

FROM: Luke Savage, Director, Finance & Risk Management    EXTN: 6711

DATE: 9 September 2005    REF: Y3624

SUBJECT: NEW CENTRAL FUND CONTRIBUTIONS, SYNDICATE LOANS, MEMBERS' SUBSCRIPTIONS AND OTHER CHARGES FOR 2006

SUBJECT AREA(S):

ATTACHMENTS:

---

ACTION POINTS: Notification of contributions, subscriptions, loans and payment dates

DEADLINE(S):

---

## 1 Summary

- 1.1 Council has now approved the New Central Fund contribution rates, the level of syndicate loans and members' subscriptions and entrance / application fees for 2006.
- 1.2 There was a dual objective in setting these rates. First, Lloyd's should be prudently but competitively capitalised. Second, that Central Fund contributions should properly reflect the benefits of trading at Lloyd's.
- 1.3 With this in mind, Central Fund contributions will increase from 0.50% to 1.00% in 2006, while all other contributions will remain unchanged.
- 1.4 The principal central contributions, subscriptions and loans are set out below:

	2005	2006
New Central Fund contributions	0.50%	1.00%
Members' subscriptions	0.50%	0.50%
Syndicate loans to the New Central Fund	0.75%	0.75%
	<u>1.75%</u>	<u>2.25%</u>
Callable New Central Fund contributions	3.00%	3.00%

- 1.5 The decision to increase Central Fund contributions flowed from a major review to determine the optimal size of our Central Assets for Solvency Purposes. That is, the Central fund including subordinated debt proceeds, syndicate loans and callable layer taking into account our rating and security aspirations.

- 1.6 Two years ago we undertook an exercise in consultation with the Capital Working Group, which identified that the optimum level for the Central Assets, both in terms of capital efficiency and overall rating security, was in the region of £2.0 billion. That led to initiatives such as our subordinated debt issue and the introduction of syndicate loans. We have recently undertaken a similar exercise, drawing on the extensive work done in support of the Society's ICA. Our view today is that we should be aiming to establish a Central Assets of some £1.7 billion over the next two to three years. This level, together with the ability to extract profits on open years, will help to ensure that the Society is prudently funded, but equally not over-capitalised. It should help to enhance the overall return on capital that the market can earn.
- 1.7 It was apparent to us, taking everything into account, that we will not reach this target figure in that time frame without incremental additional funding. We considered the various options open to us ranging from, going to the debt markets again through to calling the callable layer. Having considered the make up of our Central Assets for Solvency Purposes, and how changes in the mix of types of capital might impact various stakeholders. We concluded that the most sensible option would be to increase Central Fund contribution rates from members to 1%.
- 1.8 I flagged the possibility of this increase in my letter to the market of 29 July, which was designed to assist the business planning work underway over the summer. The overwhelming response from the market was that this was the most sensible way forward.

## **2 Members' Subscriptions**

- 2.1 Council agreed that the rate for all underwriting members' subscriptions for 2006 should be 0.50% of allocated overall premium limits (OPL), unchanged from 2005, payable in two instalments. The first instalment at 0.25% of allocated OPL is due on 9 January 2006 and the second instalment of 0.25% of OPL payable by 1 June 2006. The members' subscription is exempt from VAT.
- 2.2 A bulletin concerning instructions for the payment of members' subscriptions and the Franchise Performance and Risk Management charge, which is also payable in two instalments, will be issued in early December.

## **3 New Central Fund contributions**

### Annual contribution

- 3.1 The annual New Central Fund contribution rate payable by all members (other than new corporate members) for the 2006 year of account is to be 1.00% of a member's syndicate premium limit in respect of each syndicate of which he is a member.

### New corporate members

- 3.2 New corporate members for 2006 will pay 2.5% for each of their first three years of operations. A new corporate member is one which joins Lloyd's in 2006 and establishes / participates on one or more new syndicates thereby immediately accessing the Lloyd's brand, reputation and accumulated value of the Central Fund. It should be noted that if that member writes on a mix of existing and new syndicates,

then the higher rate will only be payable in respect of its participations on new syndicates.

- 3.3 Where a newcomer to the Lloyd's market chooses to participate by purchasing an existing corporate member that has reinsured to close all its liabilities, that corporate member will be treated as a new member and it will be required to pay the higher contribution in respect of its participations on new syndicates.
- 3.4 Within the category of new corporate members the increased charges will not apply to:
- conversion vehicles which meet the current definition of a "successor corporate member" in the Membership (Entrance Fees and Annual Subscriptions) Byelaw – i.e. in broad terms, any vehicle which is 85% owned by converting Names
  - new corporate members which only participate on *existing syndicates*.
- 3.5 New corporate members who joined in 2004 will continue to pay double the standard rate of contribution for their third year of operation at Lloyd's (i.e. for 2006 this will be 2%). Those who joined in 2005 will continue to pay 2.5% in their second and third years of operation.

#### Qualifying Quota Share arrangements

- 3.6 Where syndicates enter into qualifying quota share arrangements outside the Lloyd's market further New Central Fund contributions are payable. For 2006 the additional contribution rate will remain at 1.25% if written premiums exceed allocated syndicate capacity. Interim charges will be made, where applicable, after 12 and 24 months and a final charge after 36 months. Charges will be made in April of each year.

#### Callable contribution

- 3.7 Council also confirmed that the callable contribution will not exceed 3% of a member's syndicate premium limit in respect of each syndicate for the 2006 year of account.

#### Payment date

- 3.8 The annual New Central Fund contribution for 2006 including those payable by new corporate members is payable in one instalment due on 3 April 2006 with up to 3% remaining callable at the discretion of Council. Syndicates will be given the option to make payments in US dollars. No VAT is levied on these New Central Fund contributions.

## **4. Syndicate loans**

- 4.1 The rate for the 2006 syndicate loans has been maintained at 0.75% of a member's syndicate premium limit in respect of each syndicate of which he is a member for 2006. The terms of the loans, as set out in the appendix to Market Bulletin Y3516 dated 10 March 2005, are unchanged from 2005.

## **5. Financial Services Compensation Scheme**

- 5.1 Lloyd's was brought within the scope of the Financial Services Compensation Scheme ("FSCS") with effect from 1 January 2004. Council has agreed that for 2006 the Central Fund should meet the first £10m of any levy charges, inclusive of any contribution to cover the operational costs of the FSCS, on the Lloyd's market in 2006. This concession, which applies principally to the personal lines underwriters, will be reviewed annually and is subject to the ongoing performance of the personal lines market.

## **6. Entrance / Application fees**

- 6.1 The principal administrative fees payable by new entrants (excluding VAT) are set out in Appendix 1. These charges are unchanged from 2005.

## **7. Interest on overdue amounts**

- 7.1 Interest on overdue accounts is chargeable at 5% above National Westminster Bank plc base lending rate.

Questions regarding this bulletin should be addressed to Philip Jones, Extn 5314 (e-mail [philip.a.jones@lloyds.com](mailto:philip.a.jones@lloyds.com) ).

This bulletin has been sent to all underwriting agents, direct corporate members, market associations and recognised auditors.

Luke Savage  
Director, Finance & Risk Management

## APPENDIX I

**2006 ENTRANCE & APPLICATION FEES**

	<b><u>2005</u></b>	<b><u>2006</u></b>
<b>Members' Entrance fees</b>		
Corporate Member	£25,000	£25,000
New Money NameCo	£4,700	£4,700
New Money NameCo where the shareholders were formerly individual members of Lloyd's	£1,850	£1,850
Successor Corporate Member	£1,850	£1,850
Initial Application (conversion schemes)	£1,850	£1,850
Additional Subscriber NameCos (conversion schemes)	£420	£420
Member not falling into any of the above categories	£4,700	£4,700
Interavailable fee	£150	£150
Change in Controller (corporate member)	£150	£150
Change in Director (corporate member)	£150	£150
<b>Underwriting Agent / Syndicate Application fees</b>		
Change in Controller (underwriting agent)	£5,000	£5,000
New Underwriting Agent	£100,000	£100,000
New Syndicate	£50,000	£50,000
Syndicate Merger / change of managing agent	£5,000	£5,000