

FROM: Head, Market Reporting and Solvency Department
LOCATION: 86/G5
EXTENSION: 5800
DATE: 18 April 2001
REFERENCE: Y2529
SUBJECT: LLOYD'S CANADIAN TRUST FUNDS:
REINSURANCE RECOVERABLES
ATTACHMENTS: Calculation Sheet
ACTION POINTS: **Managing agents to note procedures for claiming credit for admissible reinsurance recoverables in the P&C-2 (LCTF) filing**
DEADLINE: **3 May 2001**

Market bulletin Y2522: CANADA - NEW REPORTING ARRANGEMENTS issued on 5 April 2001 advised that credit may be taken for certain reinsurance recoverables in the quarterly P&C-2 filing and that it is the responsibility of managing agents to provide details of recoverable amounts to the Lloyd's Actuary. The purpose of this bulletin is to provide a suggested methodology for the calculation of this credit and to outline the procedure for making a claim for such credits.

The Canadian regulator, OSFI, has very restrictive rules on the claiming of credit for reinsurance recoverables. Reinsurance recoverable on outstanding claims and IBNR at the end of each quarter from federally regulated and accredited provincial reinsurers may be allowed as a credit against the amounts to be funded in the LCTF. To be eligible, the reinsurance does not have to be closed in Canada but must be placed with an office of a reinsurer registered by OSFI, for example, the head office of a company with a Canadian branch or 100% owned subsidiary registered by OSFI, or a non-Canadian branch of such a company. The regulated reinsurers must be notified of the amount of reinsurance recoverable reported by Lloyd's in the P&C-2 through the Lloyd's Attorney-in-Fact. This notification will be done centrally by Lloyd's.

The form at Appendix 1 is designed to assist with the calculation of the amount of reinsurance recoverable on whole account reinsurances for which credit can be taken. However, managing agents do not have to use the attached form to calculate the proposed reinsurance credit and may use a different approach if appropriate. Managing agents should

make what judgements they deem prudent and necessary when performing the calculations. Managing agents may have several whole account reinsurance policies in which case a separate form should be used for each policy. Similar principles should be applied when determining the amounts recoverable on specific reinsurances covering Canadian situs business.

The aggregate amount being claimed (including amounts claimed on specific reinsurances) as reinsurance credit must be entered in part 9 of the attached form and submitted to the Lloyd's Actuary by 3 May with full supporting documentation covering calculations and assumptions. The aggregate amount shown on this form must agree with the amount reported in the syndicate quarterly P&C-2 packs (i.e. line 89 of Form 70.20 or 70.22).

The documentation pack should include copies of the relevant Forms SR16 (2000 Syndicate Return) or relevant pages in the SQR and audit trails from the numbers therein to the numbers used in the calculation sheet. Also required are details of the reinsurance companies providing the protection, including LORS codes (if any), the amount of coverage provided by each, the Canadian registered company that the recovery is being reported against and the amount of the recovery that is being claimed. Managing agents must retain copies of reinsurance contracts and schedules showing how the recoveries were derived for the notified outstanding claims. **It should be noted that OSFI has made it clear that it has total discretion to deem recoveries admissible and non-admissible and will be looking closely at the amounts claimed by Lloyd's.**

The Finance Director or the syndicate actuary must confirm the reasonableness of the amount of reinsurance credit claimed in respect of Canadian situs business from Canadian regulated companies.

Any questions should be directed to James Corr on 7327 5800 or Bill McConnell on 7327 6472.

This bulletin has been sent to the compliance officer of all managing agents.

Patricia Hakong

Calculation of Admissible Reinsurance Recoveries Attributable to the LCTF for Whole Account Reinsurance

Reporting date: Quarter ended

	Source or formulae	CA\$
1. Canadian dollar gross of reinsurance outstanding reserves plus IBNR in CA\$	Must be consistent with the figures in Form SR 16 (2000 Syndicate Return) for the relevant year of account and with the figures used to produce the latest SQR.	
2. Canadian dollar situs gross of reinsurance outstanding reserves plus IBNR in CA\$	Figures supplied by MRSD and should include any adjustment agreed with the Lloyd's Actuary.	
3. Canadian dollar reinsurance recoveries on the outstanding reserves plus IBNR in 1.	Must be consistent with the figures in Form SR 16 (2000 Syndicate Return) for the relevant year of account and with the figures used to produce the latest SQR.	
4. Reinsurance recoveries attributable to Canadian situs reserves	= 2. * 3. / 1.	
5. Ratio of protection provided by Canadian regulated companies to total protection	Derived by dividing the recoveries expected from Canadian regulated companies by the total expected recoveries.	
6. Reinsurance recoveries attributable to Canadian situs reserves from regulated companies	= 4. * 5.	
7. Future cost of reinsurance protection relating to Canadian regulated companies.	Must be consistent with line 7b column 4 in Form SR16 (2000 Syndicate Return) or with the figures used to produce the latest SQR but adjusted to make allowance for differences in Canadian Situs business and Canadian dollar business and further adjusted to restrict it to those future premiums relating to Canadian regulated companies.	
8. Estimated provision for reinsurance bad debts relating to recoveries from Canadian regulated companies	To be consistent with line 9 column 4 in Form SR16 (2000 Syndicate Return) or with the figures used to produce the latest SQR but adjusted to make allowance for differences in Canadian Situs business and Canadian dollar business and further adjusted to restrict the reinsurance bad debts to an estimate of those relating to Canadian regulated companies.	
9. Credit claimed for estimated recoveries from Canadian regulated companies	= 6 - 7 - 8	

CONFIRMATION BY MANAGING AGENT

I hereby confirm that the credit claimed at 9. above is reasonable and properly reflects the aggregate amount of reinsurance recoverable at the reporting date in respect of Canadian situs business due from Canadian regulated companies.

Signed:.....

Print Name:.....

Finance Director or Syndicate Actuary (Please delete whichever is not applicable)