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LOCATION:	86/G12
EXTENSION:	5998
DATE:	23rd November, 2000
REFERENCE:	Y2420

1. Revised procedures for closing Canadian business.
2. Changes to Settlement advices and trust funds.
3. FIL/Tax codes used in LORS for USD business.

SUBJECT:	CANADA: PROCEDURES FOR PROCESSING NON-SCHEME CANADA DIRECT AND REINSURANCE BUSINESS
SUBJECT AREA(S):	
ATTACHMENTS:	See Appendices
ACTION POINTS:	**Revised procedures to be adopted.**
DEADLINE:	**2nd January 2001**

1.0 Introduction

This market bulletin outlines revised procedures for closing direct and reinsurance Canadian non-marine, aviation, motor and marine business, other than that processed through “Scheme Canada”.

The revised procedures will be effective in respect of all such business signed by LPSO Limited, LCO (marine) Limited and LCO (non-marine and aviation) Limited from 2nd January 2001. These changes are brought about by the new trust fund and reporting arrangements that have been agreed with the Canadian insurance regulator (OSFI).

Details of the new arrangements in relation to Canadian business were described in market bulletin dated 8th August 2000, issued by the North America Unit.

2.0 Revised Business Definitions and Closing Procedures for Premiums and Claims

2.1 LPSO Limited, LCO (marine) Limited and LCO (non-marine and aviation) Limited (LPSO and LCO) will be recording regulatory information on each Canadian regulated risk processed. This data will be used in the quarterly and annual Property and Casualty reports (P&C-2) that will be centrally complied by Market reporting and Solvency Department (MRSD).

2.2 Enclosed as Appendix 1 is a summary of the definitions of Canadian regulated and non-regulated classes of business, with an indication of the criteria to use in order to determine the province(s) to which a risk relates for regulatory reporting purposes. This is the same as the information previously published in the 25th November 1999 market bulletin Y2177***, with the exception of a change for Yacht and pleasure craft business***. This type of business must now be regarded as Canadian regulated; see sections 1.1.5 and 1.2.1 of appendix 1.

2.3 For ease of reference and to remind brokers of the correct closing procedures for Canadian business, Appendix 2 reiterates the premium closing procedures published in the bulletin of 25th November 1999 and Appendix 3 shows the claims closing procedures.

The main difference for brokers and underwriters to note from the previously published procedures is that ***it will no longer be necessary to supply LPSO with multiple LPANs in order to record the division of gross premiums across the relevant provinces. LPSO has amended its data capture system to be able to record multiple provinces on any premium, AP, RP or treaty closing.*** This will result in a single signing for brokers and underwriters to reconcile to their internal records.

For claims processing, the procedures are unchanged from those previously published.

2.4 Broker and underwriters are reminded that risks relating to Canadian wet marine business must show province level information when closing the premiums and claims, eventhough the business is classified as non-regulated. The reason for this is that such risks are written under licence in Canada and attract some forms of taxation, which vary by province. Please refer to appendix 1 for a definition of wet marine business.

3.0 Reconciliation of Premium and Claim Data

MRSD will be publishing detailed instructions on the manner in which data supplied by LPSO and LCO can be reconciled to the reporting packs which they will issue for each syndicate.

4.0 Settlement

4.1 All settlement related output released to the Syndicates for business in Canadian dollars, or Canadian regulated business expressed in USD, will clearly show details of the trust fund against which the business is being settled.

It must be noted that Canadian regulated business can be expressed in either USD or CAN for settlement.

Canadian regulated business will be shown as CURRENCY CAD/USD DOLLAR, BANK ACCOUNT TYPE CAD REG TF.

Canadian non-regulated business will be shown as CURRENCY CAD DOLLAR, BANK ACCOUNT TYPE CAN NON-REG TF.

Early Settlement Notification (ESN) will show both CAD/01 and CAD/CR and a net position which will enable syndicates to reconcile back to the single entry flowing through to the regulated bank account.

Brokers advices will remain unchanged.

4.2 All LORS business expressed in CAD will settle against the new Canadian dollar non-regulated bank accounts that syndicates are being asked to establish.

4.3 The effect of the new trust fund arrangements is such that the rules concerning the use of certain currencies change. Currently, it is only permissible to settle Canadian dollars with the LCTF and USD with the LDTF or LATF. From January 2001 this position becomes;

- For Canadian regulated business, premiums and claims must flow into and out of the new LCTF, which will accept USD or CAD.
- For non-regulated Canadian dollar business, this will settle against syndicates new non-regulated bank accounts, held under the terms of the PTF.
- For all Canadian non-regulated USD business (as well as US regulated and non-regulated business) this will continue to settle to the LDTF (or LATF if it related to business prior to 1/8/1995).

It will therefore be possible to accept premiums on a particular Canadian regulated risk in USD but pay claims in CAD (and vice versa), subject to the terms and conditions of each risk.

5.0 USM and SCM Advices

Market users and software houses have already been given details of the changes that have been made to the daily messages. These were issued by features faxes under references; USM notice number 119 and SCM notice number 50, both dated 17th August 2000

All Canadian dollar non-regulated business will have a new trust fund code of ‘CN’ applied. All Canadian or US dollar Canadian regulated business will have a new trust fund code of ‘CR’ applied. Both of these values will be shown in the existing US trust fund code field. For further details on the format and business rules relating to the messages, please refer to the feature faxes mentioned above or contact LPSO Enquire on extension 2999.

6.0 LORS FIL/Tax Codes

The market bulletin dated 25th November 1999 and subsequent feature faxes to users issued for 1st January 2000 and 31st March, gave details of the new coding structure to be used on all CAD and USD LORS business. This structure catered for the new Canadian trust fund arrangements that come into force from January 2001 and also ensured that codings were sufficient to satisfy both US IRS and Revenue Canada income tax requirements.

During 2000, it has been noticeable that some users are not correctly using the range of Canadian FIL/tax codes that are applicable to ***USD Canadian business***.
LORS users are reminded of the correct FIL/tax codes and their business descriptions. Please refer to Appendix 4 for a list showing the business descriptions of these particular codes.

7.0 Canadian Taxes and Levies

The procedures described in this bulletin also facilitate the changes that are being made to the manner in which Canadian taxes and levies are collected and paid. Separate market bulletins are being issued to give more details on the new position for the taxes and levies.

8.0 Administration

This bulletin is being sent to all managing agents, underwriters, Lloyd's brokers, recognised auditors and software houses. If you have any queries please contact;

- Stuart Loveless in Lloyd's North America Unit on extension 6234 for Canadian business queries.
- Patricia Hakong in Market Reporting and Solvency Dept on extension 5364 for regulatory reporting queries.
- LPSO Enquire on helpline extension 2999 for any questions relating to the FIL/Tax code structure, business definitions or LPSO processing.
- Maureen McLeod in Lloyd's Taxation Department, extensin 6860 for any questions relating to Canadian taxation.

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APPENDIX 1

INWARD CANADIAN BUSINESS DEFINITIONS FOR P&C-2 REPORTING AND RESERVING

The following definitions determine what classifies a risk as a Canadian risk and describes how to allocate business to Canadian provinces for reporting purposes.

NB: These definitions can differ from tax requirements.

1 Direct (Non-Reinsurance) Canadian business

1.1 Regulated

1.1.1 Fixed property damage risks

In the case of property insurance, all contracts on which premiums are received from or in respect of persons whose property is situated in Canada at the time the premium becomes payable

The province to be reported is the location of the property. Therefore, where property is located in more than 1 province, separate signings must be processed for the gross premium or claim amount applicable to each province.

1.1.2 Non-marine liability and pecuniary loss risks

In the case of all other insurance, all contracts on which premiums are received from or in respect of persons who are resident in Canada at the time the premium becomes payable.

The province to be reported is the residence of the assured or the business establishment of the company insured. Therefore, where there are several parties insured and these are located in more than 1 province, separate signings must be processed for the gross premium or claim amount applicable to each province.

1.1.3 Motor risks

Vehicles registered in Canada.

The province to be reported is the residence of the assured or the business establishment of the company insured. Therefore, where there are several parties insured and these are located in more than 1 province, separate signings must be processed for the gross premium or claim amount applicable to each province.

1.1.4 Aviation risks

Where the risk is ordinarily in Canada at the time the policy is issued.
For example, a Canadian based aircraft or fleet of aircraft would be considered to be ordinarily in Canada at any given time and, therefore, would be considered a Canadian regulated risk. These moveable property risks should be allocated to

provinces by reference to the residence of the assured or the business establishment of the company insured. Where a risk involves fixed property, these risks should be allocated to provinces by reference to the location(s) of that property.

Owners' or operators' liability and related coverages will also be a Canadian risk where that party is ordinarily resident in Canada. These risks should be allocated to provinces by reference to the residence of the assured or the business establishment of the company insured.

Satellite risks for the account of Canadian insureds falls outside these definitions.

1.1.5 Lloyd's marine risks – considered Canadian non-marine

The following Lloyd's marine risks should be treated as Canadian non-marine regulated property/liability business for Canadian coding, reporting and reserving purposes, unless the risk in question is exposed to the perils of the sea:

- Construction risks (excluding ship construction risks); these risks should be allocated to provinces by reference to the location(s) of the property.
- Ship repairer's liability; these risks should be allocated to provinces by reference to the establishment of the assured.
- General liability insurance on shipyards, physical plant and all other construction risks related to shipyards with the exception of hull construction risks; marina operators' liability; workers compensation; these risks should be allocated to provinces by reference to the establishment of the assured.
- Wharfingers/stevedores' liability; these risks should be allocated to provinces by reference to the establishment of the assured.
- Wharves, docks, wells, pipelines; fish farms and their equipment (pens and barges); these risks should be allocated to provinces by reference to the location(s) of that property.
- Cargo stored awaiting shipment; these risks should be allocated to provinces by reference to the location(s) of that property.
- Logs on shore (i.e. felled or stockpiled); these risks should be allocated to provinces by reference to the location(s) of that property.
  NB: Log booms in storage alongside the plant or being towed in transit are classified as a marine risk;
- Transit risks, for example armoured car transits or cash in transit, including aviation, unless primarily by water; these risks should be allocated to provinces by reference to the establishment of the assured.
- Contract frustration; these risks should be allocated to provinces by reference to the establishment of the assured.

- Yacht and pleasure craft business, even when exposed to perils of the sea; these should be allocated to provinces by reference to the establishment of the assured.

All these types of marine business will be coded as Canadian regulated business by LPSO/LCO. This will cause them to be reported in the P&C2 return and therefore require them to be funded as part of the Canadian regulated trust fund.

1.2 Non-regulated

Wet marine risks will be treated as non-regulated business for the purpose of reporting to OSFI, but are still identified as Canadian situs licensed business.

1.2.1 *“Wet” Marine*

Risks relating to vessels or waterborne objects such as rigs or platforms, exposed to the perils of the sea

Where the risk location is in Canada or the vessel is owned or controlled by an assured resident in Canada
These risks should be allocated to provinces by reference to the establishment of the assured. (NB: yacht and pleasure craft business is considered as non-marine regulated business; see 1.1.5 above.)

Risks relating to cargo or goods in transit, exposed to the perils of the sea
Where the risk is in respect of transits that commence in Canada.

These risks should be allocated to provinces by reference to the establishment of the assured.

1.3 Direct (Non-reinsurance) business summary

All the above definitions apply irrespective of the currency in which the sums insured limits of liability, indemnity, premium or claim is expressed. However, only USD and CAD regulated risks will be included in the P&C-2 reporting via MRSD.

When establishing a facility or cover it will not be necessary to process separate FDO signings for each province from which business may emanate. The split between provinces should be performed when declarations are submitted as additional premiums or claims.

Only business that qualifies as Canadian regulated will be subject to the new reporting rules. Any risks that fall outside the non-marine, aviation and motor definitions are regarded as non-regulated and will be handled outside the new arrangements.

2 <u>Inward Reinsurance Business</u>

All inward reinsurances qualify for Canadian regulatory reporting;
where the registered office of the ceding company that has reinsured with Lloyd's underwriters is in Canada; or, in the case of such a contract made with or through a branch office in Canada of the ceding company which has reinsured with Lloyd's underwriters, where the ceding company is incorporated out of Canada.

Inward reinsurance business should be allocated to province according to the address of the reassured.

The above definition applies irrespective of the currency in which the sums insured, limits of liability, indemnity, premium or claim is expressed. However, only USD and CAD regulated risks will be included in the P&C-2 reporting via MRSD.

2.1 Additional reinsurance considerations

Where there are multiple or un-named reassureds shown on the slip, some may be Canadian and some non-Canadian. It is necessary to isolate those that are Canadian, so that they can be separately coded and reported under the new arrangements. In addition, it is important for reporting purposes to establish the provinces that the Canadian reassureds are domiciled in.

2.1.1 Isolating Canadian reassureds from non-Canadian reassureds

The identification of a risk or part of a risk relating to a Canadian insurance company, is dependant on the Lloyd's broker clearly listing the companies reassured on the slip. The main aim is to identify Canadian reinsured companies and separate these from any companies that are located in Canada not. This can be particularly difficult where there are quota share reinsurers involved who cannot be identified at the start of the contract, as the main reassured would still be finalising their reinsurance programme. Canadian reassureds can be present on any insurance contract, even as quota share reinsurers of a Lloyd's syndicate. The provincial breakdown of the companies reinsured can also present some difficulties.

In order to put in place a practical solution to these problems, Lloyd’s brokers are asked to identify the Canadian reassured companies as far as possible. However, if all cannot be definitely stated at the time of original signing, then the risk may be treated as allocated to the prime reassured and adjusted when the actual information is known. However, where the prime reassured is a Canadian company, the broker should make clear if the other reassureds are likely to be Canadian or not, otherwise syndicates will be over reporting and reserving for non-Canadian insurers. Conversely, where the prime reassured is a non-Canadian company, but other insurers are Canadian companies, the latter must be positively identified, otherwise syndicates will be under reporting and reserving for the Canadian element. Therefore, the minimum information acceptable to LPSO/LCO is a Canadian/non-Canadian split, with the Canadian portion being allocated the regulated gross premium or claim amount over those provinces known at that time.

The Lloyd's broker must advise LPSO/LCO of any adjustments that are necessary to the Canadian or non-Canadian reassured proportions, or to the provincial breakdown of the Canadian element.

2.1.2 Multiple Canadian reassureds in several provinces

The procedure that LPSO will adopt when dealing with Canadian reinsurance slips containing more than one reassured, where the reassureds are not all in the same province, is as follows;

Where separate reassureds are located in different provinces, one premium signing should be processed for all provinces involved, but separate LCCFs per province for claims. If the slip already shows an apportionment of premium or claim amounts between reassureds or provinces this should not present a problem. If, however, it is not shown on the slip, an apportionment will need to be provided by the broker, agreed by the leading underwriter and separate signings processed in order to separate regulated from non-regulated business.

Similarly, where an item is adjustable, any adjustment premium will need to be apportioned between provinces, based on the amount of business transacted by each reassured.

When establishing a facility or cover it will not be necessary to process separate FDO signings for each province from which business may emanate. The split between provinces should be performed when declarations are submitted as additional premiums or claims

APPENDIX 2

LLOYD’S BROKER PLACING AND CLOSING PROCEDURE FOR CANADIAN BUSINESS

Existing procedures apply to the completion of panel 1 of the standard slip, with country of origin to be completed as Canada where the insured/reassured is domiciled in Canada, regardless of whether the risk falls within or outside of the definition of regulated business.

1 Placing direct (non reinsurance) business

1.1 Brokers preparing or placing an open market slip (including slips for declarations off of lineslips) relating to Canadian business must ensure that it clearly shows the following details in the correct places

What	Where
Name and address (provinces) of the assured(s)	Panel 2 against the heading 'ASSURED'
Location (province) of real property, fixtures, buildings, livestock or permanently fixed Marine and/or Aviation property risks	Panel 2 against the heading 'LOCATION' or 'TRADING' or on any attached schedule of property
A breakdown of the gross premium for each province in which any fixed property is located, or for other risks where the assured is resident/established.	Panel 2 against the heading ‘PREMIUM’ or on a separate attachment schedule.

1.2 Additional/Return premium endorsements for open market business must show the above mentioned details where applicable.

1.3 Brokers placing binding authority slips, lineslips or open cover slips relating to Canadian business must ensure that they clearly show the following details in the correct places.

What	Where
Name and address (province) of the assured or coverholder.	Panel 2 against the heading 'ASSURED'
Geographical limits of declarations attaching	Panel 2 against 'GEOGRAPHICAL LIMITS' heading

1.4 Additional/Return premium declarations/bordereaux for bulked accounting entries. It is important that Canadian business declarations are identified on bordereau, such that LPSO is able to correctly code it as regulated or non-regulated.

In order for this to be done, premiums must be identified if the country of origin is Canada and/or the risks fall within Canadian regulated definition. Each permutation, attracting a different FIL code (as defined), should be shown separately to assist LPSO in coding the premium accurately.

Where a bordereau is not supplied, the Lloyd's broker should provide a summary of the gross premiums included in the bordereau declarations with totals for;

- Canadian regulated business, as defined, per province and distinguishing taxable status.
- Canadian non-regulated business, distinguishing taxable status.
- Non-Canadian business.

1.5 Non Premium Endorsements (NPEs) relating to Canadian business must be submitted where there is a change in information used to determine regulated status, i.e. assureds principal office address.

1.6 Premium Transfers and Annual Resignings. Long term regulated risks that are subject to premium transfer or annual resigning will cause the premium to be reclassified as either regulated or non-regulated Canadian business. The information required is as per 1.1 and 1.3 shown above.

2 Placing reinsurance business

2.1 Brokers placing an open market facultative or excess of loss reinsurance slip or a proportional treaty slip relating to Canadian business must ensure that it clearly shows the following details in the correct places.

What	Where
Name and address (provinces) of the reassured being the registered office of the ceding company or, where the contract is made with or through a branch office, the address of the branch office	Panel 2 against the heading 'REASSURED'
A breakdown of the gross premium for each province in which the reassured is established.	Panel 2 against the heading 'PREMIUM' or on a separate attachment schedule.

2.2 Additional/Return premium declarations/bordereaux for bulked accounting entries. It is important that any premium is identified as Canadian business, such that LPSO is able to correctly code it as regulated or not.

In order for this to be done premium must be identified if the country of origin is Canada and/or the risks fall within Canadian regulated. Each permutation, attaching a different FIL code (as defined), should be shown separately to assist in coding purposes.

2.3 Non Premium Endorsements (NPEs) relating to Canadian business must be submitted where there is a change in information used to determine Canadian regulated status, i.e. reassureds principal office address.

2.4 Premium Transfers and Annual resignings. Long term Canadian regulated risks that are subject to premium transfer or annual resigning will cause the premium to be reclassified as either regulated or non-regulated Canadian business. The information required by LPSO is as per 2.1 shown above.

3 Premium closings

When submitting closing documentation, Lloyd's brokers are reminded of the requirement identified under 1.1, 1.3 and 2.1 which must be shown in the signing slip in order to allow LPSO to allocate the correct FIL code to each signing. This will allow the correct Canadian status to be assigned.

In order to sign premiums correctly for regulatory reporting, the province must be recorded as per the definitions described market bulletin Y2177 dated 25th November 1999. For some risks that have fixed property in several provinces or assureds/reassureds resident or established in more that one province, ***it will no longer be necessary to supply LPSO with multiple LPANs or treaty statements for premium closings, in order to record the division of gross premiums across the relevant provinces. One LPAN covering all provinces is acceptable.***

Failure to supply the required information could result in delays to signings, while LPSO resolve deficiencies with the Lloyd's broker.

APPENDIX 3

BROKER CLAIMS CLOSING PROCEDURE FOR CANADIAN BUSINESS

1 Accounting level information

In order to be able to provide sufficient regulatory reporting information, it is necessary that each transaction relates entirely to either Canadian regulated or non-regulated business. This will require separate LCCF's or treaty statements to be provided for regulated or non-regulated business.

In addition, a breakdown of the Canadian regulated business is required for each province involved. Consequently, if the claim advice/collection or treaty statement contains Canadian regulated business that relates to more than one province, e.g. binding authority or treaty reinsurance, a separate breakdown of the claim figures must be provided for each province.

2 Slip

A signed slip or **complete** photocopy of the signed slip must be presented with all claims on policies that have a Canadian exposure. If the claim is first presented prior to the slip being signed, the unsigned slip or a **complete, current** photocopy must be presented.

3 Claims data required

3.1 Claims for bulked accounting arrangements

It is important that Canadian business declarations are identified on claims bordereaux, such that LPSO/LCO is able to identify them and correctly code them as either regulated or non-regulated business.

In order for this to be done claims must be identified where the country of origin of the assured/reassured is Canada and/or the risks fall within Canadian regulated definition. Separate LCCFs or treaty statements are required for signing Canadian regulated business and non-regulated business.

Where a bordereau is not supplied, the Lloyd's broker should provide a summary of the paid and outstanding claims included in the bordereau declarations with totals for;

- Canadian regulated business, as defined, per province and distinguishing taxable status.
- Canadian non-regulated business, distinguishing taxable status.
- Non-Canadian business.

3.2 Claims accounted for on an individual basis

It is important that claims provide similar information to the premiums signed for Canadian regulated risks, ie a paid and/or outstanding claim amount per province per claim. The slip should already contain the required province details used on the premium signing. The Lloyd’s broker must supply the allocation of the paid and outstanding claim amount to each province.

4 Singletons

In accordance with the market bulletin dated 22 September 1997, all singleton slips are to be advised to LPSO/LCO for central creation of a claim entry. This applies to all Canadian business. Accounting level information must be supplied as per section 3.2 above.

APPENDIX 4

LORS FIL/Taxes Codes

These codes are for US dollar Canadian business only.

The country of origin for these codes is USA, as they apply to USD business. This is to satisfy the requirements of Lloyd's US income tax arrangements with the IRS. It is therefore important that these codes are applied correctly

FIL code	Tax code	Description
CDJ2	VU	USD outward reinsurance on facultative basis of Canadian regulated non-marine, aviation and motor business that is subject to US income tax, excluding business bound under a Canadian binding authority.
CDJ3	VV	USD outward reinsurance on an excess of loss basis of Canadian regulated non-marine, aviation and motor business that is subject to US income tax, excluding business bound under a Canadian binding authority.
CDJ4	VW	USD outward reinsurance on a treaty basis of Canadian regulated non-marine, aviation and motor business that is subject to US income tax, excluding business bound under a Canadian binding authority.
CDK2	CL	USD outward reinsurance on facultative basis of Canadian regulated non-marine, aviation and motor business that is not subject to US income tax, excluding business bound under a Canadian binding authority.
CDK3	CM	USD outward reinsurance on an excess of loss basis of Canadian regulated non-marine, aviation and motor business that is not subject to US income tax, excluding business bound under a Canadian binding authority.
CDK4	CN	USD outward reinsurance on a treaty basis of Canadian regulated non-marine, aviation and motor business that is not subject to US income tax, excluding business bound under a Canadian binding authority.
CDQ2	CX	USD outward reinsurance on facultative basis of Canadian wet marine licenced business, subject to US income tax, excluding business bound under a Canadian binding authority.
CDQ3	CY	USD outward reinsurance on an excess of loss basis of Canadian wet marine licenced business, subject to US income tax, excluding business bound under a Canadian

FIL code	Tax code	Description
		binding authority.
CDQ4	CZ	USD outward reinsurance on a treaty basis of Canadian wet marine licenced business, subject to US income tax, excluding business bound under a Canadian binding authority.
CDU2	MM	USD outward reinsurance on facultative basis of Canadian wet marine licenced business that is not subject to US income tax, excluding business bound under a Canadian binding authority.
CDU3	MN	USD outward reinsurance on an excess of loss basis of Canadian wet marine licenced business that is not subject to US income tax, excluding business bound under a Canadian binding authority.
CDU4	MP	USD outward reinsurance on a treaty basis of Canadian wet marine licenced business that is not subject to US income tax, excluding business bound under a Canadian binding authority.

It should be noted that the last character of the four-character FIL code is used to denote the type of outward reinsurance being placed. Codes ending in 2 denote facultative reinsurance, codes ending in 3 denote excess of loss reinsurance and codes end in 4 denote proportional treaty reinsurance.

A diagram showing all the 2 character tax codes available for use in LORS is enclosed. This is the same document that was issued by feature fax to users for 31st March 2000.

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