

**FROM:** Julian James, Managing Director, North America  
**LOCATION:** 86/G12  
**EXTENSION:** 5998  
**DATE:** 23<sup>rd</sup> November, 2000  
**REFERENCE:** Y2419  
**SUBJECT:** CANADA: CHANGES TO PROCEDURE FOR PAYMENT OF THE LEVY<sup>1</sup> AND REPORTING FOR NON-“SCHEME CANADA” DIRECT BUSINESS  
**SUBJECT AREA(S):** 1.The Canadian levy to no longer be paid by Canadian brokers and coverholders to the Canadian Attorney in Fact’s office, in respect of non-Scheme Canada direct business  
2.Certain non-Scheme Canada direct business to no longer be reported to Attorney in Fact’s office.  
3.Equitas business to remain unchanged for payment of the levy and reporting of premiums and claims.  
4.This bulletin does not apply to reinsurance business.  
**ATTACHMENTS:** None  
**ACTION POINTS:** **New procedures to be adopted from 1 January 2001 as described below**  
**DEADLINE:**

## 1.0 Purpose

This market bulletin outlines streamlined procedures for payment of the expense levy and reporting of business for Canadian non-marine, aviation, motor and marine direct open market business and most Canadian binding authority business other than that processed through “Scheme Canada”.

The new procedures will be effective in respect of new business, renewals, and additional and return premiums incepting or effective on or after 1 January 2001 and any claim movement

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<sup>1</sup> ‘Levy’, sometimes known as ‘allowance’, and currently consisting of an element to cover the funding of the Attorney’s office expenses and a separate amount to cover provincial taxes, licence and other regulatory fees.

after that date. They remove some duplicative workflows in current procedures and have been made possible by the amendments to the procedures for reporting to OSFI outlined in Market Bulletin Y2358 of 8 August 2000.

## **2.0 Background**

Currently, in order to satisfy Lloyd's Canadian regulatory reporting responsibilities, all premium and claim movements on direct Canadian non-marine, aviation and motor business are reported to the Attorney in Fact's office by Canadian brokers and coverholders. Additionally, for non- Scheme Canada business, the expense levy is paid direct to the Attorney by the relevant Canadian broker or coverholder, rather than being paid to the Lloyd's broker for settlement through LPSO LIMITED. This procedure involves a duplication of work for Canadian brokers not using "Scheme Canada".

## **3.0 New procedures**

Because of the new arrangements agreed with OSFI, and subject to the exceptions noted below, the current practice will be revised as follows in respect of all non-Scheme Canada direct business for 1993 and later years of account. This includes open market risks and non-"Scheme Canada" binding authority Canadian business.

### **3.1 Reporting**

3.1.1 Canadian brokers will no longer be required to report to the Attorney:

- a) any premium in respect of new business, renewals, and additional and return premiums incepting or effective on or after 1 January 2001.
- b) any claim movement in respect of such business after 1 January 2001 (including movements in respect of claims previously notified)

3.1.2 From 1 January 2001, LPSO Limited, LCO (marine) Limited and LCO (non-marine and aviation) Limited will supply the data required by OSFI to Lloyd's Market Reporting and Solvency Department.

3.1.3 Lloyd's brokers will no longer need to notify new or renewed non-"Scheme Canada" binding authorities to the Attorney. However, LPSO will continue to send binding authorities to the Attorney for certification.

### **3.2 Payment of the levy**

3.2.1 In respect of new business, renewals, and additional premiums **incepting or effective** on or after 1 January 2001<sup>2</sup>, Canadian brokers (and coverholders handling non-Scheme Canada binding authority business) will no longer be required to pay the levy to the

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<sup>2</sup> This includes annual installment premiums payable on anniversary dates on or after 1 January 2001 and declarations, and amendments thereto, which incept or are effective on or after 1 January 2001 and which are off of bulked accounting contracts. However it does not include monthly, quarterly, or semi annual installment premiums which should continue to be processed under the procedure in force at the time that the contract to which they relate incepted.

Attorney. In the case of return premiums effective after 1 January 2001, they will not be required to claim the levy back from the Attorney.

- 3.2.2 The levy must be passed to the Lloyd's broker along with the gross premium. It must not be deducted from the amount settled between the Canadian and Lloyd's brokers, nor from the amount settled by the Lloyd's broker to Underwriters via LPSO, ie the gross premium must not have the levy deducted when calculating the net amount due. This will result in the full amount of the levy being settled to Underwriters. Similarly, return premiums must be claimed gross of levy.
- 3.2.3 Lloyd's Taxation Department and Accounting Services will collect the different components of the levy back from Underwriters at periodic intervals in a manner similar to the current method of collecting the overseas levies for other jurisdictions and certain taxes. There will be separate collections for the expense levy and provincial taxes. North America Unit will issue further details on the new levy rates for Canada later in the year. Similarly, Lloyd's Taxation Department will issue details concerning the Canadian provincial taxes that will be collected from Underwriters.
- 3.2.4 The levy for direct assured business will be collected from Underwriters, as part of the above-mentioned collections. However, the need to specifically notify LPSO of these risks using forms LPO133B and LPO134B remains unaltered, in order that provision may be made for the collection of any Retail Sales Tax paid by the insured and held on account by the Lloyd's broker.
- 3.2.5 The procedure for Scheme Canada business will not change. The Attorney's office will continue to collect the levy as part of the monthly settlement process with coverholders.
- 3.2.7 The above changes and collection procedures will also apply to business (with the exception of any such business processed under "Scheme Canada") incepting or effective on or after 1 January 2001 and which is subject to marine premium tax applicable in Quebec and British Columbia.<sup>3</sup>
- 3.2.8 The reinsurance levy collection for Canadian business remains unaltered.
- 3.2.9 LPSO and the Attorney's office will be policing the new payment procedures carefully to ensure that the levy is not paid twice for the same risk. It is therefore important that both Lloyd's and Canadian brokers adhere to the inception/effective date of 1 January 2001. Where a payment, or omission of the payment, is submitted incorrectly, the risk will be queried with the broker concerned.

#### **4.0 Equitas business**

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<sup>3</sup> This replaces the process detailed in Market bulletin Y1055 dated 13 December 1998 'Canadian Marine Business – application of premium tax and office levy and industry fees'. In particular marine binding authorities not processed under "Scheme Canada", and declarations attaching thereto, must be subject to the revised procedures. Payment of Retail Sales Tax remains the responsibility of the Canadian broker. Where there is no Canadian broker an LPO555 must be submitted to LPSO, to trigger collection of Retail Sales Tax held on account by the Lloyd's broker.

The current procedures relating to the reporting of Equitas premiums and claims to the Canadian Attorney in Fact's office remain unaltered.

## **5.0 Other exceptions**

In order to comply with the reporting requirements of Canadian provincial regulators, it will still be necessary for the following classes to be reported to the Attorney:

- 5.1 All Canadian automobile business in accordance with the procedures published by the Attorney. Almost all of this business is processed by Scheme Canada, use of which is encouraged for this class by the NMA (through the Canadian Personal Lines Business Panel);
- 5.2 All liability business in the province of Ontario. Again, the Attorney publishes reporting requirements in respect of this business.

It will not be necessary to pay the levy on this business to the Attorney unless as part of a "Scheme Canada" settlement.

The data elements that have to be reported for these classes are not captured by LPSO/LCO systems and have to be held separately. Lloyd's must report these elements whether or not the business is settled through Scheme Canada, which was introduced to avoid duplicate reporting by using certain common data elements for settlement as well as regulatory reporting. It should therefore be understood that the reporting obligation for certain Canadian classes is extensive because of regulatory requirements and not because of Scheme Canada's.

## **6.0 Statistical reports**

The Attorney currently produces a number of statistical reports for binding authority business. As sufficient data will no longer be held under these revised procedures, it is intended to cease their distribution for non-"Scheme Canada" business from 1 January 2001. However, any underwriter wishing to continue to receive them may do so by making arrangements with the Attorney subject to continued reporting by the Canadian broker and payment of any user-pay fees that might be introduced to cover Canadian binding authority reporting.

## **7.0 Administration**

Questions on the foregoing procedures may be directed to:

Stuart Loveless – North America Unit, extension 6234 )  
 North America Information Centre – extension 6677 ) general issues

Maureen McLeod – Taxation Department, extension 6860 - taxation issues

Alison Mings – Accounting Services, extension 2920 - Accounting Services issues

Nick Parker – LPSO Business Services, extension 2534 – LPSO processing issues.

Donna Shram – Attorney’s office (001 514 861 8361) - statistics and Canadian broker issues

This bulletin is being sent to all Managing Agents and Lloyd’s brokers. A circular containing similar information is also being sent to all authorised Canadian correspondents.

Julian James  
Managing Director  
North America Unit