

**FROM:** Director, Franchise Performance  
**LOCATION:** 86/G5  
**EXTENSION:** 6743  
**DATE:** 18 March 2004  
**REFERENCE:** Y3269  
**SUBJECT:** **2005 PREMIUM INCOME MONITORING RATES OF EXCHANGE**  
**SUBJECT AREA(S):**  
**ATTACHMENTS:**  
**ACTION POINTS:** For use in 2005 Business Planning process  
**DEADLINE:** None

**2005 Exchange Rates**

The prescribed rates of exchange to be used for converting 2005 year of account premiums into £ Sterling for the purposes of the Business Planning process are as follows:-

US Dollar	1.74
Canadian Dollar	2.42
Euro	1.49
Australian Dollar	2.53
South African Rand	13.17
Japanese Yen	193.61
Swiss Francs	2.28

It has been the practice in the last few years to advise the market of rates of exchange to be used well in advance of the beginning of the relevant year of account. This is done in order to assist managing agents in planning future premium income levels.

It is recognised that the actual rates may vary from the above over the period of the 2005 year of account, but it is felt that the ability of the market to plan ahead is of primary importance.

## **2004 Exchange Rates**

It was acknowledged at the LMA Board on 12 January 2004 that the £Sterling profitability of Lloyd's might be adversely affected by maintaining the PIM rate at \$ US 1.56 for 2004, however it was decided that the rate should for the present remain unchanged. Precedence continues to be given to the prudential capital arguments and we do not wish to have any impact on the currency hedging arrangements that syndicates may have put in place.

This situation will continue to be reviewed and syndicates are free to discuss such matters with the Franchise Performance Directorate.

## **Exchange Rate Methodology**

The prescribed rates of exchange for the 2005 year of account are calculated using a combination of:

- The historical weighted average of the "LPSO" year-end exchange rates for the past three years;
- The "Bloomberg" mid rate for the end of the current year taken at 1 March 2004.

This methodology replaces the one previously established by the "LRB" in 1994 which calculated the rates of exchange by combining a historical weighted average of the "LPSO" year-end exchange rates from the last seven years with a forecasted exchange rate as published by "Consensus Economics Inc."

This change in methodology is in direct response to recent concerns expressed in the Market regarding the setting of forecasted rates of exchange, and is the result of cross-functional consultation within the Corporation.

## **Further Information**

Please address any queries regarding this bulletin to Alessandra Walker, Franchise Performance on ext. 5643. Alternatively, please use the email address:

[alessandra.walker@lloyds.com](mailto:alessandra.walker@lloyds.com)

This bulletin is being sent to all active underwriters, underwriting agents and accountants.

Rolf Tolle  
Director  
Franchise Performance