

MARKET BULLETIN

REF: Y4242

Title Updated arrangements for establishing new syndicates, including Special Purpose Syndicates, (SPS) backed by multiple members

Purpose To update arrangements for establishing mid-year, mixed capital, syndicates

Type Scheduled

From Sean McGovern
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Date 12 February 2009

Deadline See attached timetable. Commencement dates:
Syndicates – 1st July & 1st November 2009.
SPS - 1st April, 1st July & 1st November 2009.

Related links

Summary

This bulletin updates arrangements for establishing mid-year, mixed capital, syndicates. Key changes from Market Bulletin Y3959 (23 January 2007) are:

- Inclusion of comment on setting up an SPS;
- Removal of the dispensation for members to provide incremental FAL where their OPL increase is less than 5%. This has been offset by introducing a threshold of £25,000 for lodging additional FAL;
- Confirmation that members that have not Come into Line will not be able to accept any offer of new mid year syndicate capacity.

This bulletin supersedes Y3959.

Commentary

Since issuing bulletin Y3959 we have seen the development and use of the Special Purpose Syndicate (SPS) structure and in the light of the current market environment it is appropriate to update that guidance.

Where relevant, this guidance distinguishes between the requirements for establishing a new 'conventional' mixed capital syndicate and establishing an SPS backed by existing private capital.

For the avoidance of doubt, this guidance and the timetable do not apply to applications to establish a new syndicate to be supported by a single member which can be made at any point in the year, subject to the relevant approvals.

Timetable

The timetable in appendix 1 indicates the key deadlines for Lloyd's to be able to process new mid-year private capital backed syndicate applications . Certain dates are ideal target dates but others are firm deadlines in order for applicants and Lloyd's to meet the desired start date.

Requirements

The requirements to set up an SPS (that only writes a Quota Share reinsurance of one existing syndicate, referred to as the 'host' syndicate) are less wide-ranging than for a conventional syndicate and therefore, the timetable for establishing an SPS is potentially more flexible than that for a new conventional syndicate.

Conventional syndicate	SPS
The timetable advises dates and sets deadlines by when applicants must provide to Lloyd's a fully completed new syndicate application, where that syndicate is to be supported by private capital.	
Before a new application may be submitted, detailed discussions regarding the proposed syndicate business plan will need to have taken place with FPD Underwriting Performance.	Before a new application may be submitted, detailed discussions regarding the proposed host syndicate business plan as well as the SPS business plan will need to have taken place with FPD Underwriting Performance.
Managing agents must engage with members' agents to discuss the business plan and to gauge the likely appetite of members to support the proposal. Managing agents must factor into their timetable the time taken to send any proposal out to their members and for members to respond.	
	In addition to agreeing usual participation terms (managing agent fees and profit commission) managing agent and members agents will need to agree, inter alia; <ul style="list-style-type: none"> • The terms of the quota share reinsurance • The duration of the agreement • Capacity tenancy arrangements
Members must meet the deadline by which any additional funds at Lloyd's are to be received by Lloyd's so that they may accept a participation on a new syndicate. This includes meeting all existing capital requirements and being in line. Revised modelling software including new syndicates, commencing at the relevant date, will be available once syndicate business plans and capital requirements for the new syndicate(s) are agreed.	

<p>Initial capital requirements for new syndicates will be determined, as at present, using Lloyd's central modelling software incorporating specific "new syndicate" adjustments and loading. It is not necessary to prepare an ICA as part of the application, but where an ICA has been prepared, this will be taken into account in agreeing the final capital requirement.</p>	
<p>Members' agents and direct corporate members must confirm that members who are participating in a new syndicate have signed a syndicate list and have complied with Lloyd's requirements for funds at Lloyd's. The relevant documents are attached as appendix 2 and are unchanged from the previous bulletin.</p>	
<p>Existing MAPAs continue not be able to participate on any mid-year syndicates.</p>	
<p>In deciding whether or not to support a new mid-year syndicate, members who are limited partnerships should bear in mind that Lloyd's cannot approve a change in partnership shares other than with effect from 1 January.</p>	
<p>Lloyd's will not be able to give a new syndicate permission to commence underwriting until the managing agent and members' agents have agreed and signed an agents' syndicate list in respect of that new syndicate.</p>	
<p>Special procedures apply to syndicates wishing to underwrite US business, which may have timetable implications for the submission of certain application documentation. Appendix 1 provides further details.</p>	<p>As a reinsurer of the host syndicate's business, an SPS does not require overseas licensing</p>
<p>Lloyd's will process new corporate member applications in conjunction with a new syndicate application. Again, applicants should adhere to the deadlines for submission of admission documents.</p>	<p>Lloyd's will need to agree to proposals to establish any new members to support an SPS, for example one whose business plan proposals are heavily catastrophe orientated</p>

Capital Implications for members increasing their underwriting mid year

Market Bulletin Y3959 enabled members wishing to take advantage of business opportunities mid-year to increase their overall premium limit by up to 5% without being required to provide any additional funds at Lloyd's by the relevant deadline set out in the timetable. It also indicated that this dispensation would be re-evaluated in the light of experience and other developments.

We considered the application of the FAL dispensation and the requirements for all members to address any solvency deficit by this year's mid year Coming into Line deadline. The prospect of a member accepting participation on more than one mid year start up syndicate is also untested.

We concluded that the following guidance will now apply to the offer/acceptance of new mid year start-up capacity:

- *Members that have a Coming into Line shortfall will not be able to accept new mid year capacity;*
- *For any member that is able to take up an offer of new mid year capacity, it is a condition of acceptance that the member:*
 - *is 'in line' for its existing participations **and***

- *undertakes to lodge in full any additional FAL requirement¹ that may arise through accepting the new mid year capacity. This undertaking to apply to an additional FAL requirement that exceeds a threshold of £25,000. The basis of FAL requirement and deadlines for FAL provision are confirmed in appendix 3.*

Circulation

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

If you have any query on the content of this bulletin, please contact Nigel Williamson on 0207 327 6415 or Nigel.williamson@lloyds.com;

Sean McGovern
Director and General Counsel

¹ In line with normal procedure, Members' agents and DCPs will be provided with updated ECA member modelling software to calculate members' new funding requirement

Timetable to establish a new mid-year, mixed capital, conventional syndicate²

[Managing agents seeking to establish an SPS should contact Robert Stevenson in the first instance to discuss the proposal and timetable to achieve an April, July or November start date]

To commence underwriting with effect from:	1 July 2009	1 Nov 2009	1 Apr 2010
Last date to make an outline proposal to Lloyd's for a new conventional syndicate **	13 Apr	21 Aug	15 Jan
Last date for syndicate business plan, details of key staff and implications for managing agent submitted to Lloyd's **	20 Apr	28 Aug	22 Jan
Deadline for Lloyd's to give 'green light' to a new syndicate application and agree syndicate capital requirement **	8 May	10 Sep	5 Feb
Provision of member modelling software to members' agents and direct corporate members **	12 May	21 Sep	10 Feb
Deadline to submit a final complete new syndicate application **	12 May	21 Sep	10 Feb
Deadline to submit a complete new corporate member application (Stage 1) **	12 May	21 Sep	10 Feb
Lloyd's Franchise Board endorses the syndicate application	21 May	17 Sept	TBC
Members' agents send new syndicate 'application forms' to members	22 May	23 Sep	19 Feb
Last date for members to return new syndicate acceptance forms and syndicate lists	12 Jun	9 Oct	8 Mar
Deadline for existing members to provide additional FAL and supporting documents to Lloyd's	30 Jun	27 Nov	10 Mar
Deadline for new member to provide FAL and supporting documentation (Stage 2)	12 Jun	13 Oct	10 Mar
Members' agents provide MSU with syndicate participation files	19 Jun	15 Oct	16 Mar
Deadline for members' agents and direct corporate members to confirm that members have signed syndicate lists and are in compliance with Lloyd's requirements for funds at Lloyd's	19 Jun	16 Oct	16 Mar
Approval given to new members	23 Jun	19 Oct	19 Mar
Agents' Syndicate List agreed and signed by managing agent and members' agents	23 Jun	19 Oct	19 Mar
Lloyd's confirms syndicate may commence underwriting	23 Jun	19 Oct	22 Mar

** - The timing of actions marked thus can be flexed for new SPS applications

² Syndicates wishing to write US business should refer to note 2.

Notes on the timetable

- 1 This timetable is based on a new syndicate to be managed by an existing managing agent. If a new managing agent is proposed, the process will take longer because of the additional work involved and the requirement for FSA approval.

- 2 A new conventional syndicate that intends to write US business will need to arrange to be on the relevant NAIC lists which are updated on each quarter date for surplus lines business and on 1 June and 1 December for US reinsurance business. Further details on US procedures for a new syndicate can be found on Lloyd’s website using the following link: www.lloyds.com/new-syndicate-guidance

3 Key Lloyd’s contacts

New syndicate applications:	Robert Stevenson, Head of Relationship Management [x.5541]
US procedures:	Maria McLoughlin, International Market Access [x.6863]
Capital requirements:	Lorraine Harfitt, Market Reporting [x.6420]
Member issues:	Karen Fox, Market Services [x.2368]

MEMBERS' COMPLIANCE WITH UNDERWRITING REQUIREMENTS

Year of Account

Members' Agent's Confirmation Form

Members' Agent:

Date:

We confirm that in respect of those members proposing to increase their underwriting (OPL) for the [] account, each member for whom we act has complied with Lloyd's requirements in respect of the provision of funds at Lloyd's and that each member has signed a Syndicate List confirming that member's underwriting participations for the [] year of account.

IMPORTANT NOTICE
The confirmations made in this form are important and will be relied upon by Lloyd's. Signatories must take care to ensure the accuracy of their confirmations. Any queries relating to this form should be addressed to the Manager, Membership Arrangements, Market Services.

Signature of Director

Name (in block capitals)
Title/Position

Please return this form to the Manager, Membership Arrangements, Market Services.

Part 1

MEMBER'S COMPLIANCE WITH UNDERWRITING REQUIREMENTS

Year of Account

Corporate Member's Confirmation Form

Corporate Member :	(“the Corporate Member”)
Membership Number:	

Date:

I confirm that the Corporate Member has:

- (a) complied with Lloyd's requirements in respect of the provision of funds at Lloyd's and has sufficient funds at Lloyd's to support its underwriting in respect of the [] year of account as shown by the calculation in Part 2 of this form; and
- (b) signed a syndicate list confirming its underwriting participations for the [] year of account.

IMPORTANT NOTICE

The confirmations and figures stated within both pages of this form are important and will be relied upon by Lloyd's. Signatories must take care to ensure the accuracy of their confirmations. Any queries relating to this form should be addressed to the Manager, Membership Arrangements, Market Services.

Signature of Director/Partner
of the Corporate Member

Name (in block capitals)
Title/Position

Please return this form to the Manager, Membership Arrangements, Market Services.

(Cont'd overleaf)

PART 2

MEMBER'S COMPLIANCE WITH UNDERWRITING CONDITIONS AND REQUIREMENTS

Year of Account

Corporate Member's Confirmation Form (Cont'd)

Name of Corporate Member		
A	Level of Underwriting (OPL) for the [] year	£
B	Relevant percentage of OPL	%
C	Net FAL Requirement	£
D	Amount of liabilities specified in paragraph 5 of the M&URS (Funds at Lloyd's)	£
E	FAL Requirement (C + D)	£
F	FAL Value at [relevant valuation date]	£
G	Value of FAL assets added since [relevant valuation date]	£
H	Value of FAL released since [relevant valuation date]	£
I	Total FAL available to support Underwriting for the [] year of account (F + G – H)	£

Capital requirements for members' increasing their premium limits mid-year

	1 July 2009	1 November	1 April
Basis of capital requirement	<p>April Capital Test (for mid-year CIL) – available in May</p> <p>Recast member ECAs</p>	<p>July Capital Test available in August +/- half year interim results³</p> <p>Recast member ECAs</p>	<p>September Capital Test available in October</p> <p>FAL valuation at 31 December less any subsequent draw-downs to meet cash-calls</p> <p>Recast member ECAs</p>
Provision of additional funds at Lloyd's	<p>New members-12 June</p> <p>Existing members-30 June</p>	<p>New members-13 October</p> <p>Existing members-27 Nov</p>	<p>New and existing members - 10 March</p>

3. Subject to the same limits imposed on interim profits that would apply within the November CIL exercise