

MARKET BULLETIN

From	Mike FitzGerald, Tax & Treasury (Ext 5901)
Date	21 October 2005
Reference	Y3647
Subject	Additional Securities Limited: Switzerland Credit Equalisation Reserve deposit refund
Subject areas	Swiss business written under risk codes CF, CN and CR and forming the basis for the equalisation reserve
Attachments	None
Action points	Managing Agents to note
Deadlines	Immediate

The purpose of this bulletin is to advise Managing Agents that the Swiss insurance supervisory authority, the Federal Office of Private Insurance ("FOPI"), has until further notice suspended the requirement on Lloyd's Underwriters to maintain an Equalisation Reserve in Switzerland for Credit insurance. Accordingly, the Equalisation Reserve will be dissolved and participating syndicates will be refunded their respective shares of the deposit on 31 October 2005 via Central Accounting settlement.

As the requirement to establish an Equalisation Reserve is reviewed annually, Lloyd's may be required to re-establish a reserve in the future.

Background

Market Bulletin Y3084 of 26 June 2003 advised the market of the authorisation granted to Lloyd's to write Credit insurance in Switzerland, defined as all insurances falling under Class 14 ("Credit") of Annex 1 to the Indemnity Insurance Ordinance (i.e. Federal Ordinance on Direct Non-life Insurance; SR 961.711).

A condition of that authorisation was that Lloyd's establish and maintain an Equalisation Reserve in Switzerland for Credit business. The requirement for an Equalisation Reserve was in addition to the localised deposit ("bound assets") made for all classes of business in

Switzerland. The level of Equalisation Reserve was to be based on Swiss Credit premiums reported to the FOPI. The business forming the basis for the equalisation reserve calculation was to be that written under the Lloyd's risk codes CF, CN and CR.

The Equalisation Reserve has, since 2003, been satisfied by Lloyd's through the provision of a collateralised letter of credit via Additional Securities Limited. The volume of that letter of credit has been adjusted annually in accordance with Swiss Credit premiums reported to the FOPI. Syndicates' shares of the funding of the Equalisation Reserve have been collected as part of the annual deposit and reserve collection exercise carried out by ASL on behalf of Lloyd's.

Reasons for change

The Ordinance on Equalisation Reserves in relation to Credit Insurance (SR 961.795 of 18 November 1992), Article 2 letters a and b, sets out the two "threshold" values below which the requirement to set up or maintain an Equalisation Reserve does not apply; these values are

- a. that Swiss Credit insurance premiums reported do not exceed 4% of the total Swiss insurance premium reported for all classes of business and
- b. that Swiss Credit insurance premium reported do not exceed 4 Million Swiss Francs.

FOPI has determined that Lloyd's has satisfied both of these values concurrently for 2004. It has therefore informed Lloyd's that it is no longer required to maintain the Equalisation Reserve and has, therefore, returned the letter of credit to ASL.

Deposit refund

Syndicates' shares of the Equalisation Reserve deposit will be refunded on Monday 31 October 2005 via Central Accounting settlement. Only the principal amount collected during ASL's 2005 Annual Collection (on 29 March 2005) will be refunded on 31 October. Income and foreign exchange gains/losses relating to this deposit will be distributed to syndicates during ASL's 2006 Collection/Distribution exercise due to take place in March 2006. Individual syndicate statements will shortly be distributed via the Central Accounting system.

Continuing compliance requirement

Managing Agents are reminded that the requirement to establish an Equalisation Reserve in relation to Credit insurance is reviewed annually on the basis of Lloyd's report to the FOPI for the preceding calendar year. If, therefore, Lloyd's is unable to continue to satisfy both of the abovementioned "threshold" values in any reporting year (owing, for instance, to strong growth in the absolute or relative levels of reported Swiss Credit insurance premiums), Lloyd's will be required to establish and fund an Equalisation Reserve anew.

It should also be noted that, depending upon the final wording of the imminent new Swiss Insurance Supervisory Law and Ordinance, any such new Equalisation Reserve might no longer be satisfied by a collateralised letter of credit, but by assets analogous to and forming part of the Swiss "bound assets".

Further information

If you have any queries relating to the Equalisation Reserve in relation to Credit insurance, please address them to Graham West at Lloyd's Zurich office (Tel. 00 41 1 261 3310; graham.west@lloyds.com). Please refer any questions relating to the deposit refund to Mike FitzGerald (extension 5901; Michael.Fitzgerald@lloyds.com).

This Bulletin is being sent to all Managing Agents.

Mike FitzGerald
Tax & Treasury
(on behalf of Additional Securities Limited)