

FROM: Manager, Overseas Reporting
LOCATION: G5/86
EXTENSION: 5490
DATE: 7 April 2004
REFERENCE: Y3288
SUBJECT: US TERRORISM RISK INSURANCE ACT 2002
("TRIA") – ANNUAL REPORTING TO
CALCULATE SYNDICATES' DEDUCTIBLES
ATTACHMENTS: Appendix 1 – Details of premium reporting procedures
Appendix 2 – Comparison of reporting classes with US
lines
ACTION POINTS: **ALL syndicates to note the requirements.**
DEADLINE: **30 April 2004**

1. Purpose

To inform the market of requirements for reporting premiums to the US National Association of Insurance Commissioners ("NAIC") for the purpose of calculating the deductible under TRIA.

These reporting requirements relate to a syndicate's entire US commercial property & casualty premiums (as defined in TRIA) and not just to premiums received in relation to TRIA.

You are reminded that, additionally, for syndicates with an IID listing the IID Filing Requirements have the same deadline for completion, and are set out in Market Bulletin Y3255 dated 19 February 2004 and entitled "*Listing of Lloyd's syndicates as eligible surplus lines insurers in the United States: NAIC – IID filing requirements in 2004*".

2. Syndicate reporting procedures

All syndicates (with the exceptions noted below) are required to report their relevant premium income for 2003 on the form available from the NAIC website at the following address:

http://www.naic.org/frs/iid/materials/lloyds_filings_2003.htm

The return is entitled “TRIA Schedule”.

If agents have already downloaded the TRIA spreadsheet from the NAIC web site they should ensure that the exchange rate in cell I8 is \$1.79, as a previous incorrect version was posted to the site by NAIC

The return is in the same format as last year. At that time detailed instructions were issued for completion in two market bulletins:

Y3109 issued 31 July 2003

Y3110 issued 1 August 2003

These market bulletins (and others dealing with TRIA) are available at the following address:

<http://www.lloyds.com/index.asp?ItemId=3421>

The basis on which syndicates should report their premiums is outlined in Appendix 1.

3. Syndicates who must make the TRIA deductible return

Every syndicate that was trading in 2003 must make a TRIA deductible return, whatever its US trading status. The only exceptions are syndicates whose business is limited to life insurance or to UK motor business. Syndicates with no relevant premium to report must make a “nil” return to Market Reporting.

Syndicates are not required to make a return in the year in which they commence trading, although they must do so in subsequent years. Treasury Regulations have made provision for newly formed insurers and in the event of a certified event, it is likely that their deductible will be fixed in accordance with methodology drawn up by the US Treasury.

A syndicate in run-off that ceased trading prior to 2003 may be required to make a return, if it is still party to ongoing business that could lead to a claim on the TRIA Federal programme. Its return will report the relevant premium it received in the course of 2003. Every such syndicate should consider making a return – it should be noted that a failure to file a return will make it impossible to calculate a syndicate deductible and cover under TRIA could thus be jeopardised. A decision not to make a return should therefore follow a careful analysis of the syndicate’s book of business.

4. Notarisation

Returns must be notarised. Even where the syndicate is required to make an IID filing the TRIA return will not be a part of that return. Accordingly, the separate Jurat page which has been issued by the NAIC with the TRIA return must be used.

The TRIA return may be notarised at the same time as the IID return and notaries will be in attendance at Lloyd's on 26 and 27 April from 10.00 until 13.00. The notaries will advise you of the details of these arrangements.

5. Timings

Returns must be submitted to Lloyd's by Friday 30 April 2004. They will be collated and supplied to NAIC by 14 May 2004.

6. Classification of business

The detailed instructions set out in Market Bulletin Y3110 remain current. Syndicates should be careful to ensure that the return is completed correctly and that the premiums reported as "business covered by TRIA requirements" are properly identified.

Instructions issued by US Treasury concerning the lines of business covered by TRIA refer to US regulatory classifications. Appendix 2 sets out how the classes of business in the TRIA return match up with US lines of business. This should be regarded as a general guide only. In particular, the classes of business on the TRIA return are wide and some types of business falling under them are in fact excluded by TRIA. Premiums relating to such excluded classes should not be reported as "business covered by TRIA requirements".

7. Action Required

The notarised form must be **hand delivered** to the Manager, Overseas Reporting, Market Reporting ("MR"), Gallery 5, 1986 Building (please use Tower 3 lifts) by **midday 30 April 2004**, so that they can be filed with the IID in Kansas City by 14 May 2004. If MR does not receive the notarised packs by 30 April 2004, it cannot guarantee to meet the filing date.

Please note that three originals of the filing forms must be notarised, using the Jurat page. There are a number of qualified notary firms based around the City, and although a notary will be in attendance as noted in (4) above, agents are free to use whichever firm they choose to effect the notarisation. Please send us two paper original versions of the notarised form: one will be forwarded to the IID; the second will be retained by MR. The third copy should be kept for your own records. To avoid confusion, managing agents are reminded that all documents in the two versions filed with us must be originals.

An electronic version of the financial filing format must be submitted at the same time as the notarised pack (the excel file should be named TRIA [4 digit syndicate number] 2003.xls”). This will be collected via the Market Reporting web-site.

8. **Queries and circulation**

If you have queries on the completion of the spreadsheet please contact me, on the extension number above or email leslie.redmond@lloyds.com

For queries regarding class definitions please contact the LMA – Martin Roberts on Lloyd’s extension 8370 email martin.roberts@lloyds.com or Richard Oliver on Lloyd’s extension 8379 richard.oliver@lloyds.com

For queries on the use of coded data and USM's, contact Ins-sure Enquire team on Lloyd’s extension 2999.

For other general enquiries relating to TRIA please contact Worldwide Market Services on Lloyd’s extension 6677 market.services@lloyds.com

This market bulletin has been sent to active underwriters and to compliance officers of Managing Agents.

Leslie Redmond

Details of premium reporting procedures

Syndicates are required to report their relevant premium for the previous calendar year as follows:

- Where possible, syndicates should report premiums on an earned basis.
- If syndicates are unable to report and complete the spreadsheet on an earned basis, then they may report premiums on a signed basis. Signed premiums must be grossed up for brokerage and commissions. To avoid the possibility of premiums being under-reported, Lloyd's has agreed to certain safeguards. The percentages below therefore relate to the comparison of **whole account all years of account combined level signed premiums with earned premiums (grossed up for brokerage and commission) for the previous calendar year.**

The safeguard provisions are as follows:

- If the syndicate's signed premiums are 100% or more of earned premiums – it can submit signed figures with no adjustment. This will mean a syndicate potentially reporting a higher premium figure than if it had made the calculation on an earned basis.
- If the syndicate's signed premiums are 90% to 99.99% of earned premiums – if it submits signed premiums, its submission will be adjusted upwards in proportion with the difference at whole account level between signed and earned premiums.

Example

| | | |
|---------------------------------|----------|--------------|
| Whole Account | | TRIA |
| 100 | 95 | 20 |
| (Earned) | (Signed) | (Signed) |
| TRIA premium for the deductible | | = 100/95 x20 |
| | | =21 |

- If the syndicate's signed premiums are less than 90% of earned premiums – if it submits signed premiums, its submission will be adjusted upwards in proportion with the difference at whole account level between signed premiums and earned premiums plus 10%.

Example

| | | |
|---------------------------------|----------|--------------|
| Whole Account | | TRIA |
| 100 | 80 | 20 |
| (Earned) | (Signed) | (Signed) |
| TRIA premium for the deductible | | = 110/80 x20 |
| | | = 27.5 |

The additional loading is added to take into account the uncertainties of the assumption that characteristics of the TRIA account will track the whole account / book of business.

Syndicates are expected to complete the IID spreadsheet using data relating to premium processed during the previous calendar year, provided in USMs by Xchanging In-sure Services to syndicates. Required breakdown of data will include information split by risk codes, FIL codes and trust code information. Syndicates should ensure that this information is retained for premium processed in 2002.

De minimis provision: All syndicates are encouraged to report on an earned basis if they are able to do so. However, a syndicate may report its premiums on signed basis, without applying the safeguard provision adjustments mentioned above, if the amount of relevant premium income it is reporting is below specified “de minimis” levels. This applies whatever the relationship of its signed to its earned premiums at a whole account level.

For reporting purposes, the NAIC agrees with Lloyd’s that an adjustment in the level of a deductible of \$100,000 or less is “de minimis” under the agreed safeguard provisions and therefore does not need to be made. This means that in absolute terms there are premium levels below which syndicates are not required to make any adjustments to their signed figures under the above safeguard provisions. These have been set as follows:

Program Year 1 (i.e.: 2002 reported in 2003) - Relevant income for the calculation of the deductible (calendar year signed, gross of all deductions) is \$1.4m or less;

Program Year 2 (i.e.: 2003 reported in 2004) - Relevant income for the calculation of the deductible (calendar year signed, gross of all deductions) is \$1m or less;

Program Year 3 - Relevant income for the calculation of the deductible (calendar year signed, gross of all deductions) is \$700,000 or less.

Year-on-year consistency

Over time syndicates are expected to move from reporting on a signed to an earned premium basis. A syndicate may not change mid-year and having switched to reporting on an earned basis the syndicate may not subsequently change back to a signed reporting basis.

TRIA business classification guide

US Line of business

| | Accident & <u>health</u> | Aviation | Marine | Misc. & Pec. <u>Financial loss</u> | Motor | Property | Third party liability | Transport |
|---|--------------------------------|----------|--------|--|-------|----------|-----------------------------|-----------|
| Fire | | | | | | x | | |
| Allied lines | | | | | | x | | |
| Farmowners multiple peril | | | | | | x | | |
| Commercial multiple peril (non liability portion) | | | | | | x | | |
| Commercial multiple peril (liability portion) | | | | | | | x | |
| Ocean marine | | | x | | | | | x |
| Inland marine | | | | | | x | | x |
| Workers' compensation | | | | | | | x | |
| Other liability | x | | | x | | | x | |
| Products liability | | | | | | | x | |
| Commercial auto no fault (personal injury protection) | x | | | | x | | | |
| Other commercial auto liability | | | | | x | | | |
| Commerical auto physical damage | | | | | x | | | |
| Aircraft (all perils) | | x | | | | | | |
| Surety | | | | x | | | | |
| Burglary and theft | | | | | | x | | |
| Boiler and machinery | | | | | | x | | |

This matrix serves as a guide to assist in determining the Lloyd's business classifications established by UK financial regulators into which US TRIA covered lines fall