

MARKET BULLETIN

REF: Y4508

Title	U.S. Reinsurance – reduced collateral arrangements in New York
Purpose	To announce Lloyd's approval under the New York credit for reinsurance rules to post reduced collateral in respect of future U.S. reinsurance contracts with New York domiciled cedants
Type	Annual
From	Rosemary Beaver, Head of International Regulatory Affairs
Date	28 July 2011
Deadline	None
Related links	

Summary

This bulletin is addressed to all Lloyd's market stakeholders dealing with the placement, underwriting, settlement and regulatory reporting of Lloyd's U.S. reinsurance business.

Lloyd's has been approved by the New York Department of Insurance (NYID) to post reduced collateral in respect of U.S. reinsurance contracts with New York domiciled cedants. This approval will apply to prospective business only (new/renewal) and is effective immediately, providing Lloyd's syndicates with the opportunity to post reduced collateral where commercially acceptable and practical for the parties to the reinsurance.

Background

Following debate on the issue for many years, New York and Florida have taken the lead in passing legislation to enable reform of reinsurance collateral rules in their states. Regulators in New Jersey and Indiana have also been proactive in amending their rules.

Earlier in the year, Lloyd's made an application to the NYID and that application has now been approved under the New York rules, enabling Lloyd's syndicates the option to reduce the collateral required on reinsurances of New York cedants from 100% to 20% of gross

liabilities.¹ This option applies only to U.S. cedants domiciled in New York and only with respect to policies incepting after 1 January 2011².

Reinsurance contracts supported by reduced collateral requirements must be funded outside of Lloyd's US trust funds arrangements (i.e. the Lloyd's Credit for Reinsurance Trust Funds (CRTFs) and the Lloyd's Credit for Reinsurance Joint Asset Trust Fund (CRJATF)).

These contracts will be funded on a cedant and contract specific basis where alternative security may be agreed between the parties to permit the cedant to take credit for reinsurance under New York regulations. This may take the form of letters of credit or Regulation 114 trusts.

Lloyd's syndicates may continue to fund reinsurance contracts issued to New York cedants through the current CRTF arrangements, at 100% of gross liabilities, where this is commercially preferable to the parties to the reinsurance.

Next steps

Lloyd's will shortly issue detailed guidance addressing the requirements for reduced collateral contracts. This guidance will cover contract requirements, the collateral securing these contracts and the processing and regulatory reporting of this business.

Whilst remaining an advocate for broader, harmonised national reform of US reinsurance collateral rules, Lloyd's is supportive of the initiatives made at state level by those states willing to take the lead. Following its approval by New York, Lloyd's is making a similar application seeking approval under the Florida rules and will continue to track developments in other states.

Further Information

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¹ This reduction is based on Lloyd's current financial strength ratings, which at the date of this bulletin, were an A rating from A.M. Best and A+ ratings from Fitch Ratings and Standard & Poor's.

² Lloyd's approval is backdated to 1 January 2011