LLOYD'S

MARKET BULLETIN

From	Head of Open Years Management
Date	04 January 2007
Reference	Y3941
Subject	**Treatment of Reinsurance to Close Premiums for Premium Income Monitoring Purposes**
Subject areas	Reinsurance to Close
Attachments	None
Action points	Underwriters of RITC to note
Deadlines	

Current Treatment

Lloyd's monitors premium income in order to keep track of the assumption of underwriting risk by syndicates. The premium that is included in the premium income monitoring ("PIM") process, and therefore how much of a syndicate's capacity has been utilised, is determined under the Underwriting Requirements.

Paragraph 9(c)(i) of the Underwriting Requirements provides that premiums in respect of a reinsurance to close ("RITC") of one year of account into a subsequent year of account of the same syndicate are not included in PIM. The premiums in respect of third party RITC are allocated fully towards PIM. Some managing agents have argued that this treatment is inappropriate given that much of the risk associated with RITC has already been evaluated and covered by the reserving process, and that the premium attributable to the carried reserves should not count as premium income.

Going Forward

Section 9(c)(ii) of the Underwriting Requirements allows the Franchise Board to direct that the premium income in respect of a third party RITC shall not be treated as premium income for PIM purposes. Given that the risk associated with the writing of RITC is the potential for deterioration above carried reserves, Lloyd's has decided that managing agents may seek Lloyd's consent to have only the risk premium element of any RITC premium treated as premium income for PIM purposes. Unless otherwise agreed with Lloyd's the risk premium will be calculated as the difference between the RITC premium and the reserves carried by the closing syndicate.

Any managing agent wishing to take advantage of this treatment of RITC premium should inform the Open Years Management ("OYM") department at Lloyd's.

These provisions will have no effect on the capital setting. The capital requirement will be determined using the risk based approach employed for all business at Lloyd's. However, the capital can be determined and put up as FAL on an ad hoc basis, as and when RITC transactions are negotiated, rather than as part of the Coming Into Line process. Business plans will need to include a statement of intent to pursue and underwrite RITC business but specific details need not be included as these transactions will be individually reviewed and approved by Lloyd's.

Similarly, syndicate capacity for the RITC transaction will be determined on a case by case basis and will be set at a level at least equal to the relevant risk premium unless otherwise agreed or determined by Lloyd's. This capacity will form the basis of the calculation of Lloyd's fees for the assumed business.

It is hoped that these changes will remove some of the perceived barriers to writing third party RITC and open up the market for the benefit of all Lloyd's participants.

For the avoidance of doubt, these provisions have no effect on the accounting treatment of RITC premiums.

Further Information

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