LLOYD'S

Lloyd's Insurance Company S.A.

Reinsurance Update October 2019

Executive Summary

Lloyd's Insurance Company (LIC) can transact and process all forms of non-life reinsurance through its permissions and authorisation by the National Bank of Belgium (NBB). Proportional Treaty can be processed through LIC if a number of requirements are met

As LIC was set up primarily to write insurance business, the Lloyd's market continues to write the majority of reinsurance on a cross border basis

Brexit will result in the UK becoming a non-equivalent 'third country.' Without an agreed transition period, local rules in Germany, Poland and the Netherlands may prevent reinsurance being written directly into the UK

The €200 million shareholder capital of LIC will increase materially in the coming 12 months

The benefit of the Chain of Security including the Central Fund is available to LIC as a result of LIC being a policyholder of Lloyd's syndicates, through the reinsurance agreements entered into between those syndicates and LIC

Current appetite for European Proportional Treaty reinsurance remains unchanged

Inwards reinsurance is in scope of the Part VII transfer where the legally recognised cedent is domiciled in Germany, Poland and the Netherlands. This gives certainty to policy holders

Overview of LIC

Overview of Lloyd's Insurance Company S.A.

Our key strengths

An Insurance Company

LIC is regulated by the NBB, the home state prudential control authority and by the Belgium Financial Services Market Authority (FSMA) as a fully capitalised, Solvency II compliant, insurance company

LIC is based in Brussels and currently has a headcount of 50, supported by 45 staff across the European branch network

LIC is authorised to write all non-life insurance in the EU27 and the European Economic Area (EEA) effective 1 January 2019

LIC is the insurer and Lloyd's syndicates are the reinsurers of LIC

LIC has a robust independent governance framework that is underpinned by a local Executive Committee and a Board of Directors with both Non-Executive and Executive Directors

Our set-up in Europe

Outsourced Expertise

Managing Agents in London provide services and expertise to LIC through a Solvency II compliant outsourcing agreement that is recognised as significant outsourcing by the NBB

Capital

LIC was designed to be as capital efficient in its structure as possible

LIC is currently capitalised to the Solvency II standard formula holding €200 million of shareholder capital which is ring fenced from its shareholder (Society of Lloyd's) in London

With support of its shareholder and LIC's Board of Directors, LIC is committed to increasing its capital in line with 2020 business growth and to support a Part VII transfer of Lloyd's syndicate's legacy business. Completion is expected by October 2020

European Network

LIC has 19 Freedom of Establishment permissions within the EEA including the UK and Luxembourg (Switzerland is not within scope) and is licensed through Freedom of Services permissions in all of the EEA countries

Chain of Security

The benefit of the Chain of Security including the Central Fund* is available to LIC with LIC being a policyholder of Lloyd's syndicates, through the reinsurance agreements entered into between those syndicates and LIC

As a Lloyd's market policyholder, LIC is able to fully benefit from the Lloyd's Chain of Security and the Central Fund

LIC cannot permit the use of cut-through clauses as it could then be interpreted that Managing Agents were carrying out regulated activities in the EU and Belgian insolvency law also requires 'equal treatment' between policyholders in the event of the insolvency of LIC

Chain of Security as at 27 March 2019

* Member access to the Central Fund is at Council's discretion

Credit Ratings

LIC enjoys the same credit ratings as the Lloyd's market in London*

Credit Rating Agencies in Europe have confirmed their intent to endorse the credit ratings of the Lloyd's market in London for Solvency II purposes post Brexit, providing certainty that Lloyd's credit ratings will be recognised in Europe**

Standard & Poor's: A+ (Strong)

A+

Fitch Ratings: AA- (Very Strong)

AA-

A.M. Best: A (Excellent)

A

* AM Best as at July 2019, Fitch as at May 2019 & S&P as at June 2019

** Standard & Poor's, AM Best and Fitch have confirmed that they intend to endorse into the EU credit ratings issued by their affiliates in endorsable jurisdictions, which includes the UK

LIC Reinsurance

What can we do?

All forms of Reinsurance: XOL, Facultative and Proportional. For Proportional Treaty to be processed through LIC a number of specific requirements have to be met

For Proportional Treaty, the Managing Agent must must create an 'in country' service company resourced to handle all processing and balancing of accounts

Current appetite for European Proportional Treaty reinsurance remains unchanged

Continuing to work with London removes concerns around 'split binders' and the carving out of specific EEA risk components

LIC receives reinsurance commissions of 2.75% for the reinsurance placed with Lloyd's Underwrites. The impact is offset via the overseas levy process, and this should not be viewed as a material additional cost in doing business with LIC

Reinsurance Summary

EEA Located Risks

	Lloyd's Underwriters	Lloyd's Brussels
Facultative RI	✓ *	✓
Treaty Non-Proportional	✓ *	✓
Treaty Proportional	✓ *	✓ **
Life	✗	✗

* Cross border only as per WTO rules (except Germany, Poland & Netherlands)

**Subject to a specific set of processing requirements similar to delegated authority with additional handling costs for the Managing Agent and the need to establish a local service company

Proportional Treaty Reinsurance

What are the key requirements to process through LIC?

A key requirement is for the managing agent to create an 'in country' coverholder/service company which must allow for the business to be processed in a similar way as delegated authority and produce a monthly bordereaux for risk, premium and claims that are compliant with the Lloyd's Coverholder Reporting Standards v5.2

The 'in country' coverholder/service company must submit the bordereaux to DASATs, as well as handle premium settlement by submitting its premium bordereaux to DXC for settlement and claims bordereaux to DXC via ECF

All claims payments must be made via Central Settlement; non-cash movements will not be permitted

The managing agent has to ensure that it does not require support for traditional treaty processing from LIC with the coverholder/service company being able and resourced appropriately to handle all processing and balancing of accounts

The model for the Part VII transfer will share similarities with a delegated authority model. This will facilitate the administration of all reinsurance contracts transferred including Proportional Treaty

Reinsurance

Germany, Poland & Netherlands

It is currently assumed that the German Insurance Supervision Act (VAG) does not allow reinsurers from non-equivalent third countries (which the UK will become post Brexit) to write risks on a cross border basis without establishing a branch in Germany*

Poland and the Netherlands have also adopted similar positions where the cross border reinsurance cannot currently be written directly into a third country such as the UK post Brexit

Discussions about equivalence which will determine whether the UK will be deemed equivalent to satisfy Solvency II requirements can't officially start until the UK has formally left the EU

There is growing understanding that these positions may be revised by the relevant authorities in order to help alleviate this current restriction

*https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Auslegungsentscheidung/VA/ae_160901_rueckversicherung_drittstaaten_va_en.html

Reinsurance

Honouring existing contracts

EIOPA Recommendation 2 of February 2019 suggested member states legislate to enable continued servicing of existing policies on an interim basis until December 2020

Many member states have undertaken contingency action to permit the continued servicing of EEA policies under 'no deal' circumstances, covering 98% of Lloyd's business in the EEA. Position awaited from Croatia, Estonia, Hungary, Slovakia and Slovenia regulators

Lloyd's has committed to honouring all contractual commitments including the payment of valid claims

Lloyd's expects that this will have the support of all European regulators, as it goes to the heart of treating customers fairly

In the event that it does not, Lloyd's will direct its underwriters, or take such other steps, to ensure that contractual commitments are met in full

Key contacts at Lloyd's Insurance Company S.A.

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