

MARKET BULLETIN

REF: Y4972

Title	War and NCBR Exposures
Purpose	To provide updated requirements for the writing of War and NCBR exposures
Type	Event
From	Tom Bolt Director, Performance Management
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Deadline	Immediate
Related links	

The uncontrolled writing of War related and NCBR perils is a material source of prudential risk for Lloyd's. The ability for exposures to aggregate means that these perils have the potential to threaten the market's financial position.

This Market Bulletin consolidates and updates previously issued requirements for the writing of these perils, as presently set out in '[Performance Management: Supplemental Requirements and Guidance](#)'. It makes clear that, except in limited circumstances as set out below, these perils cannot be written without the prior agreement of Lloyd's. Agreement to write these perils can be obtained through the syndicate business planning process. A new War and NCBR Return has been prepared for this purpose.

Accordingly, all managing agents must comply with the following requirements for the writing of War or NCBR perils:

Definitions

In this bulletin War and NCBR are defined as follows:

- **War** - includes all war related perils, including war, civil war, invasion, act of foreign enemies, hostilities (whether war be declared or not), rebellion, revolution, insurrection, military or usurped power. War related perils, however, does not include terrorism or SRCC (strikes, riots and civil commotion).

- **NCBR** - means nuclear, chemical, biological or radioactive material used as a weapon. Losses arising from the use of NCBR weapons can occur as a result of war related perils. They can also arise from criminal or terrorist acts or incidents. NCBR perils may result in direct or indirect losses.

When can War and NCBR risks be written?

- 1 Except as provided for in 2. below, all insurance and reinsurance policies written at Lloyd's must contain a clause or clauses excluding all losses caused by War and NCBR perils.
- 2 Coverage for War and NCBR perils can only be provided in the following circumstances:
 - a. Where exclusions for War and NCBR perils are prohibited by reason of local legal or regulatory requirements. This does not include the writing of non-compulsory War and NCBR risks, such as reinsurance of the French GAREAT pool;
 - b. The exposures fall within the exempt classes of business detailed below; or
 - c. Syndicates have Lloyd's express agreement through the business planning process.

Requirements for writing War and NCBR Risks

In all cases where coverage is provided for War and NCBR perils the following principles should be applied:

- Documentation of coverage/exclusions

Where cover is to be given, the scope of cover must be clearly stated either in a separate policy or in a separately identifiable section of the policy. Managing agents should not seek to provide cover merely by omitting a suitable exclusion clause ("remaining silent") in view of the risk that a court may decide the scope of cover is wider than that intended.

The LMA has developed a number of model clauses that specifically exclude or provide for the write-back of coverage.

It is important to ensure that, where policies are specifically extended to cover War perils, the wording of the extension does not override any NCBR exclusion contained within the policy.

Where local law or regulations impose requirements on how coverage should be provided for in policy documentation it is acceptable to follow those requirements. In the exempted classes it is also acceptable to follow local market practice, although managing agents should give careful consideration to the risk that the scope of coverage provided in the policy is not clear.

- Monitoring and control of exposure

Managing agents are required to demonstrate that they are monitoring and controlling the exposure of their syndicates to War and NCBR perils. This includes all exposures, however written by the syndicate, including where any coverage given is only included because War and NCBR exclusions are prohibited by local legal or regulatory requirements. Exposures within exempted classes should also be included when syndicates are monitoring and controlling exposures.

Syndicates should have in place processes and procedures to monitor exposures from War and NCBR perils. These exposures should be assessed against the syndicate's risk appetite for these exposures on a regular basis.

Exposure control is reviewed by Lloyd's through the provision by managing agents of the War and NCBR Return as part of the business plan and RDS processes (see below).

Syndicate Business Plan agreement

Where syndicates wish to obtain Lloyd's agreement to write War and NCBR risks they must complete the War and NCBR Return and submit it as part of the syndicate business planning process. Agreement to any plans for the writing of War and NCBR will be provided as part of the business planning process. Mid-year changes to business plans in respect of War and NCBR can be made in the usual way.

The War and NCBR Return is also reviewed as part of the RDS process to measure actual gross aggregations compared to planned gross aggregations.

The War and NCBR return has been redesigned for the 2017 syndicate business plan submission (and subsequent RDS returns) replacing the current War Return. This return now includes additional guidance for each class of business to ensure a consistent approach for all syndicates and a focus on the exposures of particular concern to Lloyd's.

Where syndicates are not providing any War or NCBR coverage or are only providing coverage in the exempted classes then there is no need to complete the War and NCBR Return.

Exempted classes

Lloyd's is satisfied that in a number of classes the prudential risks do not merit the additional level of monitoring. Accordingly, the following classes of business are exempted classes and there is no requirement to provide details in the War and NCBR Return of War and NCBR coverage provided by syndicates:

- Legal Expenses (LE)
- UK Motor and Overseas Motor (M2-M6, MF, MG, MH, MI, MP)
- Casualty and Casualty treaty risk codes other than:
 - BBB/Crime (BB)

- Workers Compensation (US and non US) (W4, W5 and W6)
- Cyber (CY and CZ)

While managing agents do not require express agreement from Lloyd's to provide War and NCBR coverage in the exempted classes, managing agents should ensure that they comply with the requirements for writing War and NCBR risks above.

Delegated underwriting

In the case of War on Land risks (risk code WL), authority to bind business can only be delegated to a coverholder where each risk is subject to the agreement of the leading Lloyd's underwriter prior to binding ("prior submit"). Where the level of authority delegated for WL risk code is wider than prior submit, prior agreement should be obtained from Lloyd's.

In all cases, following underwriters should ensure that there are arrangements in place to provide them with prompt advice of exposure assumed under such delegated authorities.

The underwriting of War and NCBR perils by coverholders for all other risk codes is permitted (subject to compliance with the requirements in the rest of this Market Bulletin).

Civil nuclear risks

The requirements set out in this Market Bulletin do not apply to the underwriting of civil nuclear incidents. Most of such coverage is currently provided by insurance pools and industry mutuals, which may be reinsured by Lloyd's underwriters. This business currently forms a discrete specialist class the underwriting of which is agreed in the business plan process. Managing agents underwriting this class should nevertheless satisfy themselves that the exposure generated by participation in the pools, reinsurance of pools and industry mutuals, when aggregated with ancillary coverages such as personal accident catastrophe reinsurance of life companies, falls within their business plans.