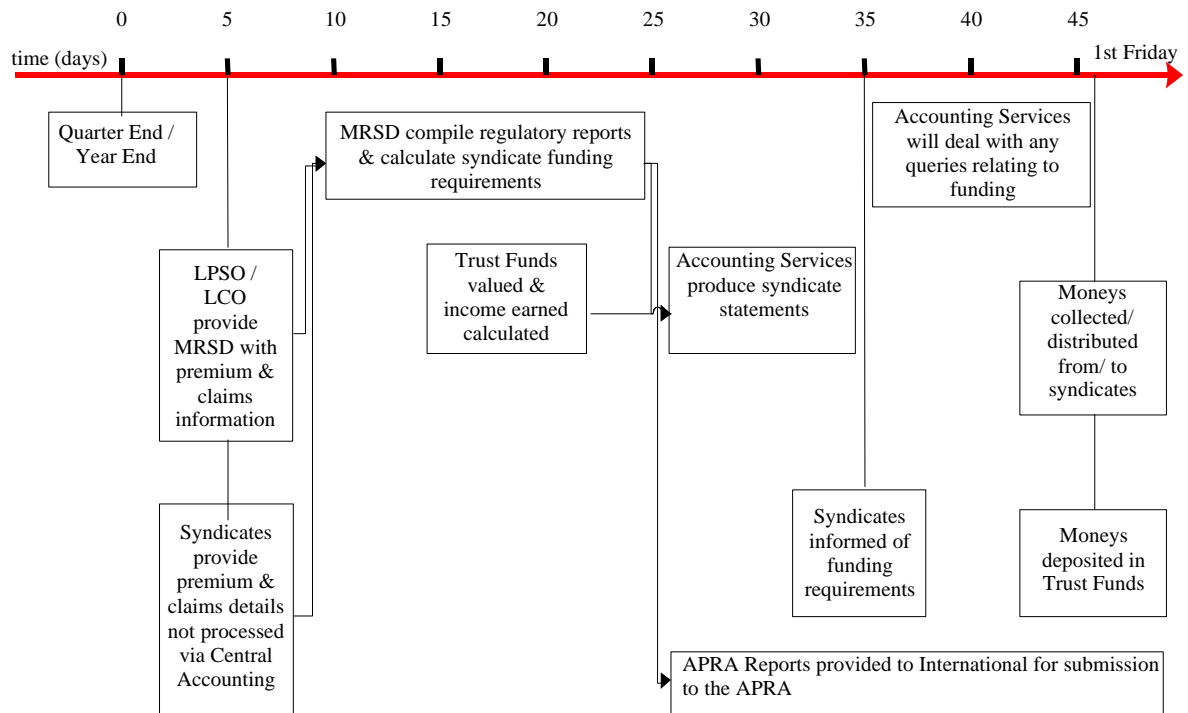
Existing data on the USM and SCM does allow some degree of reasonability checking for Australian business. In order for syndicates to identify which risks are being reserved for and the applicable trust fund for each, it will be necessary for some business rules to be applied. Certain FIL code (market code) values, whether 2 or 4 character, in combination with the year of account and inception date of the original signing will enable syndicates to identify the trust fund involved for each signing. It should be noted that not all Australian FIL coded business requires trust fund reserving. A complete table of FIL codes and the relationship to trust funds is shown in Appendix 2.

In order to improve the position, a separate file of transaction level data will be provided to syndicates on request from the commencement of the regular reporting period and trust fund adjustment. Appendix 6 provides details of the layout of this file.

Syndicates should use the data available to identify any potential signings that are in error and take steps to ensure these are amended promptly. However, it must be appreciated that the timescales for working with the quarterly data centrally are very tight. Consequently, the transactions captured by LPSO and LCO-PSU during a processing quarter will not be capable of being amended in time to allow any changes in the calculated amounts to be funded by syndicates within the permitted funding deadline. If any adjustments are necessary to the recorded LPSO and LCO-PSU data, these will need to be carried forward to subsequent quarters and corrected through the established correction processes.

3.6 Quarterly Reporting Timetable

The following diagram, figure 3a, illustrates the timings within the quarterly reporting cycles culminating in the collection of funds from managing agents.



4 Collection of the Funding Requirements

4.1 Collections for the LausTF, LAusJATF(1) and LAusJATF(2)

Accounting Services will notify syndicates of their funding requirements and arrange for the settlement. This process will be the same for all 3 trust funds.

Syndicates will be notified of their Australian dollar Minimum Amount (*MA*) 35 days after the end of each quarter/ year. At the same time they will be told the value of funds held and the net surplus or shortfall. If they have funded their liabilities other than in Australian dollars a statement of the currency equivalent of the net funding requirement will be issued on day 42. This amount will be processed through Lloyd's Central Accounting settlement on the Friday following day 45 after the quarter/year end. Australian dollar amounts will be processed direct to syndicate bank accounts.

4.2 Supporting Information

Documentation to be issued to syndicates will be as follows:

A statement showing in Australian dollars:

- (a) the new Minimum Amount as at the reference date;
- (b) the value of funds held at the same date;
- (c) the net shortfall or surplus;
- (d) details of income earned.

Also, transactions processed by LPSO and LCO-PSU in the period, will be distributed on e-mail, if requested by the syndicate.

5 Revised Processes

5.1 General

In order to allow LPSO and LCO-PSU to apply the definition specified in section 2.1.2, and to ensure that the correct trust fund is established for each risk or contract, it is vital that all the necessary information is contained on the signing slip, and supporting documentation presented to LPSO.

Underwriters and brokers should, therefore, familiarise themselves with the process by which trust fund reserving will be determined, and with the requirements placed upon them by this process.

Whilst there are no material changes to managing agents and brokers business processes, broker's slips will need to provide more information than previously. Appendix 3, sets out comprehensive procedures for brokers and syndicates in relation to the risks affected by the new trading arrangements.

5.2 Service of Suit Clause

The new trading arrangements do not in any way alter the usage of the service of suit clause NMA 1854. The service of suit clause should be applied wherever the risk meets the situs criteria applicable at inception, or where Australian jurisdiction is none the less specifically agreed. However, there is no mandatory requirement that service of suit must be used, although it is strongly recommended. It will therefore be possible for a risk to be coded as non trust fundable, because it fails to meet the currency criteria, but to still be subject to the Australian service of suit clause.

NMA 1854 should be used unless otherwise agreed by the contracting parties.

The General Representative is authorised to accept service of legal process and to sue and be sued on behalf of Lloyd's Underwriters in Australia in their capacity as registered insurers.

Where underwriters agree to use the General Representative for service of suit purposes, it is recommended that slip and policy documentation refer to him by title rather than name.

LPSO have been instructed to accept reference to his predecessor for a limited time only, after which any policies presented to LPSO referring to him will be rejected.

Please insert the following within the slip or policy section pertaining to “nominee for service of suit”:

Lloyd’s General Representative in Australia
c/o Lloyd’s Australia Ltd
Suite Q, Level 12
55 Hunter Street
Sydney
NSW 2000

Telephone: 00 612 9223 1433
Facsimile: 00 612 9223 1466
Email: keith_stern@bigpond.com
keith.e.stern@lloyds.com

6 Commonly Asked Questions

Q1 *Why have the trading arrangements taken so long to implement?*

A1 There have been a series of delays in implementing the new trading arrangements, the majority of which have been caused by circumstances beyond Lloyd's control.

Q2 *Why, following the implementation of new trading arrangements, is the funding requirement larger than previous?*

A2 The total funding required to support Lloyd's underwriting in Australia is greater than that currently required to collateralise the DoC. The current funding is split between Lloyd's and Equitas, based on an assessment of outstanding liabilities as at 31 December 1998. Equitas have the right to have this split reviewed each year, but waived the right last year, in anticipation that a review would be required as a part of the new trust arrangements.

Because Equitas' liabilities are falling and Lloyd's is taking on new liabilities, Lloyd's share of the funding burden will naturally increase. This increase is likely to be more significant than would otherwise be the case because the review was not undertaken last year.

Q3 *What is the procedure for correcting any error in the LAusTF funding requirement calculation?*

A3 Corrections are processed in the subsequent quarter. All queries on the requirement calculations should be directed in the first instance to Alison Mings on Ext 2920, in Accounting Services.

Q4 *Who will be responsible for the allocation of premium to a trust fund?*

A4 The allocation of premium to a trust fund will be system driven, using the parameters outline in the definition contained in 2.1, dependant upon information input from the signing slip by LPSO. Responsibility ultimately lies with brokers and underwriters who must ensure that the signing slip and supporting documentation presented to LPSO contain the necessary information to allow this allocation to take place.

Q5 *How will an item not processed by LPSO/LCO-PSU be included in the calculation of funding requirements and regulatory returns?*

A5 Syndicates writing relevant Australian business that has not been processed via central accounting will be required to complete a simple syndicate return. This applies mainly to Australian motor business and affects relatively few syndicates. These items will accordingly be taken into account when determining the trust fund requirements and returns to APRA.

Q6 *In order to allow LPSO to allocate premium to the appropriate trust fund, what information needs to be submitted to them?*

A6 Details of the placing and closing requirements upon brokers and underwriters are shown within **Appendix 1**. The information required by LPSO will generally fall under the following standard slip headings of ASSURED/REASSURED, LOCATION or TRADING, SUM INSURED, and PREMIUM, and in any related supporting documentation.

Q7 *How will an underwriter be able to determine whether or not LPSO have allocated premium in respect of a particular risk to an Australian trust fund?*

A7 In order for syndicates to identify which risks are being reserved for, and the applicable trust fund for each, it will be necessary for them to apply the business rules detailed in **Appendices 1 and 2**. The critical elements being the inception date of the risk, the Sum insured and original (closing) premium currency, the Foreign Insurance legislation (FIL) code, advised to underwriters on the USM. If requested a file may be produced showing Australian trust fund data at transaction level.

Q8 *If an underwriter spots an incorrectly coded item how will this be corrected?*

A8 Corrections will need to be processed via LPSO Corrections section in the usual way.

Q9 *Why is the trust Fund indicator not advised on the USM or SCM?*

A9 The requirements for Australian trust funds are much simpler than US trading arrangements when a "trust fund code" was introduced on the syndicate advising messages. Unlike the US, no new working trust fund will be created and therefore no daily reconciliation is required. Nor, is there a requirement for the market to "own" the data or sign-off the reserving schedules as there is for US surplus lines and reinsurance trading.

LPSO & LCO-PSU consulted with the USM & SCM market users regarding the impact of changes to the SCM & USM for the use of the trust fund codes. The feedback was mixed in terms of approach therefore the decision was made that rather than force a mandatory change in the daily advises of all SCM & USM users a separate self contained file would be created each quarter containing transactions processed during the quarter. Further details of this file can be obtained from Section 3.5 of this guide.

Q10 *How will LPSO/LCO-PSU allocate a trust fund code to a claim?*

A10 The claims handler will calculate the trust fund to be allocated to the claim by using the critical elements of the business rules, being the inception date of the risk, the sum insured and original premium currency and the FIL code.

To ensure the trust fund code is consistent with the premium signing the field will be validated against the corresponding entry on LIDS via Account Enquiry. Currently this validation is performed manually, however it is intended that this will be made electronically in the future.

Q11 *Who will be the investment manager of the funds?*

A11 For the joint asset trust funds, LAusJATF(1) and LAusJATF(2), which are held to support all relevant Australian liabilities, rather than those specific to one syndicate, the investment management will be carried out by Lloyd's Treasury.

For the LAusTF, the investment management will be carried out by Lloyd's Treasury although in due course it is intended to offer managing agents the option to chose their own investment manager for assets of the trust fund referable to the syndicates they manage.

Appendices

Appendix	Page
1 Explanation of how to apply the new trust fund deed definition of Australian business to different risk solutions	22
2 FIL codes and the business criteria applied in order to determine the correct trust fund	26
3 Broker placing and claims procedures for risks subject to the new trading arrangements	36
4 Categorisation of business into 'short tail' or 'long tail'	43
5 Calculation of required LAusTF funding amount	44
6 Explanation of how a syndicate obtains an electronic file containing the individual transactions used to calculate the funding requirements	47
7 Australian Trust Fund Data – Reconciliation File Application Form	51
8 Fund Parameters for Investment of the Australian Trust Funds	52

These notes explain how to apply the new trust fund deed definition of Australian business to different risk situations incepting on or after 1/7/98.

1 Currency element

It is important to note the introduction of a currency element to the new definition. Business where the sum insured currency and original (closing) currency is Australian dollars will be subject to Australian trust fund reserving, as long as the risk fulfils the rest of the criteria set out in the definition. For example, where a building is located in Australia the following situations may arise;

- sum insured expressed in Australian dollars and the original premium currency is Australian dollars; risk is subject to Australian trust fund reserving.
- sum insured expressed in Australian dollars but the original premium currency is other than Australian dollars; risk is not subject to Australian trust fund reserving.
- sum insured expressed in currency other than Australian dollars but the original premium currency in Australian dollars; risk is not subject to Australian trust fund reserving.
- sum insured expressed in currency other than Australian dollars and the original premium currency is other than Australian dollars; risk is not subject to Australian trust fund reserving
- sum insured expressed partly in Australian dollars and partly in currency other than Australian dollars, but the original premium currency is all Australian dollars; the whole contract is subject to Australian trust fund reserving. However, where the contract provides that different coverages are separate contracts, each coverage would have its status determined independently (i.e. each vessel deemed a separate insurance or each section deemed a separate contract).

Policies subject to sub-limits in currencies other than Australian dollars, where original premium currency is Australian dollars, will be subject to Australian trust fund reserving, where the policy is subject to an aggregate limit expressed in Australian dollars.

It should be appreciated that the final settlement currency is immaterial for the purpose of the Australian definition. Therefore, a risk that fits the definition and where the original currency is Australian dollars will be subject to Australian trust fund reserving, even if the premium is converted to US dollars for settlement.

2 Mixed Currency Definition

Following discussions with the APRA, it has been agreed that where part of the sum insured and part of the closing premium on a particular contract are in Australian dollars then the whole contract will be subject to trust fund reserving regardless of the currency of the remainder of the sum insured and/or premium. The exception to this is where the gross premium currency is US Dollars. However, where the contract provides that different coverages are separate contracts, each coverage will have its status determined independently (i.e. ‘each vessel deemed a separate insurance’ or ‘each section deemed a separate contract’).

LPSO will adopt this change in interpretation of the definition in respect of all premiums processed on or after 1st July 2000. Any claims, returns and additional premiums processed on or after that date will continue to follow the trust fund status of the premium to which they relate.

3 Risk types and Australian situs

The following notes make the assumption that both sum insured and closing premium currency are expressed in Australian dollars or subject to qualification regarding mixed currency policies, and give some guidance on how to apply the definition to different types of risks;

- unless a specific location is shown, livestock or bloodstock risks shall be treated as moveable property and trust fund status determined based upon the registered office, principal place of business, or address of the insured.
- personal accident risks shall be treated as non property risks and trust fund status determined based upon the registered office, principal place of business, or address of the insured (and not the location of the person upon whom insurance relates).
- where a specific permanent static location is shown, (i.e. fixed platforms or dock/airport equipment) marine and aviation risks shall be deemed to be property and trust fund status determined based upon the location of the property.
- all other marine and aviation risks (including goods in transit - whether International or within Australia) shall have trust fund status determined based upon the registered office, principal place of business, or address of the insured.
- fixed property risks that have a global exposure, located world-wide, must have the Australian located elements identified and quantified separately from property located elsewhere. Regardless of whether or not it is valued in Australian dollars, the property located outside Australia will not be subject to trust fund reserving.
- trust fund status in respect of liability risks shall be determined based upon the registered office, principal place of business, or address of the insured, regardless of any world-wide exposure.

- political risk policies shall be determined based upon the registered office, principal place of business, or address of the insured, regardless of any world-wide exposure.

4 Inception date

For the purpose of determining the inception date that is relevant to the new Australian definition, the inception date of an individual risk should be determined using the same principles currently used for the purposes of allocating Lloyd's years of account (Inception Date Allocation).

- Open market/facultative (including proportional treaty scheme reinsurances) - trust fund status will be determined by the inception date of the risk itself or the proportional treaty contract.
- Broker's covers (marine), merchant's covers (marine), binding authorities (full and limited), lineslips, master policies and master binding authorities - trust fund status will be determined by the inception date of the cover, binding authority, or lineslip to which the ultimate declaration attaches and not the inception date of the declarations.
- Long term risks - in line with the usual application of Inception Date Allocation, trust fund status will be determined by the inception date of the annual resigning or the inception of the period to which a premium transfer relates.
- Additional and return premiums will attract the trust fund status determined by the inception date of the original premium to which they relate.
- Business processed outside of LPSO central accounting - the usual rules regarding Inception Date Allocation will apply.

It is important to note that where a risk is placed by two different methods, trust fund status will be determined separately by the placing method used for each part of the risk. Thus, a risk incepting on the 4 July 1998 is placed part facultatively and part on a broker's lineslip. The lineslip incepts prior to 1 July 1998, and that part of the risk attaching thereto falls outside of the Australian Dollar Trust Fund. The facultative placement incepts after 1 July 1998 and will, therefore, fall under the Australian Dollar Trust Fund.

5 Allocation of premium to trust funds

Premiums and claims will be allocated to the respective Australian trust funds during processing by LPSO and LCO-PSU. This will be achieved by using a combination of

- Inception date (as defined)
- Sum insured and original premium currency (as defined)
- Foreign Insurance Legislation (FIL) code (as defined).

As a result of combining this data the LPSO or LCO-PSU claims handler will be able to

calculate the correct trust fund code to be held on the claim entry. This will be subsequently validated against the corresponding premium record on LIDS via Account Enquiry.

The result of combining this data will cause a trust fund code value to be derived by the processing systems.

It should be appreciated that not all Australian FIL coded business will be subject to trust fund reserving. Business that has an Australian element, but does not fulfil the definition of an Australian risk, e.g. the currency of a post 1/7/98 risk is not Australian dollars, will still be allocated an Australian FIL code for business monitoring purposes. See Appendix 2 for a full list of FIL codes and the relationship to Australian trust funds. The FIL code alone does not determine the trust fund.

For computer processing purposes, a list of trust fund codes is shown below.

Trust Fund Code	Trust Fund	Business falling thereunder
AE	Equitas Australian Trust Fund (EAusTF)	Risks for 1992 and prior years of account
AT	Interim Trust Fund (LAusJATF(1))	Risks for 1993 to 1997 years of account, and risks incepting on/between 1.1.98 and 30.6.98.
AN	Australian Dollar Trust Fund and Additional Fund (LAusTF and LAusJATF2)	Risks incepting on/after 1.7.98.

In order that the correct trust fund is established for each risk or contract, it is vital that all necessary information relating is contained on the signing slip and supporting documentation presented to LPSO and LCO-PSU. For further information on closing via LPSO see Appendix 3 section 1.3

6 Lloyd's Outward Reinsurance

There is no direct impact of the new trading arrangements upon outward reinsurance business processing via LORS. Reinsurance credits under the new trust funds are to be calculated based on Lloyd's global reinsurance statistics, and there is therefore no necessity to identify the trust fund to which an individual LORS transaction relates.

The table below shows the FIL codes used by LPSO and LCO-PSU and the business criteria applied in order to determine the correct trust fund code for each Australian signing.

This table should be read in conjunction with the definition of an Australian risk as described in section 2.1 of the guide. Please note the change in definition for pre and post 1 July 1998 business.

4 character FIL code	2 character FIL code (market code)	Description of business	Inception date	Year of account	Original currency	Resulting trust fund
AAA1	AA	Australian insurance, as defined, which attract income tax, but not fire brigade charges	before 1/1/93	1992 or earlier	original gross premium was not US\$	AE
AAA2	AJ	Australian facultative reinsurances, as defined, which attract income tax, but not fire brigade charges	before 1/1/93	1992 or earlier	original gross premium was not US\$	AE
AAA3	AS	Australian excess of loss reinsurances, as defined, which attract income tax, but not fire brigade charges	before 1/1/93	1992 or earlier	original gross premium was not US\$	AE
AAA4	AS	Australian treaty reinsurances, as defined, which attract income tax, but not fire brigade charges	before 1/1/93	1992 or earlier	original gross premium was not US\$	AE
AAF1	AF	Australian insurance, as defined, which do not attract income tax or fire brigade charges	before 1/1/93	1992 or earlier	original gross premium was not US\$	AE
AAF2	AR	Australian facultative reinsurances, as defined, which do not attract income tax or fire brigade charges	before 1/1/93	1992 or earlier	original gross premium was not US\$	AE
AAF3	AT	Australian excess of loss reinsurances, as defined, which do not attract income tax or fire brigade charges	before 1/1/93	1992 or earlier	original gross premium was not US\$	AE

4 character FIL code	2 character FIL code (market code)	Description of business	Inception date	Year of account	Original currency	Resulting trust fund
AAF4	AT	Australian treaty reinsurances, as defined, which do not attract income tax or fire brigade charges	before 1/1/93	1992 or earlier	original gross premium was not US\$	AE
AAG1	AG	Australian insurance, as defined, which attract income tax and fire brigade charges	before 1/1/93	1992 or earlier	original gross premium was not US\$	AE
AAG2	AP	Australian facultative reinsurances, as defined, which attract income tax and fire brigade charges	before 1/1/93	1992 or earlier	original gross premium was not US\$	AE
AAA1	AA	Australian insurance, as defined, which attract income tax, but not fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAA2	AJ	Australian facultative reinsurances, as defined, which attract income tax, but not fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAA3	AS	Australian excess of loss reinsurances, as defined, which attract income tax, but not fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAA4	AS	Australian treaty reinsurances, as defined, which attract income tax, but not fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAF1	AF	Australian insurance, as defined, which do not attract income tax or fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT

4 character FIL code	2 character FIL code (market code)	Description of business	Inception date	Year of account	Original currency	Resulting trust fund
AAF2	AR	Australian facultative reinsurances, as defined, which do not attract income tax or fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAF3	AT	Australian excess of loss reinsurances, as defined, which do not attract income tax or fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAF4	AT	Australian treaty reinsurances, as defined, which do not attract income tax or fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAG1	AG	Australian insurance, as defined, which attract income tax and fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAG2	AP	Australian facultative reinsurances, as defined, which attract income tax and fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAH1	AH	Insurance outside Australian definition which have Australian income tax deducted, but not fire brigade charges	Any	1993 to 1998	Any	None
AAH2	AQ	Facultative reinsurances outside Australian definition which have Australian income tax deducted but not fire brigade charges	Any	1993 to 1998	Any	None
AAH3	AV	Excess of loss reinsurances outside Australian definition which have Australian income tax deducted but not fire brigade charges	Any	1993 to 1998	Any	None
AAH4	AV	Treaty reinsurances outside Australian definition which have Australian income tax deducted but not fire brigade charges	Any	1993 to 1998	Any	None

4 character FIL code	2 character FIL code (market code)	Description of business	Inception date	Year of account	Original currency	Resulting trust fund
AAJ1	AI	Insurance outside Australian definition which have Australian income tax and fire brigade charges	Any	1993 to 1998	Any	None
AAJ2	AW	Facultative reinsurances outside Australian definition which have Australian income tax on fire brigade charges	Any	1993 to 1998	Any	None
AAK1	AU	Australian personal lines business, as defined, not subject to income tax or fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAL1	AX	Australian personal lines business, as defined, subject to income tax but not fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAM1	AY	Australian personal lines business, as defined, subject to income tax and fire brigade charges	before 1/7/98	1993 to 1998	original gross premium was not US\$	AT
AAA1	AA	Australian insurance, as defined, which attract income tax, but not fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN
AAA2	AJ	Australian facultative reinsurances, as defined, which attract income tax, but not fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN

4 character FIL code	2 character FIL code (market code)	Description of business	Inception date	Year of account	Original currency	Resulting trust fund
AAA3	AS	Australian excess of loss reinsurances, as defined, which attract income tax, but not fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN
AAA4	AS	Australian treaty reinsurances, as defined, which attract income tax, but not fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN
AAF1	AF	Australian insurance, as defined, which do not attract income tax or fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN
AAF2	AR	Australian facultative reinsurances, as defined, which do not attract income tax or fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN
AAF3	AT	Australian excess of loss reinsurances, as defined, which do not attract income tax or fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN

4 character FIL code	2 character FIL code (market code)	Description of business	Inception date	Year of account	Original currency	Resulting trust fund
AAF4	AT	Australian treaty reinsurances, as defined, which do not attract income tax or fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN
AAG1	AG	Australian insurance, as defined, which attract income tax and fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN
AAG2	AP	Australian facultative reinsurances, as defined, which attract income tax and fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN
AAH1	AH	Insurance outside Australian definition which have Australian income tax deducted, but not fire brigade charges regardless of sum insured currency and closing premium currency	Any	1998 or later	Any	None
AAH2	AQ	Facultative reinsurances outside Australian definition which have Australian income tax deducted but not fire brigade charges regardless of sum insured currency and closing premium currency	Any	1998 or later	Any	None

4 character FIL code	2 character FIL code (market code)	Description of business	Inception date	Year of account	Original currency	Resulting trust fund
AAH3	AV	Excess of loss reinsurances outside Australian definition which have Australian income tax deducted but not fire brigade charges regardless of sum insured currency and closing premium currency	Any	1998 or later	Any	None
AAH4	AV	Treaty reinsurances outside Australian definition which have Australian income tax deducted but not fire brigade charges regardless of sum insured currency and closing premium currency	Any	1998 or later	Any	None
AAJ1	AI	Insurance outside Australian definition which have Australian income tax and fire brigade charges regardless of sum insured currency and closing premium currency	Any	1998 or later	Any	None
AAJ2	AW	Facultative reinsurances outside Australian definition which have Australian income tax on fire brigade charges regardless of sum insured currency and closing premium currency	Any	1998 or later	Any	None
AAK1	AU	Australian personal lines business, as defined, not subject to income tax or fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN
AAL1	AX	Australian personal lines business, as defined, subject to income tax but not fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN

4 character FIL code	2 character FIL code (market code)	Description of business	Inception date	Year of account	Original currency	Resulting trust fund
AAM1	AY	Australian personal lines business, as defined, subject to income tax and fire brigade charges where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	gross premium and sum insured are both in A\$ *	AN
AAN1	XH	Australian situs insurance, as defined, which do not attract income tax or fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAN2	XI	Australian situs facultative reinsurances, as defined, which do not attract income tax or fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAN3	XJ	Australian situs excess of loss reinsurances, as defined, which do not attract income tax or fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAN4	XK	Australian situs treaty reinsurances, as defined, which do not attract income tax or fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None

4 character FIL code	2 character FIL code (market code)	Description of business	Inception date	Year of account	Original currency	Resulting trust fund
AAP1	XL	Australian situs insurance, as defined, which attract income tax, but not fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAP2	XM	Australian situs facultative reinsurances, as define, which attract income tax, but not fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAP3	XN	Australian situs excess of loss reinsurances, as defined, which attract income tax, but not fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAP4	XP	Australian situs treaty reinsurances, as defined, which attract income tax, but not fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAQ1	XQ	Australian situs insurance, as defined, which attract income tax and fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None

4 character FIL code	2 character FIL code (market code)	Description of business	Inception date	Year of account	Original currency	Resulting trust fund
AAQ2	XR	Australian situs facultative reinsurances, as defined, which attract income tax and fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAR1	XS	Australian situs personal lines business, as defined, not subject to income tax or fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAS1	XT	Australian situs personal lines business, as defined, subject to income tax but not fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAT1	XU	Australian situs personal lines business, as defined, subject to income tax and fire brigade charges but where either sum insured currency or closing premium currency is not Australian dollars	Any	1998 or later	Any	None
AAZ5	AZ	Australian FDO's which may accept business which will fall within a trust fundable FIL code where both sum insured currency and closing premium currency are Australian dollars	1/7/98 or later	1998 or later	sum insured is in A\$.	AN

- subject to qualification regarding mixed currency policies i.e. where not a separate section or not in US\$.

These notes explain broker placing and claims procedures for risks subject to the new trading arrangements

1. Broker placing requirements for Australian business

- (i) Existing procedures apply to the completion of panel 1 of the standard slip, with country of origin to be completed as Australia where the assured/reassured is domiciled in Australia, regardless of whether the risk falls within or outside of the definition of trust-fundable business.
- (ii) In all other respects, standard slip rules apply and the detail and quality of information required is shown in the following sections.

1.1 Direct (non reinsurance) business

- (i) Brokers placing an open market slip relating to Australian business must ensure that it clearly shows the following details in the correct places

What	Where
Inception and expiry dates. Where the expiry date is not precisely known for the risk concerned, a probable expiry date must be provided	Panel 2 against the heading 'PERIOD'
Name and address of the assured, in particular, identifying any Australian subsidiaries or associated or branch offices that are covered.	Panel 2 against the heading 'ASSURED' and, if necessary, on a supporting document list attached to panel 1.
Location of real property, fixtures, buildings, livestock or permanently fixed marine and/or aviation risks	Panel 2 against the heading 'LOCATION' or 'TRADING' or on any attached schedule of property
Sum insured currency and original premium currency and amount. Where relevant, premium should be apportioned between that requiring trust fund reserving and that outside the definition.	Panel 2 against the headings 'SUM INSURED' and 'PREMIUM'

- (ii) Additional/return premium endorsements for open market business must show the above mentioned details where applicable.
- (iii) Brokers placing binding authority, lineslip or open cover slips relating to Australian business must ensure that it clearly shows the following details in the correct places.

What	Where
Inception and expiry dates. Where the expiry date is not precisely known for the facility concerned, a probably expiry date must be provided	Panel 2 against the heading 'PERIOD'
Name <u>and address</u> of the coverholder or lineslip holder.	Panel 2 against the heading 'ASSURED'
Geographical limits of declarations attaching	Panel 2 against 'GEOGRAPHICAL LIMITS' heading
Sum insured currency and expected original premium currency of declarations	Panel 2 against the headings 'SUM INSURED' and 'PREMIUM'

- (iv) Additional/return premium endorsements for bulked accounting transactions, such as those under binding authorities, lineslips or covers, need to contain the same information for the risks declared on any bordereaux as specified in section 1.1(i), or for reinsurance business, as shown in section 2.1(i). These details should be present when asking underwriters to agree declarations and bordereaux for signing.

Existing underwriters' agreement processes for the details on the bordereaux or covering slip endorsement must be followed.

- (v) Non-premium endorsements (NPEs) relating to Australian risks need to include the same elements information on Australian business as specified in section 1.1(i), or for reinsurance business, as shown in section 1.2(i). For example, a change in the address of the assured or reassured.

Existing underwriters' agreement processes for the details on the endorsement must be followed.

- (vi) Reference to Australian income tax (AIT) and any applicable fire brigade charges (FBC) must be shown on panel 2 of the slip against the new heading of 'TAXES AND CHARGES'.

This has been designated as a specific heading to be shown on panel 2, against which can be shown the amount and description of any taxes or charges applicable to the insurance contract. The new slip heading should be included on all slips that involve the application of AIT or FBC. The heading should be inserted immediately after the existing 'PREMIUM' or 'RATE' headings.

Where there are no taxes or charges applicable to the risk, the heading should be omitted.

In all cases the slip must;

- (a) describe/name the tax to be applied, and
- (b) identify the percentage of tax to be charged, and
- (c) identify the gross premium amount in original currency on which the tax is charged, i.e. the taxable premium.

For example;

TAXES AND CHARGES: **Australian income tax 3.6% on gross premium of (original currency and amount of taxable premium).**

With effect from 1 July 2000 Australian income tax will reduce from 3.6% to 3.4%; with effect from 1 July 2001 this will reduce further to 3.0%.

The phrase "tax as applicable" is not acceptable and must not be used. Tax and FBC should no longer be shown on slip against the 'DEDUCTIONS' heading.

It is important to note that the definition of business subject to Australian Income Tax is not concurrent with the new definition of Lloyd's Australian trust-fundable business. The application of this tax should not be taken as an indication of trust-fundable status.

Work is in progress with the Australian tax office to address the current inconsistencies.

1.2 Reinsurance

- (i) Brokers placing a facultative open market, excess of loss or proportional treaty scheme reinsurance slip relating to Australian business must ensure that it clearly shows the following details in the correct places.

What	Where
Inception and expiry dates. Where the expiry date is not precisely known for the risk concerned, a probable expiry date must be provided	Panel 2 against the heading 'PERIOD'
Name and address of the reassured, as per the definition. For multiple reassured, this must include a list of reassured companies, identifying which are Australian.	Panel 2 against the heading 'REASSURED' and, if necessary, on a supporting document list attached to panel 1.
Sum insured currency and closing premium currency and amount. Gross premium for Australian element must be shown separately, if this is less than the whole premium.	Panel 2 against the headings 'SUM INSURED' and 'PREMIUM'

- (ii) Additional/return premium endorsements and treaty statement bookslips for reinsurance business must show the above mentioned details where applicable.

- (iii) Existing underwriters' agreement processes for the details on the endorsement or bookslip must be followed.
- (iv) Where applicable, reference to Australian income tax (AIT) must be shown on panel 2 of the slip against the new heading of 'TAXES AND CHARGES', as described in section 1.1(vi)

1.3 Closing premiums for Australian business via LPSO

- (i) It is important that the details shown on slips are complete and accurate. Brokers should ensure that slips are completed in accordance with the details shown in section 1.0. A premium advice note (LPAN) is required to account for Australian business separate from any other country that may be involved in a risk. Therefore, where a facultative risk is only part Australian, as per the definitions, separate LPANs are required to sign the Australian component. The requirement for separate LPANs for Australia is not new and brokers should check each risk incepting after 1/7/98 carefully to see if an existing Australian risk still fulfils the new Australian definition.
- (ii) For all additional/return premiums and declarations/bordereaux for bulked accounting entries, it is important that any premium is identified as Australian in such a way that LPSO are able to distinguish whether it requires trust fund reserving or not. The details shown in sections 1.1(i) or 1.2(i) must be evident to LPSO. Any omissions or inaccuracies will be challenged by LPSO.
- (iii) Non Premium Endorsements (NPEs) relating to Australian business must be submitted to LPSO where there is a change in information used to determine trust fund status, i.e. assureds principal office address.
- (iv) For long term contracts, risks that are defined as incepting prior to 1 July 1998 and which are subjected to premium transfer or annual resigning after that date will cause the premium to be transferred from the old LAusJATF to the new arrangements. The information required by LPSO is as per sections 1.1(i) and 1.2(i).
- (v) Where the sum insured currency is in Australian dollars on proportional reinsurance treaties incepting on/after 1 July 1998, treaty statements should be provided separately for business where the closing premium currency is in Australian dollars, and where it is in any other currency.
- (vi) Brokers must identify to LPSO any signing where details used in determining the trust fund applicable to a risk have changed.

In particular, where the inception date of an open market/facultative risk has changed from/to before or after 1 July 1998, brokers should notify this fact to LPSO by means of a non-premium endorsement agreed by underwriters. Likewise, where the inception date of a lineslip changes in a similar fashion, the broker must identify to LPSO all declarations attaching thereto where the Australian trust-fundable status is altered by this change in inception date.

It is important to realise that this could apply where the inception date of a world-wide lineslip has altered, where any of the declarations attaching thereto has an Australian trust fund applicable.

Where an underwriter has requested that the broker return documentation to LPSO for correction it is vital that brokers make every attempt to return such documentation as soon as practical. If this is not done promptly, underwriters funding requirements could be adversely effected.

2. Broker claims requirements for Australian business

2.1 Separate Accounting Transactions

In order to be able to direct outstanding liabilities and claim payments to the correct trust fund it is necessary that each transaction relates to a single trust fund.

2.2 Slip

A signed slip or complete photocopy of the signed slip must be presented with all claims on policies which fit within the definition of an Australian risk regardless of the settlement currency.

2.3 Unsigned Slip

If the claim is first presented prior to the slip being signed, the unsigned slip or a complete, current photocopy must be presented. The unsigned slip must hold all information which will enable the claims handler to identify whether the risk falls within the definition of Australian business.

2.4 Claims for bulked accounting arrangements

Brokers will be required to separately identify Australian claims separately where the cover has a jurisdiction wider than Australia.

2.5 Singletons

As per the market bulletin dated 22 September 1997 all singleton claims are to be advised to LPSO/LCO-PSU for capture centrally.

3 Underwriters placing requirements for Australian business

An underwriter should ensure that the syndicate is eligible to underwrite Australian business incepting on/or after 1 July 1998, which falls within the new definition, before committing themselves to take a line.

Underwriters should ensure that the assureds/reassureds name and address and location of property are always shown on slips or endorsements relating to business emanating from Australia. It is particularly important that items closed as bulked additional/return premium declarations/bordereaux contain the necessary information to enable LPSO to assign the correct FIL code.

Any risks that are part Australian must have the Australian components identified and quantified, i.e. the lead underwriter must carry out an apportionment of the premium and allocate an amount for the Australian exposure.

Underwriters should ensure that they are aware of the tax status of each risk and confirm with the broker that tax will be paid to the appropriate tax authorities by the Australian broker. The 'TAXES AND CHARGES' heading should be shown on the slip and convey the information required.

Any deficiencies in the quality or amount of slip or endorsement information should be queried with the placing broker and the placing documentation subsequently amended.

4 Syndicate advising of Outstanding Claims

Underwriters will receive a Syndicate Claims Message (SCM) for all claims where LPSO and LCO-PSU are involved in the adjusting/advising process. The claim entry will hold a trust fund indicator that will identify the applicable trust fund for the claim. This indicator will not be advised on the SCM but to each syndicate on the transaction file which will be available at the close of the quarter.

Outstanding claims must be posted against the same trust fund as the premium received for the element of the risk. For placements which are not bulk accounted the claim will be reserved and paid against the same trust fund as the original premium. For bulk accounted risks LPSO and LCO-PSU are dependent upon the broker providing a breakdown on the bordereau to identify Australian claims. This will enable separate entries to be created to hold the trust fund indicator for quarterly reporting. Syndicates will be able to identify the claim entry by the Australian FIL code.

4.1 Singletons

As per the market bulletin dated 22 September 1997 all singleton policies are to be advised to LPSO/LCO-PSU for capture centrally and inclusion within the quarterly reporting process.

4.2 Advice of Paid Claims

The trust fund indicator applicable for each claims settlement transaction will be available on the quarterly transaction file.

4.3 Claims for bulked accounting arrangements

Paid Claims advised as part of a bulk accounted contract that has a jurisdiction wider than Australia will be identified and advised separately from other claims.

Categorisation of business into ‘short tail’ or ‘long tail’

Risk codes are categorised as follows into “Short” or “Long” tail for the purposes of calculating the funding requirements.

Short tail	Long tail
6-9 Y6-Y9 H AW SC SO CX HX RX ZX DX X1* XY* XZ*	1-5 Y1-Y5 L SL AO LX AX SX AR X1* XY* XZ*
CF CP	AP PX
MD ME MF MG MH MI	GC G EG EH GX
CR SB	BB
N NX	EB NA UA WC X4 XL XM
CT F K PD TR DC JB HA CA PR WA EF PP PS P BS TE FA BD HP	DO EA GP NC PI UC
AG GS FR KK KM KX KL KA KC KP X3 XX KD	LE PL XD NL
T XT XE X2 X5 ET EW TX SR	
B	
MC MK MA MB ML	
V VL VX	
W Q WX QX WL	
O OX XP XC MM MN MP QL TO TU CN WS FC FM FS PB PC PE PF PN PO PW PZ	

* X1 XY XZ: To be split 25% Short Tail, 75% Long Tail

Calculation of required LAusTF funding amount

Worked example 1

A syndicate has written relevant Australian business for the 2000 year of account and the amount of the required LAusTF funding requirement must be determined as at 30 June 2000.

The relevant underwriting information by risk code is as follows:

Risk Code	Cumulative premiums received at 30.06.2000 A\$	Known outstanding claims at 30.06.2000 A\$	LAusTF requirement A\$
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<i>'Short tail' business</i>			
H	100	600	
AW	200	1,200	
HA	300	1,000	
P	400	1,500	
T	500	2,300	
Total	1,500	6,600	
x Formula (2000 = year 1 at 30.06.2000)	0.09	1.00	
Trust fund requirement	135	6,600	6,735

<i>'Long tail' business</i>			
L	600	500	
SL	700	700	
BB	1,200	1,100	
Total	2,500	2,300	
x Formula (2000 = year 1 at 30.06.2000)	0.35	1.00	
Trust fund requirement	875	2,300	3,175

Total trust fund requirement in respect of 2000 year of account at 30.06.2000	9,910
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For queries relating to this section please contact Paul Appleton in Market Reporting and Solvency Department on ext. 6433

Worked example 2

A syndicate has written relevant Australian business for the 1998 year of account and has also accepted the RITC of the 1995 year of account into the 1998 year as at 30.06.2000. The reinsured syndicate year contains liabilities relating to relevant Australian business for each of the years 1993 to 1995. The amount of the required LAusTF funding requirement must be determined as at 30 June 2000.

The relevant underwriting information by risk code is as follows:

Risk Code	Cumulative premiums received at 30.06.2000 A\$	Known outstanding claims at 30.06.2000 A\$	LAusTF requirement A\$
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<i>'Short tail' business</i>			
H – written in 1998 Account	1,000	1,000	
H – written in 1995 Account*	N/A	1,400	
H – written in 1994 Account*	N/A	1,300	
H – written in 1993 Account*	N/A	1,600	
* as now reinsured into the 1998 Account			
x Formula (1998 = year 3 at 30.06.2000)	0	0.81	
x Formula (1995 = year 4 at 30.06.2000)	N/A	0.51	
x Formula (1994 = year 4 at 30.06.2000)	N/A	0.51	
x Formula (1993 = year 4 at 30.06.2000)	N/A	0.51	
Trust fund requirement			
1998 Account	0	810	
1995 Account*	N/A	714	
1994 Account*	N/A	663	
1993 Account*	N/A	816	
* as now reinsured into the 1998 Account			
Total	0	3,003	3,003

<i>'Long tail' business</i>			
L – written in 1998 Account	2,000	800	
L – written in 1995 Account*	N/A	1,000	
L – written in 1994 Account*	N/A	1,100	
L – written in 1993 Account*	N/A	1,200	
* as now reinsured into the 1998 Account			

Risk Code	Cumulative premiums received at 30.06.2000 A\$	Known outstanding claims at 30.06.2000 A\$	LAusTF requirement A\$
x Formula (1998 = year 3 at 30.06.2000)	0.10	1.00	
x Formula (1995 = year 4 at 30.06.2000)	N/A	0.90	
x Formula (1994 = year 4 at 30.06.2000)	N/A	0.90	
x Formula (1993 = year 4 at 30.06.2000)	N/A	0.90	
Trust fund requirement			
1998 Account	200	800	
1995 Account*	N/A	900	
1994 Account*	N/A	990	
1993 Account*	N/A	1,080	
* as now reinsured into the 1998 Account			
Total	200	3,770	3,970
Total trust fund requirement in respect of 1998 year of account at 30.06.2000			6,973

For queries relating to this section please contact Paul Appleton in Market Reporting and Solvency Department on ext. 6433

Reconciliation File

Introduction

Syndicates wishing to reconcile their funding requirements may request an electronic file containing the individual transactions used to calculate the funding requirements. The file was developed to ease any complications for syndicates for the reconciliation exercise.

i. Distribution

To obtain a copy of this file, please complete the attached request form and submit it to:

Insurance Services, Data & Information Services, LPSO

Contact: Tracy Adie

Telephone Number: Direct Line: 01634 392141

Lloyd's Line: 2141

Email: tracy.l.adie@lloyds.com

ii. File Format

The file will be a varying length Comma Delimited File.

For claims files, if both the paid claim settlement and outstanding amounts are zero, then no detail record will be written to the file.

For premium files, if the premium settlement amount is zero then no detail record will be written to the file.

iii. Cost of File

Each group of syndicates that request the reconciliation file will incur a cost. The cost for each report will be GBP 250.00

File Specification

i. File Construction

File Header

There is one occurrence of this record, at the beginning of the file. It contains details of whether the file is for premiums or claim and the reporting period.

Field	Format	Max Length	Comments
Source System	char	1	'C' – COSS (claims) ¹ 'W' – Warehouse (Premiums)
comma	char	1	
File description	char	8	"NONUSTRN" - non US transaction level file
comma	char	1	
Year from	numeric – CCYY	4	
comma	char	1	
Month from	numeric	2	
comma	char	1	
Year to	numeric – CCYY	4	
comma	char	1	
Month to	numeric	2	

Transaction Detail

There is a separate occurrence of this record type for each LPSO/LCO transaction. It contains information required by syndicates to fully reconcile their funding requirements, including the trust fund code allocated by LPSO during the processing of premiums.

Field	Format	Max Length	Prem/Claim	Mandatory/Optional
Non-US Trust Fund	char	2	P,C	M
comma	char	1		
Syndicate Number	char NB leading blanks	4	P,C	M
comma	char	1		
Syndicate reference	char	15	P,C	O
comma	char	1		
FIL code	char	4	P,C	M
comma	char	1		

¹ When claims data is obtained from the Data Warehouse the Source System will "W"

Risk Code	char	4	P,C	M – risk code will be contained in this field
comma	char	1		
Year of account	Numeric CCYY	4	P,C	M
comma	char	1		
Original Signing number	numeric	5	P,C	O
comma	char	1		
Original Signing date	numeric	8	P,C	O
comma	char	1		
Premium Settlement signing number	numeric	5	P	M
comma	char	1		
Premium Settlement signing date	numeric	8	P	M
comma	char	1		
Claim reference	char		C	M for claim
comma	char	1		
Settlement version number	numeric	3	P	M for premium
comma	char	1		
Original Currency	Char – ISO abbreviation	3	P,C	M
comma	char	1		
Settlement Currency	Char – ISO abbreviation	3	P,C	M for premium
comma	char	1		
Premium Settlement Amount	Numeric This is the syndicate premium settlement amount in the Settlement Currency, leading “-“ if negative		P	M for premium
comma	char	1		
Paid Claim Amount	Numeric This is the syndicate paid claim amount in original currency, leading “-“ if negative		C	O for claim
comma	char	1		
Outstanding Claim Amount	Numeric This is the syndicate share of the outstanding claim amount at the close of the quarter, leading “-“ if negative	40	C	O
comma	char	1		
Inception date	numeric		P,C	M for premium O for claim
comma	char	1		
US Trust Fund	char	2	P,C	O

File Trailer

There is one occurrence of this record and contains a transaction count and totalsd to validate all information has been received.

Field	Format	Max Length	Comments
Record count	numeric	10	Includes header and trailer
comma	char	1	
Total premium settlement amount	numeric, leading “-“ if negative	40	Sum of all premium settlement amounts in detail record, regardless of currency
comma	char	1	
Total paid claim amount	numeric, leading “-“ if negative	40	Sum of all paid claim amounts in detail, regardless of currency
comma	char	1	
Total outstanding claim amount	numeric, leading “-“ if negative	40	Sum of all outstanding claim amounts, regardless of currency

Sequence

Detail information will be in the following sort order:

- A, syndicate number
- B, Non-US trust fund
- C, Year of account

Australian Trust Fund Data – Reconciliation File

File Request Form

Please send your request to: LPSO Data & Information Services
Fax No: 01634 392677
Lloyd’s Extension: 2141
Direct Line: 01634 392141
Email: tracy.l.adie@lloyds.com

Syndicate Name and Address (for invoice purposes)

.....
.....
.....

Contact Name and Telephone Number (in case of queries)

.....

Preferred Report Format

... CSV (coma delimited file) ... Excel ’97 Spreadsheet

Delivery of Report

Email – mailing address

Report Options

Claim data will always be Year to Date for all reports
All Reports will show all Trust Funds ordered by Syndicate Number and Year of Account

Please indicate all syndicate numbers to be included within these reports
Separate report for each syndicate number? YES/NO

Data Required

Claim Data YES/NO Premium Data YES/NO
Year of Account from Year of Account from
Year of Account to Year of Account to
Syndicate Number(s): Syndicate Number(s)
Premium Data Only: Processing/Calendar Date from
Processing/Calendar Date to

Investment Parameters Australian Trust Fund

- 6.1 All investments must be denominated in Australian Dollars.
- 6.2 All Investments must be issued and registered in Australia and settled via Austraclear or RITS.
- 6.3 Investment in the following instruments will not be permitted:
- Equities;
 - Derivative Instruments (this will not prohibit use of debt instruments which contain embedded derivatives affecting their maturity or coupon);
 - Treasury Indexed Bonds
- 6.4 A minimum 25% of total market value must be invested in Australian Commonwealth Government Securities.
- 6.5 There will be no restriction on investment in the following instruments:
- Australian Commonwealth Government Securities;
 - Sale and Repurchase agreement collateralised by Australian Commonwealth/State Government Securities.
- 6.6 Investment in the following instruments will be subject to a maximum exposure per issuer of 20% of the total market value of the fund:
- Australian State Government Securities rated 'AAA' by Moody's or Standard & Poors.
- 6.7 Investment in the following instruments will be subject to a maximum exposure per issuer of 5% of the total market value of the fund:
- Australian State Government Securities rated 'AA' by Moody's or Standard & Poors;
 - Corporate debt having a maximum maturity of five years and rated 'AA' or better by Moody's or Standard & Poors;
 - Commercial paper having a maximum maturity of 180 days and rated A1/P1 by Moody's and Standard and Poors;
 - Collateralised asset backed obligations including fixed interest or floating rate instruments rated 'AA' or better;
 - Australian Cash Mutual Funds having a maximum average life of 90 days and a credit rating of 'AAA'.
- 6.8 In addition, the following restriction shall apply:
- The value weighted average duration of the portfolio shall not exceed four years.
- 6.9 The performance of the funds is measured against a benchmark that has been structured using a combination of the Merrill Lynch 1 to 3 year Australian Government Bond Index and the Merrill Lynch 3-5 year Australian Government Bond Index, to achieve an average duration of 2 years.