

FROM: Head of Admissions & Coverholders
LOCATION: 86/G5
EXTENSION: 5743
DATE: 23 April 2003
REFERENCE: Y3040
SUBJECT: AGENCY AGREEMENT TERMINATIONS
SUBJECT AREA(S): Procedure for making applications to increase fees and/or profit commission, merge syndicates or undertake a minority buy-out for the 2004 year of account.
ATTACHMENTS: Yes
ACTION POINTS: **Managing agents and members agents to note**
DEADLINE: **30 April 2003 for notification**
9 May 2003 for applications

Any underwriting agent that wishes to:

- a. increase its fees or profit commission; or
- b. effect a syndicate merger; or
- c. effect a minority buy-out.

for the 2004 year of account must apply to Lloyd's in writing by 9 May 2003 for permission to terminate the relevant agency agreements. Where the application relates to a proposed increase in fees or a syndicate merger, underwriting agents should notify their intention to make such an application by email to the Admissions Department by 30 April 2003 using admissions@lloyds.com.

1. Managing Agents

Managing agents should make applications in accordance with paragraph 11B of the Byelaw. The detailed requirements for applications are set out in the attached guidance. Managing agents are also encouraged to discuss and explain proposed applications with members' agents at the earliest opportunity.

2. Members' Agents Fee Increases

Member's agents should make applications in accordance with paragraph 11A of the Agency Agreements Byelaw (No. 8 of 1988) (the "Byelaw"). Applications should include details of the fees and/or profit commission currently charged by the members' agent and the amount by which it is proposed to increase them.

Any queries relating to this Bulletin should be referred to Richard Tunnicliffe on ext. 5137 or Chris Wilson on ext. 6198.

This bulletin has been sent to all underwriting agents and to recognised accountants and market associations for information.

Matthew Chandler
Head of Admissions & Coverholders
Risk Management

REQUIREMENTS FOR AGENCY AGREEMENT TERMINATIONS

1 Requirements

Increased fees and syndicate mergers

- 1.1 Any underwriting agent that wishes to:
- a. increase its fees or profit commission;
 - b. effect a syndicate merger

for the 2004 year of account should apply to Lloyd's in writing by 9 May 2003 for permission to terminate the relevant agency agreements. Applications must be made in accordance with the Agency Agreements Byelaw and the Major Syndicate Transactions Byelaw. The detailed requirements for applications are set out herein.

Minority buy-outs

- 1.2 Any underwriting agent that wishes to effect a minority buy-out for the 2004 year of account must apply to Lloyd's in writing by 9 May 2003 for conditional consent to give conditional notice of termination under managing agents' agreements in order to effect minority buyouts.
- 1.3 Requests for minority buy-outs are considered by the Capacity Transfer Panel. Guidance on minority buy-outs is set out in Regulatory Bulletin 041/2000 "Guidance on Minority Buy-outs" issued on 18 April 2000. If you have further queries on minority buy-outs, please contact Jonathan Rees (ext 6225) or Richard Miller (ext. 5897) in Capacity Markets.

2 Preliminary notification

- 2.1 Underwriting agents should notify the Admissions Department of their intention to make an application by no later than 30 April 2003. Notifications should be made by email to admissions@lloyds.com and should explain the nature of the application and identify the syndicates to which it will relate.

3 The Application

Core information

- 3.1 All applications must include the following core information together with the information relating to the specific type of application set out in schedules 1 and 2 of this guidance:
- i) Provide a detailed explanation for the rationale behind the proposed transaction giving rise to the agency agreement termination;
 - ii) Specify the syndicate concerned and the members' syndicate premium limits;
 - iii) Specify the underwriting members to whom the notice is proposed to be given;

- iv) Identify the names of members' agent through whom notice is to be given.

Information to be provided to members and members' agents

- 3.2 In the case of applications made by managing agents in connection with a proposed **increase in fees**, supporting member's agents and direct corporate capital participants must be provided with a copy of the entire application and given 21 days in which to make representations to the Admissions Department. Where further information is required to be submitted to the Admissions Department, this must also be sent to members' agents and direct corporate capital participants. They should be given a further 7 days in which to consider the information and make further representations to the Admissions Department.
- 3.3 In the case of applications made in connection with a **syndicate merger**, at the time of the application, notice of the application must be provided to underwriting members and their members' agents. Provided that Lloyd's has granted conditional permission, by 30 May 2003 managing agents must provide the application and the additional information set out in paragraphs (i) – (xii) of Schedule 2 to the Admissions Department, underwriting members and member's agents. Members' agents must pass the information and documents received from the managing agent to their members within 7 days of receipt and advise them that they may attend a syndicate meeting convened for the purpose of discussing and voting on the proposed merger.
- 3.4 In the case of applications made in connection with a **minority buy-out**, at the time of the application, the managing agent must provide notice of the application to the Admissions Department, underwriting members and member's agents.

Schedule 1 - Increase in Fees

The application shall include the following additional information:

- i) *Details of the proposed increase in fees (expressed as a monetary amount and as a percentage increase).
- ii) *Identify the impact of the proposal on members stating their current position and their position following the proposal in monetary and percentage terms.
- iii) The reason why the increase in expenditure should not be treated as a syndicate expense.
- iv) *Certified copy extracts of all board minutes which refer to the proposed increase in the fee or which record discussion of it.
- v) *A statement of the commercial or business case for the proposed fee increase including and cross referring where necessary to supporting budgets and estimates in respect of any proposed increased expenditure. The information shall be presented in such a way as to clearly show to which managed syndicates and to which years of account any proposed increase in expenditure will relate and shall include an explanation of the benefit that will accrue from the proposed increase in expenditure in respect of each managed syndicate.
- vi) *Details of the annual fee and/or profit commission (expressed both as a percentage and as a monetary amount) charged or to be charged by the agent for all managed syndicates for the current year of account and for each of the three preceding years of account (estimated figures may be provided where actual figures are not yet available).
- vii) Details of the expenditure incurred or to be incurred and not recharged to the syndicate by the managing agent for all managed syndicates for the current year of account and for each of the three preceding years of account, together with details of the period over which any material or exceptional items of expenditure are to be amortised (estimated figures may be provided where actual figures are not yet available).
- viii) Details of the budget for the managing agency and for each of the syndicates managed by the managing agent for the current year of account and the estimated budgets for future years of account, up to and including the first year of account in which it is considered by the managing agent that members of the relevant syndicate will begin to derive benefit from the proposed expenditure. This information must also include a statement of the period over which any material and/or exceptional items are to be amortised.
- ix) Details of any changes in the syndicate allocated capacity of the relevant syndicate for the current year of account, for each of the three preceding years of account and any proposed changes.

* Requirements also relevant to members' agent increase in fee application.

- x) A copy of the agent's policy for the allocation of syndicate expenses which should include an explanation of the basis on which expenses arising from profit related remuneration payable to directors and consultants are allocated. This should highlight any changes made to the policy over the last three years and any proposed changes to be made to the policy.
- xi) Particulars of any proposed acquisition or disposal by the agent - or any connected company or any connected person - of rights to participate in the relevant syndicate (whether through the auction or under any other scheme or arrangement as may be permitted from time to time by the Lloyd's for that purpose).
- xii) Particulars of any proposed transactions by the agent or any connected company or connected person for the purpose of effecting any change in participation in syndicates not included in paragraph (xi) above, including but not limited to any transaction falling within the scope of the Major Syndicate Transactions Byelaw (No 18 of 1997).
- xiii) Any additional information that the agent considers to be relevant to the application.

Schedule 2 - Syndicate Mergers

The managing agent should supply the following additional information together with any other information necessary to enable members to make a properly informed assessment of the proposed merger and its effect on the members concerned:

- i) An explanation of the basis on which, and the amounts in which rights to participate in the successor syndicate for the next following year of account are to be allocated among the members of the ceasing syndicate and the members of the successor syndicate for the current year of account and any other persons.
- ii) Particulars of plans for participation in the successor syndicate by members who are associates of the managing agent of the successor syndicate.
- iii) Confirmation by the managing agent of the successor syndicate that it intends to effect a reinsurance to close of the ceasing syndicate by the successor syndicate.
- iv) A copy of the syndicate annual report required to be prepared in the current year for each syndicate concerned in respect of 2002.
- v) A copy of the proposed business plan for the successor syndicate for the 2004 year of account including details of the economies of scale anticipated by the merger with specific regard to the reinsurance programme and investment income (or a summary thereof specifying the person from whom copies of the proposed business plan can be obtained free of charge).
- vi) The identity of the active underwriter of the merged syndicate, particulars of his or her experience demonstrating his or her competence to manage the merged syndicates and particulars of his contract of employment.
- vii) The manner in which the operations of the separate syndicates will be combined following the merger, identifying changes in resources, independent review procedures, management and its reporting and allocations of responsibilities.
- viii) Details of the IT systems used by each of the merging syndicates and how these systems will operate post merger, or how the information will be migrated onto a single IT system post the merger, including timeframes.
- ix) Composition of the combined syndicate following the merger in terms of aligned/unaligned capacity and any intentions to make a minority buy-out.
- x) Particulars of the managing agent's plan in the event that the merger proposal is unsuccessful.
- xi) A declaration from the directors of the managing agent as to the accuracy of information provided in the form prescribed in paragraph 2(8) of the Major Syndicate Transactions Byelaw.

The application should set out the reason for omission from the proposed merger of any syndicate managed by the managing agent.