LLOYD'S

MARKET BULLETIN

REF: Y3993

Title	Multi-year Policies – Premium reallocation and processing
Purpose	The purpose of this bulletin is to remind Managing Agents of the Franchise Performance Guidelines in respect of multi-year policies and to inform them that the requirement for approval to be obtained if accounting intentions are changed after inception of such risks is no longer in effect.
Type	Event
From	Rolf Tolle, Director of Franchise Performance
Date	30 March 2007
Deadline	None – to take immediate effect
Related links	Market Bulletin Y3113, 11 August 2003 Market Bulletin Y3181, 13 November 2003

1. Franchise Performance Guidelines

Managing agents are reminded that the Franchise Guidelines (Market Bulletin Y3113, 11 August 2003) in respect of multi-year policies are as follows;

(a) Non-cancellable policies covering a period of greater than 18 months should be recorded as multi-year policies.

(b) Multi-year policies should either have matching reinsurance cover or be limited to the agreed maximum net exposure to the class of business as set out in the syndicate's business plan.

2. Accounting Requirements

Where multi-year policies are issued, certain accounting concerns arise.

Lloyd's has carried out a review of the arrangements set out in Market Bulletin Y3181 dated 13 November 2003 regarding the administrative processes concerning the reallocation of premiums arising under multi-year contracts (i.e. contracts where the overall period of risk exceeds 18 months <u>and</u> the costs and/or benefits arising under the contract may affect more than one year of account).

As a result of that review it has been decided that responsibility for deciding whether reallocation of premiums is appropriate or not is a matter for managing agents and their auditors to determine. Accordingly, with immediate effect, where circumstances arise which necessitate a change to the basis on which the premium is to be allocated to the various years of account, managing agents no longer need submit an Explanation Form or apply to Lloyd's for approval of the proposed change. Xchanging Insurance Services (XIS) are being informed of this and asked not to reject premiums for signing in the absence of such forms.

Managing agents must of course continue to ensure that the basis on which premium arising under a multi-year contract is allocated to various years of account complies with all relevant legal and accounting requirements and principles. For managing agents' assistance, a brief summary of key legal and accounting principles is attached to this bulletin.

Any queries regarding the content of this bulletin should be directed in the first instance to Bill Rendall, bill.rendall2@lloyds.com or 020 7327 5810.

Rolf Tolle,

Director of Franchise Performance

Attachments: Annexe 1 – Multi-year policies, legal and accounting principles

Annexe 1

Multi-year contracts – Legal and accounting principles

The appropriate allocation to years of account of premiums, claims and other amounts arising under multi-year contracts will depend on a proper analysis of each contract. Equally, appropriate disclosures in syndicate underwriting accounts in respect of such contracts will depend on the circumstances of each contract.

Fundamental legal principles

The managing agent must comply with its obligations and fiduciary duties under the managing agent's agreement and, in relation to the preparation of syndicate underwriting year accounts, the requirements under the Insurance Accounts Directive (Lloyd's Syndicate Accounts) Regulations 2004 and Syndicate Accounting Byelaw (*SAB*).

The following principles are relevant in this regard:

1. the requirement that the transaction be accounted for on a basis which is equitable as between the members of the syndicate; and

2. the requirement that the underwriting year account for a closed year of account shows a true and fair view of the result of that year.

Fundamental accounting principles

In determining the appropriate basis for recognising transactions relating to multi-year contracts in the syndicate underwriting year accounts, the proposed treatment must comply with the fundamental accounting principles set out in Schedule 2 to the SAB. Fundamental principle 1 is that items which affect more than one year of account must be accounted for so as to ensure a treatment which is equitable as between the members of the syndicate affected.

The second fundamental principle is that accounting policies must be applied so as to ensure uniform treatment of like items in respect of each year of account and must be applied consistently throughout each year of account and from one year of account to the next.

Thus, where the full amount of the premium for the entire period of the risk is due at inception, it may be recognised as fully attributed to the year of account in which the policy incepts or apportioned over the full period of risk with annual portfolio transfers of premium. The basis of allocation of premium should be consistent year on year *provided it remains an appropriate basis*. Further, it should be established at the outset of the contract and must be such that the allocation of the premium to each year of account is reasonably commensurate with the risk accepted by each year.

Where the premium for a multi-year contract is subject to annual renewal or portfolio transfer and the syndicate ceases to underwrite new business before the contract expires, or the members of subsequent years of account do not accept the renewal or portfolio transfer, the remaining premiums due and the related liabilities will remain with the open years of account subject to the terms of the contract.