

FROM: Head, Market Reporting
LOCATION: MR/86/GY5
EXTENSION: 5129
DATE: 12 May 2003
REFERENCE: Y3057
SUBJECT: PREMIUM INCOME DATA COLLECTION
ATTACHMENTS: Yes
ACTION POINTS: **Managing agents to note the new reporting arrangements for premium income**
DEADLINE: **New reporting arrangements to come into effect from 1 June 2003: first return due 10 July 2003**

Further to market bulletin Y3017 issued on 27 March 2003, this bulletin sets out the final revised arrangements for the collection of premium income data. Note has been taken of comments received during the consultation period and where appropriate they are reflected in the revised return attached at Appendix A. Summaries of the comments received during consultation, together with Lloyd's response / action taken are attached at Appendix B.

The new reporting requirements will become effective from 1 June 2003 and the deadline for submission of the first and each subsequent monthly return will be the 10th day of the month following that being reported on (or the first working day thereafter). This deadline applies to all classes of business including motor. Managing agents will be required to submit the return via an excel spreadsheet over the market returns website. The spreadsheet will be made available to managing agents via the website by 31 May 2003, including pre-population of the class of business column derived from the latest syndicate business plan.

Set out below are the changes which have been made to the return, as a result of representations received, and points of clarification which have been requested during consultation.

Reporting in currency

Premium and brokerage/commission data should be submitted in the three main settlement currencies. This focuses attention on premium income movements and reduces movements due purely to exchange rate variations. The vast majority of respondents confirmed that there was no additional administrative effort in providing the data in currency.

The converted sterling cumulative premium (net of brokerage and commission) column is provided for the managing agent's own control purposes and will not be used by Lloyd's. As such, managing agents may use whatever exchange rate they consider appropriate in generating this column.

Written Premium

Written premiums as defined in the ABI SORP are "Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the fund basis, the premiums are those in respect of contracts incepting in the underwriting year in question." The written premium figure used should be the managing agent's best estimate of ultimate premiums receivable on an inception date allocation basis. It should, therefore, include all premiums expected to be receivable under binding authorities, line slips and consortium arrangements, which have been written at the reporting date, irrespective of the inception date of the underlying declarations that will be made to the slip.

Written premiums should also include the best estimate of reinstatement premiums ultimately receivable in respect of inwards reinsurance business.

Brokerage / Commissions

Written premiums should be taken net of taxes and duties levied with the premium, i.e. they should not be grossed up for these items. For the avoidance of doubt, the only deductions that should be made on this return relate to brokerage and commission. Other acquisition expenses including syndicate expenses allocated to acquisition costs should not be included.

Profit commission and other charges which accrue based on the performance of the underlying insurance contract(s) should be included to the extent that it is possible to determine a reasonable best estimate of the amounts that will become ultimately payable.

Analysis by class of business

Managing agents are required to analyse premiums and brokerage/commissions by syndicate class of business (as used in the most recent syndicate business plan). This analysis will form part of the benchmark monitoring by Franchise Performance Market Analysis.

Premium Income Monitoring

The new return, in conjunction with other data that is already collected elsewhere, will replace a number of the Premium Income Monitoring (PIM) forms. From 1st July 2003 managing agents will no longer be required to submit the following forms:

PIM 3
PIM 5
PIM 7
PIM 8

The return only has to be completed in respect of the current year of account, and hence does not apply to run-off syndicates. Changes in premium estimates for earlier open years of account will be reported at whole account level in the SQR. Additionally, managing agents will continue to have a responsibility to report instances where they have overwritten their capacity to the Operational Risk Department, Risk Management, as required by The Syndicate Premium Income (Monitoring) Regulation No.1 of 1984.

Managing agents should also note that the data collected via this return will be used to pre-populate the existing Form 1 of the Syndicate Quarterly Return, which will be adapted so that no other input is required. It is expected that this will be available for the 4th quarter SQR 2003.

Any comments concerning the content of this bulletin should be addressed to either Mike Steer (extension 5709, email: mike.steer@lloyds.com) or Neil Wells (extension 6701, email: neil.r.wells@lloyds.com). This bulletin is being sent to the compliance officer of all managing agents, members' agents and to recognised accountants.

John Parry

Written Gross Premiums by Syndicate Class of Business

Exchange rates used £1 = x\$
 US\$
 CAN\$

Syndicate Number:	Month Ended:
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2003	2003	2003	2003	2003	2003	2003	2003	2003	2003
Cumulative Written Prens to Date (gross of brokerage and commissions) £'000	Brokerage and Commissions £'000	Cumulative Written Prens to Date (net of brokerage and commissions) £'000	Cumulative Written Prens to Date (gross of brokerage and commissions) US\$'000	Brokerage and Commissions US\$'000	Cumulative Written Prens to Date (net of brokerage and commissions) US\$'000	Cumulative Written Prens to Date (gross of brokerage and commissions) CAN\$'000	Brokerage and Commissions CAN\$'000	Cumulative Written Prens to Date (net of brokerage and commissions) CAN\$'000	Cumulative Written Prens to Date (net of brokerage and commissions) CNV£000

Capacity

Major Category*:

Syndicate business plan class 1						0			0	0.00
Syndicate business plan class 2 etc			0			0			0	0.00
			0			0			0	0.00
			0			0			0	0.00
			0			0			0	0.00
			0			0			0	0.00
			0			0			0	0.00
			0			0			0	0.00
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			0			0			0	0.00
			0			0			0	0.00
			0			0			0	0.00
			0			0			0	0.00
			0			0			0	0.00
			0			0			0	0.00
Total	£0	£0	£0	\$0	\$0	\$0	\$0	\$0	\$0	£0

Qualifying Quota Shares	<input type="text"/>	0.00								
Gross Syndicate Income	£0	£0	£0	\$0	\$0	\$0	\$0	\$0	\$0	£0

* These are examples. Each agent should complete in accordance with the business classes as submitted in the syndicate's business plan

TOPIC	ISSUE	RESOLUTION
COMMENTS FROM BULLETIN Y3017	Comments were requested from the Market on five particular areas; these are summarised below	18 Agents responded with their comments. No comments were received from any auditors.
SUMMARY OF REQUESTED COMMENTS FROM BULLETIN	The format of the return	The format of the return was felt to be acceptable, the return has been updated in order that the reporting can be made in the three main settlement currencies
	The deadline for submission of each month's return. Agents' assessment of the ability of their systems and resources to meet the reporting requirements both from the 1 June and in the medium term	Concerns were raised that the deadline was tight but not impossible, in order to assist with completion of the return the deadline has been moved to 10th of each month
	Whether the reporting of total brokerage and commission can be extended to analyse other acquisition expenses, profit sharing arrangements or other forms of agreement with brokers	Some agents responded that they could do this but many had issues, especially with regard to profit commission which is based on the position over time rather than the outset. The requirement to report profit commission within "brokerage and commission" has been discussed in the Market Bulletin
	Whether the return is easier to complete at risk code level, with Lloyd's aggregating up to class of business level centrally	Opinion on this was mixed. A slight majority wished to report by business class as stated within their business plans. For a number of syndicates, individual risk codes map to more than one syndicate class of business. Consequently reporting at risk code level will not enable FPMA to fully map written income for class of business analysis. In addition, we consider that estimating written premium at risk code level involves greater use of assumptions / allocations than required for FPMA purposes. Therefore the categories to report against will be as per syndicate business plans.
	Whether reporting written premium in the main settlement currencies is as simple to complete as reporting in converted sterling, where the exchange rate applicable will change quarterly (or monthly)	There was a major preference for reporting in the main settlement currencies as this reduced the implications of fluctuating exchange rates. The reporting has now been constructed on this basis
DATA INPUT	Difference in the description of brokerage in the column headers between columns 1 & 3	Both columns should state Gross of Brokerage and Commissions, the new form to be returned has been corrected in this respect
	Which columns will need to be completed on the return	On the revised form attached with this Market Bulletin the columns for Gross written premiums will be required to be completed in the three major settlement currencies (£, US\$ and CAN\$)
	Is the brought forward the figure from the previous month's return or a revaluation of the income at current month end rates	The new form no longer includes a brought forward figure from the previous month end. Updated estimates will be reflected in the new cumulative figure received from each agent for the next month
	Is the data collected by year of account or calendar year	The cumulative data to be input is for the current underwriting year of account only
	Currently PIM data collection starts at 2 months before the calendar year begins	This will not apply within this return. Agents will be only required to report their cumulative written premium for 2003 yoa for each of the 12 calendar months of the year. The first return for the 2004 yoa will be due 10 February 2004
	Which classes of business should the agent be reporting against	The premium income information should be reported against the classes of business as stated within the syndicate business plans.

DATA INPUT (CONT'D)	Which exchange rate should be used for other settlement currencies	The exchange rate to be used should be the same as that used for your internal reporting purposes. This may be PIM rates, year end rates, quarter end or month end rates. Lloyd's will use data at settlement currency level.
	Which years of account should be reported	Only the current underwriting year of account information is being collected in this return
	Is the premium income to reported on a written or inception basis	Written premium income shall be determined on an inception date basis including all ultimate premiums attaching under binders and line slips
CAPACITY MANAGEMENT	Concerns raised over capacity management using fluctuating exchange rates	PIM exchange rates will continue to be issued for the purpose of capacity management
	Capital providers like to receive premium income information on a signed basis	Internal use of signed premium income data can still exist
	Will monitoring of capacity management be conducted at class of business level	The onus is for the syndicate to discuss with risk management if they are likely to exceed their capacity in aggregate
	Do premium forecasts in the business plans now need to be gross of brokerage and commission	Yes, business plans should forecast gross written premiums
	How will details of previous open years premium movement be collected	This data will be collected via the SQR/QMR on a whole account basis
	Will the same formula as applied to PIM 7 now be applied to the "PIM 7 equivalent" within the business plans	Yes, there has been no change in the formula
	What will be the effect of a mid year change in capacity or QQS application	This will be automatically picked up in the return due to increases in written premium during the relevant period
GAAP/IDA	Premium Income monitoring should be based on an inception date basis as this is more appropriate to GAAP accounting	For the purposes of this data collection Inception Date Allocation will apply.
	Should written premiums be reported per GAAP or estimated ultimate	Estimated ultimate should be used i.e. where a binder is written then the agent's best judgement as to the true amount that will be written under the binder should be included in the month that the binding authority incepts
BROKERAGE AND COMMISSION	How should profit commission be accounted	Profit commission and other charges which accrue based on the performance of the underlying insurance contract(s) should be included to the extent that it is possible to determine a reasonable estimate of the amounts that will become payable.
	A more detailed definition is required	For the avoidance of doubt, the only deductions that should be made relate to brokerage and commission. Other acquisition expenses including syndicate expenses allocated to acquisition costs should not be included on this return
	Should taxes and other levies be included in gross premium	No, gross premium should be net of taxes and levies. The deduction from gross premium should be only brokerage and commission
PREMIUM LEVY	How will this affect the premium levy charge	There will be no change in the premium levy, it will remain in the same form as it is currently collected
DATA PROTECTION	Who will have access to the data	The data will be for Lloyd's internal use only and not available to third parties. This data will be used as part of the benchmarking analysis feed from FPMA