

GLOSSARY OF TERMS

Set out below is a guide to insurance and Lloyd's-related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used in the Lloyd's market. Formal definitions are set out in the Definitions Byelaw.

ACCIDENT YEAR RATIO

The accident year ratio is calculated as expenses and incurred losses (paid and reserves) for claims occurring in the year as a proportion of net premiums earned during the year. It excludes movements during the calendar year on claims, expenses and premium estimates for previous years.

ACTIVE UNDERWRITER

A person employed by a managing agent with principal authority to accept insurance and reinsurance risks on behalf of the members of a syndicate.

BINDING AUTHORITY

An agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

CALENDAR YEAR RATIO

This is the combined ratio (see below) and is the sum of the accident year ratio (see above) and the prior years' reserve movements (see below).

CALLABLE LAYER

Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

CAPACITY

In relation to a member, it is the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate it is the aggregate of each member's capacity allocated to that syndicate.

CENTRAL ASSETS

The net assets of the Society including the Central Fund, but excluding the subordinated debt liability and the callable layer.

CENTRAL FUND

The fund financed by (among other things) contributions from Lloyd's members and administered by the Council primarily as a fund for the protection of policyholders and includes both the 'Old' Central Fund and the New Central Fund.

COMBINED RATIO

A measure of an insurer's underwriting profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is break even (before taking into account investment returns). A ratio less than 100% is an underwriting profit.

CORPORATE MEMBER

A company incorporated with limited liability, a Scottish limited partnership or a limited liability partnership, admitted to membership of the Society.

COUNCIL

Created by Lloyd's Act 1982, the Council has the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's.

COVERHOLDER

A firm either in the UK or overseas that is authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance to be underwritten by members of a syndicate managed by the managing agent. A Lloyd's broker may act as a coverholder.

FINANCIAL SERVICES AUTHORITY (FSA)

The body that regulates the financial services industry in the UK.

FRANCHISE BOARD

The board established by the Council with responsibility for creating and maintaining a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised. This includes setting the risk management framework and profitability targets for the market.

FUNDS AT LLOYD'S (FAL)

Capital lodged and held in trust at Lloyd's as security for the policyholders and to support a member's overall underwriting business.

GROSS WRITTEN PREMIUMS (GWP)

Written insurance premiums, gross of reinsurance and acquisition costs.

INTEGRATED LLOYD'S VEHICLE (ILV)

An arrangement in which a syndicate's capital is wholly provided by corporate members that are under the same ownership and control as the syndicate's managing agent.

MANAGING AGENT

An underwriting agent responsible for managing a syndicate, or multiple syndicates.

MEMBER (OF THE SOCIETY)

A person admitted to membership of the Society.

NAME

A member of the Society who is an individual and who trades on an unlimited basis.

NEW CENTRAL FUND

The New Central Fund constituted by and governed by the New Central Fund Byelaw (No. 23 of 1996).

PREMIUMS TRUST FUNDS (PTF)

The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia trust funds (which cover general business written through coverholders in Singapore). These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and any profit that is payable to the member after providing for all future liabilities.

PRIOR YEARS' RESERVE MOVEMENTS

This is calculated as movements in reserves established for claims that occurred in previous accident years as a proportion of net premiums earned during the year.

REALISTIC DISASTER SCENARIOS (RDS)

A series of scenarios, both natural and man-made, which are used to assess the market's risk profile to a variety of different catastrophes to enable better risk management practices within Lloyd's.

GLOSSARY OF TERMS CONTINUED

REINSURANCE TO CLOSE (RITC)

A reinsurance agreement under which members of a syndicate for a year of account to be closed are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.

REINSURANCE TO CLOSE (RITC) SYNDICATE

A syndicate set up solely to underwrite the Reinsurance to Close of other syndicates.

SERVICE COMPANY

A service company means an approved coverholder that (a) is associated with a managing agent by reason of it being a wholly owned subsidiary of the managing agent; or being a wholly owned subsidiary of the managing agent's holding company; or such other matters as the Franchise Board may determine in any particular case or generally; and (b) will be authorised by its associated managing agent to enter into contract(s) of insurance to be underwritten only by members of a syndicate managed by the associated managing agent or an insurance company which is a member of the same corporate group.

SPECIAL PURPOSE SYNDICATE (SPS)

A syndicate set up solely to underwrite a quota share reinsurance of another syndicate's business for a year of account.

SPREAD SYNDICATE

A syndicate whose capital is provided by a number of different members, including members that have separate ownership and control to the syndicate's managing agent.

SPREAD VEHICLE

A corporate member underwriting on a number of different syndicates.

SYNDICATE

A member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.

TIER 1 CAPITAL

The core measure of an insurer's financial strength from the viewpoint of the FSA. It consists of the most reliable and liquid assets. The perpetual securities issued in 2007 qualify as tier 1 capital as the proceeds of the debt issue are fully paid and immediately available; debt holders are sub-ordinate to payment of claims.

TRADITIONAL SYNDICATE

A syndicate whose members underwrite insurance business at Lloyd's for the current year of account and which is neither an SPS syndicate or an RITC syndicate.

YEAR OF ACCOUNT

The year to which a risk is allocated and to which all premiums and claims in respect of that risk are attributed. The year of account of a risk is usually determined by the calendar year in which the risk incepts. A year of account is normally closed by reinsurance at the end of 36 months.