

FROM: Head, Market Analysis
LOCATION: FPMA/86/G5
EXTENSION: 5694
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REFERENCE: Y3190
SUBJECT: LLOYD'S RISK CODES
SUBJECT AREA(S):
ATTACHMENTS: Yes
ACTION POINTS: **Managing agents to note revisions to major Lloyd's risk codes to be applied to business incepting on or after 01/01/04**
DEADLINE: **Revised risk codes to be utilised at the earliest practical opportunity and at the latest by 01/01/04**

One of the primary objectives under Lloyd's Franchise proposals is that the Market aims to maximise returns to capital providers. Inherent within this is the requirement for the Franchisor to create appropriate tools with which to identify underperformance at an early stage of development and take action to minimise its impact. Over the course of the last 18 months, Lloyd's Market Analysis Department has developed sophisticated benchmarking models capable of comparing syndicate and, more recently, line of business performance against notional Market medians. These models depend upon reliable data in terms of premiums and claims, but also in terms of all business written being coded appropriately in order that comparisons across the Market are as relevant as possible.

Therefore, following consultation with market practitioners regarding Lloyd's risk codes, revisions have been made to the codes in order to ensure that business written is being coded in such a manner as to permit the most appropriate comparisons. Under the current risk codes, there is a skewing of premiums towards a relatively small number of risk codes, which might lead to heterogeneous risks are being classified under the same category.

It is this small group of codes with large premium allocations that is the principal focus of this bulletin. These large codes are being broken down into smaller units to allow more homogeneous comparisons to be made, and it is proposed that certain smaller codes are grouped together into more meaningful blocks of premium. Whilst the long term objective is to reduce the number of risk codes, in the short term these changes will lead to a slight increase in the overall number of codes in use. Details of the codes to be disaggregated and the new codes being created are attached at Appendix A. Whilst it is intended that the new coding will be introduced from 01/01/2004, it is recognised that business is already being quoted/written using the current codes and a transition period during which old and new codes are used concurrently is therefore unavoidable. However, as far as is practical,

underwriters are requested to discontinue the use of the current codes and implement the disaggregated codes once revised guidance notes are released (see below) – **this will have no impact upon 2004 RBC requirements.**

It is intended that a number of codes, which are either no longer used or used to code very small amounts of premium, will be discontinued and the relevant premiums directed into other, larger codes. Retirement of risk codes will be reflected in the 2005 Year of Account RBC model, the first scheduled release of which is expected to be at the end of May, 2004 and therefore agreement on retirement of codes will be necessary by the end of April, 2004. Agents should note that although retirement of these codes will not formally occur until 01/01/2005, in the Business Planning process for the 2005 Year of Account during the summer of 2004, **it will not be possible to use the retired codes.** The codes, whose retirement is being considered, are listed at Appendix B (please note that discussions with the Market continue with regard the retirement of codes and the appropriate re-allocation of premiums.)

It is recognised that the guidance notes for our risk codes are out of date. It is intended that, following further consultation with the Market, revised and improved guidance notes will be distributed to agents as soon as possible and not later than 5th December. These revisions to risk codes are part of an on-going process and in consultation with the Market it is possible that further changes to codes may be introduced for the 2005 year of account. Similarly, where changes to codes impact data reporting such as to the FSA or OECD, relevant mappings will be issued with the revised guidance notes. It is not anticipated that any material changes to the current mappings will arise.

It is important to note that in addition to these revisions to the coding of risks, a new review process will be introduced to ensure their appropriate use. This will be particularly important during the initial transition period and agents are asked to remind underwriters of the need for extra care not only when leading risks, but also where following.

Any questions relating to the changes being made to the risk coding procedures should be directed to Doug Morton on extension 5694 or at douglas.morton@lloyds.com or to Guy Sellers on extension 6569 or at guy.sellers@lloyds.com.

Doug Morton

Appendix A

Risk code disaggregations:

Old risk codes	Old description	Suggested new codes	New description/ definition
DO	DIRECTORS AND OFFICERS LIAB EXCL FINANCIAL INST	<ul style="list-style-type: none"> • D2 • D3 	<ul style="list-style-type: none"> • Directors and officers liab incl. USA, excl. financial inst • Directors and officers liab excl. USA, excl. financial inst
DM	DIRECTORS AND OFFICERS LIAB FOR FINANCIAL INST	<ul style="list-style-type: none"> • D4 • D5 	<ul style="list-style-type: none"> • Directors and officers liab for financial inst incl. USA • Directors and officers liab for financial inst excl. USA
H	HULLS OF AIRCRAFT EX SPACE OR ACV EX WRO	<ul style="list-style-type: none"> • H2 • H3 	<ul style="list-style-type: none"> • Airline hull • General aviation hull
KK	PERSONAL ACCIDENT AND HEALTH	<ul style="list-style-type: none"> • K2 • K3 • K4 	<ul style="list-style-type: none"> • Personal accident & health incl. sports accidental death and kidnap & ransom, but excl. sports disability and travel package schemes • Personal accident & health incl. sports disability other than accidental death • Personal accident & health for travel package schemes
L	AIRCRAFT OPERATORS AND OWNERS LEGAL LIABILITY	<ul style="list-style-type: none"> • L2 • L3 	<ul style="list-style-type: none"> • Airline liability • General aviation liability
MK	UK MOTOR VEHICLE COMPREHENSIVE	<ul style="list-style-type: none"> • M2 • M3 • M4 	<ul style="list-style-type: none"> • UK motor comprehensive for private car, incl. motorcycle • UK motor comprehensive for fleet and commercial vehicle • UK motor comprehensive for other motor excl. private car, motorcycle, fleet and commercial vehicle
ML	UK MOTOR VEHICLE NON COMPREHENSIVE	<ul style="list-style-type: none"> • M5 • M6 • M7 	<ul style="list-style-type: none"> • UK motor non comprehensive for private car, incl. motorcycle • UK motor non comprehensive for fleet and commercial vehicle • UK motor non comprehensive for other motor excl. private car, motorcycle, fleet and commercial vehicle
PD	ALL RISK PHYSICAL LOSS DAMAGE NO DIRECT PPNL RI	<ul style="list-style-type: none"> • B2 • B3 • B4 • B5 • P2 • P3 • P4 • P5 • P6 	<ul style="list-style-type: none"> • Physical damage binder for private property in USA • Physical damage binder for commercial property in USA • Physical damage binder private property, excl. USA • Physical damage binder for commercial property, excl. USA • Physical damage for primary layer property in USA, excl. binders • Physical damage for primary layer property, excl. USA, excl. binders • Physical damage for full value property in USA, excl. binders • Physical damage for full value property, excl. USA, excl. binders • Physical damage for excess layer property in USA, excl. binders

		<ul style="list-style-type: none"> • P7 	<ul style="list-style-type: none"> • Physical damage for excess layer property, excl. USA, excl. binders
PI	E AND O OR PROFESSIONAL INDEM EXCL FINANCIAL INST	<ul style="list-style-type: none"> • E2 • E3 • E4 • E5 • E6 • E7 • E8 • E9 	<ul style="list-style-type: none"> • Professional indemnity/ E and O for legal professions incl. USA • Professional indemnity/ E and O for legal professions excl. USA • Professional indemnity/ E and O for accountants incl. USA • Professional indemnity/ E and O for accountants excl. USA • Professional indemnity/ E and O for architects and engineers incl. USA • Professional indemnity/ E and O for architects and engineers excl. USA • Miscellaneous professional indemnity/ E and O incl. USA, excl. legal/ accountants/ architects/ engineers/ financial institutions • Miscellaneous professional indemnity/ E and O excl. US, excl. legal/ accountants/ architects/ engineers/ financial institutions
PM	PROFESSIONAL INDEMNITY FOR FINANCIAL INSTITUTIONS	<ul style="list-style-type: none"> • F2 • F3 	<ul style="list-style-type: none"> • Professional indemnity/ E and O for financial institutions, incl. USA • Professional indemnity/ E and O for financial institutions, excl. USA
WC	WORKERS COMPENSATION AND EMPLOYERS LIABILITY	<ul style="list-style-type: none"> • W2 • W3 • W4 	<ul style="list-style-type: none"> • US workers compensation • UK employers liability • International workers comp./ employers liability, excl. USA and UK

Appendix B

In addition to the old disaggregated codes (i.e. PD, DO/DM, H, KK, L, MK, ML, PI/PM, WC, NA, NC, UA, UC) the following codes are proposed codes for retirement at 1/1/05:

Risk Code	Description	Comment
AR	AVN WHOLE ACCT STOP LOSS AND OR AGG EXCESS OF LOSS	• Negligible premium attaches to this code
AX	AVIATION LIABILITY EXCESS OF LOSS	• Negligible premium attaches to this code
BS	MORTGAGE INDEMNITY UK PRIVATE	• Negligible premium attaches to this code
CN	CREDIT NONPROPORTIONAL TREATY BUSINESS	• Negligible premium attaches to this code
CP	CONTRACT FRUSTRATION EXCLUDING WAR AND INSOLVENCY	• Negligible premium attaches to this code
F	FIRE AND PERILS	• Shares similar characteristics PD
FC	COLLISION SALVAGE GENERAL AVERAGE GUARANTEES	• Negligible premium attaches to this code
FR	FURRIERS	• Negligible premium attaches to this code
FS	SURETY BOND RI WEF 311001 EXCL SB COUNTRIES	• Negligible premium attaches to this code
HA	HAIL	• Negligible premium attaches to this code
HX	XOL HULLS OF AIRCRAFT INC SPARES AND LOU EX WRO	• Negligible premium attaches to this code
KL	PERSONAL ACCIDENT AND HEALTH LMX	• Negligible premium attaches to this code
LJ	FOR USE BY LLOYDS JAPAN ONLY	• Negligible premium attaches to this code (none since 2001)
MA	UK MOTOR VEHICLE PHYSICAL DAMAGE ONLY	• Negligible premium attaches to this code
MD	OVERSEAS MOTOR PHYS DAM EX USA CAN EU AND EEA	• One code for overseas motor, ex US/Canada/EU/EEA
ME	OVERSEAS MOTOR TPL EX USA CAN EU AND EEA	• Negligible premium attaches to this code
MM	EU AND EEA MOTOR PHYSICAL DAM ONLY EXCL UK	• Negligible premium attaches to this code
MN	EU AND EEA THIRD PARTY LIAB ONLY EXCL UK	• Negligible premium attaches to this code
OX	XOL YACHTS INC WAR EX WRO	• Negligible premium attaches to this code
PE	LIQUIDATED DAMAGES FORCE MAJEURE	• Negligible premium attaches to this code
PF	FILM EXCLUDING FILM COMPLETION BONDS	• Negligible premium attaches to this code
PN	NON APPEARANCE	• Negligible premium attaches to this code
PP	ESTATE PROTECTION	• Negligible premium attaches to this code
PS	PERSONAL STOP LOSS	• Negligible premium attaches to this code

PW	WEATHER INCLUDING PLUVIUS	<ul style="list-style-type: none"> • Negligible premium attaches to this code
PZ	PRIZE INDEMNITY INCLUDING HOLE IN ONE	<ul style="list-style-type: none"> • Negligible premium attaches to this code
Q	CARGO WAR AND OR CONFISCATION RISKS ONLY	<ul style="list-style-type: none"> • Negligible premium attaches to this code
QL	WAR ON LAND IRO GOODS IN TRANSIT	<ul style="list-style-type: none"> • Negligible premium attaches to this code
QX	XOL CARGO WAR AND OR CONFISCATION RISKS ONLY	<ul style="list-style-type: none"> • Negligible premium attaches to this code
SL	SPACE RISK LIABILITY NO PRODUCTS LEGAL LIABILITY	<ul style="list-style-type: none"> • Negligible premium attaches to this code
SR	AGG STOP LOSS AND XOL MARINE OUTWARD WHOLE ACCOUNT	<ul style="list-style-type: none"> • Negligible premium attaches to this code • Used to put whole a/c stop loss recoveries when completing the SRD return. Causes distortion to the net loss figures • Risk codes should used for inwards business only
TE	MALICIOUS DAM AND SABOTAGE LSW237 237A OR 239	<ul style="list-style-type: none"> • Negligible premium attaches to this code
WS	EXTENDED WARRANTY STOP LOSS	<ul style="list-style-type: none"> • Negligible premium attaches to this code
X4	NM LIABILITY EXCESS OF LOSS ON EXCESS OF LOSS	<ul style="list-style-type: none"> • Negligible premium attaches to this code
X5	ENERGY ACCOUNT XOL ON XOL INC WAR	<ul style="list-style-type: none"> • Negligible premium attaches to this code
XD	PER RISK EXCESS OF LOSS PROFESSIONAL INDEM REINS	<ul style="list-style-type: none"> • Negligible premium attaches to this code
XX	NON MARINE PROPERTY PECUNIARY LOSS LMX	<ul style="list-style-type: none"> • Negligible premium attaches to this code
XZ	AVIATION XOL INC XOL ON XOL AND WAR	<ul style="list-style-type: none"> • Negligible premium attaches to this code