LLOYD'S

MARKET BULLETIN

REF: Y4174

Title	**Enforcement Proceedings – James Corrigan-Stuart/Andrew Willoughby**
Purpose	To provide information relating to the Enforcement Proceedings relating to Mr James Corrigan-Stuart and Mr Andrew Willoughby
Type	Event
From	Sean McGovern, Director & General Counsel Telephone: 020 7327 6142, E-mail: Sean.McGovern@lloyds.com
Date	4 August 2008
Deadline	None
Related links	None

In proceedings before the Lloyd's Enforcement Board, Mr Corrigan-Stuart and Mr Willoughby have admitted certain charges of misconduct.

At the relevant time both defendants were directors of the Lloyd's managing agent, Euclidian Underwriting Limited ("Euclidian").

In bringing these proceedings, the Council of Lloyd's liaised as appropriate with the Financial Services Authority ("the FSA"). It was agreed that, in accordance with the co-operation arrangements entered into between Lloyd's and the FSA, Lloyd's should bring these proceedings.

Mr Corrigan-Stuart

As a result of the proceedings involving Mr Corrigan-Stuart, the Enforcement Board has approved the following settlement terms -

1. That Mr Corrigan-Stuart give a permanent undertaking to the effect that he will not be concerned or interested in the transaction of the business of insurance at Lloyd's or any class or classes of such business without the prior permission of Lloyd's;

2. That Mr Corrigan-Stuart give a permanent undertaking that he will not enter the Room and other parts of the premises of the Society without the prior permission of Lloyd's;

3. That Mr Corrigan-Stuart be censured in the terms of the Notice attached to this bulletin; and

4. That Mr Corrigan-Stuart pay a fine of £15,000.

Mr Corrigan-Stuart has also agreed to contribute the amount of £20,000 towards the costs of Lloyd's in respect of these proceedings.

Mr Corrigan-Stuart is currently engaged as joint managing director of a company which includes a Lloyd's coverholder business. In accordance with the above undertakings, Mr Corrigan-Stuart will not be permitted to be involved in the company's Lloyd's binding authority business, save for agreed administrative functions. It has also been agreed with Lloyd's and with the FSA that Mr Corrigan-Stuart will cease to be joint managing director of this company. Mr Corrigan-Stuart will continue to be a director and will be appointed chief operating officer, reporting to the managing director, who will have regulatory responsibility for the performance by Mr Corrigan-Stuart of his duties.

Mr Willoughby

As a result of the proceedings involving Mr Willoughby the Enforcement Board has approved the following settlement terms -

1. That Mr Willoughby give a permanent undertaking to the effect that he will not be concerned or interested in the transaction of the business of insurance at Lloyd's or any class or classes of such business without the prior permission of Lloyd's;

2. That Mr Willoughby give a permanent undertaking that he will not enter the Room and other parts of the premises of the Society without the prior permission of Lloyd's;

3. That he be censured in the terms of the Notice attached to this bulletin; and

4. That he pay a fine of £10,000.

Mr Willoughby has also agreed to contribute the amount of £15,000 towards the costs of Lloyd's in respect of these proceedings.

Details of the events giving rise to these proceedings and of the charges admitted are set out in the attached Notices of Censure.

These proceedings were determined by the Lloyd's Enforcement Board and its decision gives effect to the settlement of these proceedings agreed between the Defendants and the Council of Lloyd's.

Notice of Censure

James Corrigan-Stuart

James Corrigan-Stuart was until 2004 a director of Euclidian Underwriting Limited ("Euclidian") which at the time relevant to these proceedings managed syndicate 1243. Mr Corrigan-Stuart was also a director of a number of Euclidian corporate members that supported syndicate 1243.

Case summary

Enforcement proceedings were brought against Mr Corrigan-Stuart and another co-director. In summary the case which is the subject of this Notice of Censure (the "case") is that Mr Corrigan-Stuart failed to ensure that he dealt with one of Euclidian's capital providers and also with Lloyd's in a transparent manner, in that he:

- did not take the necessary steps to ensure that one of Euclidian's capital providers had agreed to changes to a policy which had been effected to protect that capital provider's collateral; and
- did not take adequate steps to ensure that Lloyd's was kept fully informed about those changes; and
- failed properly to explain to a capital provider the true purpose of a particular payment when seeking that capital provider's consent to it and permitted that payment to be made from the premiums trust fund in breach of trust.

As a result, Mr Corrigan-Stuart has admitted two charges of discreditable conduct and two other charges of misconduct**.**

The policy amendment charges

Until 2001 the Euclidian corporate members had been supported by a single ultimate capital provider (company A). However, for the 2002 year of account Euclidian wanted to increase the capacity of syndicate 1243 and accordingly sought additional capital for the existing Euclidian corporate members. A bank was found that was prepared to provide £17 million of capital ("the bank").

By late 2002 it was apparent to the Euclidian board that further capital was required in order for the syndicate to continue underwriting in 2003. Responsibility for raising additional capital was divided, Mr Corrigan-Stuart being responsible for raising capital from the insurance market, and his co-director for seeking capital from banks and other sources of fixed cost finance. In due course two insurance companies (company B and company C) agreed to provide additional capital to support two new Euclidian corporate members of the syndicate.

2003 year of account

As a result, for the 2003 year, syndicate 1243 was supported by 8 wholly-owned Euclidian corporate members whose funds at Lloyd's ("FAL") were provided by or secured by various capital providers.

By a "Funds at Lloyd's Collateral Deed" dated 20 December 2002 each of the Euclidian corporate members and each of the capital providers agreed that any draw down of FAL to meet syndicate obligations arising out of the 2003 year of account would be met in layers:

first out of company A's funds and collateral, then out of company B's collateral, next out of company C's collateral and lastly out of the bank's collateral.

In return for the provision of £50 million of collateral by company B, Euclidian and the original Euclidian corporate members agreed to enter into a policy with company E ("the first policy"). The purpose of the first policy was to protect company B from the risk that losses on the 2002 and prior years of account might reduce the funds at Lloyd's provided or secured by company A (which, for the 2003 year, was providing/ securing the capital in the layer below that secured by company B).

The agreement to enter into the first policy was reflected in a side letter dated 19 December 2002 between Euclidian, the Euclidian corporate members and company B. The first policy was executed by the original Euclidian corporate members and by company E on 19 December 2002.

Mr Corrigan-Stuart was involved in the negotiation of these agreements and signed, on behalf of the various Euclidian entities concerned, the funds at Lloyd's collateral deed, the side letter and the first policy. He was therefore, at all material times, aware of the commercial purpose of the first policy and of its importance to company B.

2004 year of account

At the beginning of December 2003, arrangements had yet to be concluded for the provision of the capital for the 2004 year of account. Company B had already decided not to provide capital for the 2004 year of account and therefore additional capital was required if the syndicate was to continue underwriting in 2004 and therefore avoid any associated costs of run-off.

A new insurance company (company D) was prepared to offer capital support to the syndicate for the 2004 year, on condition that the other capital providers were also prepared to put up additional funds, including a further £19.8 million to be provided by the bank.

The bank however was unwilling to commit further capital without obtaining additional protection for its existing collateral (£17 million) supporting the 2003 and earlier years of account. To achieve this Euclidian sought and obtained the agreement of company E to replace the first policy with a revised policy, "the second policy". The second policy included the following loss payee clause:-

> *"In the event of a claim hereunder relating to the 2002 and prior years, the first payee shall be [the bank] up to maximum recoverable of STG £17 million pari passu with a draw down of the [bank's] funds".*

The second policy was intended to protect the Euclidian corporate members against the drawdown of their funds at Lloyd's to meet obligations arising out of the 2003 year of account and the 2002 and prior years of account and specifically to protect the bank against the risk that its existing collateral might be called upon to meet losses arising on the 2002 and prior years of account.

In itself the replacement of the first policy with the second policy deprived company B of potentially significant protection for its 2003 capital. Under the first policy the original Euclidian corporate members might be indemnified subject to a limit of £20 million and a stated retention in respect of any reduction in funds at Lloyd's available to meet losses arising on the 2003 year of account caused by a reduction of any funds at Lloyd's to meet losses attributable to the 2002 and prior years of account. This would prevent or postpone calls on company B's collateral. However, under the second policy, up to £17 million of the

£20m indemnity available might be paid first to the bank in reimbursement of its collateral drawn down to meet losses arising on the 2002 and prior years of account.

Mr Corrigan-Stuart was involved in drafting the amendments of the first policy, which in due course were incorporated into the second policy, including the loss payee clause referred to above.

Mr Corrigan-Stuart believed that a separate whole account stop loss policy that Euclidian had put in place as part of the 2004 capital arrangements (which the changes to the first policy were designed to facilitate) provided the necessary protection for company B at an additional premium. Nevertheless, the consent of company B was required to the amendment of the first policy and Mr Corrigan-Stuart did not take the necessary steps to ensure that company B's consent was obtained. This was particularly important given the existence of the side letter. Accordingly, Mr Corrigan-Stuart has admitted a charge of discreditable conduct.

In addition, Mr Corrigan-Stuart knew that the affairs of the Euclidian group had been a matter of concern to the Council of Lloyd's since at the latest July 2003. Euclidian and the members of its board had an obligation to advise Lloyd's, in advance, of the intended replacement of the first policy with the second policy. However, Mr Corrigan-Stuart did not take adequate steps to ensure that Lloyd's were made aware of the intended replacement of the first policy. Mr Corrigan-Stuart has admitted a charge of misconduct in respect of this matter.

The Euc Re Charges

In 1999 Euc Re Limited (the parent company of Euclidian) was established to buy out all of the issued shares in Euclidian PLC. Euc Re Limited entered into a facility agreement with another bank in order to fund for the benefit of company A the purchase of 70% of the shares in Euc Re Limited. That loan had been guaranteed by company A.

The final repayment instalment of that loan was £2.53 million and was due to be paid at the end of 2003. Euc Re Limited was unable to pay the debt from its own resources but Mr Corrigan-Stuart permitted the debt to be repaid out of the syndicate's premiums trust funds.

On 26 February 2004 Mr Corrigan-Stuart had visited a director of company B to ask him to sign a letter on behalf of company B confirming that company B accepted "the cost to avoid the run-off [of the syndicate] of £2.5 million which was incurred as part of [company's A]'s exit from the Euclidian Group was a reasonable cost" to the syndicate for the 2003 year of account. The letter had been sought by the syndicate auditors in order to state their opinion in the annual return to Lloyd's for 2003.

When seeking to obtain the letter of confirmation Mr Corrigan-Stuart failed to disclose to the director the fact that the payment represented the final instalment of the Euc Re loan.

With regard to Mr Corrigan-Stuart's failure to disclose and explain the nature of the payment, he has admitted a further charge of discreditable conduct.

The Premiums Trust Deed

Each of the Euclidian corporate members executed a premiums trust deed ("PTD") on becoming an underwriting member at Lloyd's. Mr Corrigan-Stuart was not a trustee of the corporate members premiums trust funds ("PTF") but as a director of each of the Euclidian corporate members he was aware of the obligation on the Euclidian corporate members to comply with the terms of those PTDs.

It was a breach of the PTD to use PTF assets to repay the Euc Re loan as the repayment of that loan was not a valid "permitted trust outgoing". Mr Corrigan-Stuart allowed this payment to be made from PTF assets and as a result, Mr Corrigan-Stuart has admitted a further charge of misconduct.

In respect of the second policy, the further premium required by company E was paid using assets held in an experience account maintained under the terms of the first policy, which were assets of the relevant Euclidian corporate members held subject to the terms of their respective PTDs. In addition, various additional premium payments were also made to company E out of other PTF assets. However, the second policy, although expressed in terms of a reinsurance of the relevant Euclidian corporate members, was in Lloyd's view a personal stop loss insurance insuring particular corporate members of the syndicate against calls on their FAL (and thus protecting their capital providers from loss of collateral securing those members' FAL). Lloyd's takes the view that the payments made to company E out of the PTF assets were not "permitted trust outgoings" and that the payments therefore breached the terms of the PTD.

However, Lloyd's has not proceeded with enforcement action in respect of this matter. This is because the payments from the PTF for the second policy were arguably consistent with legal advice received from Clyde & Co in relation to the first policy (which did not have the loss payee clause mentioned above). Lloyd's believes that the Clyde & Co advice was incorrect. But for that advice Lloyd's would have proceeded with charges on this matter as Lloyd's regards the proper safeguarding of PTF assets as being of fundamental importance and that the use of PTF assets for the purposes of funding capital raising is an improper use of such assets.

Settlement Terms

As a result of Mr Corrigan-Stuart's admissions the following agreed settlement terms have been approved by the Enforcement Board:

1. That Mr Corrigan-Stuart give a permanent undertaking to the effect that he will not be concerned or interested in the transaction of the business of insurance at Lloyd's or any class or classes of such business without the prior permission of Lloyd's;

2. That Mr Corrigan-Stuart give a permanent undertaking that he will not enter the Room and other parts of the premises of the Society without the prior permission of Lloyd's;

3. That Mr Corrigan-Stuart be censured in the terms of this Notice; and

4. That Mr Corrigan-Stuart pay a fine of £15,000.

In addition, Mr Corrigan-Stuart has agreed to contribute the amount of £20,000 towards the costs of Lloyd's in respect of these proceedings.

In assessing the penalties in this case account has been taken of the fact that it is no part of this case that Mr Corrigan-Stuart acted dishonestly or in bad faith. Further, Mr Corrigan-Stuart admitted the charges, cooperated fully with Lloyd's investigation and has settled these proceedings without the need for contested enforcement proceedings.

Lloyd's Enforcement Board

Notice of Censure
Andrew Willoughby

Andrew Willoughby was until 2004 a director of Euclidian Underwriting Limited ("Euclidian") which at the time relevant to these proceedings managed syndicate 1243 and acted as finance director for a number of companies in the Euclidian Group. Mr Willoughby was also a director of a number of Euclidian corporate members that supported syndicate 1243.

Case summary

Enforcement proceedings were brought against Mr Willoughby and another co-director. In summary the case which is the subject of this Notice of Censure (the "case") is that Mr Willoughby failed to ensure that he dealt with one of Euclidian's capital providers and also with Lloyd's in a transparent manner, in that he:

- did not take the necessary steps to ensure that one of Euclidian's capital providers had agreed to changes to a policy which had been effected to protect that capital provider's collateral; and
- did not take adequate steps to ensure that Lloyd's was kept fully informed about those changes.

As a result, Mr Willoughby has admitted one charge of discreditable conduct and one charge of misconduct**.**

The policy amendment charges

Until 2001 the Euclidian corporate members had been supported by a single ultimate capital provider (company A). However, for the 2002 year of account Euclidian wanted to increase the capacity of syndicate 1243 and accordingly sought additional capital for the existing Euclidian corporate members. A bank was found that was prepared to provide £17 million of capital ("the bank").

By late 2002 it was apparent to the Euclidian board that further capital was required in order for the syndicate to continue underwriting in 2003. Responsibility for raising additional capital was divided, Mr Willoughby being responsible for seeking capital from banks and other sources of fixed cost finance and his co-director being responsible for raising capital from the insurance market. In due course two insurance companies (company B and company C) agreed to provide additional capital to support two new Euclidian corporate members of the syndicate.

2003 year of account

As a result, for the 2003 year, syndicate 1243 was supported by 8 wholly-owned Euclidian corporate members whose funds at Lloyd's ("FAL") were provided by or secured by various capital providers.

By a "Funds at Lloyd's Collateral Deed" dated 20 December 2002 each of the Euclidian corporate members and each of the capital providers agreed that any draw down of FAL to meet syndicate obligations arising out of the 2003 year of account would be met in layers: first out of company A's funds and collateral, then out of company B's collateral, next out of company C's collateral and lastly out of the bank's collateral.

In return for the provision of £50 million of collateral by company B, Euclidian and the original Euclidian corporate members agreed to enter into a policy with company E ("the first policy").

The purpose of the first policy was to protect company B from the risk that losses on the 2002 and prior years of account might reduce the funds at Lloyd's provided or secured by company A (which, for the 2003 year, was providing/ securing the capital in the layer below that secured by company B).

The agreement to enter into the first policy was reflected in a side letter dated 19 December 2002 between Euclidian, the Euclidian corporate members and company B. The first policy was executed by the original Euclidian corporate members and by company E on 19 December 2002.

Mr Willoughby approved the side letter and the first policy and attested his co-director's signature on the first policy. He was therefore, at all material times, aware of the commercial purpose of the first policy and of its importance to company B.

2004 year of account

At the beginning of December 2003, arrangements had yet to be concluded for the provision of the capital for the 2004 year of account. Company B had already decided not to provide capital for the 2004 year of account and therefore additional capital was required if the syndicate was to continue underwriting in 2004 and therefore avoid any associated costs of run-off.

A new insurance company (company D) was prepared to offer capital support to the syndicate for the 2004 year, on condition that the other capital providers were also prepared to put up additional funds, including a further £19.8 million to be provided by the bank.

The bank however was unwilling to commit further capital without obtaining additional protection for its existing collateral (£17 million) supporting the 2003 and earlier years of account. To achieve this Euclidian sought and obtained the agreement of company E to replace the first policy with a revised policy ("the second policy"). The second policy included the following loss payee clause:-

> *"In the event of a claim hereunder relating to the 2002 and prior years, the first payee shall be [the bank] up to maximum recoverable of STG £17 million pari passu with a draw down of the [bank's] funds".*

The second policy was intended to protect the Euclidian corporate members against the drawdown of their funds at Lloyd's to meet obligations arising out of the 2003 year of account and the 2002 and prior years of account and specifically to protect the bank against the risk that its existing collateral might be called upon to meet losses arising on the 2002 and prior years of account.

In itself the replacement of the first policy with the second policy deprived company B of potentially significant protection for its 2003 capital. Under the first policy the original Euclidian corporate members might be indemnified subject to a limit of £20 million and a stated retention in respect of any reduction in funds at Lloyd's available to meet losses arising on the 2003 year of account caused by a reduction of any funds at Lloyd's to meet losses attributable to the 2002 and prior years of account. This would prevent or postpone calls on company B's collateral. However, under the second policy, up to £17 million of the £20m indemnity available might be paid first to the bank in reimbursement of its collateral drawn down to meet losses arising on the 2002 and prior years of account.

Mr Willoughby was involved in the negotiations in respect of the second policy and signed both the second policy and the Commutation Agreement which effected the commutation of the first policy for the second policy.

Mr Willoughby believed that a separate whole account stop loss policy that Euclidian had put in place as part of the 2004 capital arrangements (which the changes to the first policy were designed to facilitate) provided the necessary protection for company B at an additional premium.

Nevertheless, the consent of company B was required to the amendment of the first policy and Mr Willoughby did not take the necessary steps to ensure that company B's consent was obtained. This was particularly important given the existence of the side letter. Accordingly, Mr Willoughby has admitted a charge of discreditable conduct.

In addition, Mr Willoughby knew that the affairs of the Euclidian group had been a matter of concern to the Council of Lloyd's since at the latest July 2003. Euclidian and the members of its board had an obligation to advise Lloyd's, in advance, of the intended replacement of the first policy with the second policy. However, Mr Willoughby did not take adequate steps to ensure that Lloyd's were made aware of the intended replacement of the first policy. Mr Willoughby has admitted a charge of misconduct in respect of this matter.

The Premiums Trust Deed

Each of the Euclidian corporate members executed a premiums trust deed ("PTD") on becoming an underwriting member at Lloyd's. Mr Willoughby, as a director of each of the Euclidian corporate members was aware of the obligation on the Euclidian corporate members to comply with the terms of those PTDs. Further, Mr Willoughby was one of the trustees of the Euclidian corporate members' premiums trust funds ("PTF") and was therefore under an obligation to ensure that the PTF assets were only used for purposes permitted under the terms of the PTDs.

In respect of the second policy, the further premium required by company E was paid using assets held in an experience account maintained under the terms of the first policy, which were assets of the relevant Euclidian corporate members held subject to the terms of their respective PTDs. In addition, various additional premium payments were also made to company E out of other PTF assets. However, the second policy, although expressed in terms of a reinsurance of the relevant Euclidian corporate members, was in Lloyd's view a personal stop loss insurance insuring particular corporate members of the syndicate against calls on their FAL (and thus protecting their capital providers from loss of collateral securing those members' FAL). Lloyd's takes the view that the payments made to company E out of the PTF assets were not "permitted trust outgoings" and that the payments therefore breached the terms of the PTD.

However, Lloyd's has not proceeded with enforcement action in respect of this matter. This is because the payments from the PTF for the second policy were arguably consistent with legal advice received from Clyde & Co in relation to the first policy (which did not have the loss payee clause mentioned above). Lloyd's believes that the Clyde & Co advice was incorrect. But for that advice Lloyd's would have proceeded with charges on this matter as Lloyd's regards the proper safeguarding of PTF assets as being of fundamental importance and that the use of PTF assets for the purposes of funding capital raising is an improper use of such assets.

Settlement Terms

As a result of Mr Willoughby's admissions the following agreed settlement terms have been approved by the Enforcement Board:

1. That Mr Willoughby give a permanent undertaking to the effect that he will not be concerned or interested in the transaction of the business of insurance at Lloyd's or any class or classes of such business without the prior permission of Lloyd's;

2. That Mr Willoughby give a permanent undertaking that he will not enter the Room and other parts of the premises of the Society without the prior permission of Lloyd's;

3. That he be censured in the terms of this Notice; and

4. That he pay a fine of £10,000.

In addition, Mr Willoughby has agreed to contribute the amount of £15,000 towards the costs of Lloyd's in respect of these proceedings.

In assessing the penalties in this case account has been taken of the fact that it is no part of this case that Mr Willoughby acted dishonestly or in bad faith. Further, Mr Willoughby admitted the charges, cooperated fully with Lloyd's investigation and has settled these proceedings without the need for contested enforcement proceedings.

Lloyd's Enforcement Board