

MARKET BULLETIN

From	Head of MRRU & Lloyd's Actuary (extn 5235)
Date	8 December 2006
Reference	Y3920
Subject	Valuation of Liabilities Rules for 31 December 2006 Solvency Test
Subject areas	Syndicate Technical Provisions in the solvency test as at 31 December 2006
Attachments	Appendices 1, 2A, 2B, 2C, 2D (Rules, proforma certificates and proforma Data Accuracy Statement)
Action points	Managing Agents to note the rules applicable in setting technical provisions at year end 2006
Deadlines	For immediate attention

1 Introduction

The Valuation of Liability rules for 31/12/06 are based upon those for 31/12/05. Once again sample certificate wordings for the Statement of Actuarial Opinion (SAO) and data accuracy statement are included.

The Rules are substantially the same as those in issued in November 2005 (MB Y3676).

2 Sample SAO Certificate

Actuarial guidance is set out in the Institute and Faculty of Actuaries professional guidance notes GN20 and GN33 and covers how actuaries must go about their work when providing certificates. Sample wordings are indications and actuaries should use the form of words that they are comfortable with and have agreed with their client. However if an actuary does make material changes to the wording in the sample, he should contact the Lloyd's Actuary to confirm that the revised wording remains acceptable to Lloyd's.

3 Contact Details

Where agents and actuaries require clarification they should approach either:

Lloyd's Actuary (Henry Johnson, 0207 327 5235, henry.johnson@lloyds.com)
Manager, Actuarial (Jerome Kirk, 0207 327 5812, jerome.kirk@lloyds.com)

or

Head of Market Finance (John Parry, 0207 327 5129, john.parry@lloyds.com).

Lloyd's will present to the London Market Actuaries Group (LMAG) at the January meeting to address year-end issues and any general queries that have arisen.

4 Unearned Premium Provision (UPP)

The actuary's opinion that technical provisions are adequate overall must not depend on the existence of expected surpluses within the UPP. For example if the actuary expects claims reserves and IBNR to run off at a deficit but expects this deficit to be more than made up by surplus in the UPP, he should not sign. Thus the actuary needs to take account of the UPP in his calculations. Lloyd's confirms that the actuary need not make his own assessment of the UPP but rather can rely on the managing agent's assessment. This reliance extends to the agent's assessment of Deferred Acquisition Costs (DAC) – that is, the actuary can use the UPP net of DAC that the agent produces. The actuary should obtain a Data Accuracy Statement (appendix 2D) that makes it clear that the agent has supplied and verifies the UPP together with other data. Actuaries must at all times comply with professional guidance and the actuarial profession may issue further guidance to actuaries regarding their reliance on the agent's UPP. Lloyd's does not expect actuaries to accept UPP and DAC – or any data – uncritically, notwithstanding the Data Accuracy Statement. Actuaries must ensure that they understand the data and its limitations, and need to test data for general reasonableness. This is no different for UPP and DAC than for other supplied data items. However Lloyd's does not expect actuaries to carry out their own full assessment of UPP and DAC unless requested to do so by the agent. Again this is no different for UPP and DAC than for other data items, where a reasonableness test is required but not a full new calculation.

It is part of the actuary's professional judgement to decide how much work is required for a test of reasonableness.

If an actuary has particular concerns about UPP (or any other matter) he should contact the Lloyd's Actuary.

5 Actuarial Reports (GN12)

Agents and actuaries should note that the actuarial profession has issued a new version of its guidance note covering reports on general insurance, GN12. It is noted that the revised GN12 states that actuaries should normally indicate nature, degree and sources of uncertainty in their estimates. Lloyd's does not at present necessarily require that reports achieve this by providing explicit ranges, although the actuary and his client must decide what is appropriate in each particular case.

The Lloyd's Actuary will review the reports and provide feedback to signing actuaries and the profession.

6 US Opinions/ GN33

Appendix 2C is included for completeness and shows the sample wording for US Trust Fund SAOs. The basis for calculating these has not been changed to an annual accounted basis and remains the same as in the past.

7 This bulletin has been sent to managing agents, members' agents, syndicate accountants and trade bodies for information.

Henry Johnson
Head of MRRU & Lloyd's Actuary
Finance, Risk Management and Operations

VALUATION OF LIABILITIES RULES
FOR LLOYD'S SOLVENCY PURPOSES
31 DECEMBER 2006

VALUATION OF LIABILITIES

INTRODUCTION

These rules are made by the Council of Lloyd's under paragraph 9 of the Solvency & Reporting Byelaw (No.13 of 1990) for the valuation of members' underwriting (general and life business) liabilities. A syndicate's general business liabilities must be calculated in compliance with sections 18.3.1 and 24.3 of the Financial Services Authority's Lloyd's Sourcebook (LLD) (which apply PRU 1.3R and parts of PRU 7.2 R to managing agents). LLD and PRU are available from the FSA's website.

Members' underwriting liabilities are determined by reference to the liabilities of the syndicates on which they participate. The attribution of those liabilities to members for the purposes of the annual solvency test is undertaken by Lloyd's centrally. These rules therefore focus only on the determination of syndicate underwriting liabilities.

GENERAL INSURANCE BUSINESS

Equitas Reinsurance Ltd has reinsured all 1992 and prior general business liabilities with effect from 31 December 1995. The rules therefore relate only to the 1993 and subsequent years of account.

The main principles are as follows:

- managing agents must determine adequate technical provisions for solvency purposes in accordance with the rules set out below;
- managing agents must appoint an actuary (the Syndicate Actuary), who is in possession of a current Lloyd's Practising Certificate issued by the Institute of Actuaries or Faculty of Actuaries, to provide an opinion on those technical provisions, for each syndicate; and
- where an unqualified actuarial opinion will or may not be available, the managing agent concerned must report this to the Lloyd's Director of Finance, Risk Management and Operations. Technical provisions for solvency in such a case will be determined by the Lloyd's Actuary who, after consultation with the Syndicate Actuary, will take the relevant facts of the syndicate's business and reinsurance arrangements into account when forming his opinion.

Any managing agent which is not able to secure an unqualified actuarial opinion on its technical provisions for solvency for a particular syndicate will normally be subject to a monitoring review by Lloyd's.

Where it becomes apparent that there may be any difficulties in obtaining an unqualified actuarial opinion, or that the "Relevant Comments" section of the opinion is likely to contain material issues, the Lloyd's Actuary must be informed as soon as is practicable.

LLD 19.2 requires the minimum capital requirement (MCR) for each member to be calculated. The method for determining the member's MCR is similar to that used for other UK insurers, as adapted for the circumstances of members of Lloyd's. Those calculations are performed by Lloyd's centrally, and are outside the scope of these rules.

DETERMINING THE TECHNICAL PROVISIONS FOR SOLVENCY– GENERAL BUSINESS

1. The managing agent must, in respect of each syndicate managed by it, establish adequate technical provisions for solvency for each reporting year of account which became closed or remained open as at the solvency test date. Both gross and net of reinsurance technical provisions must be established: the net of reinsurance technical provision shall be the technical provision for solvency.
2. For the purposes of determining the technical provisions for solvency for any reporting year of account which has accepted a reinsurance to close, account must be taken of the liabilities associated with earlier underwriting years which have been reinsured into that reporting year, and thus the technical provisions for solvency will be the aggregate of all these underwriting years taken together, including the latest underwriting year itself.
3. The technical provision for solvency in respect of any reporting year of account which is being closed by reinsurance to close must be at least equal to the reinsurance to close premium plus an adjustment for any future premiums reflected within the reinsurance to close premium.
4. The appropriate method of deriving the net of reinsurance technical provision is by subtracting reinsurers' share from the gross technical provision. The rules for determining the gross technical provisions and reinsurers' share are set out below.
5. The technical provisions established by managing agents must be consistent with the provisions reported in syndicate annual accounts, prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, except that discounting is not allowed in the technical provisions for solvency and except for any difference arising from the conversion of non-monetary items at year end exchange rates, where they are reported at transaction rates in the accounts under UK GAAP. The actuarial opinion must continue to be on the basis that the technical provisions for solvency purposes are no less than the best estimate of future liabilities. This applies both to the gross and net technical provisions for solvency although the gross technical provision for solvency is no longer requested on the AR223.

ACTUARIAL OPINIONS

6. As referred to above, the technical provisions for solvency determined for each year of account are required to be subject to an actuarial opinion in the form prescribed. This assessment is to be performed in accordance with GN20. Account should also be taken of relevant advisory notes issued by the Institute and Faculty of Actuaries and the Code of Practice "Management of Reserving Risk" issued by Lloyd's, even where these are not mandatory. Actuaries must refer to the Institute and Faculty of Actuaries to confirm that they have the latest version of all guidance. The current versions are available from www.actuaries.org.uk.
7. Provisions for future unallocated loss adjustment expenses, provisions for reinsurance bad debts, unexpired risk provisions and unearned premiums provisions less deferred acquisition costs, fall within the scope of the actuarial opinion.

8. Acceptable signatories to the actuarial opinion are:
 - fellows of the Institute of Actuaries;
 - fellows of the Faculty of Actuaries; and
 - fellows of the US Casualty Actuarial Society who are also members of the Institute of Actuaries or Faculty of Actuaries.
9. Signatories must hold a current practising certificate issued by the Institute of Actuaries or Faculty of Actuaries and may be either external consulting actuaries or employees of the managing agent.
10. The actuarial opinion includes a section entitled “Relevant Comments” which allows the actuary to highlight material issues for the Council of Lloyd’s attention. Such comments are intended to enhance the disclosures made in the opinion and do not constitute a qualification. Any matters which materially increase the degree of uncertainty underlying the opinion beyond that which would reasonably be expected or which involve a material deviation from accepted actuarial methodologies would normally justify a reference in this section.
11. The actuarial opinion covers the total of the technical provisions for solvency but the actuary is not required to report separately on each component element of the technical provisions. The actuary must however take account of the need for unearned premium provisions to be established at least 100% of unearned premium after deduction of DAC within the overall provisions. The Actuarial Opinion must take “liabilities” to include the need for the unearned premium provision.

GROSS TECHNICAL PROVISIONS

12. The gross technical provisions must not be less than the expected ultimate cost of settlement of all claims incurred in respect of events up to the balance sheet date, whether reported or not, together with all associated loss adjustment expenses, less amounts already paid and before taking reinsurers’ share into account (LLD 18.3.1 and 24.3.1 applying PRU 1.3.5 and PRU 7.2.13 respectively – available from FSA website). Provision should also be made for claims events which have occurred but have not yet been reported, using appropriate statistical or other techniques.
13. The gross technical provisions must include gross reported claims, incurred but not reported claims and provisions for future allocated and unallocated loss adjustment costs including the expenses of managing the run-off of the business. They must take account of inflation, currency exposure and any other factors which may influence the final monetary cost of settlement including any costs of borrowing that may arise. When assessing the cost of borrowing prudent allowance may be made for cash calls planned but not actually made at the valuation date. Future premiums must not be deducted when arriving at technical provisions for solvency. Where written premiums have not yet been received, the debtor will be included within amounts due from intermediaries and policyholders. The treatment required in respect of the unearned premium reserve and unexpired risk provision is set out in paragraphs 15 and 16 below.
14. Credit may be taken for anticipated salvage and subrogation rights, net of any related bad debts.

15. An Unearned Premium Provision must be established which represents that part of gross premiums written which relate to periods of risk after the balance sheet date. Premiums are deemed to be earned over the period of cover under each policy having regard to the nature of the business written and the related spread of risk. Actuaries may, subject to professional guidance, rely on the managing agent's assessment of the analysis between earned and unearned exposure and on the managing agent's assessment of deferred acquisition costs. The Unearned Premium Provision must be stated gross of deferred acquisition costs.
16. An Unexpired Risk Provision must be provided where the expected value of claims and claims management expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after deduction of any deferred acquisition costs. Where the syndicate is committed to contracts which arise on binding authority and lineslip business, and the underlying declaration has not attached as at 31 December 2006, provision must be made for any expected excess of claims and claims handling expenses over future written premiums after deduction of acquisition costs.
17. Non monetary items (ie UPP and DAC) may be reported on the balance sheet (AR201/205) at transaction rates of exchange in accordance with UK GAAP. Where this occurs an adjustment must be made at line 16 of AR223 'solvency adjustments', to bring these provisions into line with year end exchange rates.
18. An assessment of whether an unexpired risk provision is necessary must be made for each grouping of business which is managed together with any unexpired risk surpluses and deficits within that grouping being offset. It is up to the managing agent to determine the meaning of 'managed together' in conjunction with its auditor. Lloyd's will accept a definition of 'managed together' for solvency purposes as being at reporting year of account level (i.e. at the level on which the technical provisions for solvency are being established) as the largest acceptable grouping, unless the managing agent, together with its auditor, considers that a smaller grouping of business is more appropriate. The potential requirement for an unexpired risk provision must be assessed on the basis of information available at the balance sheet date. Claims events occurring after the balance sheet date in relation to the unexpired period of policies in force at that time must not therefore be taken into account in assessing the need for an unexpired risk provision if they were not capable of prediction at the balance sheet date. Please also refer to paragraphs 117 to 119 of the ABI SORP 'Accounting for Insurance Business', issued December 2005.

The total gross technical provisions thus comprise outstanding claims (including reported and IBNR claims), unearned premium provisions less deferred acquisition costs, unexpired risk provisions and any other technical provisions. Lloyd's does not expect managing agents to hold any 'other technical provisions' and any agent intending to do so must contact the Lloyd's Actuary as soon as possible.

19. For practical reasons, it should be assumed that the costs of handling gross claims and reinsurance recoveries are included in the gross provision for unallocated loss handling expenses. Where it is reasonable and prudent to do so, the provision for unallocated future claims handling should be calculated on the practical assumption

that each syndicate is a going concern. Otherwise, provision must be made on the basis that the syndicate has ceased or will cease trading, in whole or in part, as appropriate.

20. The level of claims provisions must be set such that no adverse run-off deviation is expected. This is consistent with the requirement of paragraph 43 of Part I of Schedule 9A to the Companies Act 1985 that technical provisions must be sufficient at all times to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen. Please refer to paragraph 95 of the ABI SORP for further guidance.
21. Discounting is not permitted when calculating technical provisions for solvency (LLD 19.3.1 applying parts of PRU 2.2, particularly 2.2.79 and 2.2.81). Accordingly, any credit for discounting within syndicate technical provisions determined under UK GAAP, must be added back in full. This will be included in line 16 of AR223.
22. The gross technical provisions must take into account the particular circumstances of the syndicate, any relevant statistical evidence and the judgement of the Board of the managing agent as to the eventual outcome of each year in question. Historical statistics may not, however, satisfactorily reflect a syndicate's exposure to significant losses. Accordingly, technical provisions must provide for circumstances where a syndicate is exposed to losses arising from one or more known major catastrophes or a known potential cause of loss.
23. Careful consideration must be given to ultimate exposures (irrespective of currently reported losses/current technical provisions) in respect of known catastrophes and attritional losses on any year of account.
24. If there are circumstances or an event that materially increases the uncertainty and makes estimation of the technical provisions particularly difficult for any year of account, then alternative approaches will need to be considered. Syndicates must have a clearly documented methodology and must be able to demonstrate reasoned judgements for the estimation of such liabilities. Claims reported or precautionary advices received to date must be monitored and reserved for.

REINSURERS' SHARE

25. The deduction in respect of reinsurers' share of technical provisions must be the net monetary amounts which are expected ultimately to be recovered in relation to the total gross technical reserves. Such amounts must include any costs of borrowing necessary to cope with delays in reinsurance recoveries. An appropriate provision must be made for potential reinsurance bad debts and the reinsurers' share of technical provisions must be stated after adjustment for bad and doubtful debts.
26. Since the technical provisions for solvency cover all relevant liabilities at the year end, the managing agent must take account of the need to provide for the reinsurance premium cost of the protection of the liabilities covered by the technical provisions for solvency.
27. With respect to the Unexpired Risk Provision, additional reinsurance premiums required must be taken into account.

28. Where a syndicate is a going concern, the provision for future reinsurance costs, to be considered within the provision for outstanding claims (including reported and IBNR claims) and unexpired risk provision, should be made on the basis of allocation of costs according to each reporting year of account's share of earned premiums being protected by the future reinsurance. This is irrespective of the year of account in which the relevant reinsurance premiums will be charged. Care must be taken where a syndicate has contracts that provide protection over several years to ensure all future costs of reinsurance are properly allocated so that the technical provisions for solvency are not underestimated.
29. Where a multi-year reinsurance contract is entered into, the reinsurance premiums contracted for must be included in reinsurers' share of unearned premiums. Where the syndicate is a going concern, the unexpired risk provisions may take into account expected gross written premiums, which the multi-year reinsurance contract is expected to cover.
30. Provisions in respect of disputes with reinsurers must be deducted from reinsurers' share of technical provisions. There is potential for these amounts to increase significantly, as well as for gaps to occur in the reinsurance cover when the circumstances or an event as envisaged in paragraphs 22 or 23 occur.
31. Lloyd's security must be treated as 100% recoverable. However, provision must be made within the reinsurers' share of claims where considered appropriate for reinsurance disputes between different Lloyd's syndicates.
32. Reinsurances must be assessed in accordance with the principles of Financial Reporting Standard 5. That is, if the contract is in the nature of an investment it must be treated as an asset and valued for solvency purposes at its net present value; alternatively, if it is a contract of reinsurance, it must be treated as such. Some reinsurance contracts have large profit sharing elements attaching to them, which are clearly financial elements. For these contracts the profit commission must be treated as a financial element and therefore as an asset and valued for solvency purposes at its net present value.

NO ACTUARIAL OPINION

33. Where an unqualified actuarial opinion is not available for any particular reporting year of account, including any reporting year which has earlier underwriting years reinsured into it, the managing agent concerned will need to seek further instructions from the Lloyd's Director of Finance, Risk Management and Operations. In particular, the Lloyd's Actuary, after consultation with the Syndicate Actuary, will determine the technical provisions for solvency for each reporting year of account in respect of which an unqualified opinion is not available.

US & CANADIAN DOLLAR, EURO AND OTHER SETTLEMENT CURRENCY BUSINESS

34. The technical provisions in respect of United States dollar, Canadian dollar, Euro and other settlement currencies (where material) must be calculated in these currencies, in accordance with the rules set out above.
35. The pre-1 August 1995 LATF is not specifically covered by any of the above provisions in isolation.
36. The actuarial opinion does address the breakdown of the net technical provisions between reporting years of account and identifies separately amounts attributable to the pre-1 August 1995 LATF.
37. For solvency, liabilities in US dollars, Canadian dollars, Euro and any other relevant settlement currencies must be converted into sterling at the rates of exchange prevailing at the close of business on the effective date of calculation. Recommended closing rates of exchange will be determined and notified to the market early in the following year.

RESPONSIBILITIES OF SYNDICATE AUDITOR AND SYNDICATE ACTUARY

38. The syndicate auditor's responsibility with respect to the determination of the solvency position of each syndicate is unchanged, notwithstanding the requirement for an actuarial opinion on the technical provisions for solvency. In other words, the syndicate auditor is required to submit the prescribed audit report on the annual return in the usual way.
39. The auditor will, however, be able to place reliance on the actuary's opinion, in accordance with the appropriate professional guidance.
40. Similarly, the actuary may, subject to professional guidance, rely on the managing agent's assessment of the analysis of written premium between earned and unearned exposure and on the managing agent's assessment of deferred acquisition costs.
41. Although the actuary is expected, as for all other data, to carry out reasonableness checks of the earned/unearned premium data supplied by the Managing Agent, he is not expected to check the calculations themselves or review the systems used to derive the earned/unearned premium data.
42. Where no unqualified actuarial opinion is available, this may have implications for the syndicate auditor's report and accordingly, the actuary and auditor will need to liaise closely and report to Lloyd's as soon as any difficulties are identified.
43. Where it becomes apparent that there may be any difficulties in obtaining an unqualified actuarial opinion, or that the "Relevant Comments" section of the opinion is likely to contain material issues, Lloyd's must be informed as soon as is practicable.

LIFE BUSINESS

44. A syndicate with long term insurance liabilities must comply with LLD 18.3.1 and 24.3, which apply PRU 1.3 and 7.2 respectively. The managing agent must appoint a Syndicate Actuary to certify the technical provisions for solvency for life business using the form of opinion approved for this purpose.

Opinion on Solvency Reserves

To: Council of Lloyd’s / International Insurers Department

Statement of Actuarial Opinion – Syndicate KLM

Identification

I, ABC, am an actuary employed by XYZ [the Managing Agent.]

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by XYZ [the Managing Agent.]

Qualification

I am a Fellow of the [Casualty Actuarial Society and an Affiliate of the] Faculty/ Institute of Actuaries and possess a certificate valid as at the date of this Opinion to provide UK Actuarial Opinions for Lloyd’s Syndicates, issued by the Institute /Faculty of Actuaries.

Scope

I have examined the technical provisions listed below for the underwriting years 1993 to [current year] of Syndicate KLM as at 31st December [current year], as reported in Form(s) AR223 “Summary of Technical Provisions” submitted by the Managing Agent. I have reviewed the technical provisions shown in column A lines 7, 17 and 18, for each relevant reporting year of account. The gross technical provisions for solvency may differ from the gross technical provisions contained in the annual return and both are shown below. My opinion is in respect of the gross and net technical provisions for solvency.

The technical provisions are the responsibility of the Managing Agent; my responsibility is to express an opinion on those reserves based on my review.

	[current year]	[current year -1]	[current year -2]
Total gross technical provisions (Conv £000’s)			
Total gross technical provisions for solvency (Conv £000’s)			
Total net technical provisions for solvency (Conv £000’s)			
LATF (US\$000’s)			

NB: "Conv £" figures above are converted at [£1 = US\$ a.aa = C\$ b.bb = Euro c.cc]

[NB: The table may need to be amended if, for example, there are old open years of account]

The preceding technical provisions are for indemnity amounts and claims handling expenses (both allocated and unallocated) and include provision for future claims arising from unexpired periods of risk. They are net of salvage and subrogation, on past and current business. They are not discounted for the time value of money. The net technical provisions and the LATF technical provisions include a provision for reinsurance bad debts, where appropriate.

I have relied upon data prepared by the responsible employees of the Managing Agent including the managing agent's assessment of the analysis of written premium between earned and unearned exposure and the managing agent's assessment of deferred acquisition costs. These data have not been checked by me, although the Managing Agent has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the Managing Agent in determining the technical provisions, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

"In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary."]

[Relevant Comments

Other comments at the discretion of the Actuary.

These additional comments do not constitute a qualification of my opinion.]

Variability

In evaluating whether the technical provisions make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development.

In particular, although I have made what I believe to be a reasonable allowance for the risk of adverse development, I have not anticipated the emergence of major new types of classes of claims, nor the emergence of any major new reinsurance disputes.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the technical provisions for solvency identified above comply with the Lloyd's Valuation of Liabilities Rules and each is no less than the expected future cost of the corresponding claims and claims handling expenses for which Syndicate KLM was liable at 31st December [current year].

[Qualifications on Opinion]

Other comments at the discretion of the Actuary.]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Managing Agent.

This statement of opinion is solely for the use of, and to be relied upon only by the following:

- 1. the Managing Agent, the syndicate auditors, the Council of Lloyd's and their auditors for the purpose of compliance with the Valuation of Liabilities Rules, and**
- 2. the Managing Agent and International Insurers Department for the purposes of compliance with IID/NAIC regulatory requirements.**

Signed:

Name:

Fellow of the Faculty/Institute of Actuaries (or Fellow of the Casualty Actuarial Society and Affiliate of Faculty/Institute of Actuaries)

Date:

Address:

Opinion on Trust Fund Reserves

To: New York Insurance Department/International Insurers Department

**STATEMENT OF ACTUARIAL OPINION
GROSS RESERVES FOR SYNDICATE KLM
US CREDIT FOR REINSURANCE TRUST FUND/US SURPLUS LINES
TRUST FUND
AS AT 31ST DECEMBER [CURRENT YEAR]**

Identification

I, ABC, am an actuary employed by XYZ [The Managing Agent].

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by XYZ [The Managing Agent].

Qualification

I am a fellow of the [Casualty Actuarial Society and an Affiliate of the] Faculty/Institute of Actuaries with experience of claims reserving.

Scope

I have examined the reserves listed below for the underwriting years 1995 to [current year] of Syndicate KLM as at 31st December [current year], as reported in the [US Credit for Reinsurance Trust Fund]/ [US Surplus Lines Trust Fund] returns as at [insert date] relating to the business written under the Fund.

The reserves are the responsibility of the Managing Agent; my responsibility is to express an opinion on those reserves based on my review.

1.1 US \$000's			
US Credit for Reinsurance Trust Fund/US Surplus Lines Trust Fund	[current year]	[current year -1]	[current year -2]
Reported Outstanding Claims			
IBNR Claims and Unexpired Risks			
Sub-Total			
Less deferred premiums, Fund withheld and LOCs			
Total			

[NB: The table may need to be amended if, for example, there are old open years of account]

The preceding reserves are for indemnity amounts and allocated claims handling expenses, include provision for future claims arising from unexpired periods of risk and are gross of reinsurance. They are net of salvage and subrogation, and of anticipated future premiums (net of acquisition expenses) on past and current business. They are not discounted for the time value of money.

I have ensured that the reserve in respect of unexpired periods of risk is at least 100% of the estimated unearned premiums (net of acquisition expenses). In making a deduction for anticipated future premiums, I have estimated the bad debt reserve on that part of the future premiums that relate to “earned unsigned” premiums (net of acquisition expenses), subject to a minimum of 25% of the estimated earned unsigned premiums (net acquisition expenses). In addition, I have not anticipated any profits on the earned unsigned premiums.

I have relied upon data prepared by the responsible employees of the Managing Agent. These data have not been checked by me, although the Managing Agent has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations, as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the Managing Agent in determining the reserves, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

“In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary”]

I have verified that the data contained in Schedule P reconciles with the Trust Fund data used for the purpose of preparing this opinion [except for immaterial differences, possibly due to rounding/except for rounding differences].

[Additional Comments

Other comments at the discretion of the Actuary.

These additional comments do not constitute a qualification of my opinion.]

Variability

In evaluating whether the reserves make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development. In particular, although I have made what I believe to be a reasonable allowance for the risk of adverse development, I have not anticipated the emergence of major new types or classes of claims.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the reserves identified above are no less than the expected future cost, calculated in accordance with the Modified UK Basis, as agreed with the New York Insurance Department, of the corresponding claims and allocated claims handling expenses net of anticipated future premiums, of the business written by Syndicate [KLM] under the [US Credit for Reinsurance/US Surplus Lines] Trust Fund as at 31st December [current year] under the terms of the Syndicate policies and agreements.

[Qualifications on Opinion

Other comments at the discretion of the Actuary.]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Managing Agent.

This statement of opinion is solely for the use of, and to be relied upon only by, the Managing Agent, the syndicate auditors, the Council of Lloyd's, their auditors and the New York Insurance Department/International Insurers Department for the purpose of compliance with NYID/IID regulatory requirements.

Signed:

Name:

Fellow of the [Casualty Actuarial Society and Affiliate of the] Faculty/Institute of Actuaries

Date:

Address:

Data Accuracy Statement

I, _____, _____ hereby affirm

Name Title

that the listings and summaries of premium and claims data (including indemnity and expense amounts)

regarding _____ as at _____ and other

Syndicate KLM Valuation Date

relevant data and information (including relevant details of apportionment of premium exposure between earned and unearned, deferred acquisition costs, reinsurance disputes and reinsurance bad debts) provided to

Actuary's name and firm

were prepared under my direction and, to the best of my knowledge and belief, are accurate and complete [except where advised otherwise].

Signed:

Date: _____