Market Bulletin

LLOYD'S

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FROM:	Secretary to the War, Civil War & Financial Guarantee Committee
LOCATION:	86/G5
EXTENSION:	5685
DATE:	28th June 2002
REFERENCE:	**Y2825**
SUBJECT:	WAR ON LAND UNDERWRITING
ATTACHMENTS:	Annexes 1 - 4
ACTION POINTS:	**For Action by interested managing agencies**
DEADLINE:	**None**

1. The purpose of this Bulletin is to advise the Lloyd's market of amendments to the 1982 War and Civil War Risks Exclusion Agreement ("the Agreement") in respect of business currently placed under risk codes "WL" and "QL". These amendments have been agreed with the ABI.

2. This Bulletin supersedes Bulletins 001/97, 035/97 and 120/97 (" the Prior Bulletins") and will not apply retrospectively. Any risk which falls within the scope of the Prior Bulletins, and which has been agreed and initialled by a Lloyd's underwriter prior to the date of this Bulletin, will still be subject to the terms of the Prior Bulletins and, if written in accordance with those terms, is deemed to be an exception to the Agreement.

3. The principal effect of this Bulletin is to remove, under certain circumstances, those restrictions which prevent Lloyd's underwriters from providing War on Land risks for periods in excess of twelve months, and from providing War on Land cover for assets located in the country of the policyholder's principal place of business or residence. This Bulletin therefore permits Long-term and/or Domestic War on Land ("LDWL") business. All LDWL business written in accordance with the requirements of this Bulletin will be deemed to be an exception to the Agreement.

4. **Please note: LDWL business will only be regarded as an exception where it is written by a syndicate which fully meets the requirements of <u>all four</u> Annexes to this Bulletin**

5. However, syndicates wishing to provide War on Land cover for a maximum of 12 months only (plus extensions not exceeding six months in all which shall not be agreed by underwriters until cover has been in force for at least six months) or for assets which are not located in the country of the policyholders' principal place of business or residence, do not need to meet the requirements of Annexes 2-4.

6. Annexes 2-4 to this bulletin detail the requirements which must be met by those syndicates wishing to underwrite LDWL:

   a) Annexe 2 details the procedure by which **Pre-notification** must be provided;

   b) Annexe 3 provides guidance on the preparation of the **Outline Business Plan** which must accompany Pre-notification; and

   c) Annexe 4 details the **Reporting Requirements** which will take effect in 2003.

7. These requirements apply where any syndicate wishes to underwrite LDWL risks:

   a) as direct insurance;

   b) as reinsurance except where such reinsurance is provided to a Lloyd's syndicate which has already provided pre-notification;

   c) as treaty or facultative placements;

   d) when part of a following market or when leading such a risk; and/or

   e) when written as part of multi-risk or LDWL-only contracts.

8. **Please note: all syndicates writing WL and/or QL business, regardless of policy period or asset location, must meet the requirements of Annexe 1 to this Bulletin.** All non-LDWL War on Land business which is underwritten according to the terms of Annexe 1 is deemed to be an exception to the Agreement.

9. It has not, at present, been deemed necessary to prescribe a new risk code for LDWL: this business should be regarded as a sub-class of WL/QL, and coded WL or QL as appropriate.

This bulletin has been sent to all managing agents, active underwriters, members' agents, recognised auditors, market associations and Lloyd's brokers.

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ANNEXE 1

General Requirements for All Business written under Risk Codes WL or QL (including Long-Term and/or Domestic War on Land "LDWL")

This Annexe attaches to and forms part of Bulletin Y2825, which details the precise circumstances under which a syndicate must meet the requirements of this Annexe.

1. Coding and Monitoring of WL/QL Business

   a) the premium for WL and QL combined must not exceed 2½% of a syndicate's allocated capacity for each year of account separately, or such other amount as the War, Civil War and Financial Guarantee Committee may from time to time prescribe;

   b) risk codes WL or QL must be allocated, as appropriate, to all business falling within these classes, which will be classified as war for solvency purposes. WL will continue to be classified as Property Damage for statutory returns; QL will continue to be classified as Goods in Transit for statutory returns;

   c) each syndicate must monitor, to the satisfaction of its syndicate auditor, the amount of business falling within these classes on a per country or more specific zone basis. Syndicates wishing to write LDWL must, in addition, meet the requirements detailed in Annexes 2-4 to this Bulletin.

2. Scope of the WL/QL Exception to the 1982 War & Civil War Risks Exclusion Agreement

   a) Certain assets may be insured or reinsured for loss, damage or liability occasioned by, contingent upon, or resulting directly or indirectly from war or civil war, providing such insurance is provided according to the terms of Bulletin Y2825. Such assets may include sendings by land, but may not include:

      - sendings by water and/or air;
      - hulls, engines, instruments, equipment of aircraft;
      - hulls of vessels
      - shipowners' other interests;
      - charterers' interests (other than cargo); or
      - second seaman's insurances, either for time or voyage;

   b) to the extent that insurances or reinsurances may be insured under other exceptions or special provisions to the Agreement they shall not fall within this exception.

3. WL/QL Policy Requirements

   a) WL/QL coverage (either insurance or reinsurance) must not be underwritten via any delegated underwriting authority;

b) regardless of which other risks are covered in conjunction with WL/QL, WL/QL must be covered either:

- under a separate policy, or
- under a separate policy section, providing that the portion of overall premium which relates to WL/QL is clearly stated;

Except that: for treaty reinsurance, it is sufficient that the reinsurance policy clearly states what portion of the business ceded is expected to be WL/QL. Reinsurance underwriters should ensure that they receive sufficient information from their clients to enable them to monitor their own aggregations of liability, and should allocate risk code WL/QL to that proportion of the premium which relates to these classes;

c) WL/QL cannot be written as part of a fire and allied lines policy;

d) WL/QL policies must contain an exclusion of loss or damage occasioned by or contingent upon or resulting directly or indirectly from war, whether declared or not, between two or more of the following powers:

- United Kingdom
- United States of America
- France
- Russian Federation
- People's Republic of China

e) WL/QL policies must contain an exclusion of loss or destruction of or damage to any property whatsoever or any loss or expense whatsoever resulting directly or indirectly, caused by or contributed to by or arising from, the radioactive toxic explosive or other hazardous properties of any explosive nuclear assembly or nuclear component thereof;

f) It is recommended that, as a matter of best practice, WL policies contain a provision enabling underwriters to give notice of cancellation. However, QL coverage must be subject to notice to review: such notice period shall not exceed 7 days.

If you have any questions relating to this Annexe and/or the 1982 War & Civil War Risks Exclusion Agreement, please contact Paula Singleton (ext. 5685).

ANNEXE 2

War on Land: Pre-notification Procedure

1 Introduction

1.1 This Annexe attaches to and forms part of Bulletin Y2825, which details the precise circumstances under which a syndicate must meet the requirements of this Annexe.

1.2 This Annexe explains the pre-notification procedure that managing agents must follow should any of their syndicates wish to underwrite Long term and/or Domestic War on Land ("LDWL").

1.3 This Annexe also details the undertakings required from the managing agent in recognition of its responsibility for ensuring that the key areas of risk in LDWL underwriting are addressed.

1.4 Syndicates not wishing to provide War on Land coverage for a maximum policy period in excess of 12 months (plus extensions not exceeding six months in all which shall not be agreed by underwriters until cover has been in force for at least six months), or to provide War on Land coverage of assets located in the country of the policyholder's principal place of business or residence, are not subject to the requirements of this Annexe.

2 The Process

2.1 Written pre-notification must be provided to the Head of Lloyd's Market Supervision Department. All agents providing pre-notification must attach, as part of that submission, an Outline Business Plan relating to anticipated LDWL activity. Guidance for construction of this Plan is contained in Annexe 3 to this Bulletin.

2.2 Pre-notification need only be made once, but is required individually for each syndicate wishing to write LDWL business, and must be provided in advance of each syndicate's commencement of LDWL underwriting. In addition, a revised LDWL Outline Business Plan must be provided annually as part of the general syndicate business planning process.

2.3 The pre-notification must be signed by the Active Underwriter of the syndicate concerned. It must also be signed by the managing director and compliance officer of the managing agency concerned. The pre-notification will serve as confirmation that the managing agency board is satisfied that the agency has sufficient knowledge and resources to effectively control the underwriting of LDWL business.

2.4 Agents who are subject to a PSC loading as a result of regulatory concerns, including as a consequence of poor underwriting results, may not underwrite LDWL business and pre notification from them will not be accepted. Pre-notifications from agents which are subject to loadings arising for other reasons will be considered on a case-by-case basis.

3 Regulatory review

3.1 The Monitoring Department will carry out periodic on-site reviews of all managing agents whose syndicates write LDWL.

These reviews will assess whether proper consideration has been given by the managing agency board to the undertakings detailed in the pre-notification, whether LDWL underwriting is being adequately monitored and controlled, and whether the requirements of Bulletin Y2825 are being fully met.

4 Key Undertakings

Reinsurance

4.1 The pre-notification must state that the managing agency will undertake to, and recognises its responsibility to, ensure that:

a) reinsurance is purchased that is of a quality, scope, quantum and duration which is appropriate to LDWL exposures;

b) available reinstatements are sufficient such that cover should not have been exhausted by the time that LDWL claims arise;

c) programme deductibles are appropriate for the size of lines being written in the LDWL account;

d) the wording of reinsurance contracts does not exclude LDWL risks, and that the providers of such reinsurance are formally made aware that they will be covering such business. This is especially pertinent when whole-account reinsurance will be expected to cover LDWL exposures; and

e) the reserving and RITC practices of the syndicate reflect the long-term nature and volatility of LDWL business.

Key Controls

4.2 The pre-notification must also state that the board is satisfied that the managing agency has sufficient knowledge, resources and systems in place to ensure that:

a) LDWL risks are diligently assessed and accurately recorded;

b) internal reviews are carried out regularly to ensure that risks are being accurately coded, that all relevant information is being disclosed to the following market (and that the information so disclosed is documented and retained) and that appropriate claims protocols are being followed;

c) LDWL aggregations are effectively monitored both at syndicate and managing agency level, and the reporting requirements of Annexe 4 of Bulletin [ ] will be fully met;

d) underwriting limits and authorities for LDWL are set and documented, and are appropriate to the level of experience of the individuals concerned;

e) adherence to underwriting limits is monitored;

f) underwriters have ready access to up-to-date information on aggregate exposures; and

g) underwriters have ready access to accurate, detailed and up-to-date information sources (e.g. broker placing information, on-line news/intelligence services, publications, rating agencies, external specialist advisors).

If you have any questions relating to this Annexe and/or the Pre-notification process, please contact Paula Singleton (ext. 5685) or Guy Sellers (ext. 6569).

ANNEXE 3

War on Land: Syndicate Outline Business Plan

This Annexe attaches to and forms part of Market Bulletin Y2825, which details the precise circumstances under which a syndicate must meet the requirements of this Annexe. Syndicates not wishing to provide War on Land coverage for a maximum policy period in excess of 12 months (plus extensions not exceeding six months in all which shall not be agreed by underwriters until cover has been in force for at least six months), or to provide War on Land coverage of assets located in the country of the policyholder's principal place of business or residence, are not subject to the requirements of this Annexe.

This Annexe provides a structure for the War on Land-specific Syndicate Outline Business Plan which must accompany the pre-notification detailed in Annexe 2.

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1 Business Case

1.1 Identify the syndicate to which pre-notification relates, and briefly state the principal reasons for wishing to write sign long-term/domestic ("LDWL") business.

2 Underwriting Control

2.1 State the name and job-title of all individuals who will have authority to sign LDWL business (please note that the use of delegated underwriting authorities to accept LDWL risks is not permitted);

2.2 State the underwriting limits to which all such individuals are subject.

2.3 Describe the mechanisms by which the syndicate/managing agency aims to ensure that underwriting authorities/limits are not exceeded.

2.4 State the name and job-title of the individual(s) who will be responsible for ensuring that the syndicate meets the additional LDWL reporting requirements detailed in Annexe 4.

3 Type of Business

3.1 Give a brief overview of the business which will incorporate LDWL exposures, to include:

i) estimated % of overall syndicate capacity which will be devoted to LDWL;

ii) anticipated maximum policy periods;

iii) maximum gross line size, and maximum net line size;

iv) types of risks/assets which will be declined;

v) territories which will be declined

vi) anticipated limits by country; and

vii) perils which will be written in conjunction with LDWL.

3.2 Give a similar overview of the syndicate's current exposure to business which is risk-coded WL or QL.

4 Reinsurance Arrangements

4.1 Provide a breakdown of those reinsurance arrangements to which LDWL exposure will be ceded. This should include:

i) type of contract (e.g. specific/whole account/proportional/non-proportional);

ii) duration and limits of cover;

iii) basis of cover i.e. loss occurring during or claims attaching during;

iv) size and number and frequency of reinstatements;

v) size of any retentions;

vi) identity, location and security rating of reinsurers;

vii) details of any exceptional or financial reinsurance.

4.2 If there is any intention to write LDWL without the benefit of reinsurance, state what limitations will be placed upon the quantum and duration of such exposure, and how the syndicate intends to manage this.

5 Certification

5.1 The following certificate must be given by the signatories to the pre-notification to which this Outline Business Plan attaches:

"We each certify that to the best of our knowledge and belief having made due and careful enquiry:

a) all the information given in this Outline Business Plan and in any other document attached to, or provided in connection with this Outline Business Plan, is true and correct and that all estimates given are true estimates based upon facts which have been carefully considered and assessed; and

b) that the information supplied to Lloyd's in connection with this Outline Business Plan does not omit any information which might reasonably be considered to be relevant."

If you have any questions relating to this Annexe and/or preparation of the Outline Business Plan, please contact Paula Singleton (ext. 5685) or Guy Sellers (ext. 6569).

WAR ON LAND: LLOYD'S REPORTING REQUIREMENTS FOR 2002 AND BEYOND — ANNEXE 4

This Annexe attaches to and forms part of Bulletin Y2825, which details the precise circumstances under which a syndicate must meet the requirements of this Annexe. Syndicates not wishing to provide War on Land coverage for a maximum policy period in excess of 12 months (plus extensions not exceeding six months in all which shall not be agreed by underwriters until cover has been in force for at least six months), or to provide War on Land coverage of assets located in the country of the policyholder's principal place of business or residence, are not subject to the requirements of this Annexe.

Information Requirement	Measures for 2002	Measures for 2003 and Beyond
Details of individual long term WL risks	• Placing Broker to provide to MRRU copies of all long-term WL slips, where the premium payment deadline is longer than 45 days, or where the policy is subject to annual re-signing, within 1 month of inception date.	• As for 2002
Details of individual domestic WL risks	• Placing Broker to provide to MRRU a copy of all domestic WL slips within 1 month of inception date	• As for 2002
Business Overview (to include details of Underwriting authorities and limits of all W on L underwriters)	• Outline Business Plan to be provided as part of initial Pre-notification process (see Annexe 2) * • Updated overview to be included in annual Syndicate Business Plan c. September 2002 *	• Updated overview to be included in annual Syndicate Business Plan each year *
Country-by-country aggregation of WL exposures	[Not applicable for 2002]	• Post-renewal season update to be provided to MRRU by end of March each year *†
Regional aggregation of WL exposures		
Exposure aggregation at certain dates over a ten year period		
Quality and suitability of syndicates' actual and anticipated reinsurance provisions; measures taken to address open exposures on multi-year policies		

*** All such information to be signed-off by the Active Underwriter and reviewed by the Board of the relevant Managing Agency.**

† Reporting of aggregate exposures, to commence in 2003, must follow the format attached overleaf: software to assist with this reporting will be issued by MRRU during the last quarter of 2002.

2003 & Beyond: Reporting of Aggregate War on Land Exposure

1 Reporting Gross Exposure

1.1 Show the Top 10 Countries in which the syndicate is most heavily exposed to War on Land risks, as at 31.12.2002:

a) incorporate all W on L risks, not just long term and/or domestic;

b) do not use PML's: assume 100% loss;

c) state gross exposure.

1.2 This data should be split over the years of account to which the risks attach.

Run Off

1.3 Show unexpired gross exposures as at 31.12.2004, 2006 and 2010 (year of account allocation is not required for these future years).

2 Reporting Net Exposure to a Vertical Loss

2.1 Select the Top 5 Countries as calculated at 1.1 above.

As a separate exercise for each Top 5 Country:

2.2 Assume that a single event (with a single cause) occurs on 31.12.2002 that results in 100% loss on all policies in that Country, and state gross exposure.

2.3 Ensuring that the reinsurance programmes cited do not exclude long term and/or domestic W on L, enter reinsurance recoveries for each Country loss split by facultative and treaty recoveries.

Please note: each Country is to be treated as a separate first-loss, and therefore the syndicate will apply its reinsurance programme to the scenario five times treating each application as a first-loss recovery.

2.4 Enter the breakdown of facultative and treaty reinsurers to 90% of your recoveries for each of the five Countries.

2.5 This data should be split over the years of account to which the risks attach.

Run Off

2.6 Repeat 2.2 to 2.4 above with the event occurring on 31.12.2004, 2006 and 2010 (year of account allocation is not required for these future years).

3 Reporting Net Exposure to Horizontal Losses

3.1 Select the Top 5 Countries as calculated at 1.1 above.

As a separate exercise for each Top 5 Country:

3.2 Select the Top 10 largest individual risks in that Country: state gross exposure.

3.3 Assume 100% loss on each risk, each loss arising from a separate cause. All 10 events occur on 31.12.2002.

3.4 Ensuring that the reinsurance programmes cited do not exclude long term and/or domestic, enter reinsurance recoveries for each Country loss split by facultative and treaty recoveries.

Please note: each Country is to be treated as a separate first-loss, and therefore the syndicate will apply its reinsurance programme to the scenario five times treating each application as a first-loss recovery.

3.5 Enter the breakdown of facultative and treaty reinsurers to 90% of your recoveries for each of the five Countries.

3.6 This data should be split over the years of account to which the risks attach.

Run Off

3.7 Repeat 3.2 to 3.5 above with the event occurring on 31.12.2004, 2006 and 2010 year of account allocation is not required for these future years)

4 Assessing Regional Impact

4.1 Select the Top 5 Countries as calculated at 1.1 above.

As a separate exercise for each Top 5 Country

4.2 Identify whether the syndicate has W on L exposures in any of countries which are geographically adjacent to the Top 5 Country. State the total gross exposure for each Top 5 Country plus those adjacent countries.

4.3 This data should be split over the years of account to which the risks attach.

Run Off

4.4 Show unexpired gross exposures as at 31.12.2004, 2006 and 2010 (year of account allocation is not required for these future years).

Vertical Loss

4.5 For each Top 5 Country, re-run the analysis of the impact of a vertical loss as detailed in Stage 2, using the new gross exposure figures generated by the regional groupings at 4.2 above.

If you have any questions relating to this Annexe and/or compliance with these reporting requirements, please contact Paula Singleton (ext. 5685) or Guy Sellers (ext. 6569).