

# MARKET BULLETIN

REF: Y4524

<b>Title</b>	U.S. Reinsurance – reduced collateral arrangements in Florida
<b>Purpose</b>	To announce Lloyd's approval under the Florida credit for reinsurance rules to post reduced collateral in respect of future U.S. reinsurance contracts with Florida domiciled cedants
<b>Type</b>	Annual
<b>From</b>	Rosemary Beaver, Head of International Regulatory Affairs
<b>Date</b>	07 October 2011
<b>Deadline</b>	None
<b>Related links</b>	<a href="#">Lloyd's market bulletin Y4508, 28 July 2011</a> <a href="#">Lloyd's market bulletin Y4511, 19 August 2011</a> <a href="#">Florida reduced collateral regulation</a>

## **Summary**

This bulletin is addressed to all Lloyd's market stakeholders dealing with the placement, underwriting, settlement and regulatory reporting of Lloyd's U.S. reinsurance business.

Lloyd's has been approved by the Florida Office of Insurance Regulation (FLOIR) to post reduced collateral in respect of U.S. Property Catastrophe reinsurance contracts with Florida domiciled cedants. This is applicable to new and/or renewal business with respect to policies incepting on or after 06 October 2011 where commercially acceptable and practical to all contracting parties.

This follows Lloyd's recent approval under the New York reduced collateral regulation, details of which can be found in Lloyd's market bulletin Y4508 (see "Related links" above).

## **Florida Approval**

Lloyd's made an application to the FLOIR which has now been approved enabling Lloyd's syndicates the option to post 20% of gross liabilities<sup>1</sup> (instead of 100%) in respect of U.S.

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<sup>1</sup> This reduction is based on Lloyd's current financial strength ratings, which at the date of this bulletin, were an A rating from A.M. Best and A+ ratings from Fitch Ratings and Standard & Poor's.

Property Catastrophe reinsurance contracts with Florida domiciled cedants. This applies to new and/or renewal business with respect to policies incepting on or after 06 October 2011. For detailed guidance addressing the requirements for reduced collateral contracts please refer to Lloyd's market bulletin Y4511, dated 19 August 2011 (see "Related links" above). This covers contract requirements, the collateral securing these contracts and the processing and regulatory reporting of this business.

Reinsurance contracts supported by reduced collateral requirements must be funded outside of Lloyd's US trust funds arrangements (i.e. the Lloyd's Credit for Reinsurance Trust Funds (CRTFs) and the Lloyd's Credit for Reinsurance Joint Asset Trust Fund (CRJATF)). These contracts will be funded on a cedant and contract specific basis where alternative security may be agreed between the parties to permit the cedant to take credit for reinsurance under the Florida regulation. This may take the form of letters of credit or cedant specific trusts. However, Lloyd's syndicates may continue to fund reinsurance contracts issued to Florida cedants through the current CRTF arrangements, at 100% of gross liabilities, where this is commercially preferable to the parties to the reinsurance.

As noted above, reduced collateral reinsurance contracts with Florida domiciled cedants applies to U.S. Property Catastrophe reinsurance only and therefore all other classes of business must continue to be funded at 100% of gross liabilities via the CRTF.

### **Next steps**

Following its approval under the Florida regulation (and, as previously advised, under the New York regulation), Lloyd's will continue to track developments in other states, consulting with the Lloyd's market as to the commercial benefits of seeking similar approvals. Lloyd's is closely monitoring the progress of model law addressing this issue across all states choosing to adopt this approach. Lloyd's position remains that of advocating broader, harmonised reform of US reinsurance collateral rules.

### **Further Information**

If you have any queries relating to this bulletin please contact:-  
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