LLOYD'S

Market Bulletin

Ref: Y5282

Title	Syndicate loans to the Central Fund
Purpose	To advise the market of the terms and other matters related to syndicate loans to the Central Fund – 2020 year of account tranche
Type	Event
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Deadline	n/a
Related links	n/a

The Council of Lloyd's and the PRA have approved the collection of syndicate loans to the Central Fund in respect of the 2020 year of account. Lloyd's plans to continue doing so in subsequent years, subject to the Council's and the PRA's approval each year.

Syndicate loans will be collected in respect of all members' active syndicate participations for the respective year of account. The loan will involve the transfer of Tier 1 capital (cash) from the Premiums Trust Funds of the relevant syndicate members to the Central Fund.

The proceeds from the syndicate loans will be used to strengthen Lloyd's central resources and facilitate the injection of capital to Lloyd's Insurance Company SA ('Lloyd's Brussels'). This should eliminate the need to raise additional member capital to support the ongoing underwriting of Lloyd's Brussels.

The terms and other matters included in this market bulletin apply to syndicate loans in respect of the 2020 year of account. Terms related to syndicate loans in respect of the 2019 year of account are set out in market bulletin Y5236.

Terms of the syndicate loans

The terms of the syndicate loans are designed to enable them to be treated as restricted Tier 1 capital for Lloyd's central solvency under the Solvency II regime. The full syndicate loan terms will be provided following approval from the Council of Lloyd's in March 2020, however, no material changes from the terms and conditions of the 2019 syndicate loans are expected. A summary of the key terms is set out below.

Effective date: loans will commence on 31 March of the year of account unless that date falls on a weekend, in which case the commencement date will be the last working day before 31 March. The loans for the 2020 year of account will commence on 27 March 2020.

Loan value: The quantum of syndicate loans will be determined as a percentage of the premium income limit for all members' active syndicate participations for the respective year of account. For this purpose, the premium income limit is defined as gross written premium from the latest approved syndicate business plans. The percentage of gross written premium will be determined annually, be subject to Council's approval and will be communicated to market participants prior to the commencement of the respective year of account. Syndicate loans for the 2020 year of account will be 0.33% of each syndicate's gross written premium.

Tenure: loans for any year of account will not be repaid before 5 years has elapsed. Members should note that they should not have any expectation that the loans will be repaid after 5 years.

Interest: the interest rate will be determined by reference to a risk-free yield plus a credit spread. The interest rate will be communicated at the commencement of the loan and a separate interest rate will be set for each year of account. Interest will normally be paid annually on an anniversary of the loan however the Council may elect in its absolute discretion to cancel payment of all or any interest which the Society is required to pay on any interest payment date.

Subordination: in the event of a winding up of the Society, its obligations to members under the loans will be subordinated to all other obligations of the Society except those which are expressed to rank equally with or in subordination to the syndicate loans. This applies in particular to the payment of any underwriting liabilities of the members of syndicates for which the New Central Fund or other assets of the Society may at any time, in the discretion of the Council, be applied under the New Central Fund Byelaw (No 23 of 1996).

Currency: syndicate loans will be denominated in Sterling.

Impact on member capital and solvency

Syndicate loans are reported as assets on a syndicate's solvency return and are available to meet a member's solvency and capital test requirements. The issuance of syndicate loans will have no impact on a member's solvency or capital position i.e. everything else being equal, a member's solvency and capital position is no different before or after the issuance of syndicate loans.

Guidance on reporting syndicate loans in the QMA and QSR is included in the instructions for the respective returns.

Impact on Re-Insurance to Close ('RITC')

Where a year of account closes naturally, normally after three calendar years, the members of the closing year of account will assign their rights attached to the syndicate loan to the members of the accepting year of account, enabling full distribution of the result for the closing year of account. The accepting year of account will reflect the syndicate loan as an asset.

Administrative arrangements

Syndicate loans will be collected via ARCS, the same mechanism used to collect Lloyd's market charges. Syndicates will be provided with a collection advice before the syndicate loan has been collected, evidencing the amount of their member(s) loan to the Central Fund and the rate of interest. Remittance advices will also be provided to syndicates to support the payment of interest.

Lloyd's will advise members and managing agents of its solvency position in February and August each year, in advance of the submission deadlines for the annual and half year QMAs. The solvency position reported will be based on unaudited syndicate solvency returns and central assets.

Please contact Tim Culshaw (Tim.culshaw@lloyds.com) if you have any queries on solvency and accounting aspects. For queries regarding the administrative arrangements, please contact Carolyn Smith (Carolyn.smith@lloyds.com).

Steve Jules