

FROM: Managing Director, North America Unit
LOCATION: NAU/86/GY12
EXTENSION: 5998
DATE: 21 December 1999
REFERENCE: NAU/EPM/em20db01/Y2204
SUBJECT: LLOYD'S US TRADING STATUS FOR SURPLUS
LINES BUSINESS
SUBJECT AREA(S): Funding requirements in the US
ACTION POINTS: **Agents and underwriters to note change in Lloyd's
funding requirements for the US Situs Surplus Lines
Trust Funds**
DEADLINE: None

During the course of the last twelve months, Lloyd's has requested a reduction in the aggregate funding requirements for syndicates' US Situs Surplus Lines Trust Funds (SLTFs). This request was made to the New York Insurance Department (NYID) and the National Association of Insurance Commissioners (NAIC).

At its winter meeting the NAIC adopted a report which recommended a reduction in the aggregate surplus lines funding requirements. This reduction has now been confirmed by NYID in a Stipulation Agreement, entered into on 15 December 1999. Under the Agreement Lloyd's syndicates are required to maintain in their SLTFs an amount at least equal to 30% of their surplus lines gross liabilities. This reduction, from the current 50% funding requirement, will be effective from 31 December 1999. Thus, when the funding adjustments are made at the end of February 2000 in respect of the 1999 annual SLTF filings these will be based on the reduced 30% requirement. There remains the requirement that the total amount of funds held in trust in the SLTFs shall not be less than US\$ 600m.

As part of the agreement Lloyd's is required to increase the minimum funding of the Lloyd's Surplus Lines Joint Asset Trust Fund (SLJATF) by \$50m from \$200m to \$250m. In addition, NYID have the right to insist that the income including interest, dividends and capital gains that is earned or realised in the SLJATF for at least the first five years after 31 December 1999 is retained within the fund.

This increase in the SLJATF is to be made at the same time as the adjustments to the SLTFs are made at the end of February 2000, and will initially be calculated by reference to the existing funding in the SLJATF. At that time the funds collected from each syndicate will be the difference between the increased SLJATF funding requirement and the value of their contribution as at 31 December 1999. A full re-balancing exercise for the 2000 requirements will take place once all relevant data (eg: 1999 year end reserves) are available. Syndicates will then receive a refund of their principal contributions plus their share of any income earned with the same aggregate amount being collected on the basis of the syndicates' 1999 year end liabilities. Further details on the SLJATF funding will be issued by the Market Reporting & Solvency Department in January.

The report of the NAIC on-site review team entitled "Lloyd's: A Review by US State Insurance Regulators" dated December 1999 will shortly be published on the NAIC web site <http://www.naic.org>. Paper copies are available from the North America Information Services Centre (Lloyd's ext 6677) located on Gallery 3, 1986 Building.

If you have any questions on the contents of this bulletin please contact:

Leslie Rosenberg	Market Reporting and Solvency (US Trust Fund Packs)	ext 5490
Alison Mings	Accounting Services (SLJATF rebalancing)	ext 2920
Ed MacKenna	North America Unit (Stipulation agreement)	ext 6267

This letter is being sent to all managing agents, members' agents, active underwriters and Lloyd's brokers.

Julian James
Managing Director
North America Unit