

VALUATION OF LIABILITIES RULES
FOR LLOYD'S SOLVENCY PURPOSES
31 DECEMBER 2009

VALUATION OF LIABILITIES

INTRODUCTION

This document relates to the valuation of members' underwriting (general and life business) liabilities for solvency purposes. It sets out requirements of both Managing Agents and Syndicate Actuaries.

The Financial Services Authority's handbook section SUP 4.6 requires that syndicate actuaries opine on the technical provisions held by the syndicate. The liabilities for these opinions must be calculated in compliance with the FSA's handbooks and in particular sections GENPRU 1.3R and INSPRU 1.1R. SUP, GENPRU and INSPRU are available from the FSA's website.

In addition Lloyd's syndicates authorised by the International Insurers Department (IID) to write Surplus Lines insurance in the US are required to provide to the IID a Statement of Actuarial Opinion (SAO) on their worldwide technical provisions both gross and net of reinsurance and an SAO on the technical provisions gross of reinsurance in their Surplus Lines Trust Fund. In addition, the New York Insurance Department (NYID) requires an SAO on the technical provisions gross of reinsurance in the Surplus Lines Trust Fund and one on the technical provisions gross of reinsurance in the Credit for Reinsurance Trust Fund.

Members' underwriting liabilities are determined by reference to the liabilities of the syndicates on which they participate. The attribution of those liabilities to members for the purposes of the annual solvency test is undertaken by Lloyd's centrally. This document therefore focuses only on the determination of syndicate underwriting liabilities.

If there are questions concerning the interpretation of these instructions, then clarification should be sought from Lloyd's and in the first instance from the Lloyd's Actuary.

Sample opinion wordings are provided in the appendices. While it is expected that these will be used as a model, modifications may be necessary to suit particular cases including any changes referred to in the Lloyd's UK Advisory Note or the Lloyd's US Advisory Note (both issued by the Actuarial Profession). The SAO will need to be modified appropriately if there are run-off years of account.

GENERAL INSURANCE BUSINESS

Members have no liability in respect of 1992 and prior years of account and these rules therefore relate only to the 1993 and subsequent years of account.

The main principles are as follows:

- managing agents must determine adequate technical provisions for solvency purposes;
- managing agents must appoint an actuary (the Syndicate Actuary), who is in possession of a relevant Practising Certificate issued by the Actuarial Profession and

current at the time of providing the opinion, to provide an opinion on those technical provisions, for each syndicate; and

- where an unqualified actuarial opinion will or may not be available, the managing agent concerned must report this to the Lloyd's Actuary. Technical provisions for solvency where no unqualified opinion is provided by the due date will be determined by the Lloyd's Actuary who, after consultation with the Syndicate Actuary, will take the relevant facts of the syndicate's business and reinsurance arrangements into account when determining the provisions.

Any managing agent that is not able to secure an unqualified actuarial opinion on its technical provisions for solvency for a particular syndicate will normally be subject to a monitoring review by Lloyd's.

Where it becomes apparent that there may be any difficulties in obtaining an unqualified actuarial opinion, or that the "Relevant Comments" section of the opinion is likely to contain material issues, the Lloyd's Actuary must be informed as soon as is practicable.

The Syndicate Actuary should make it clear at the outset that he or she may require frequent access to underwriters and other members of the Managing Agent's staff, and may wish to use work carried out by or for the Managing Agent, including the work of any other member of the Actuarial Profession who has worked for the Managing Agent as an employee or consultant. Managing Agents should make all best endeavours to comply with this.

GENPRU 2.3 requires the minimum capital requirement (MCR) for each member to be calculated. The method for determining the member's MCR is similar to that used for other UK insurers, as adapted for the circumstances of members of Lloyd's. Those calculations are performed by Lloyd's centrally, and are outside the scope of this guidance.

DETERMINING THE TECHNICAL PROVISIONS FOR SOLVENCY– GENERAL BUSINESS

1. The managing agent must, in respect of each syndicate managed by it, establish adequate technical provisions for solvency for each reporting year of account which became closed or remained open as at the solvency test date. Technical provisions must be established both gross and net of reinsurance.
2. For the purposes of determining the technical provisions for solvency for a reporting year of account which has accepted a reinsurance to close, account must be taken of the liabilities associated with earlier underwriting years which have been reinsured into that reporting year, and thus the technical provisions for solvency of a reporting year of account will be the aggregate of all these underwriting years taken together, including the latest underwriting year itself.
3. The technical provision for solvency in respect of any reporting year of account which is being closed by reinsurance to close must be at least equal to the reinsurance to close premium plus an adjustment for any future premiums included within the reinsurance to close premium.

4. The appropriate method of deriving the net of reinsurance technical provision is by subtracting reinsurers' share from the gross technical provision. The rules for determining the gross technical provisions and reinsurers' share are set out below.
5. The technical provisions established by managing agents must be consistent with the provisions reported in syndicate annual accounts, prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, except for the following:
 - that discounting is only allowed in the technical provisions for solvency on a basis consistent with GENPRU 2.2.107 (2) R;
 - any difference arising from the conversion of non-monetary items at year end exchange rates, where they are reported at transaction rates in the accounts under UK GAAP;
 - and explicit solvency loads.

The actuarial opinion must be provided on the basis that the technical provisions for solvency purposes are no less than the best estimate of future liabilities calculated by applying generally accepted actuarial methods and using assumptions considered reasonable by the Syndicate Actuary. This applies both to the gross and net technical provisions for solvency although the gross technical provision for solvency is no longer requested on the QMA223.

The best estimate is intended to represent the mathematical expected value of the distribution of possible outcomes of the unpaid liabilities. In classes which have historically shown a tendency to give rise to latent claims, the Syndicate Actuary should, in the absence of evidence to the contrary, assume a continuation of that tendency, but need not allow for the emergence of major new types or classes of claims for the existence of which there is no evidence.

The worldwide solvency SAO refers to technical provision conforming to UK insurance regulations and therefore UK accounting principles will apply. The US Trust Fund opinions refer to technical provisions being consistent with the "Modified UK Basis, as agreed with the NYID" and this basis should be used.

ACTUARIAL OPINIONS

6. As mentioned above, the technical provisions for solvency determined for each year of account are required to be subject to an actuarial opinion in the form prescribed. This assessment is to be performed in accordance with UK Actuarial Guidance and Technical Standards as issued by the Actuarial Profession and the Board for Actuarial Standards. Account should also be taken of relevant advisory notes issued by the Actuarial Profession (www.actuaries.org.uk/general_insurance/documents/advisory_notes/gn20_advisory_note) and the Code of Practice "Management of Reserving Risk" issued by Lloyd's, even where these are not mandatory. Actuaries must refer to the Actuarial Profession and the Board for Actuarial Standards (BAS) to confirm that they have the latest version of all guidance and standards. The current versions are available from www.frc.org.uk/bas/actuarial/index.cfm

7. Provisions for future unallocated loss adjustment expenses, provisions for reinsurance bad debts, unexpired risk provisions, and unearned premiums provisions less deferred acquisition costs, fall within the scope of the actuarial opinion. Additional contingency margins are permitted but not required.
8. Acceptable signatories to the actuarial opinion are:
 - fellows of the Institute of Actuaries;
 - fellows of the Faculty of Actuaries; and
 - fully qualified members of Actuarial bodies that are full members of the International Actuarial Association who are also members of the Institute or Faculty of Actuaries.
9. The actuarial opinion includes a section entitled “Relevant Comments” which allows the actuary to highlight material issues for the Council of Lloyd’s attention. Such comments are intended to enhance the disclosures made in the opinion and do not constitute a qualification. Any matters which materially increase the degree of uncertainty underlying the opinion beyond that which would reasonably be expected or which involve a material deviation from accepted actuarial methodologies would normally justify a reference in this section.
10. The actuarial opinion covers the total of the technical provisions for solvency but the actuary is not required to report separately on each component element of the technical provisions. The actuary must however take account of the need for unearned premium provisions to be established, of at least 100% of unearned premium after deduction of DAC, within the overall provisions. The Actuarial Opinion must take “liabilities” to include the need for the unearned premium provision.

PEER REVIEW

11. The Syndicate Actuary should normally obtain a peer review of the work, to be performed by another suitably qualified member of the Actuarial Profession. The peer review should normally include a review of the methodology and assumptions for key elements of the work, and should normally be completed before the results are finalised.

DATA

12. The Managing Agent must provide the Syndicate Actuary with appropriate assurance as to the accuracy and completeness of the data provided. The Syndicate Actuary should review all key data for reasonableness but may otherwise rely upon the Managing Agent in this respect. The Syndicate Actuary will need to amend the wording of the reference to data in the specimen SAO (Appendices 1 and 2), if he or she encounters anything during the course of the work that gives rise to any material concerns with regard to the accuracy of the data, and the Managing Agent is unable to resolve these concerns satisfactorily.
13. A specimen Data Accuracy Statement (DAS) is given in Appendix 3. If there are any material data discrepancies or anomalies that cannot be resolved with the Managing

Agent, the Syndicate Actuary should discuss them with the auditor. In some circumstances, it may be necessary to modify the wording of the specimen DAS.

14. Should the data prove to be incomplete, inaccurate, unreliable, or not as appropriate as desired, the Syndicate Actuary must consider whether the use of such data may produce material biases in the results of the investigation and make appropriate allowances. If the data is so inadequate that it cannot be used to carry out the work necessary for the SAO, even on a very conservative basis, the Syndicate Actuary must decline to provide an SAO.
15. For the Trust Fund SAOs, the Syndicate Actuary is required to verify that the data presented by the Managing Agent in Schedule P of the annual return to the NYID reconcile with the Trust Fund data used by him or her for the purpose of preparing the Trust Fund SAOs. Appropriate wording is included in the specimen SAO in Appendix 2 to confirm this. If the timescale is such that the Syndicate Actuary is unable to see the final version of the schedule before he or she signs the SAOs, then he or she should obtain a draft of this Schedule prior to signing, and an undertaking from the Managing Agent that there will be no changes between the draft and the final version. In these circumstances the appropriate paragraph in the SAO should be amended to:-

“I have verified that the data contained in a final draft of Schedule P reconcile with the Trust Fund data used for the purpose of preparing this SAO [except for immaterial differences, possibly due to rounding]/(except for rounding differences)]. [The Managing Agent] has confirmed that there was/will be no change to Schedule P before submission”

If the Managing Agent advises the Syndicate Actuary of any changes, then he or she will need to consider the effect on the calculations, and whether the SAOs need to be amended and re-issued.

GROSS TECHNICAL PROVISIONS

16. The total gross technical provisions comprise outstanding claims (including reported and IBNR claims), unearned premium provisions less deferred acquisition costs, unexpired risk provisions and any other technical provisions. Lloyd's does not expect managing agents to hold any 'other technical provisions' and any agent intending to do so must contact the Lloyd's Actuary as soon as possible.
17. The gross technical provisions relating to exposures before the balance sheet date must not be less than the expected ultimate cost of settlement of all claims incurred in respect of events up to the balance sheet date, whether reported or not, together with all associated loss adjustment expenses including the expenses of managing the run-off of the business, less amounts already paid and before taking reinsurers' share into account (applying GENPRU 1.3 and INSPRU 1.1). Provision should also be made for claims events which have occurred but have not yet been reported, using appropriate statistical or other techniques.
18. The gross technical provisions must take account of inflation, currency exposure and any other factors which may influence the final monetary cost of settlement including any costs of borrowing that may arise because of the need to fund claims and other

costs in advance of premium receipts or reinsurance or other recoveries. When assessing the cost of borrowing prudent allowance may be made for cash calls planned but not actually made at the valuation date. Future premiums must not be deducted when arriving at technical provisions for solvency. Where written premiums have not yet been received, the debtor will be included within amounts due from intermediaries and policyholders. The treatment required in respect of the unearned premium provision and unexpired risk provision is set out in paragraphs 20 and 21 below.

19. Credit may be taken for anticipated salvage and subrogation rights, net of any related bad debts.
20. An Unearned Premium Provision must be established which represents that part of gross premiums written which relate to periods of risk after the balance sheet date. Premiums are deemed to be earned over the period of cover under each policy having regard to the nature of the business written and the related spread of risk. Actuaries may, subject to professional guidance, rely on the managing agent's assessment of the analysis between earned and unearned exposure and on the managing agent's assessment of deferred acquisition costs. The Unearned Premium Provision must be stated gross of deferred acquisition costs.
21. An Unexpired Risk Provision must be provided where the expected value of claims and claims management expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after deduction of any deferred acquisition costs. Where the syndicate is committed to contracts which arise on binding authority and lineslip business, and the underlying declaration has not attached as at 31 December 2009, provision must be made for any expected excess of claims and claims handling expenses over future written premiums after deduction of acquisition costs.
22. Non monetary items (i.e. UPP and DAC) may be reported on the balance sheet (QMA201/205) at transaction rates of exchange in accordance with UK GAAP. Where this occurs an adjustment must be made at line 16 of QMA223 'solvency adjustments', to bring these provisions into line with year end exchange rates.
23. An assessment of whether an unexpired risk provision is necessary must be made for each grouping of business which is managed together with any unexpired risk surpluses and deficits within that grouping being offset. It is up to the managing agent to determine the meaning of 'managed together' in conjunction with its auditor. Lloyd's will accept a definition of 'managed together' for solvency purposes as being at reporting year of account level (i.e. at the level on which the technical provisions for solvency are being established) as the largest acceptable grouping, unless the managing agent, together with its auditor, considers that a smaller grouping of business is more appropriate. The potential requirement for an unexpired risk provision must be assessed on the basis of information available at the balance sheet date. Claims events occurring after the balance sheet date in relation to the unexpired period of policies in force at that time must not therefore be taken into account in assessing the need for an unexpired risk provision if they were not capable of prediction at the balance sheet date. Please also refer to paragraphs 117 to 124 of the ABI SORP 'Accounting for Insurance Business', issued December 2005 and as amended December 2006.

24. For practical reasons, it should be assumed that the costs of handling gross claims and reinsurance recoveries are included in the gross provision for unallocated loss handling expenses. Where it is reasonable and prudent to do so, the provision for unallocated future claims handling should be calculated on the practical assumption that each syndicate is a going concern. Otherwise, provision must be made on the basis that the syndicate has ceased or will cease trading, in whole or in part, as appropriate.
25. Discounting is only permitted when calculating technical provisions for solvency according to the requirements set out in GENPRU 2.2, particularly 2.2.106 G and 2.2.107 (2) R). Accordingly, any credit for discounting within syndicate technical provisions determined under UK GAAP not allowed under GENPRU 2.2, must be added back in full. This will be included in line 16 of QMA223.
26. The gross technical provisions must take into account the particular circumstances of the syndicate, any relevant statistical evidence and the judgement of the Board of the managing agent as to the eventual outcome of each year in question. Historical statistics may not, however, satisfactorily reflect a syndicate's exposure to significant losses. Accordingly, technical provisions must provide for circumstances where a syndicate is exposed to losses arising from one or more known major catastrophes or a known potential cause of loss.
27. If there are circumstances or an event that materially increases the uncertainty and makes estimation of the technical provisions particularly difficult for any year of account, then alternative approaches will need to be considered. Syndicates must have a clearly documented methodology and must be able to demonstrate reasoned judgements for the estimation of such liabilities. Claims reported or precautionary advices received to date must be monitored and reserved for.

REINSURERS' SHARE

28. The deduction in respect of reinsurers' share of technical provisions must be the net monetary amounts which are expected ultimately to be recovered in relation to the total gross technical reserves. Such amounts must include any costs of borrowing necessary to cope with delays in reinsurance recoveries (see paragraph 18). An appropriate provision must be made for potential reinsurance bad debts and the reinsurers' share of technical provisions must be stated after adjustment for bad and doubtful debts.
29. Since the technical provisions for solvency cover all relevant liabilities at the year end, the managing agent must take account of the need to provide for the reinsurance premium cost of the protection of the liabilities covered by the technical provisions for solvency.
30. With respect to the Unexpired Risk Provision, additional reinsurance premiums required must be taken into account.
31. Where a syndicate is a going concern, a full provision for future reinsurance costs must be included. This should be considered within the provision for outstanding claims including reported and IBNR claims and unexpired risk provision as

appropriate. The allocation of costs should follow each reporting year of account's share of earned premiums being protected by the future reinsurance irrespective of the year of account in which the relevant reinsurance premiums will be charged. Care must be taken where a syndicate has contracts that provide protection over several years to ensure all future costs of reinsurance are properly allocated so that the technical provisions for solvency are not underestimated.

32. Where a multi-year reinsurance contract is entered into, the reinsurance premiums contracted for must be included in reinsurers' share of unearned premiums. Where the syndicate is a going concern, the unexpired risk provisions may take into account expected gross written premiums, which the multi-year reinsurance contract is expected to cover.
33. Provisions in respect of disputes with reinsurers and reinsurance insolvency must be deducted from reinsurers' share of technical provisions. Lloyd's security must be treated as 100% recoverable. However, provision must be made within the reinsurers' share of claims where considered appropriate for reinsurance disputes between different Lloyd's syndicates.
34. Reinsurances must be assessed in accordance with the principles of Financial Reporting Standard 5. That is, if the contract is in the nature of an investment it must be treated as an asset and valued for solvency purposes at its net present value; alternatively, if it is a contract of reinsurance, it must be treated as such. Some reinsurance contracts have large profit sharing elements attaching to them, which are clearly financial elements. For these contracts the profit commission must be treated as a financial element and therefore as an asset and valued for solvency purposes at its net present value.

NO ACTUARIAL OPINION

35. Where an unqualified actuarial opinion is not available for any particular reporting year of account, including any reporting year which has earlier underwriting years reinsured into it, the managing agent concerned will need to seek further instructions from the Lloyd's Actuary. In particular, the Lloyd's Actuary, after consultation with the Syndicate Actuary, will determine the technical provisions for solvency for each reporting year of account in respect of which an unqualified opinion is not available.

US & CANADIAN DOLLAR, EURO AND OTHER SETTLEMENT CURRENCY BUSINESS

36. The technical provisions in respect of United States dollar, Canadian dollar, Euro and other settlement currencies (where material) must be calculated in these currencies, in accordance with the rules set out above.
37. As has been planned for a number of years, the pre-1 August 1995 LATF will be wound up over the next five years. No actuarial opinion is required in respect of the LATF during this period. The basis for calculating the LATF will be a linear decrease (20% per annum) from the amounts held as at 31 December 2008 which were actuarially opined on. This calculation will be automatic and whilst funds will be held within the SLTF and CRTF these will not appear on the Schedule P.
38. For solvency, liabilities in US dollars, Canadian dollars, Euro and any other relevant settlement currencies must be converted into sterling at the rates of exchange prevailing at the close of business on the effective date of calculation. Recommended closing rates of exchange will be determined and notified to the market early in the following year.

RESPONSIBILITIES OF SYNDICATE AUDITOR AND SYNDICATE ACTUARY

39. The syndicate auditor's responsibility with respect to the determination of the solvency position of each syndicate is unchanged, notwithstanding the requirement for an actuarial opinion on the technical provisions for solvency. In other words, the syndicate auditor is required to submit the audit report on the year-end QMA in the usual way.
40. The auditor will, however, be able to place reliance on the actuary's opinion, in accordance with the appropriate professional guidance.
41. Similarly, the actuary may, subject to professional guidance, rely on the managing agent's assessment of the analysis of written premium between earned and unearned exposure and on the managing agent's assessment of deferred acquisition costs.
42. Although signing actuaries are expected, as for all other data, to carry out reasonableness checks of the earned/unearned premium data supplied by the Managing Agent, they are not expected to check the calculations themselves or review the systems used to derive the earned/unearned premium data.
43. Where no unqualified actuarial opinion is available, this may have implications for the syndicate auditor's report and accordingly, the actuary and auditor will need to liaise closely and report to Lloyd's as soon as any difficulties are identified.
44. Where it becomes apparent that there may be any difficulties in obtaining an unqualified actuarial opinion, or that the "Relevant Comments" section of the opinion is likely to contain material issues, Lloyd's must be informed as soon as is practicable. Please contact Henry Johnson (Henry.Johnson@lloyds.com) or Jerome Kirk (Jerome.Kirk@lloyds.com) in this instance.

LIFE BUSINESS

45. A syndicate with long term insurance liabilities must also comply with SUP 4.6 and apply GENPRU 1.3 and INSPRU 1.1 respectively. The managing agent must appoint a Syndicate Actuary to certify the technical provisions for solvency for life business using the form of opinion approved for this purpose, as detailed in IPRU-INS 9.58 (1) (c) and appendix 9.14.

REPORTING REQUIREMENTS

46. The SAO must be supplemented by a separate management report (“the Report”), addressed by the Syndicate Actuary to the Managing Agent, and may be distributed to Lloyd’s, the UK Supervisory Authority and the US regulators. This is a formal report and must follow relevant UK Actuarial Guidance and comply with relevant BAS Technical Actuarial Standards.
47. For year-end 2009 the Report should comply with GN12 which remains in force. TAS R applies to all aggregate reports (as defined in TAS R) completed on or after 1 April 2010. While the SAO Report may form part of an aggregate report that is subject to TAS R, it does not itself constitute an aggregate report and thus need not, on its own, meet all the requirements for an aggregate report under TAS R. This interpretation is consistent with paragraphs 2.14 and 2.15 of the BAS TAS R Analysis of Responses to the March 2009 Exposure Draft
<http://www.frc.org.uk/bas/publications/pub2109.html>
48. The purpose of the report is to explain the work done by the Syndicate Actuary in order to reach the opinion on the technical provisions. It is expected that, in most situations, this work would include independent calculation of the technical provisions and comparison with those established by the syndicate. In other situations, the Syndicate Actuary’s work may not include independent calculation of technical provisions, but rather constitute a review of the methodology and assumptions used by someone else (e.g. the syndicate’s own actuarial or other staff) in calculating the technical provisions. This practice is acceptable, provided the Syndicate Actuary is willing to accept personal responsibility for the opinion stated, based on the work reviewed. In these situations the Report should include an explanation of the work performed by the Syndicate Actuary and include details of the work performed by the other party.
49. The Report for non-life business must expressly state any elements of the technical provisions that have been discounted for solvency and include workings to show the impact.

Appendices

Appendix 1	Sample Opinion Wordings for Council of Lloyd's / IID Opinions
Appendix 2	Sample Opinion Wordings for US Trust Fund Opinions
Appendix 3	Sample Data Accuracy Statement

Appendix 1

Opinion on Solvency Reserves

To: Council of Lloyd's / International Insurers Department

Statement of Actuarial Opinion – Syndicate KLM

Identification

I, ABC, am an actuary employed by XYZ [the Managing Agent.]

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by XYZ [the Managing Agent.]

Qualification

I am a Fellow of the [PQR Actuarial Society and an Affiliate of the] Faculty/ Institute of Actuaries and possess a certificate valid as at the date of this Opinion to provide UK Actuarial Opinions for Lloyd's Syndicates, issued by the Actuarial Profession.

Scope

I have examined the technical provisions listed below for the underwriting years 1993 to [current year] of Syndicate KLM as at 31st December [current year], as reported in Form(s) QMA223 "Summary of Technical Provisions" submitted by the Managing Agent. I have reviewed the technical provisions shown in column A lines 7 and 17, for each relevant reporting year of account. The gross technical provisions for solvency may differ from the gross technical provisions contained in the annual return and both are shown below. My opinion is in respect of the gross and net technical provisions for solvency.

The technical provisions are the responsibility of the Managing Agent; my responsibility is to express an opinion on those reserves based on my review.

	[current year]	[current year -1]	[current year -2]
Total gross technical provisions (Conv £000's)			
Total gross technical provisions for solvency (Conv £000's)			
Total net technical provisions for solvency (Conv £000's)			

NB: "Conv £" figures above are converted at [£1 = US\$ a.aa = C\$ b.bb = Euro c.cc]

[NB: The table may need to be amended if, for example, there are old open years of account]

The preceding technical provisions are for indemnity amounts and claims handling expenses (both allocated and unallocated) and include provision for future claims arising from unexpired periods of risk. They are net of salvage and subrogation, on past and current business. They are not discounted for the time value of money unless expressly allowed under Lloyd's Valuation of Liabilities rules. The net technical provisions include a provision for reinsurance bad debts, where appropriate.

I have relied upon data prepared by the responsible employees of the Managing Agent including the Managing Agent's assessment of the analysis of written premium between earned and unearned exposure and the Managing Agent's assessment of deferred acquisition costs. These data have not been checked by me, although the Managing Agent has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the Managing Agent in determining the technical provisions, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

"In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary."]

[Relevant Comments

Other comments at the discretion of the Actuary.

These additional comments do not constitute a qualification of my opinion.]

Variability

In evaluating whether the technical provisions make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development. In particular, although I have made what I believe to be a reasonable allowance for the risk of adverse development, I have not anticipated the emergence of major new types of classes of claims, nor the emergence of any major new reinsurance disputes.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the technical provisions for solvency identified above comply with the Lloyd's Valuation of Liabilities Rules and each is no less than the expected future cost of the corresponding claims and claims handling expenses for which Syndicate KLM was liable at 31st December [current year].

[Qualifications on Opinion

Other comments at the discretion of the Actuary.]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Managing Agent.

This statement of opinion is solely for the use of, and to be relied upon only by the following:

1. the Managing Agent, the syndicate auditors, the Council of Lloyd's and their auditors for the purpose of compliance with the Valuation of Liabilities Rules, and
2. the Managing Agent and International Insurers Department for the purposes of compliance with IID/NAIC regulatory requirements.

Signed:

Name:

Fellow of the Faculty/Institute of Actuaries (or Fellow of the PQR Actuarial Society and Affiliate of Faculty/Institute of Actuaries)

Date:

Address:

Opinion on Trust Fund Reserves

To: New York Insurance Department/International Insurers Department

**STATEMENT OF ACTUARIAL OPINION
GROSS RESERVES FOR SYNDICATE KLM
US CREDIT FOR REINSURANCE TRUST FUND/US SURPLUS LINES
TRUST FUND
AS AT 31ST DECEMBER [CURRENT YEAR]**

Identification

I, ABC, am an actuary employed by XYZ [The Managing Agent.].

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by XYZ [The Managing Agent.].

Qualification

I am a fellow of the [PQR Actuarial Society and an Affiliate of the] Faculty/Institute of Actuaries with experience of claims reserving.

Scope

I have examined the reserves listed below for the underwriting years 1995 to [current year] of Syndicate KLM as at 31st December [current year], as reported in the [US Credit for Reinsurance Trust Fund]/ [US Surplus Lines Trust Fund] returns as at [insert date] relating to the business written under the Fund.

The reserves are the responsibility of the Managing Agent; my responsibility is to express an opinion on those reserves based on my review.

US \$000's			
US Credit for Reinsurance Trust Fund/US Surplus Lines Trust Fund	[current year]	[current year - 1]	[current year - 2]
Reported Outstanding Claims			
IBNR Claims and Unexpired Risks			
Sub-Total			
Less deferred premiums, Fund withheld and LOCs			
Total			

[NB: The table may need to be amended if, for example, there are old open years of account]

The preceding reserves are for indemnity amounts and allocated claims handling expenses, include provision for future claims arising from unexpired periods of risk and are gross of reinsurance. They are net of salvage and subrogation, and of anticipated future premiums (net of acquisition expenses) on past and current business. They are not discounted for the time value of money.

I have ensured that the reserve in respect of unexpired periods of risk is at least 100% of the estimated unearned premiums (net of acquisition expenses). In making a deduction for anticipated future premiums, I have estimated the bad debt reserve on that part of the future premiums that relate to “earned unsigned” premiums (net of acquisition expenses), subject to a minimum of 25% of the estimated earned unsigned premiums (net acquisition expenses). In addition, I have not anticipated any profits on the earned unsigned premiums.

I have relied upon data prepared by the responsible employees of the Managing Agent. These data have not been checked by me, although the Managing Agent has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations, as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the Managing Agent in determining the reserves, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

“In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary.”]

I have verified that the data contained in Schedule P reconciles with the Trust Fund data used for the purpose of preparing this opinion [except for immaterial differences, possibly due to rounding/except for rounding differences].

[Additional Comments

Other comments at the discretion of the Actuary.

These additional comments do not constitute a qualification of my opinion.]

Variability

In evaluating whether the reserves make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development. In particular, although I have made what I believe to be a reasonable allowance for the risk of adverse development, I have not anticipated the emergence of major new types or classes of claims.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the reserves identified above are no less than the expected future cost, calculated in accordance with the Modified UK Basis, as agreed with the New York Insurance Department, of the corresponding claims and allocated claims handling expenses net of anticipated future premiums, of the business written by Syndicate [KLM] under the [US Credit for Reinsurance/US Surplus Lines] Trust Fund as at 31st December [current year] under the terms of the Syndicate policies and agreements.

[Qualifications on Opinion

Other comments at the discretion of the Actuary.]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Managing Agent.

This statement of opinion is solely for the use of, and to be relied upon only by, the Managing Agent, the syndicate auditors, the Council of Lloyd's, their auditors and the New York Insurance Department/International Insurers Department for the purpose of compliance with NYID/IID regulatory requirements.

Signed:

Name:

Fellow of the [PQR Actuarial Society and Affiliate of the] Faculty/Institute of Actuaries

Date:

Address:

Data Accuracy Statement

I, _____, _____ hereby affirm that the listings and

Name Title

summaries of premium and claims data (including indemnity and expense amounts)
regarding _____ as at _____ and other relevant data

Syndicate KLM Valuation Date

and information (including relevant details of apportionment of premium exposure
between earned and unearned, deferred acquisition costs, reinsurance disputes and
reinsurance bad debts) provided to

Actuary's name and firm

were prepared under my direction and, to the best of my knowledge and belief, are
accurate and complete [except where advised otherwise].

Signed:

Date: _____