

MARKET BULLETIN

REF: Y4483

Title	The underwriting of war, civil war and related perils.
Purpose	To update Lloyd's requirements in respect of the provision of war coverage across all classes of business and the monitoring and control of aggregate exposures resulting from it.
Type	Event
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Deadline	Immediately
Related links	

It has long been recognised that the uncontrolled underwriting of war, civil war and related perils is a material source of prudential risk to Lloyd's. Because of the nature of the events insured against, there is a particular risk that the aggregate losses could threaten the market's financial position.

The underwriting of war, civil war and related perils has therefore been closely monitored and controlled in the market for some time. Lloyd's existing requirements in this area, however, have not been updated for a number of years and are out of line with the business planning process. The old War Risks Exclusion Agreement, which was originally entered into between Lloyd's and the British Insurers Association, now the ABI, in 1937 has also long fallen out of use and would in any event not be an appropriate mechanism for regulating the market.

This bulletin updates Lloyd's requirements in respect of war, civil war and related perils. It replaces all previous requirements issued by Lloyd's in respect of these perils.

Definition

For the purposes of this bulletin, the term "war, civil war and related perils" includes war, civil war, invasion, act of foreign enemies, hostilities (whether war be declared or not), rebellion, revolution, insurrection, military or usurped power. Other terms are used by some

managing agents to refer to the same or equivalent perils. Except as set out in the section dealing with exempted classes, all policies providing coverage for any of these or equivalent perils are subject to the provisions of this bulletin.

Business plan approval

In view of the prudential risks that arise across all classes of business (other than those specified below as exempt classes), syndicates may not underwrite war, civil war or related perils without the prior approval of Lloyd's through the business planning process. Managing agents wishing to write these perils should provide in their business plans the information contained in Appendix 1 to this bulletin.

These arrangements will take effect for the 2012 year of account business planning process. Lloyd's may, however, require that individual managing agents provide details of their approach in 2011 where it is considered necessary as a result of the information to be provided with the Realistic Disaster Scenario (RDS) returns (see below). In addition, managing agents who plan to change materially their approach during 2011 must obtain prior approval from Lloyd's (by contacting their Underwriting Performance account executive in the first instance).

Monitoring and control of exposure

Managing agents are required to demonstrate that they are monitoring and controlling the exposure of their syndicates to war, civil war and related perils. In order to do so they have been required to provide a return to Lloyd's with their 2011 RDS returns detailing their syndicates' aggregate exposures in respect of fixed property by territory. This has already been provided for in the RDS guidance (6 January 2011) and amended instructions (11 February 2011) issued to the market. This requirement does not apply in respect of political risk business nor to coverage in respect of moveable property, such as aviation and marine exposures, and people. For political risks an RDS is specified and country aggregate information is provided via the supplementary information form submitted with the RDS return. The relevant risk codes are listed in the Political Risks RDS specification.

Scenario-based returns for moveable risks, such as marine and aviation exposures, and people, personal accident and life, will be developed in conjunction with the LMA to accompany the main 2012 RDS returns. These returns will be a continuing annual requirement but the basis on which they are to be made may change should it be considered appropriate.

Nuclear, Chemical, Biological and Radiological (NCBR) weapons

All coverage for loss caused by NCBR weapons should be separately monitored and controlled. The return for the 2011 year of account referred to above provides for aggregate reporting of this exposure as a sub-set of the overall war exposure.

Documentation of coverage/exclusions

Managing agents should ensure that they clearly document the scope of any war, civil war and related perils cover provided.

Where cover is not provided, managing agents should ensure that a suitable exclusion clause is included in the policy terms and conditions. A number of model clauses have been developed by the LMA for this purpose.

Where cover is to be given, the scope of cover should be clearly stated either in a separate policy or in a separately identifiable section of the policy. A number of model clauses have been developed by the LMA for certain classes that specifically provide for extended coverage, such as personal accident. Model clauses have also been developed by various market committees in the marine and aviation markets.

Managing agents should not seek to provide cover merely by omitting a suitable exclusion clause (“remaining silent”) in view of the risk that a court may decide the scope of cover to be wider than that intended. In classes where underwriters wish to remain silent on war, civil war and related coverage this needs to be made clear in the syndicate business plan as part of the syndicate business plan approval process and a clear rationale will be required.

The above approach to documenting the scope of cover applies to both insurance and reinsurance business.

Delegated underwriting

The underwriting of war, civil war and related perils by coverholders is permitted but, in the case of war on land risks (risk code WL), only where each risk is subject to the agreement of the leading Lloyd’s underwriter prior to binding (“prior submit”), unless specific approval has been obtained from Lloyd’s. Following underwriters should ensure that there are arrangements in place to provide them with prompt advice of exposure assumed under such delegated authorities.

Exempted Classes

The requirements of this bulletin do not apply to Directors’ and Officers’ Liability, Professional Indemnity, Legal Expenses and Workers’ Compensation classes which are recorded to risk codes D2 to D5, E2 to E9, F2 and F3, LE, W3 to W6. In addition, the requirements do not apply to motor classes which are recorded to risk codes M2 to M6, MF, MH, MI and MP to the extent that cover is provided to meet statutory requirements for coverage. Lloyd’s is satisfied that in these classes the prudential risk does not merit the additional level of monitoring.

Regarding the documentation of cover in these classes, while managing agents do not need to comply with the specific requirements detailed above, to the extent that cover is provided for war, civil war and related perils due regard should be given to the drafting of the policy to ensure that it is contract certain.

Further Information

Enquiries in relation to this bulletin or to any other aspect of war and civil war coverage at Lloyd's should be directed to Guy Sellers (guy.sellers@lloyds.com or 020 7327 6569) or Bill Rendall (bill.rendall@lloyds.com or 020 7327 5188).

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Appendix 1

Information required from managing agents of syndicates intending to underwrite war business

1. Classes of business to be written where coverage is in respect of or includes war, civil war and related perils.
2. The maximum gross and net line size for each class of business identified in 1. above.
3. The forecast premium income for each class of business identified in 1. above
4. The maximum policy period that will be written.
5. A breakdown of exposure by policy period where the period is in excess of 12 months.
6. The maximum territorial gross and net limit that the syndicate will write to in respect of fixed property.
7. Details of how territory is defined for the purpose of territorial limits in respect of fixed property and a narrative description of how coverage in respect of moveable property (marine, aviation and the like) and people (accident and health and life) are taken into account in considering the syndicate's overall exposure.
8. Details of any inuring reinsurance that is on a "matching" basis, i.e. where the reinsurance provides protection for all the relevant classes of business for the full original policy period.
9. Details of any reinsurance that may inure but which is not on a matching basis.
10. A narrative description of the syndicate's overall approach to the underwriting of war business across all relevant classes in order to manage the overall exposure and the approach for each class identified in 1. above.
11. A narrative description of the systems and processes used by the syndicate for the monitoring and control of aggregate exposure to war, civil war and related perils.

All the above information should also show broken out within it details of all war, civil war and related perils coverage where there is cover for loss arising from any element of nuclear, chemical, biological and radiological weapons of mass destruction.

The 2012 SBF instructions which were circulated with recent Market Bulletin Y4473 will be amended to reflect the above and will be reissued in due course.