

MARKET BULLETIN

REF: Y4383

Title	Mid Year Coming into Line (CIL)
Purpose	To inform members' agents and direct corporate members of the arrangements relating to Mid Year CIL
Type	Scheduled
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Date	23 March 2010
Deadline	30 June 2010
Related links	

The purpose of this bulletin is to set out the timetable and to provide details of the Mid Year CIL process.

Summary

In 2005, Lloyd's formally implemented the bi-annual CIL exercise. This was a natural development due to the obligation to maintain continuous solvency. Outside of June and November CIL dates, Lloyd's may require a more rapid re-capitalisation where members' free funds fall below their regulatory minimum (Individual Capital Assessment (ICA)) or if, at market level, the level of shortfalls place an undue burden on the Central Fund.

Timetable

The timetable for this year's Mid Year CIL process will be as follows:-

31 December 2009	Valuation date of funds at Lloyd's
16 April 2010	CIL / Release statements available from Market Services
30 June 2010	CIL shortfalls to be made good

Given the nature and seasonal exposures of much of Lloyd's business, which may translate into losses in the second half year, it would be imprudent if CIL shortfalls were not made good when known. Where there is material exposure to the Central Fund and policyholder security, underwriting restrictions or other sanctions may be imposed.

Members with a shortfall of less than 10% of their CIL requirement up to a maximum of £100,000 will not be required to provide additional funds.

Basis of Economic Capital Assessment

The syndicate ICAs and derived member level Economic Capital Assessment will be adjusted to 31 December 2009 rates of exchange (US\$ 1.61) proportional to the movement in our central benchmark model, RBC.

Bank guarantees and Letters of Credit under notice of cancellation

The existing concession that bank guarantees (BG) and letters of credit (LoC) under notice of cancellation can be used to cover solvency deficiencies for the years of account for which they were valid remains in place.

Assets excluded due to concentration of asset requirements

Assets excluded due to the application of the concentration of assets requirements can continue to be used towards meeting 10% of a member's ECA or minimum capital requirement (whichever is the greater) subject to a maximum of £100,000.

Mid Year CIL Sanctions

Market Services charge

Subject to the de minimis levels set out above, where a member is out of line at 30 June they will be charged £100 per £5m shortfall or part thereof per day from 1 July until the shortfall is cleared.

Interim Profit Recognition

Where members remain out of line by more than the de minimis limits by 31 July then any net interim profit credit (set at a maximum of 25% of ECA) derived from interim syndicate results will be excluded from the capital tests in the second half of 2010, including November CIL. Net interim losses will be reflected in the CIL and release test. This sanction places members who are not in line on a similar footing to non-active members.

Overall premium limit for 2011

Where members are out of line in excess of the de minimis limits at the end of July then their following year OPL cannot be greater than their current OPL.

The above sanctions only apply to the Mid Year CIL exercise and all members intending to participate for 2011 must be **fully in line** by 29 November 2010.

Future Mid Year CIL Sanctions

We will monitor the effectiveness of the mid year CIL sanctions this year with a view to introducing more stringent sanctions next year should members not comply with the mid year CIL exercise.

CIL for 2011

The CIL valuation date for the November 2010 Capital Tests in respect of the 2011 year of account is 30 June 2010. The CIL date is 29 November 2010.

Recommencement of Underwriting

Members' agents should note that individual members who have previously ceased underwriting and wish to recommence can convert to a corporate member with funds at Lloyd's of not less than £100,000 (normal minimum £350,000). For the avoidance of doubt where the CIL requirement is less than £100,000 then additional capital up to £100,000 must be provided.

If you have any queries relating to the timetable please contact Malcolm Colesworthy ext. 2497 (Malcolm.colesworthy@lloyds.com). All other queries should be addressed to Kevin Nethersell ext. 6253 (Kevin.nethersell@lloyds.com). This bulletin has been sent to all members' agents, direct corporate members, recognised accountants and market associations for information.