Market Bulletin

LLOYD'S

One Lime Street London EC3M 7HA

FROM:	Head, Accounting Policy
LOCATION:	86/G5
EXTENSION:	5364
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REFERENCE:	Y3187
SUBJECT:	LLOYD'S MOVE TO ANNUAL ACCOUNTING
SUBJECT AREA(S):	
ATTACHMENTS:	
ACTION POINTS:	For information only
DEADLINE:	

Following wide consultation with the market, the Franchise Board agreed at its meeting last month that Lloyd's syndicate accounts should be prepared on an annual accounting basis under UK Generally Accepted Accounting Principles (GAAP) from 1 January 2005.

The benefits of initially adopting UK GAAP include:

- UK GAAP is well understood in the market. It is also compatible with a move to International Accounting Standards (IAS) in due course as the UK Accounting Standards Board plans to bring the provisions of UK GAAP substantially into line with IAS by 2005.

- It minimises the requirement for system changes in the short term and therefore removes a potential requirement for significant expenditure at this stage.

- It avoids the uncertainties about the final form of a number of international accounting standards that are currently being developed, in particular in relation to the measurement and disclosure of insurance contracts.

- Conversion of UK GAAP results to US GAAP results is relatively straightforward.

Summarised below are the key changes to syndicate accounts following the move to full annual accounting.

1. Syndicate accounts will include:

   - syndicate profit and loss account, i.e. technical account for the calendar year (instead of three separate underwriting accounts for each year of account);
   - syndicate balance sheet showing technical provisions at the year end analysed as between unearned premium reserves, unexpired risk provisions and claims provisions (instead of showing the reinsurance to close for the closing year and the open year balances);
   - a syndicate cash flow statement; and
   - notes to the accounts (including segmental analysis similar to that provided in insurance company accounts).

2. Gross premiums will be disclosed before deduction of brokerage and other acquisition costs.
3. Premiums will be recognised on an earned basis, by reference to the period of the risk.
4. Reinsurance costs will be matched to premiums earned.
5. A provision for all claims incurred to the calendar year end (on all years of account) will be made at the balance sheet date.
6. Comparatives for 2004 year end will be required.

Lloyd's will continue to work closely with the market and syndicate auditors in achieving full implementation of annual accounting. The impact of the move to annual accounting on related areas (e.g. solvency, taxation and distribution) will be advised to the market shortly.

Any queries on this bulletin should be addressed to Michael Peters on extension 6510 or by email to michael.peters@lloyds.com.

This bulletin is being sent to all managing agents, members' agents, direct corporate members, recognised accountants and market associations.

Patricia Hakong