

Market Bulletin

Ref: Y5339

Title	US Reinsurance – Elimination of Collateral Requirements Pursuant to Covered Agreement
Purpose	<i>To inform the market of upcoming changes with regards to US reinsurance funding</i>
Type	Event
From	Lloyd's America
Date	1 June 2021

As the market will be aware, the covered agreement between the US and the UK was signed in December 2018, providing a framework for the elimination of collateral for UK reinsurers assuming business from US cedants. The process of implementing the covered agreement is underway at state level in each US state. Although COVID-19 produced some delays in implementation, it is expected that the elimination of collateral will officially come into effect on **22 September 2022**. Lloyd's America will apply for regulatory approval for the market to benefit from the zero collateral regime – known as “Reciprocal Reinsurer” status – in all US states and territories and Lloyd's expects that this status will be available to the market as of **1 October 2022**.

The elimination of collateral requirements is prospective only and will apply to contracts written on or after 1 October 2022. As a result, contracts of US reinsurance written on or after 1 October 2022 will not be funded in the Lloyd's US Situs Credit for Reinsurance Trust funds. These trust funds will be closed to new business and will begin to run-off. Lloyd's will take the necessary steps to ensure that Xchanging will process US reinsurance contracts without reference to funding and in a manner that allows Lloyd's to gather the necessary information needed for regulatory reporting. If providing collateral for a US reinsurance contract is commercially desirable, such collateral will need to be provided outside the trust fund structure (e.g. via letter of credit or other manner acceptable to the cedant). US reinsurance contracts written on or after 1 October 2022 will need to include certain clauses required by the covered agreement. Lloyd's will work with the LMA to ensure that appropriate model wordings are available to the market.

All US reinsurance business written prior to 1 October 2022 will continue to be supported by Lloyd's US Situs Credit for Reinsurance Trust funds. Regulatory reporting for the trust funds will continue and the trust fund balances will be adjusted on a quarterly basis. It will not be

possible to withdraw any collateral supporting US reinsurance contracts written prior to 1 October 2022 until such withdrawal would be permissible under the terms of the trust deed. Further information will be provided as the 1 October 2022 date draws nearer.

Further information

Any questions regarding the change to US reinsurance funding should be directed to:

Sabrina Miesowitz

Lloyd's America General Counsel

e: Sabrina.miesowitz@lloyds.com