

Regulatory Bulletin

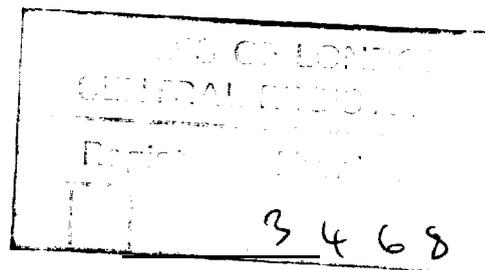
LLOYD'S
LLOYD'S OF LONDON

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FROM: Manager, Underwriting Agents Department

LOCATION: 58/SWI

EXTN: 6285

DATE: 16 April 1996

REF: 018/96

SUBJECT: SUMMARY DISCIPLINARY PROCEDURES

ACTION: CHANGES TO BE NOTED

DEADLINE: NONE

A number of queries have arisen on the mechanics of the summary discipline process which this bulletin attempts to clarify.

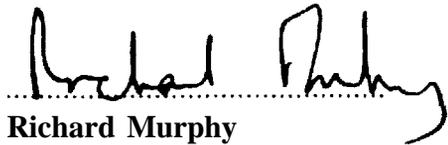
Firstly, the Underwriting Agents Department is recording details of failures to comply with Lloyd's Byelaws and Regulations, Examples include the late submission of syndicate quarterly reporting or premium income monitoring returns. Each month agents will receive a letter identifying the apparent breaches and will be invited to offer explanations or observations. Should it then become clear that an agent has failed to comply with any Byelaw or Regulation, that agent will be referred to the Legal Services Department. Action may then be taken under the Misconduct, Penalties and Sanctions Byelaw (No, 9 of 1993) and compliance failures may subsequently be referred to the Summary Disciplinary Committee.

Secondly, agents are reminded that time extensions and/or exemptions from regulatory requirements cannot be granted by Regulatory Division or other Lloyd's staff over the telephone. Where a time extension or exemption is requested it must be made in writing to the manager of the appropriate department. The original deadline will apply in the absence of the granting of an extension in writing.

Thirdly, agents should be aware that it is intended that press notices will be issued in future where major regulatory action is taken which affects the registration or significant conditions of registration, of an agent.

Any queries on this bulletin should be directed to Vernon Harvey (Extension 6639).

This bulletin is being sent to all underwriting agents and Lloyd's Advisers.

A handwritten signature in black ink, appearing to read "Richard Murphy". The signature is written in a cursive style and is positioned above a horizontal dotted line.

Richard Murphy
Manager, Underwriting Agents Department

APPENDIX I

THE PRESCRIBED HEADINGS IN THE BUSINESS PLAN

The headings set out below are prescribed but are not intended as an exhaustive list. The order in which these headings appear in syndicate business plans is at the agent's discretion. Information required by Appendix II should be set out in appendices to the business plan. There is no need to duplicate statistics in Appendix I.

a) **CHARACTERISTICS OF THE SYNDICATE**

b) **REVIEW OF THE PREVIOUS YEAR**

c) **BUSINESS ASSUMPTIONS**

d) **KEY OBJECTIVES FOR PLAN**

e) **TYPES OF BUSINESS/SYNDICATE INCOME**

g) **REINSURANCE PROGRAMME** (Details of the syndicate's reinsurance programme are required by (h) of Appendix II.)

h) **CLAIMS HANDLING**

i) **EXPENSES** (Details of the syndicate's expense budget is required by (b) of Appendix 111,)

j) **INVESTMENTS** (Details of the syndicate's investment management are required by (c) of Appendix II.)

k) **RESERVING**

l) **USE OF INFORMATION TECHNOLOGY**

m) **PERSONNEL MANAGEMENT**

**PRESCRIBED STANDARDISED INFORMATION WITHIN APPENDICES TO
SYNDICATE BUSINESS PLANS**

The prescribed information set out below should be contained within the appendices to each business plan. The tables set out in the following pages should be used for items (a) to (d) and it should be made clear whether each figure is forecast or actual. The agent may, however, choose a more appropriate format and presentation. The prescribed areas are:

- (a) a pro forma underwriting account for the coming year, as attached at Annex 1 to this Appendix (this may contain information produced elsewhere in the business plan).
- (b) an expense budget for the syndicate as set out in Annex 2 and 3 to this Appendix.
- (c) details of syndicate investment management projection as set out in Annex 4.
- (d) a breakdown of the anticipated business to be generated to the syndicate as set out in Annex 5.
- (e) the geographical split of syndicate business according to the expected premium income set out in at least this level of territorial breakdown; UK; Western Europe excluding the UK; USA; Canada; Australasia; Far East; Japan; Central America and South America; Caribbean; Republic of South Africa Rest of the World. Only territories where the syndicate anticipates business being written need inclusion. Clearly some classes of business cannot realistically be tied to any territory e.g. marine or satellite; this paragraph is inapplicable to such classes. (Syndicates may wish to set out this breakdown by each class of business they anticipate underwriting if appropriate.)
- (f) the role and policy of the reinsurance committee.
- (g) the individuals responsible for key roles in the organisation. These might be expected to include, but not be limited to, the identities of those responsible for underwriting classes of business; the purchase and vetting of reinsurance; and cash management and investment (if performed in-house).
- (h) an outline of the syndicate's reinsurance programme with rationale and policy. If 10% or more of the current year's reinsurance premium is placed with a single reinsurer then such reinsurer(s) and the percentage placed with it/them should be listed. Exceptional/financial reinsurance (e.g. "spread loss" policies) on currently open years should also be mentioned.
- (i) realistic disaster scenarios.

- (j) details of whether the syndicate is proposing to write any financial guarantee business as defined by the Financial Guarantee Insurance Regulation (No.4 of 1989). If the syndicate is intending to write such business then an outline of the types and extent of financial guarantee business must be included.

- (k) details of whether the syndicate is proposing to write any Illinois business. The arrangements for writing Illinois licensed business must be fully explained with disclosure of the anticipated amount of premium written and the intended aggregate liability assumed.

Annex 1.

UNDERWRITING ACCOUNT:

| | 1997 | 1996 | 1995 | 1994 |
|---------------------------------------|------|------|------|------|
| Capacity | | | | |
| Gross Premium | | | | |
| R/I Premium Ceded | | | | |
| Net Premium | | | | |
| Expenses | | | | |
| Target Profit (as a % of Capacity) | | | | |
| % of Gross Premium | | | | |

(N.B. The reader should be able to differentiate easily between forecast and actual figures.)

Annex 2.

| THE EXPENSE BUDGET OF THE SYNDICATE: | | | | |
|---|------|------|------|------|
| | 1997 | 1996 | 1995 | 1994 |
| Salaries and related costs | | | | |
| costs of accommodation | | | | |
| Lloyd's charges | | | | |
| Auditors' remuneration | | | | |
| Accountancy charges | | | | |
| Investment services | | | | |
| Other professional charges | | | | |
| Data processing | | | | |
| Printing and stationery | | | | |
| Other office expenses | | | | |
| Interest payable | | | | |
| Other expenses | | | | |
| TOTAL | | | | |

Annex 3.

| | | | | |
|-------------------|--|--|--|--|
| Agency fees | | | | |
| Profit commission | | | | |

(N.B. The reader should be able to differentiate easily between forecast and actual figures.)

| Annex 4. | | | | |
|--|------|------|------|------|
| <u>INVESTMENT MANAGEMENT:</u> | | | | |
| | 1997 | 1996 | 1995 | 1994 |
| The target investment return (calendar year investment yield) % | | | | |
| Name of the investment manager | | | | |
| (N.B. The reader should be able to differentiate easily between forecast and actual figures.) | | | | |
| Annex 5. | | | | |
| <u>A BREAKDOWN OF ANTICIPATED BUSINESS GENERATED AS A PERCENTAGE OF GROSS PREMIUM INCOME BY/FROM:</u> | | | | |
| | 1997 | 1996 | 1995 | 1994 |
| Brokers which produce more than 15% of GPI | | | | |
| Service companies | | | | |
| Binding authorities | | | | |
| Line slips | | | | |
| N.B. The reader should be able to differentiate easily between forecast and actual figures.) | | | | |

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Appendix III

Set out below in italics is a list of headings referred to at Appendix I which have been taken from relevant sections of the market bulletin of 17 May 1994.

N.B. These are illustrative and have not been prescribed by Lloyd's Regulatory Board. Agents are at liberty to present the information they wish under each of the prescribed headings.

a) CHARACTERISTICS OF THE SYNDICATE

For example:

- (i) List and give a brief description of the main classes of business to be written.*
- (ii) The degree of direct control of the underwriting exercised by the active underwriter.*
- (iii) The longer term aims of the syndicate as regards size and spread of business.*

b) REVIEW OF THE PREVIOUS YEAR

For example:

- (i) Financial performance against the plan /budget,*
- (ii) Objectives achieved and not achieved.*
- (iii) Validity of assumptions made during the previous year.*

c) BUSINESS ASSUMPTIONS

For example:

Major assumptions about:

- (i) The availability of business.*
- (ii) The strength of competition.*
- (iii) Premium rates.*
- (iv) Reinsurance costs.*
- (v) Investment performance and currency movements.*
- (vi) Cost trends.*
- (vii) Economic factors.*

d) KEY OBJECTIVES FOR PLAN

For example:

- (i) *The planned underwriting targets (e.g. capacity, utilisation, profitability). (Much of this information will be expressed statistically in Appendix II table 1.)*
- (ii) *Identify the major hazards to achieving the business plan, e.g.:*
 - + *volume and rate risk;*
 - + *impact of catastrophes;*
 - + *syndicate trading losses;*
 - + *change in capacity.*
- (iii) *The impact on profit and cash flow of the above.*
- (iv) *The contingency plans to deal with adverse circumstances.*

e) TYPES OF BUSINESS/SYNDICATE INCOME

For example:

- (i) *A brief description of business intended to be written, including indicative profitability by class and distinction between new and renewals business.*
- (ii) *An analysis of planned business by class, currency, length of tail, geographical region by class and other relevant characteristics. (Some of this information maybe contained at (e) of Appendix II.)*
- (iii) *The market factors affecting each relevant class of business.*
- (iv) *The change in the mix of business indicating the spread of risk.*
- (v) *Strategies for new product development.*
- (vi) *Types of business not written.*
- (vii) *Types of risk to be declined.*
- (viii) *The maximum size of lines accepted.*
- (ix) *Any consortium arrangements with other companies and syndicates.*

f) EXPOSURE TO CATASTROPHIC LOSSES (Realistic disaster scenarios for the syndicate are required by (i) of Appendix II.)

For example:

- (i) *A description of possible scenarios giving rise to material loss.*
- (ii) *The steps to be taken to limit exposure to catastrophe loss.*

(iii) *The basis of calculating possible and probable maximum loss exposure.*

g) REINSURANCE PROGRAMME (Details of the syndicate's reinsurance programme are required by (h) of Appendix II.)

For example:

(i) *The expected reinsurance market conditions.*

(ii) *Any expected major changes from previous years.*

(iii) *The planned retention levels,*

(iv) *The expected cost,*

(v) *The policy on reinsurance security.*

) CLAIMS HANDLING

For example:

(i) *How claims are to be managed.*

(ii) *Plans for recoveries, including targets for overdue debtors.*

i) EXPENSES (Details of the syndicate's expense budget is required by (b) of Appendix 11.)

For example:

(i) *A commentary on the major expense trends and ratios.*

(ii) *Target cost reductions.*

(iii) *The cost of claims handling and loss adjusting.*

(iv) *An analysis between controllable and non controllable costs.*

j) INVESTMENTS (Details of the syndicate's investment management are required by (c) of Appendix 11.)

For example:

(i) *The investment philosophy and objectives.*

(ii) *The investment management whether in house or sub contracted.*

k) RESERVING

For example:

- (i) *The principles and methods adopted.*
- (ii) *A Book or case by case approach.*
- (iii) *The use of Lloyd's minimum reserves.*
- (iv) *The approach to exceptional or financial reinsurance (e.g. time and distance policies).*
- (v) *The use made of actuarial review/external advisors.*

l) USE OF INFORMATION TECHNOLOGY

For example:

- (i) *The planned use of technology to enhance business.*
- (ii) *Participation in electronic placing.*
- (iii) *Other systems.*

m) PERSONNEL MANAGEMENT

For example:

- (i) *Plans for changes in the organisation.*
- (ii) *Succession planning.*
- (iii) *Authority levels.*
- (iv) *Training.*
- (iv) *Number of staff*
- (v) *Remuneration policy.*
- (vi) *Extra skills required.*