Market Bulletin

LLOYD'S

One Lime Street London EC3M 7HA

FROM:	Head, Market Reporting
LOCATION:	86/G5
EXTENSION:	5129
DATE:	27 August 2003
REFERENCE:	Y3124
SUBJECT:	**MEMBERSHIP & UNDERWRITING REQUIREMENTS: COMING-INTO-LINE FOR 2004**
ATTACHMENTS:	**2003 Continuous Solvency Adjustment Statement**
ACTION POINTS:	**Rules for the coming-into-line exercise for the 2004 year of account**
DEADLINE:	**For immediate attention** **Managing Agents: 9 October 2003**

Following a review of the rules relating to the coming-into-line (CIL) exercise for the 2004 year of account, the Franchise Board has agreed the following concessions. These are effectively a continuation of last year's arrangements and have been approved by the Financial Services Authority.

The arrangements are as follows:

1 Adjustment for continuous solvency

Active members participating on the 2003 year of account will be permitted to use a credit of up to 3% of allocated premium limit (APL) towards satisfying their net FAL requirement for 2004 coming-into-line exercise. This is subject to the completion of formal statements from each active 2003 syndicate (copy attached at appendix 1) that a profit of at least 3% of capacity is expected. Where a managing agent is unwilling or unable to provide assurance that it expects a profit of at least 3% on a syndicate, members will not be allowed a credit in respect of their participation on that syndicate. Managing agents should return the attached statement to either of the contacts, in the Market Reporting Department, shown at the end of this bulletin by Thursday 9 October 2003.

It should be noted that where a managing agent provided a similar statement last year for the 2002 year of account and the actual 2002 solvency surplus at 31 December 2002 was less than 3%, or any other circumstances prevail which cast doubt on the prudence of such an adjustment, then discussions will be held with the managing agent to determine whether it is prudent to permit a credit in respect the 2003 year of account. This review will compare the syndicate's forecast performance for 2003 against 2002 and build on the direct revenue returns, the syndicate quarterly returns and the half-year annual accounting returns.

The 3% continuous solvency credit cannot be utilised towards clearing solvency shortfalls nor can it be utilised within the Release Test calculations.

In the event of a major loss (defined as a net loss in excess of £1bn to the Lloyd's Market) this concession may be restricted or withdrawn. If such a loss occurs prior to 31 October 2003, the Market will be advised as soon as possible of any restrictions on or withdrawal of the credit.

2 Liquidity Cash Call (LCC) Credits

LCC credits will be allowed for all cash calls made on the 2001 and 2002 years of account in calendar year 2003 subject to a limit of 75% of the liquidity element of the cash call and 5% of the member's net FAL requirement. Such credit will only apply to cash calls paid prior to the CIL date. The LCC credit will only be relevant to that part of the cash call on a 2001 or 2002 year of account in excess of the solvency deficiency to be covered within the CIL exercise. This is due to the fact that for CIL purposes, credit is given for cash calls made in 2003 against the solvency deficiencies declared at 31 December 2002.

The quantum of such credit will be based upon the amount of any cash call in excess of the higher of the solvency deficit at 31 December 2002 and the forecast loss, before personal expenses, declared in the June 2003 Syndicate Quarterly Return. The recognition of any deterioration in 2003, to limit the liquidity cash call credit, is consistent with the continuous solvency adjustment above.

For example: Where a syndicate has a solvency deficiency at 31 December 2002 of £1,000,000 but a forecast loss after personal expenses of £1,250,000 at 30 June 2003 and a cash call of £1,500,000 has been made in 2003, the amount representing the liquidity element of the cash call would be £250,000. It would be this value which would be subject to the LCC limits ie. 75% of the liquidity element restricted to 5% of the net FAL requirement. No deduction may be made to the extent that it reduces the FAL below the minimum level of FAL. A schedule of the syndicates in relation to such credits will be sent to all members' agents.

Members' agents and direct corporate members are reminded that any member with unpaid cash calls at the CIL date will not be allowed to underwrite for the 2004 year of account.

3 Minimum Capital Requirement / Other Personal Wealth (OPW)

Individual members will continue to be permitted to reduce their net funds at Lloyd's requirement by up to 20% in respect of other personal wealth (OPW). The minimum capital requirement is to remain at 40% of overall premium limit (OPL). However, individual members may utilise OPW towards meeting the minimum / RBC requirement provided at **all** times the minimum level of funds at Lloyd's is 35% of OPL. Examples of how this works in practice are attached at Appendix 2.

4 Re-calculation of setaside fund

Individual members who converted (or group corporate members which consolidated) may re-calculate the setaside funds of the ceasing member by reference to solvency data at 31 December 2002. Thus the amount that must be retained in the setaside funds will be not less than the ceasing members' net solvency deficiencies on all naturally open years together with the solvency deficiencies on all run-off years as at 31 December 2002. Generally, therefore, any surplus as a result of this re-calculation may be made interavailable to the conversion vehicle (continuing corporate member).

Members' agents and direct corporate members are reminded that the four RBC/capital tests detailed in Market Bulletins reference Y2045 and Y2373 remain unchanged and therefore part of the additional funds made interavailable may have to be earmarked to cover the RBC backyear$_s$ in the 2004 CIL exercise.

Revised legal documentation relating to the various trust funds will need to be completed.

5 Concentration disallowance

For the purposes of the CIL calculation, the value of assets in excess of the concentration limits which have been disallowed for solvency may be taken into account.

6 Membership & Underwriting Requirements

The Membership & Underwriting Requirements (M&URs) will be issued shortly under cover of a separate bulletin. There are no substantive amendments to the M&URs.

Any queries on the CIL rules should be addressed to either Kevin Nethersell (kevin.nethersell@lloyds.com) on Lloyd's extension 6253 or Mike Steer (mike.steer@lloyds.com) on Lloyd's extension 5709.

This bulletin has been sent to the compliance officer of all managing agents, members' agents, direct corporates and recognised auditors, and for information, to all market associations including the ALM.

John Parry

APPENDIX 1

2003 CONTINUOUS SOLVENCY ADJUSTMENT STATEMENT

SYNDICATE NO……………………………………..

MANAGING AGENT……………………………………………………..

To the Council of Lloyd's

In accordance with the market bulletin entitled "Membership & Underwriting Requirements: Coming into line for 2004" dated 27 August 2003 the Board of directors has reviewed Syndicate […..…] financial position.

Based upon current Market conditions, the syndicate's loss development to date and the syndicate's latest forecast projections the Board is able to confirm that the projected final profit on closure of the 2003 year of account of syndicate [….…] is expected to be in excess of 3% of its capacity after deduction of personal expenses.

Approved by the Board on…………………………………..

Signed………………………………………………………. (Active Underwriter)

……………………………………………………… (Director)

TO BE RETURNED BY 9 October 2003

To: Kevin Nethersell, MRD, G5/86
Fax: (020) 7327 6178

OTHER PERSONAL WEALTH - CIL 2004					
	Member A	Member B	Member C	Member D	Member E (UK Motor)
RBC Requirement	50%	45%	40%	30%	30%
OPW (20%) MAX	10%	9%	8%	6%	6%
Continuous Solvency Credit	3%	3%	3%	3%	3%
Funds at Lloyd's	37%	35%	35%	35%	32%
Continuous Solvency Credit	3%	3%	3%	3%	3%
OPW (Used)	10%	7%	2%	2%	0%
RBC / MIN REQUIREMENT	50%	45%	40%	40%	35%