

# MARKET BULLETIN

**From** Director, Finance & Risk Management (extn 6711)

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**Date** 27 September 2006

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**Reference** Y3875

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**Subject** **NEW CENTRAL FUND CONTRIBUTIONS, SYNDICATE LOANS,  
MEMBERS' SUBSCRIPTIONS AND OTHER CHARGES FOR 2007**

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**Subject areas**

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**Attachments**

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**Action points** Notification of contributions, subscriptions, loans and payment dates

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**Deadlines**

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## 1 Summary

1.1 Council has now approved the New Central Fund contribution rates, the level of syndicate loans and members' subscriptions and entrance / application fees for 2007.

1.2 The principal central contributions, subscriptions and loans are set out below:

	2006	2007
New Central Fund contributions	1.00%	1.00%
Members' subscriptions	0.50%	0.50%
Syndicate loans to the New Central Fund	0.75%	0.75%
	<u>2.25%</u>	<u>2.25%</u>
Callable New Central Fund contributions	3.00%	3.00%

- 1.3 When Central Fund contributions were increased last year to 1% we expected to have to maintain them at this level for probably 3 years (i.e. until and including 2008). In arriving at the 1% figure we had to make assumptions on investment returns, market capacity, the level of current and future undertakings given to insolvent members and so on. These assumptions have been proven to be materially correct and, as indicated in my letter to the market dated 12 July, it is appropriate to maintain contributions at their current level for 2007.
- 1.4 However, based on our latest assumptions, we believe we will be able to cut the contribution rate in 2008, a year earlier than originally anticipated. Such a reduction will of course, be dependent upon factors such as future market capacity, investment returns and, notably, any change in capital requirements arising from the current focus of modelling and rating agencies on the capital needed to support catastrophe classes.

## **2 Members' Subscriptions**

- 2.1 Council agreed that the rate for all underwriting members' subscriptions for 2007 should be 0.50% of allocated overall premium limits (OPL), unchanged from 2006, payable in two instalments. The first instalment at 0.25% of allocated OPL is due on 8 January 2007 and the second instalment of 0.25% of OPL payable by 1 June 2007. The members' subscription is exempt from VAT.
- 2.2 A bulletin concerning instructions for the payment of members' subscriptions and the Franchise Performance and Risk Management charge, which is also payable in two instalments, will be issued in early December.

## **3 New Central Fund contributions**

### Annual contribution

- 3.1 The annual New Central Fund contribution rate payable by all members (other than new corporate members) for the 2007 year of account is to be 1.00% of a member's syndicate premium limit in respect of each syndicate of which he is a member.

### New corporate members

- 3.2 New corporate members pay increased contributions, although for 2007 this will be reduced from 2.5% to 2% for each of their first three years of operations. A new corporate member is one which joins Lloyd's in 2007 and establishes / participates on one or more new syndicates thereby immediately accessing the Lloyd's brand, reputation and accumulated value of the Central Fund. It should be noted that if that member writes on a mix of existing and new syndicates, then the higher rate will only be payable in respect of its participations on new syndicates.
- 3.3 Where a newcomer to the Lloyd's market chooses to participate by purchasing an existing corporate member that has reinsured to close all its liabilities, that corporate member will be treated as a new member and it will be required to pay the higher contribution in respect of its participations on new syndicates.

- 3.4 Within the category of new corporate members the increased charges will not apply to:
- conversion vehicles which meet the current definition of a “successor corporate member” in the Membership (Entrance Fees and Annual Subscriptions) Byelaw – i.e. in broad terms, any vehicle which is 85% owned by converting Names
  - new corporate members which only participate on *existing syndicates*.

- 3.5 New corporate members who joined in 2006 and 2005 will also pay 2% for their second and third years of operation at Lloyd’s, respectively. This is reduced from the current rate of 2.5%.

Qualifying Quota Share arrangements

- 3.6 Where syndicates enter into qualifying quota share arrangements outside the Lloyd’s market further New Central Fund contributions are payable. For 2007 the additional contribution rate will remain at 1.25% if written premiums exceed allocated syndicate capacity. Interim charges will be made, where applicable, after 12 and 24 months and a final charge after 36 months. Charges will be made in April of each year.

Callable contribution

- 3.7 Council also confirmed that the callable contribution will not exceed 3% of a member’s syndicate premium limit in respect of each syndicate for the 2007 year of account.

Payment date

- 3.8 The annual New Central Fund contribution for 2007, including that payable by new corporate members, is payable in one instalment due on 2 April 2007 with up to 3% remaining callable at the discretion of Council. Syndicates will be given the option to make payments in US dollars. No VAT is levied on these New Central Fund contributions.
- 3.9 If a mid-year pre-emption or a new syndicate is approved after 2 April 2007 the due date for payment of the contribution will be the later of the date of approval or invoiced date.

**4. Syndicate loans**

- 4.1 The rate for the 2007 syndicate loans has been maintained at 0.75% of a member’s syndicate premium limit in respect of each syndicate of which he is a member for 2007. The terms of the loans, as set out in the appendix to Market Bulletin Y3516 dated 10 March 2005, are unchanged.

**5. Financial Services Compensation Scheme**

5.1 Lloyd's was brought within the scope of the Financial Services Compensation Scheme ("FSCS") with effect from 1 January 2004. Council has agreed that for 2007 the Central Fund should meet the first £10m of any levy charges, inclusive of any contribution to cover the operational costs of the FSCS, on the Lloyd's market in 2007. This concession, which applies principally to the personal lines underwriters, will be reviewed annually and is subject to the ongoing performance of the personal lines market.

**6. Entrance / Application fees**

6.1 The principal administrative fees payable by new entrants (excluding VAT) are set out in Appendix 1. These charges are unchanged from 2006.

**7. Interest on overdue amounts**

7.1 Interest on overdue accounts is chargeable at 5% above National Westminster Bank plc base lending rate.

Questions regarding this bulletin should be addressed to Philip Jones, Extn 5314 (e-mail [philip.a.jones@lloyds.com](mailto:philip.a.jones@lloyds.com) ).

This bulletin has been sent to all underwriting agents, direct corporate members, market associations and recognised auditors.

Luke Savage  
Director, Finance & Risk Management

## APPENDIX I

**2007 ENTRANCE & APPLICATION FEES**

	<b><u>2006</u></b>	<b><u>2007</u></b>
<b>Members' Entrance fees</b>		
Corporate Member	£25,000	£25,000
New Money NameCo	£4,700	£4,700
New Money NameCo where the shareholders were formerly individual members of Lloyd's	£1,850	£1,850
Successor Corporate Member	£1,850	£1,850
Initial Application (conversion schemes)	£1,850	£1,850
LLP (conversion)	£2,350	£2,350
Additional Subscriber NameCos (conversion schemes)	£420	£420
Member not falling into any of the above categories	£4,700	£4,700
New Money LLP	£5,200	£5,200
Interavailable fee	£150	£150
Change in Controller (corporate member)	£150	£150
Change in Director (corporate member)	£150	£150
<b>Underwriting Agent / Syndicate Application fees</b>		
Change in Controller (underwriting agent)	£5,000	£5,000
New Underwriting Agent	£100,000	£100,000
New Syndicate	£50,000	£50,000
Syndicate Merger / change of managing agent	£5,000	£5,000