

**FROM:** Head, Market Analysis  
**LOCATION:** FPMA/86/G5  
**EXTENSION:** 5694  
**DATE:** 8 December 2003  
**REFERENCE:** Y3203  
**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**

Further to the release of Market Bulletin Y3190 on the 21<sup>st</sup> November, this Bulletin and the attached guidance notes provide additional information on the changes being made to Lloyd's risk codes for the 2004 year of account. Specifically, the finalisation of the disaggregations of the large risk codes (listed in Appendix A in the previous Bulletin) which are to be applied to risks incepting on or after 1/1/2004 (and signing into the 2004 and subsequent years of account). The attached notes provide the descriptions of the new codes, guidance notes for their application (Appendix A) and mappings of the codes to the relevant Market code, OECD code, Surplus Risk Group and FSA Accounting Class (Appendix B).

For the avoidance of doubt, please note that the proposals for the discontinuation of a number of risk codes (listed in Appendix B in the previous Bulletin) remain the subject of discussion with Market practitioners and the LMA's Business Panels and therefore no changes will be made to those codes for the 2004 year of account (although underwriters should stop using the old "aggregated" risk codes with immediate effect, i.e. PD, KK, MK etc). This process will be completed in the early part of 2004 in time for the next release of the RBC software, scheduled for the end of May, 2004, and before the first Syndicate Business Forecasts for the 2005 year of account. Please also note that in Appendix B of the previous Bulletin, reference was made to the disaggregation of codes NA, NC, UA and UC. These codes are NOT being changed for the 2004 year of account and were therefore listed on the Appendix in error.

Agents are again reminded that the revised risk codes should be used at the earliest opportunity for risks incepting on or after 1/1/2004. Thereafter, Lloyd's will be carrying out frequent checks to ensure the appropriate use of the codes and, during the initial transition phase, Agents are requested to remind underwriters of the need to exercise care when applying codes both in a leading and following capacity.

The new/ amended guidance notes are not yet available on the Lloyd's L-Net website (L-Net/Infobase/Business Codings and Procedures/risk/audit coding information). Further work will be done on the entire risk code guidance notes to bring the notes entirely up to date and make them more user-friendly in terms of access and printing and this process will be completed in the early part of 2004.

Any questions relating to the changes being made to the risk coding procedures should be directed to Doug Morton (ext. 5694 or [douglas.morton@lloyds.com](mailto:douglas.morton@lloyds.com)) or Guy Sellers (ext. 6569 or [guy.sellers@lloyds.com](mailto:guy.sellers@lloyds.com))

Doug Morton

## **ADDITIONAL GUIDANCE NOTES**

The intention of these notes is to provide guidance on the application of the new risk codes to be introduced for risks incepting on or after 1/1/2004 (and signing into the 2004 and subsequent years of account) and a fuller description of business to be included (the website is currently limited to a 50 character spaces).

Some additional guidance has also been provided on the existing risk codes (including the redefinition of risk code PL) and certain existing general guidance has been amended and/ or re-emphasised.

Further work will be done on the entire risk code guidance notes (currently shown on Lloyd's L-Net website) to bring them up to date and make them more user-friendly in terms of access and printing and this process will be completed in the early part of 2004.

1. **GENERAL (extracts/ amended extracts from existing "Operations of the Scheme" and additional guidance. Amended extracts have been underlined. New guidance topics have been designated "new").**

- 1.1 **Responsibility for coding risks (supercedes section 3.2 of existing guidance).**

"It is the responsibility of the leading Lloyd's underwriter on the risk to classify the risk with the appropriate risk code(s). However, it is also the responsibility of all following underwriters to ensure that the correct code(s) has been allocated. The classifications will apply to all Lloyd's syndicates on the risk. However, where, for example, a "package" policy comprises different sections which are insured separately by different syndicates, the underwriter of the leading syndicate of each such section must classify the business for the syndicates in that section.

Should a following underwriter wish to amend a risk code, he should refer the matter direct to the leading underwriter. Codes applied by the leader should not be altered or added to without the leader's approval. It should be noted that additional codes applied by following underwriters for their own reference purposes create additional signing entries for all underwriters. This also entails more work for the broker and extra costs for signing additional premium entries to each underwriter.

Should there be any doubt as to the correct code or codes to be used, the matter should be referred in the first instance to the Enquire Helpline on ext. 2999, for assistance. The relevant market association or the Lloyd's Franchise Performance Directorate (FPD) should also be able to provide guidance, particularly with regards to the new codes.

Setting up of new codes: New codes may be prescribed subject to the support of the relevant underwriters' association and the approval of Lloyd's. Applications should be made to the Head of Market Reporting."

## 1.2 Selection of codes (supercedes section 3.2 of existing guidance)

“All insurance and reinsurances should be coded under the specific category of business which most appropriately reflects the business being underwritten.....If there is a specific classification into which the risk falls, the leading underwriter should select the code for that risk.....If the contract includes another class of business and/ or more than one territory (if separately distinguished by risk code), underwriters should refer to “Multiple risks” for further guidance (see point 1.3 below).

Should the risk be a reinsurance of a specific class of business then the specific inwards excess of loss code which most appropriately reflects the business being written should be selected. An example would be the direct insurance of a vessel which carries the code 'T', but code TX when protecting an insurer on an excess of loss basis for his writings of vessels. If the risk in question is a facultative reinsurance then the direct risk code should be used, rather than the specific inwards excess of loss code.

However, where the reinsurance protects all the writings of an insurer or underwriter (whole account excess of loss reinsurance) then the appropriate excess of loss reinsurance code must be selected (XT, XP etc).

Codes to which specific premium income monitoring requirements apply (i.e. CF, WL, QL, CR, CP, BS, SB, CN, FS, FM, FC and FG) must be split out from the more general inwards excess of loss and whole account codes mentioned above.

If there is no specific classification, the leading underwriter should take care to select the most appropriate code(s).

Certain liability categories require underwriters to denote whether the wording is on a claims made or losses occurring basis. Further, a number of risk codes differentiate between "including USA" and "excluding USA" (underwriters should refer to “USA/non-USA designated risk codes” for further guidance – see point 1.6 below).”

## 1.3 Multiple risks (supercedes section 4.1 of existing guidance).

“For insurances providing coverage across two or more risk codes (including those denoting both risk and territorial exposure), the leading underwriter should code the predominant parts of the total risk having regard to the overall exposure of risk and the most likely incidence of future claims. The leading underwriter should endeavour to sub-divide a lesser element of the overall exposure if considered material (particularly where large premiums are involved) with an appropriate division of premium.

In the case of large global policies, the leading underwriter should endeavour to code the predominant parts of the total risk and sub-divide exposures as appropriate, including where risk codes distinguish between territories, with an appropriate division of premium. Underwriters should refer to “USA/ non-USA designated risk codes” for further guidance (see point 1.6 below).

In the case of certain whole account excess of loss reinsurance contracts, it is not always possible to make an accurate assessment of the division of the business over the various risk classifications. The business must, nevertheless, be classified (inter alia) for the purpose of the returns made to regulatory bodies, and underwriters are, therefore, requested to make as realistic an assessment as possible of the principal risk classification exposure or exposures.”

#### **1.4 Global policies (new)**

Refer to “Multiple risks” (see point 1.3 above) and “USA/ non-USA designated risk codes” (see point 1.6 below) for guidance.

#### **1.5 Binders, lineslips, treaties and covers (new)**

In addition to the existing guidance on “Binding Authorities, Treaties and Covers”, it should be noted that the new codes should only be allocated to binders, lineslips, treaties and covers that incept on or after 1/1/2004 and signing into the 2004 and subsequent years of account. Therefore with binders, lineslips, treaties and covers that attach prior to 1/1/2004, but with declarations attaching during 2004 or subsequent calendar years and signing into the 2003 or prior years of account, the old “aggregated” risk codes (e.g. PD, KK, MK etc.) should be used.

Where binders, lineslips, treaties and covers include a mixture of risk categories, underwriters should refer to “Selection of codes” (see point 1.2 above) and “Multiple risks” (see point 1.3 above) for further guidance.

It should be noted that specific risk codes have been introduced for property binding authority business (see point 2.7 below, “Property risks.....”).

#### **1.6 USA / non-USA designated risk codes (new)**

Risk codes referring to “including USA” should be applied to risks located/ principally located in the USA and/ or significantly exposed to potential future claims emanating from the USA.

Risk codes referring to “excluding USA” should be applied to those risks located/ principally located outside the USA and/ or significantly NOT exposed to potential future claims emanating from the USA.

It is recognised that territorial exposure is defined in a variety of ways according to different classes of business. However determined, the principles of the above guidance apply.

Notwithstanding the above, underwriters must continue to have due regard to the US Classification requirements for US regulated business. Underwriters are reminded that Lloyd's risk codes must not influence the allocation of the US Classifications for regulatory purposes which must be considered separately.

## **2. SPECIFIC (additional guidance to “Specific Coding Information”)**

### **2.1 Airline/ general aviation (new)**

The codes below replace the old H code:

**H2: Airline hull**  
**H3: General aviation hull**

The codes below replace the old L code:

**L2: Airline liability**  
**L3: General aviation liability**

“Airline” is defined as large and/ or high-valued and/ or high impact exposed commercial passenger/ cargo carrying airliners/ airline fleets.

“General Aviation” is defined as any other aircraft including small commercial operations, corporate jets, helicopters and other private aircraft.

Underwriters should note that, for large package risks, hull and liability exposures should be coded separately.

### **2.2 Directors and officers (new)**

The codes below replace the old DO code:

**D2: Directors and officers liability incl. USA, excl. financial institutions**  
**D3: Directors and officers liability excl. USA, excl. financial institutions**

The codes below replace the old DM code:

**D4: Directors and officers liability for financial institutions incl. USA**  
**D5: Directors and officers liability for financial institutions excl. USA**

Underwriters should refer to “USA/ non-USA designated codes” for further guidance (see point 1.6 above).

### 2.3 Financial institutions (new)

Refer to “Directors and officers” (see point 2.2 above) and “Professional indemnity/ E and O” (see point 2.6 below) for new risk codes relating financial institutions’ D&O and financial institutions’ PI/ E&O.

### 2.4 General liability

Underwriters should ignore reference made in Market Bulletin Y3190 (dated 21/11/2003) to the proposed retirement of NA, NC, UA and UC as this was an error.

However, underwriters should refer to “USA/ non-USA designated codes” (see point 1.6 above) and to “Risk code PL” (see point 2.8 below) for guidance.

### 2.5 Personal accident and health (new)

The codes below replace the old KK code:

- KG: Personal accident & health incl. sports accidental death and kidnap & ransom, but excl. sports disability and travel package schemes**
- KS: Personal accident & health incl. sports disability other than accidental death**
- KT: Personal accident & health for travel package schemes including evacuation, repatriation, credit card, but excluding personal accident benefits only**

Note: Underwriters should ignore the previously proposed alpha/ numeric coding referred to in Market Bulletin Y3190 (dated 21/11/2003) and adopt the new alpha/ alpha codes detailed above.

### 2.6 Professional indemnity/ E and O (new)

The codes below replace the old PI code:

- E2: Professional indemnity/ E and O for legal professions incl. USA**
- E3: Professional indemnity/ E and O for legal professions excl. USA**
- E4: Professional indemnity/ E and O for accountants incl. USA**
- E5: Professional indemnity/ E and O for accountants excl. USA**
- E6: Professional indemnity/ E and O for architects and engineers incl. USA**
- E7: Professional indemnity/ E and O for architects and engineers excl. USA**
- E8: Miscellaneous professional indemnity/ E and O incl. USA, excl. legal/ accountants/ architects/ engineers/ financial institutions**
- E9: Miscellaneous professional indemnity/ E and O excl. US, excl. legal/ accountants/ architects/ engineers/ financial institutions**

The codes below replace the old PM code:

- F2: Professional indemnity/ E and O for financial institutions, incl. USA**
- F3: Professional indemnity/ E and O for financial institutions, excl. USA**

Underwriters should refer to “USA/ non-USA designated codes” for further guidance (see point 1.6 above)

## 2.7 Property risks (direct and facultative) – (new)

The codes below replace the old PD code:

### Binders

- B2:** All risks of physical loss or damage binding authority for private property in USA  
**B3:** All risks of physical loss or damage binding authority for commercial property in USA  
**B4:** All risks of physical loss or damage binding authority for private property, excl. USA  
**B5:** All risks of physical loss or damage binding authority for commercial property, excl. USA

### Open market

- P2:** All risks of physical loss or damage for primary layer property in USA, excl. binders  
**P3:** All risks of physical loss or damage for primary layer property, excl. USA, excl. binders  
**P4:** All risks of physical loss or damage for full value property in USA, excl. binders  
**P5:** All risks of physical loss or damage for full value property, excl. USA, excl. binders  
**P6:** All risks of physical loss or damage for excess layer property in USA, excl. binders  
**P7:** All risks of physical loss or damage for excess layer property, excl. USA, excl. binders

The new property risk codes relate to all risks of physical loss or damage written on a direct or facultative basis. The following should NOT be included:

- \* proportional and non-proportional treaty reinsurance business;
- \* energy business defined as “Oil, Gas and Sulphur Exploration, Drilling and Production in the field, including oil, gas and sulphur refining, processing and sale of finished products”;
- \* UK household business (risk code HP should continue to be allocated to this business), and;
- \* Business more suitably coded to another specific code such as AG, CA, GS or HA.

The relevant new codes should only be applied to business that signs into 2004 or subsequent years of account. Therefore the old PD risk code should continue to be allocated to binders that attach prior to 1/1/2004, and therefore to any declarations to such binders made during 2004 or subsequent calendar years (see point 1.5 above, “Binders, lineslips, treaties and covers”).

“Full value” refers to a direct or facultative property risk that provides coverage in one contract for the total sum insured.

“Primary” refers to the first layer of a direct or facultative property risk that has been structured on a layered basis, with the upper layer(s) being placed as a separate contract.

“Excess layer” refers to the upper layer(s) of a direct or facultative property risk that has been structured on a layered basis, the primary layer being placed as a separate contract.

Underwriters should refer to “USA/ non-USA designated codes” (see point 1.6 above) and to “Multiple risks” (see point 1.3 above) for guidance on global and/ or package policies.

## 2.8 Risk code PL (new)

Risk code PL has been re-defined as follows:

**PL: Non Marine Legal Liability for Property Owners including retail / wholesale outlets and associated minor products completed risks, not more suitably coded NA, NC, UA or UC.**

## 2.9 Risk code SR (new)

Notwithstanding the application of LORS, it is the intention that all risk codes be used for inwards business only. Hitherto, SR has occasionally been used for outwards reinsurance and this has materially distorted market level net premium and claims information across certain risk categories.

In order to prevent getting a skewed picture of net underwriting statistics, it is proposed that this practice ceases. Underwriters are therefore duly advised that this code is being considered for possible amendment to reflect inwards business only (or possible retirement altogether) for the 2005 and/ or subsequent years of account.

## 2.10 UK Motor (new)

The codes below replace the old MK code:

**M2: UK motor comprehensive for private car, incl. motorcycle**  
**M3: UK motor comprehensive for fleet and commercial vehicle**  
**M4: UK motor comprehensive for other motor excl. private car, motorcycle, fleet and commercial vehicle**

The codes below replace the old ML code:

**M5: UK motor non comprehensive for private car, incl. motorcycle**  
**M6: UK motor non comprehensive for fleet and commercial vehicle**  
**M7: UK motor non comprehensive for other motor excl. private car, motorcycle, fleet and commercial vehicle**

## 2.11 Workers compensation/ EL (new)

The codes below replace the old WC code:

**W2: US workers compensation**  
**W3: UK employers liability**  
**W4: International workers compensation/ employers liability, excl. USA and UK**

Underwriters should refer to “USA/ non-USA designated codes” for further guidance as applicable (see point 1.6 above).

## Appendix B

<b>Risk Code</b>	<b>Start Year</b>	<b>Risk Code Description</b>	<b>Market Code</b>	<b>OECD Code</b>	<b>Surplus Risk Group</b>	<b>FSA Accounting Class</b>
B2	2004	PHYS DAMAGE BINDER FOR PRIVATE PPTY IN USA	NM	7	D	Property
B3	2004	PHYS DAMAGE BINDER FOR COMMERCIAL PPTY IN USA	NM	7	D	Property
B4	2004	PHYS DAMAGE BINDER FOR PRIVATE PPTY EX USA	NM	7	D	Property
B5	2004	PHYS DAMAGE BINDER FOR COMMERCIAL PPTY EX USA	NM	7	D	Property
D2	2004	D AND O LIAB USA EXCL FINANCIAL INSTITUTIONS	NM	8	E	Third party liability
D3	2004	D AND O LIAB EXCL USA EXCL FINANCIAL INSTITUTIONS	NM	8	E	Third party liability
D4	2004	D AND O LIAB FOR FINANCIAL INSTITUTIONS INC USA	NM	8	E	Third party liability
D5	2004	D AND O LIAB FOR FINANCIAL INSTITUTIONS EXCL USA	NM	8	E	Third party liability
E2	2004	PROF INDTY E AND O FOR LEGAL PROFESSIONS INC USA	NM	8	E	Third party liability
E3	2004	PROF INDTY E AND O FOR LEGAL PROFESSIONS EX USA	NM	8	E	Third party liability
E4	2004	PROF INDTY E AND O FOR ACCOUNTANTS INC USA	NM	8	E	Third party liability
E5	2004	PROF INDTY E AND O FOR ACCOUNTANTS EX USA	NM	8	E	Third party liability
E6	2004	PROF INDTY E AND O ARCHITECTS ENGINEERS INC USA	NM	8	E	Third party liability
E7	2004	PROF INDTY E AND O ARCHITECTS AND ENGINEERS EX USA	NM	8	E	Third party liability
E8	2004	MISC PROF IND E AND O INC USA EX E2 E4 E6 CODES	NM	8	E	Third party liability
E9	2004	MISC PROF IND E AND O EX USA EX E3 E5 E7 CODES	NM	8	E	Third party liability
F2	2004	PROF INDTY E AND O FOR FIN INSTITUTIONS INC USA	NM	8	E	Third party liability
F3	2004	PROF INDTY E AND O FOR FIN INSTITUTIONS EX USA	NM	8	E	Third party liability
H2	2004	AIRLINE HULL	AV	2	D	Aviation
H3	2004	GENERAL AVIATION HULL	AV	2	D	Aviation
KG	2004	PA AND HEALTH INC K AND R EXCL KS AND KT CODES	NM	6	D	Accident & health
KS	2004	PA AND HEALTH INC SPORTS DIS OTHER THAN ACC DEATH	NM	6	D	Accident & health
KT	2004	PA AND HEALTH FOR TRAVEL PACKAGE SCHEMES	NM	6	D	Accident & health
L2	2004	AIRLINE LIABILITY	AV	2	E	Aviation
L3	2004	GENERAL AVIATION LIABILITY	AV	2	E	Aviation
M2	2004	UK MOTOR COMP FOR PRIVATE CAR INCL MOTORCYCLE	NM	4	N/A	Motor
M3	2004	UK MOTOR COMP FOR FLEET AND COMMERCIAL VEHICLE	NM	4	N/A	Motor
M4	2004	OTHER UK MOTOR COMP EXCL M2 AND M3 CODES	NM	4	N/A	Motor
M5	2004	UK MOTOR NON COMP FOR PRIVATE CAR INCL	NM	4	N/A	Motor

		MOTORCYCLE				
M6	2004	UK MOTOR NON COMP FOR FLEET AND COMM VEHICLE	NM	4	N/A	Motor
M7	2004	OTHER UK MOTOR NON COMP EXCL M5 AMD M6 CODES	NM	4	N/A	Motor
P2	2004	PHYS DAMAGE FOR PRIM LAYER PPTY IN USA EX BINDERS	NM	7	D	Property
P3	2004	PHYS DAMAGE FOR PRIM LAYER PPTY EX USA EX BINDERS	NM	7	D	Property
P4	2004	PHYS DAMAGE FOR FULL VALUE PPTY IN USA EX BINDERS	NM	7	D	Property
P5	2004	PHYS DAMAGE FOR FULL VALUE PPTY EX USA EX BINDERS	NM	7	D	Property
P6	2004	PHYS DAMAGE FOR XS LAYER PPTY IN USA EX BINDERS	NM	7	D	Property
P7	2004	PHYS DAMAGE FOR XS LAYER PPTY EX USA EX BINDERS	NM	7	D	Property
W2	2004	US WORKERS COMPENSATION	NM	8	E	Third party liability
W3	2004	UK EMPLOYERS LIABILITY	NM	8	E	Third party liability
W4	2004	INTL WORKERS COMP AND EMPLOYERS LIAB EX USA AND UK	NM	8	E	Third party liability
PL	1991	NM LEGAL LIAB FOR PPTY OWNERS	NM	8	E	Third party liability