

# MARKET BULLETIN

REF: Y4826

**Title** New Central Fund contributions, members' subscriptions and other charges for 2015. Repayment of 50% of the standard New Central Fund contribution for 2012

**Purpose** Notification of contributions, subscriptions and payment dates

**Type** Scheduled

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**Date** 1 October 2014

**Deadline**

**Related links**

1.1 Council has approved the New Central Fund contribution rates and members' subscriptions and entrance / application fees for 2015.

1.2 The principal central charges are set out below:

	<b>2014</b>	<b>2015</b>
New central fund contribution	0.50%	0.50%
Members' subscription	<u>0.50%</u>	<u>0.50%</u>
	<u>1.00%</u>	<u>1.00%</u>

- 1.3 New Central Fund contributions in 2015 have been maintained of 0.50%. Subject to conditions remaining favourable we anticipate maintaining contributions at this level for the foreseeable future.
- 1.4 Written premiums, for this purpose, are stated net of brokerage, discounts and commissions but before reinsurance. This is consistent with how Lloyd's capacity (premium limits) is defined.
- 1.5 Initial payment of contributions and subscriptions on account will be based on the written premium forecast within the syndicate business forecasts converted at the rates of exchange used for monitoring purposes and subsequently adjusted to written premiums. For the purposes of charging, written premiums for a year of account will be finally determined by the audited annual syndicate returns.
- 1.6 Please note that premium limits will be deemed to have increased if, exceptionally, written premiums exceed capacity without there having been a pre-emption. This is to ensure that, in the event of overwriting, central charges continue to apply.

## **2 Members' Subscriptions**

- 2.1 Council agreed that the rate for all underwriting members' subscriptions for 2015 should be 0.50% of written premiums. The first instalment at 0.25% is due on 6 January 2015 and the second instalment of 0.25% payable by 1 June 2015. The first and second instalment shall be calculated by reference to the member's syndicate forecast written premium for 2015. In April 2017 the charge will be adjusted to actual written premiums following receipt of audited annual syndicate returns.
- 2.2 The members' subscription is exempt from VAT.
- 2.3 A bulletin concerning instructions for the payment of members' subscriptions will be issued in December.

## **3 New Central Fund contributions**

Council has approved the repayment from the Central Fund to members underwriting for the 2012 year of account an amount equal to 0.25% of each member's syndicate written premiums. This is calculated by reference to the syndicate written premiums for the 2012 year of account as set out in the audited syndicate returns for 2012 and 2013 and will be paid to syndicate premium trust funds, in sterling, on Friday 31 October.

Council has exercised its discretion to apply central assets to make this repayment after careful consideration of the strength of the central fund as part of the continuous review of capital planning and capital efficiency by the Franchise Board and Council. The repayment is not a precedent and should be taken solely in the context of the recent good experience of the market and the low level of insolvent member calls on the Central Fund. Franchise Board and Council annually review capital requirements and this repayment should not be taken as indicative of any future action.

**Annual contribution**

- 3.1 The annual New Central Fund contribution rate payable by all members (other than new corporate members) for the 2015 year of account is to be 0.50% of a member's written premiums in respect of each syndicate of which he is a member.

**New corporate members**

- 3.2 New corporate members pay increased contributions at 2% of written premiums for each of their first three years of operations. A new corporate member is one which joins Lloyd's in 2013, 2014 or 2015 and establishes / participates on one or more new syndicates thereby immediately accessing the Lloyd's brand, reputation and accumulated value of the Central Fund. It should be noted that if that member writes on a mix of existing and new syndicates, then the higher rate will only be payable in respect of its participations on new syndicates.
- 3.3 Where a newcomer to the Lloyd's market chooses to participate by purchasing an existing corporate member that has reinsured to close all its liabilities, that corporate member will be treated as a new member and it will be required to pay the higher contribution in respect of its participations on new syndicates.
- 3.4 Within the category of new corporate members the increased charges will not apply to:
- conversion vehicles which meet the current definition of a "successor corporate member" in the Membership (Entrance Fees and Annual Subscriptions) Byelaw – i.e. in broad terms, any vehicle which is 85% owned by converting Names
  - new corporate members which only participate on existing syndicates.

**Qualifying Quota Share (QQS) arrangements**

- 3.6 Where syndicates enter into qualifying quota share arrangements outside the Lloyd's market further New Central Fund contributions and members' subscriptions are payable. For 2015 the additional contribution rates for both New Central Fund contributions and members' subscriptions will each be 0.75% if written premiums exceed allocated syndicate capacity, as well as the standard rate. Charges will be made, where applicable, after 12 and 24 months in April 2016 and April 2017. In prior years additional members' subscriptions were not payable.
- 3.7 This means that premiums under QQS arrangements will attract additional charges 1.5% (0.75% Central Fund contributions, 0.75% members' subscriptions) on top of the standard charges of 1% (0.50% Central Fund contributions, 0.50% members' subscriptions) bringing the total to 2.5%.

**Callable contribution**

- 3.8 Council also confirmed that the callable contribution would remain equal to 3% of capacity, but is valued according to the USD / GBP mix of business.
- 3.9 For example, a syndicate with a 2015 capacity of £1bn submits an SBF to underwrite £400m and \$942m (£600m at \$1.57). The callable layer would be valued at £12m plus \$28.3m to match the underlying business mix. If the USD rate changes, the value of the callable layer moves in line proportionately which matches movements in the insurance risk within the Lloyd's Society regulatory capital assessment.

**Payment date**

- 3.10 The annual New Central Fund contribution for 2015, including that payable by new corporate members, will be collected on 1 April 2015, calculated by reference to the member's syndicate forecast written premiums for 2015. In April 2017 the charge will be adjusted to actual written premiums following receipt of audited annual syndicate returns.
- 3.11 Syndicates will be given the option to make payments in US dollars. No VAT is levied on these New Central Fund contributions.
- 3.12 If a mid-year pre-emption or a new syndicate is approved after 1 April 2015 the due date for the on account payment of the contribution will be the later of the date of approval or invoiced date.

**4. Syndicate loans**

- 4.1 All syndicate loans were repaid in July 2007. There is no intention to collect any loans for 2015.

**5. Financial Services Compensation Scheme**

- 5.1 Lloyd's was brought within the scope of the Financial Services Compensation Scheme ("FSCS") with effect from 1 January 2004. Council has agreed that for 2015 the Central Fund should meet the first £10m of any levy charges, inclusive of any contribution to cover the operational costs of the FSCS, on the Lloyd's market in 2015. This concession, which applies principally to the personal lines underwriters, will be reviewed annually and is subject to the ongoing performance of the personal lines market.

**6. Entrance / Application fees**

- 6.1 The principal administrative fees payable by new entrants (excluding VAT) are set out in Appendix I.

**7. Interest on overdue amounts**

- 7.1 Interest on overdue accounts is chargeable at 5% above National Westminster Bank plc base lending rate.

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## MEMBER APPLICATIONS

Ref	Chargeable Item	2014	2015	VAT Status
1	Corporate Member Application	£25,000	£25,000	Outside Scope
2	Shell Corporate Member			
2.1	- Stage 1	£10,000	£5,000	Outside Scope
2.2	- Stage 2	£15,000	£20,000	Outside Scope
3	Conversion to Nameco / LLP / SLP / Limited			
3.1	- Base Charge	£2,000	£2,030	Outside Scope
3.2	- Per Converting Member / LLP member / Limited Partner / Controller / Director	£155	£157	Outside Scope
4	SLP / LLP Conversion to LLP / Limited			
4.1	- Base Charge	£2,000	£2,030	Outside Scope
4.2	- Interavailability Fee	£500	£505	Outside Scope
4.3	- per Member for 5 or more Members	£155	£157	Outside Scope
5	New Money vehicle where Private Member is / was Previously a Member	£2,000	£2,030	Outside Scope
6	New Money Nameco / SLP / LLP / Limited			
6.1	- Base Charge	£5,000	£5,075	Outside Scope
6.2	- per Member / Controller / Limited Partner for 5 or more Members / Controllers / Directors	£155	£157	Outside Scope
7	New Member not covered by another Category			
7.1	- Base Charge	£5,000	£5,075	Outside Scope
7.2	- Per Connected Entity	£155	£157	Outside Scope
8	Recommencement of Corporate Member Application (with no changes)	£500	£505	Outside Scope
9	Recommencement of Underwriting			
9.1	- Individual Member (not ceased or converted)	£155	£157	Outside Scope
9.2	- Corporate member with no change of Director / Controller	£155	£157	Outside Scope
9.3	- Corporate member with change of Control / Structure			
9.3.1	- Base Charge	£5,000	£5,075	Outside Scope
9.3.2	- per Connected Entity	£155	£157	Outside Scope
10	Approval of Controller/Director/SLP/LLP Changes – not involving trusts	£155	£157	Outside Scope
11	Approval of Controller/Director/SLP/LLP Changes – advance consent granted	£125	£127	Outside Scope
12	Approval of Controller/Director/SLP/LLP Changes – sale of previously recommenced member	£1,000	£1,015	Outside Scope
13	Approval of Controller/Director/SLP/LLP Changes – involving trusts			
13.1	- per Trust	N/a	£500	Outside Scope
13.2	- per Trustee	N/a	£250	Outside Scope

**Notes:**

1. Market Services may, at its discretion, reduce the application charges payable for the early submission of member applications or where more than one member applies for membership with the same corporate structure.
2. Where third party costs are incurred by Market Services in providing a service, these will be charged to the member concerned (e.g. Legal Fees, Postage and Packaging).

**UNDERWRITING AGENT/SYNDICATE APPLICATIONS**

Ref	Chargeable Item	2014	2015	VAT Status
1	Change in Controller (underwriting agent) (see note 1)	£5,000	£5,000	Outside Scope
2	New Underwriting Agent	£200,000	£200,000	Outside Scope
3	New Syndicate	£100,000	£100,000	Outside Scope
4	New Special Purpose Syndicate	£50,000	£50,000	Outside Scope
5	Syndicate Merger / change of managing agent	£5,000	£5,000	Outside Scope
6	New Accredited Broker	£5,000	£5,000	Outside Scope
7	Annual Charge for Maintenance of the Approved Run-off Companies Register	£10,000	£10,000	Outside Scope

**Notes:**

1. Applicable when a voting interest of 50% or more is acquired