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LOCATION: 86/G12
EXTENSION: 5998
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REFERENCE: Y2440
SUBJECT: NORTH AMERICA - 2001 LEVY RATES
SUBJECT AREA(S): Levies applicable to US and Canadian business
ATTACHMENTS: See appendices
ACTION POINTS: **To note the 2001 levy rates and changes in levy arrangements**
DEADLINE: **Business processed on or after 1 January, 2001**

In April 2000, indicative levy rates for 2001 were published to assist the market in its business planning process. The purpose of this market bulletin is to advise the market of the levy rates approved by the North American Unit Board (NAUB), which will apply to business processed on or after 1 January 2001. Please refer to Appendix 1 for details of these rates, together with 2001 indicative rates.

1 Management of expenditure

The commitment to rigorous cost control and cost reduction will continue in 2001. Generally levy rates are based on total budgeted costs expressed as a percentage of estimated premium income. Shortly after the end of each calendar year an adjusting collection is made to ensure that the aggregate amount collected from syndicates for the year is equal to the total costs incurred in the same period by levy area. This is allocated to syndicates on the basis of their proportionate share of premium income for the same period.

Whilst the NAUB is able to manage costs, any change in premium income levels will have an impact on the relevant levy rate. As the North American levies are collected in US or Canadian dollars, any fluctuations in exchange rates will affect the sterling based cost element of the levies.

2 Levy rates

Appendix 1 provides details of individual levy rates. Details of the premium income and expense budgets are set out in Appendix 2.

Premium income

The NAUB has taken a conservative view of premium income in arriving at the levy rates in Appendix 1 and original estimates have been reduced by 10% to arrive at the individual premium assumptions set out in Appendix 2. Should premium income exceed these estimates, then actual levy rates will be lower.

Operating costs

Aggregate cost by levy area are summarised in Appendix 2. In each case, there are two components to the cost base – costs incurred locally in the representative offices and those incurred in London. The latter includes the costs of the NAU and other Corporation departments such as accounting operations, taxation, legal services and market finance.

3 US levy

Historically the US levy has been used as the mechanism by which Le Boeuf's costs incurred by the market associations are collected and accordingly these costs have been included in the US levy.

For 2001 the US levy will include just those Le Boeuf costs relating to the protection of the Society's general trading position in the US. Any costs which are specific to individual syndicates or class of business will be either charged direct to the syndicate or the market association concerned.

4 Canada

Changes to the method of processing and reporting of non-scheme Canada direct business and consequently the collection of the levy relating to that business were advised to the market on 23 November (market bulletins ref Y2419 and Y2420).

Office expense levy

An exercise is currently under way regarding the restructuring of operations in Canada which is expected to be completed in January 2001. It is not yet possible to assess fully the impact of this on Canadian charges for 2001 although the NAUB has not sanctioned any cost increase and will seek to mitigate the impact of any cost increases considered necessary to implement changes to business processes. In this context, the NAUB has agreed to the office expense levy rates applicable to Canadian business remaining unchanged for the first quarter of 2001. By this time a review of the Canadian costs and charges to the market for 2001 will have been completed and any changes will be notified to the market. It is possible that this will involve a restructuring of Canadian office expense levy.

User pays

Annual charges for standard statistical reports relating to binding authority business will be introduced for 2001 – the charge for 2001 is Can \$1,250. This relates to all Scheme Canada

binding authorities plus those non-Scheme Canada binders where either statistical reports are required by regulation or the underwriter elects to have the reports.

It is the intention to introduce charges for non-standard reports – this aspect will be incorporated in the review planned for the end of the first quarter.

This market bulletin is being sent to all active underwriters, managing agents, Lloyd's brokers and Lloyd's recognised accountants. All enquiries on the NA levy rates should initially be addressed to the Information Services Desk on extension 6677.

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North America Unit – 2001 levies

**Appendix 1
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A US and Caribbean levy rates

Territory	Basis	2000 rates %	2001 indicative %	2001 approved %	Analysis of 2001 approved Office %	approved Tax %
US levy	Direct/reinsurance (Net p.i)	0.28	0.28	0.25	0.25	n/a
Illinois	Licensed p.i (gross)	3.38	3.38	3.72	2.72	1.00
	Trust fund (note 2)	0.42	0.42	0.35	0.35	n/a
Kentucky	Licensed p.i (gross)	4.05	4.05	3.52	1.48	2.04
	Trust fund (note 2)	0.99	0.99	0.54	0.54	n/a
USVI *	Licensed p.i (gross) (note 1)	1.05	1.05	1.00	1.00	n/a
Caribbean	Licensed p.i (gross)	0.38	0.38	0.34	0.34	n/a

Notes:

1) USVI - in addition to the levy, all licensed business attracts a 5% premium tax which is deducted by the USVI broker and paid to the AIF for onward transmission to the authorities.

2) The costs of operating the trust funds in Illinois and Kentucky are collected quarterly in arrears, on the basis of each syndicate's trust fund balance as a percentage of the whole trust fund.

B Canadian levy rates

	Basis	2000 rates %	2001 indicative %	2001 approved %	Analysis of 2001 approved Office %	approved Tax %
Reinsurance (including marine)	Standard rate	0.39	0.39	0.39	0.39	n/a
Accident & sickness	Standard rate	4.00	4.17	3.92	1.82	2.10
Automobile – personal accident, liability/other	Standard rate	5.54	5.56	5.40	1.82	3.58
Property and contingency	Standard rate	5.76	5.84	5.63	1.82	3.81
Marine	Standard rate	Variable	Variable	See page 2		
All other (excluding marine)	Standard rate	5.37	5.53	5.35	1.82	3.53

For direct Scheme Canada business the levy is deducted from the premium by the local broker and paid to the Lloyd's Attorney in Fact directly. The Attorney in Fact pays premium taxes and other government levies and contributions out of this levy and will retain 1.82% for office expenses. The levy for reinsurance and open market direct business will be collected centrally in London based on gross calendar year premium income processed by LPSO.

Charges applied to Canadian marine business

Direct Business

Province	Type of business	Binding Authority (BA) Open market (OM)	Premium Tax and industry fees (%)	Office levy (%)	Total (%)	
British Columbia	Pleasure craft	BA	4.10	1.82	5.92	
		OM	4.00	0	4.00	
	All other	BA	0.10	1.82	1.92	
		OM	0	0	0	
Quebec	* Business eligible for Quebec premium tax <i>including</i> pleasure craft vessels (used on inland waters only)	BA	3.45	1.82	5.27	
		OM	3.35	0	3.35	
	* Business eligible for Quebec premium tax <i>excluding</i> pleasure craft vessels (used on inland waters only)	BA	3.45	1.82	5.27	
		OM	3.35	0	3.35	
	All other	BA	0.10	1.82	1.92	
		OM	0	0	0	
	Newfoundland	Sport water craft (vessels which are 20 tonnes or less)	BA	0.10	1.82	1.92
		OM	0	0	0	
	All other	BA	0.10	1.82	1.92	
		OM	0	0	0	
	Ontario	Pleasure craft	BA	0.10	1.82	1.92
		OM	0	0	0	
	All other	BA	0.10	1.82	1.92	
		OM	0	0	0	
	All other provinces	All business	BA	0.10	1.82	1.92
		OM	0	0	0	

Appendix 2

Details of costs and premium income forecasts

US and Caribbean:

Costs			Premium income 2001 budget		
	2000 forecast Total costs \$000		2001 budget Total costs \$000	Licensed business (gross) US \$ m	Direct/RI (net) US \$ m
Totals	17,174		16,207		
US levy	12,996		11,745	n/a	4,731,000
Illinois	2,600		2,956	70,000	n/a
Kentucky	1,065		969	40,000	n/a
USVI	325		340	38,000	n/a
Caribbean	188		197	58,000	n/a

Canada:

Costs			Premium income 2001 budget		
	2000 forecast Total costs Can\$ 000		2001 budget Total cost Can\$ 000	Direct business Can \$000	Reinsurance Can \$000
Canada	11,097		9,600	565,000	150,000