

MARKET BULLETIN

REF: Y4711

Title	New criteria for non-underwriting working members of the Society
Purpose	To advise of new arrangements coming into force 13 September 2013
Type	Event
From	Gavin Steele Council Secretariat 020 7327 6032 (gavin.steele@lloyds.com)
Date	18 July 2013
Deadline	2 September 2013
Related links	

In July 2012 the Council established a Working Group to make recommendations as to how to ensure that experienced market practitioners may best remain involved in the governance of the Society as “non-underwriting working members” (NUWMs). The Working Group comprised Christopher Harman, Julian James, Paul Jardine, Alan Lovell, Nicholas Marsh, Bronek Masojada and Graham White.

A consultation paper setting out the Working Group’s recommendations, as approved by Council, was sent to all members of the Society, all managing agents, members’ agents, and Lloyd’s brokers plus the ALM, LMA, HPG and LIIBA on 28 March 2013. Responses were requested by 22 May 2013.

In total 83 responses were received. The Working Group considered it appropriate to revise a number of its recommendations in light of the feedback received and its final recommendations were approved by the Council at its meeting on 2 July 2013.

The Chairman of Lloyd’s will be writing to each firm at the end of July to seek nominations for individuals to be entered as NUWMs under the new arrangements. The closing date for nominations will be **Monday 2 September 2013** in order that the register of members can be updated by 13 September 2013 in accordance with the new arrangements in time for the 2014 Council elections.

The Consultation

Whilst many respondents agreed with the Working Group's proposals there were four key themes that emerged from the consultation. These emphasised the importance of ensuring that the new arrangements:

1. achieved an appropriate balance between NUWMs coming from the underwriting and broking communities;
2. achieved an appropriate balance between smaller and larger firms operating in the market;
3. generated a NUWM population comprising persons with sufficient experience of the Lloyd's market; and
4. were capable of being readily understood, in particular with regard to the circumstances in which executive directors of a parent company would be eligible.

The Working Group has taken these considerations into account in formulating its final recommendations to Council.

The new criteria

NUWMs are a sub-category of working members of the Society. Lloyd's Act 1982 defines a "working member" as a person who "*occupies himself principally with the conduct of business at Lloyd's by a Lloyd's broker or underwriting agent (i.e. managing agent or members' agent)*". This category was introduced in 1998 because of the increasing trend of market practitioners not to become underwriting members in a personal capacity.

From 13 September 2013, subject always to each individual being able to meet the above definition of a "working member" enshrined in Lloyd's Act 1982, the following criteria will apply:

1. Subject to the maximum allocation per firm (see paragraph 5 below) NUWM membership will be mandatory for executive directors of managing agents and members' agents and for active underwriters unless such directors or active underwriters are already underwriting working members;
2. Managing agents and members' agents will also be able to nominate senior employees who have worked for a managing agent, members' agent or Lloyd's broker for at least 5 years in aggregate and/or executive directors of a parent company for NUWM membership;
3. NUWM membership will remain voluntary for Lloyd's brokers, with executive directors (or equivalent within an LLP) of both the registered Lloyd's entity and a parent company eligible for NUWM membership;

4. The NUWM register will be refreshed on an annual basis using data available as at 1 March each year, starting in 2014, via a letter from the Chairman of Lloyd's to the CEO of a firm informing that firm as to its NUWM allocation for the coming year, and providing guidance on who is eligible for nomination. Once the register has been updated following this annual exercise it will remain fixed until the next annual refreshment exercise;
5. An allocation per firm, calculated as follows, will be introduced in order to preserve an appropriate balance across the market:
 - a. Managing agents: 3 NUWMs plus 1 per £50m (or part thereof) of aggregate syndicate allocated capacity under its management;
 - b. Members' agents: 3 NUWMs plus 1 per £50m (or part thereof) of the aggregate of members' syndicate premium limits for each member for which they act;
 - c. Lloyd's brokers: 1 NUWM plus 1 additional NUWM for each £200m of premium (or part thereof) placed at Lloyd's via its central settlement number in the previous year (on a calendar year basis).
6. The annual subscription fee payable by NUWMs will be increased to £100. Where paragraph 1 above applies this fee must be paid by the managing agent or members' agent.

The allocation mechanisms outlined at paragraph 5 above have been adjusted following the consultation exercise in order to increase the minimum allocation available to the smallest managing agents and members' agents who will now receive an allocation of at least 4 NUWMs instead of 3 as originally proposed (i.e. they will receive a minimum of 3 plus 1 for the first £50m (or part thereof) of capacity).

The smallest Lloyd's brokers will receive an allocation of 2 NUWMs per firm. This is the same as originally proposed but the allocation mechanism for Lloyd's brokers has been amended from the consultation recommendation of 1 NUWM plus 1 per £100m to 1 NUWM plus 1 per £200m (or part thereof) of premium. This will mean that the maximum allocation available to the largest brokers will be reduced to 12, 17 and 19 respectively (using the 2012 calendar year premium data that will be used for the implementation of the new arrangements), compared to the 23, 32 and 36 originally proposed (using 2011 calendar year premium data). The maximum NUWM population from Lloyd's brokers will represent 35% of the total maximum NUWM population, compared with 42% under the Working Group's original proposals.

Finally, Lloyd's will be issuing guidance to accompany the annual letter from the Chairman to assist firms in understanding the circumstances in which the Lloyd's Act definition of a working member may be met, including with regard to executive directors of parent companies.

Transition

The Chairman of Lloyd's will shortly be writing to each managing agent, members' agent and Lloyd's broker to confirm their NUWM allocations for this year and to invite nominations in accordance with the criteria set out above. These allocations will be set by reference to 2013 capacity data as at 1 March 2013 for managing agents and members' agents and to 2012 calendar year premium data as at 1 March 2013 for brokers.

The closing date for nominations will be **Monday 2nd September 2013** and all validly nominated NUWMs will be entered onto the register with effect from **13 September 2013**.

All NUWMs currently on the register of members will be removed from the register on 13 September 2013 but may be eligible for re-nomination by their firm provided that they meet the criteria set out above and of course subject to their firm's maximum allocation. The Chairman of Lloyd's will be writing separately to each NUWM currently on the register to confirm these arrangements.

If you have any questions concerning this bulletin please contact Gavin Steele (gavin.steele@lloyds.com) or Caroline Sandeman-Allen (caroline.sandeman-allen@lloyds.com).