Market Bulletin

LLOYD'S

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FROM:	Head of Risk Management
LOCATION:	GY5
EXTENSION:	5355
DATE:	20 December 2002
REFERENCE:	Y2952
SUBJECT:	US TERRORISM RISK INSURANCE ACT 2002
ATTACHMENTS:	
ACTION POINTS:	**Managing agents to note the action to be taken by Risk Management**

As a direct result of the US Terrorism Risk Insurance Act 2002 ("the Act"), agents will be aware that the following issues need to be addressed:

(i) the identification of all relevant insureds covered by the Act, including those with policies currently in force, expiring within 90 days or in excess of 90 days of the enactment date of the Act;

(ii) the notification of all relevant insureds of the cover offered and any additional premium required, or the premium attributable to existing terrorism cover, using disclosure compliant with the Act and within the time limits set by the Act;

(iii) the maintenance of a clear audit trail of the date and nature of notices given and responses received from insureds;

(iv) the calculation of a premium for coverage, evidencing the basis of that calculation, and recording, monitoring and collecting additional premiums charged; and

(v) the identification, recording and monitoring of increased terrorism exposures, considering disclosure to syndicate reinsurers and considering whether additional reinsurance is required; the department recognises that this is difficult due to uncertainties over the basis of the deductible.

In common with the wider insurance industry, the Act presents operational and systemic risks both to managing agents and Lloyd's, currently:

(i) increases in US terrorism exposure;

(ii) the possibility of loss of the benefit of Federal Reinsurance cover and increases in retained exposure due to inadequate notification and record keeping by syndicates;

(iii) the rating of cover made available under the Act;

(iv) the credit control issues associated with the collection of additional premiums;

(v) the risk of syndicates exceeding their 2001 and/or 2002 capacity; and

(vi) the reputational risk to Lloyd's if a syndicate is not compliant with the Act.

In view of these risks, and in view of the legal uncertainties and logistical challenges presented by the Act, Risk Management will be undertaking the following work in the first quarter of 2003:

(i) we will be contacting agents shortly to arrange meetings in the two week period commencing 13 January, in order to understand the steps being taken by agents to address the issues set out on page one of this bulletin. After these meetings, we will report to the market on best practice in these areas and welcome agents' comments on specific areas where assistance can be provided;

(ii) the levels of additional premiums resulting from the Act will be monitored closely. The FSA has been fully briefed on this issue and formal consent will be sought once the issue of overwriting can be quantified; and

(iii) we will devise a US Terrorism Realistic Disaster Scenario to be collected in 2003, as part of our ongoing monitoring of this risk to the market.

Risk Management is working closely with the LMA and Worldwide Markets on this issue. Agents should be aware that Lloyd's will in due course be issuing guidance on the risk code treatment to be adopted in respect of business covered by the Act.

Any queries regarding the contents of this bulletin should be directed to Stephen Moore (extn: 6984) or to Liz Rooke (extn: 6818). This Bulletin has been sent to all active underwriters, managing agents, members' agents, Lloyd's advisers, Market Associations, recognised accountants and corporate members.

Stephen Manning
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