

MARKET BULLETIN

REF: Y5025

Title	New Central Fund contributions, Members' subscriptions and other charges for 2017.
Purpose	Notification of contributions, subscriptions and payment dates
Type	Scheduled
From	Paul Gray, Interim Head of Financial Control Finance Contact details: +44 (0)20 7327 5795 paul.gray@lloyds.com
Date	30 September 2016

- 1.1 Council has confirmed the basis of charging subscriptions and contributions should remain based on gross written premiums (GWP).
- 1.2 Members' subscriptions will continue at 0.45% of GWP to meet the on-going investment required to deliver on strategic priorities identified in the three year budget exercise, without materially drawing down on cash reserves.
- 1.3 Given the on-going strength of the Central Fund, it is considered appropriate to keep the standard rate for contributions at 0.35% of GWP.
- 1.4 In aggregate the impact to Members' for subscriptions and contributions is equivalent to 2016 and prior.
- 1.5 Overseas levy will continue to be charged on Overseas GWP (i.e. excluding UK and Channel Islands) to cover the overseas operating costs.
- 1.6 An additional charge of 0.1% of GWP continues in 2017 to support the Target Operating Model including all market modernisation initiatives.
- 1.7 Note that syndicates have the option to pay contributions in USD.

2. Members' Subscriptions

- 2.1 Council agreed that the rate for all underwriting Members' subscriptions for 2017 should be 0.45% of gross written premiums. The first instalment at 0.225% is due on 6 January 2017 and the second instalment of 0.225% payable by 1 June 2017. The first and second instalments shall be calculated by reference to the Members' syndicate forecast gross written premium for 2017. In October 2019 the charge will

be adjusted to actual gross written premiums following receipt of audit review June 2019 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.
- 2.4 The budget for the Corporation will be approved by the Franchise Board and Council in December and will be shared with the Lloyd's Market Association.

3. New Central Fund contributions

- 3.1 The annual New Central Fund contribution rate payable by all members (other than new corporate members) for the 2017 year of account remains 0.35% of a Members' gross written premiums in respect of each syndicate of which is a Member.

New corporate members

- 3.2 New corporate members pay contributions at 1.4% of written premiums for each of their first three years of operations. A new corporate member is one which joins Lloyd's in 2015, 2016 or 2017.
- 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.

Qualifying Quota Share (QQS) arrangements

- 3.5 Where syndicates enter into qualifying quota share arrangements outside the Lloyd's market further New Central Fund contributions and Members' subscriptions are payable. For 2017 the additional rates for both New Central Fund contributions and Members' subscriptions will each be 0.75%, as well as the standard rate, applied to the QQS premium.
- 3.6 This means that premiums under QQS arrangements will attract additional charges 1.5% on top of the standard charges of 0.8%.

Callable contribution

- 3.7 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. For example, a syndicate with a 2017 capacity of £1bn submits an SBF to underwrite £400m and \$804m (£600m at \$1.34). The callable layer would be valued at £12m plus \$24.1m 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

- 3.8 The annual New Central Fund contribution for 2017, including that payable by new corporate members, will be collected on 3 April 2017, calculated by reference to the member's syndicate forecast gross written premiums for 2017. In October 2019 the charge will be adjusted to actual gross written premiums following receipt of audit review June 2019 syndicate returns.
- 3.9 Syndicates will be given the option to make payments for contributions in US dollars. No VAT is levied on these New Central Fund contributions.
- 3.10 If a mid-year pre-emption or a new syndicate is approved after 1 April 2017 the due date for the on account payment of the contribution will be the later of the date of approval or invoiced date.

4. Transitional Arrangements

- 4.1 The transitional arrangements that were put in place for 2016 with the change from stamp based charges in 2015 to gross written premium basis in 2016, by applying a cap and collar compared to previous basis, are no longer available in 2017.

5. Overseas operating charges

- 5.1 Overseas gross written premiums will continue to be used as the basis for the overseas operating charges. The %'s to be applied in 2017 are unchanged: Direct Business (overseas) 0.40%, Reinsurance business (overseas) 0.14% and Coverholder business 0.60%.

6. Market Modernisation

- 6.1 The charge of 0.1% of GWP will be collected on 20 January, 21 April, 21 July and 20 October. The exclusion for UK 100% Motor business lines in respect of this class will be extended into 2017 in view of the workstreams planned for 2017.

7. Future changes to Members' subscriptions, NCF contributions and charges

- 7.1 Due to the change in USD exchange rate during 2016 the Corporation has entered into a FX contract to secure the projected subscription income flows for 2017. This has benefitted the financial position of the Corporation in 2017. However, given the on-going work regarding the Corporation Operating Model Review, uncertainty regarding foreign exchange rates, the on-going investment required in strategic priorities and the current position of the Lloyd's Pension Scheme the subscriptions and contribution rates will be reviewed as part of setting the 2018 rates.

8. Financial Services Compensation Scheme

- 8.1 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 2017 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

2017. 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.

9. Entrance / Application fees

9.1 The principal administrative fees payable by new entrants (excluding VAT) are set out in Appendix A.

10. Interest on overdue amounts

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

Questions regarding this bulletin should be addressed to Paul Gray, Lloyd's Ext 5795 (e-mail paul.gray@lloyds.com).

Paul Gray
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MEMBER APPLICATIONS

Ref	Chargeable Item	2016	2017
1	Corporate Member Application - Non-private Capital	£25,000	£25,000
2	Shell Corporate Member		
2.1	Stage 1	£5,000	£5,000
2.2	Stage 2	£20,000	£20,000
3	Corporate Member Application - Private Capital		
3.1	Base Charge - Conversion	£2,030	£2,070
3.2	Base Charge - New Money	£4,060	£4,140
3.3	Interavailability Fee – Individual member	£157	£160
3.4	Interavailability Fee – Corporate member	£505	£515
4	Approval of Controller/Member/Partner/Director (note 1)	£157	£160
5	Approval of Controller/Member/Partner/Director under Advance Consent Regime (note 1)	£127	£130
6	Approval of Controller/Member/Partner/Director per Trust (note 1)	£500	£510
7	Approval of Controller/Member/Partner/Director per Trustee (note 1)	£250	£255
8	Approval of Controller/Member/Partner/Director change post appointment	£107	£109
9	Approval Controller/Member/Partner/Director - sale of previously recommended member	£1,015	£1,035
10	Recommencement of Corporate Member Application (with no changes)	£505	£515
11	Recommencement of Underwriting		
11.1	Individual Member (not ceased or converted)	£157	£160
11.2	Corporate member with no change of Director / Controller	£157	£160
11.3	Corporate member with change of Control / Structure		
11.3.1	Base Charge	£5,075	£5,175
11.3.2	per Connected Entity	£157	£160

Notes:

1. Applicable for new corporate member applications and corporate member changes
2. 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.
3. 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).
4. All fees are outside the scope of VAT.

UNDERWRITING AGENT/SYNDICATE APPLICATIONS

Ref	Chargeable Item	2016	2017
1	Change in Controller (underwriting agent) (note 1)	£10,000	£50,000
2	New Underwriting Agent (note 2)	£200,000	£200,000
3	New Syndicate (note 2)	£100,000	£100,000
4	New Special Purpose Arrangement	£50,000	£50,000
5	Syndicate Merger / change of managing agent	£5,000	£5,000
6	New Accredited Broker	£5,000	£5,000

Notes:

1. Applicable when a voting interest of 50% or more is acquired.
2. New underwriting agent and new syndicate fees will be reviewed during 2017.
3. All fees are outside the scope of VAT.