

MARKET BULLETIN

REF: Y4315

Title **NEW CENTRAL FUND CONTRIBUTIONS, MEMBERS' SUBSCRIPTIONS AND OTHER CHARGES FOR 2010**

Purpose Notification of contributions, subscriptions and payment dates

Type Scheduled

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Deadline

Related links

1 Summary

1.1 Council has now approved the New Central Fund contribution rates and members' subscriptions and entrance / application fees for 2010.

1.2 The principal central charges are set out below:

	2009	2010
	Charged as % of written premiums	Charged as % of written premiums
New central fund contributions	0.50%	0.50%
Members' subscriptions	0.50%	0.50%
	1.00%	1.00%

- 1.3 New Central Fund contributions in 2010 have been maintained of 0.50%. Subject to conditions remaining favourable we anticipate maintaining contributions at this level for the foreseeable future. We consider that it is preferable to maintain a steady contribution rate if, by doing so, we are able to avoid an increase if we were to experience new insolvencies during the soft part of the cycle.
- 1.4 In order to ensure consistency between members, written premiums, for this purpose, are stated net of brokerage, discounts and commissions but before reinsurance. This is consistent with how Lloyd's capacity (premium limits) is defined.
- 1.5 Initial payment of contributions and subscriptions on account will be based on the written premium forecast within the syndicate business forecasts converted at the rates of exchange used for monitoring purposes and subsequently adjusted to written premiums. For the purposes of charging, written premiums for a year of account will be finally determined by the audited annual syndicate returns.
- 1.6 Please note that premium limits will be deemed to have increased if, exceptionally, written premiums exceed capacity without there having been a pre-emption. This is to ensure that, in the event of overwriting, central charges continue to apply.

2 Members' Subscriptions

- 2.1 Council agreed that the rate for all underwriting members' subscriptions for 2010 should be 0.50% of written premiums. The first instalment at 0.25% is due on 7 January 2010 and the second instalment of 0.25% payable by 1 June 2010. The first instalment shall be calculated by reference to the member's syndicate forecast written premium for 2010. In April 2012 the charge will be adjusted to actual written premiums following receipt of audited annual syndicate returns.
- 2.2 The members' subscription is exempt from VAT.
- 2.3 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 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 2010 year of account is to be 0.50% of a member's written premiums in respect of each syndicate of which he is a member.

New corporate members

- 3.2 New corporate members pay increased contributions at 2% of written premiums for each of their first three years of operations. A new corporate member is one which joins Lloyd's in 2010 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 2008 and 2009 will also pay 2% of written premiums for their second and third years of operation at Lloyd's, respectively.

Qualifying Quota Share (QQS) arrangements

- 3.6 Where syndicates enter into qualifying quota share arrangements outside the Lloyd's market further New Central Fund contributions and members' subscriptions are payable. For 2010 the additional contribution rates for both New Central Fund contributions and members' subscriptions will each be 0.75% if written premiums exceed allocated syndicate capacity, as well as the standard rate. Charges will be made, where applicable, after 12 and 24 months in April 2011 and April 2012. In prior years additional members' subscriptions were not payable.
- 3.7 This means that premiums under QQS arrangements will attract additional charges 1.5% (0.75% Central Fund contributions, 0.75% members' subscriptions) on top of the standard charges of 1% (0.50% Central Fund contributions, 0.50% members' subscriptions) bringing the total to 2.5%.

Callable contribution

- 3.8 From 1 January 2010, the callable layer will be rebased slightly to reflect the mix of USD and STG business written by syndicates. This will help manage the currency exposure of the CF for solvency without adding Profit / Loss or balance sheet volatility to the Society's financial statements.
- 3.9 The callable layer would remain equal to 3% of capacity, but is valued according to the USD / GBP mix of business.
- 3.10 For example, a syndicate with a 2010 capacity of £1bn submits an SBF to underwrite £400m and \$900m (£600m at \$1.50, the PIM rate of exchange). For 2009, the callable layer would be valued at £30m irrespective of the actual USD rate during 2010. Under the revised basis for 2010, the callable layer would be valued at £12m plus \$27m to match the underlying business mix. If the USD rate changes, the

value of the callable layer moves in line proportionately which matches movements in the insurance risk within the Lloyd's Society ICA.

Payment date

- 3.11 The annual New Central Fund contribution for 2010, including that payable by new corporate members, will be collected on 1 April 2010, calculated by reference to the member's syndicate forecast written premiums for 2010. In April 2012 the charge will be adjusted to actual written premiums following receipt of audited annual syndicate returns.
- 3.12 Syndicates will be given the option to make payments in US dollars. No VAT is levied on these New Central Fund contributions.
- 3.13 If a mid-year pre-emption or a new syndicate is approved after 1 April 2010 the due date for the on account payment of the contribution will be the later of the date of approval or invoiced date.

4. Syndicate loans

- 4.1 All syndicate loans were repaid in July 2007. It is not intended to collect any loans for 2010.

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 2010 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 2010. 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 I.

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 Jonathan May, Ext 5314 (e-mail jonathan.may@lloyds.com).

Luke Savage
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	2009	2010
Members' Entrance Fees		
Corporate Member Application	£25,000	£25,000
Shell Corporate Members		
- Stage 1		£10,000
- Stage 2		£15,000
<i>(Corporate Member Application)</i>	£25,000	
Conversion to NameCo / SLP / LLP		
- Base Charge		£2,000
- Per Converting member / LLP member / Limited Partner / New member / Controller		£155
<i>(Successor Corporate Member)</i>	£1,850	
<i>(LLP Conversion)</i>	£2,350	
<i>(Initial Application (Conversion Schemes))</i>	£1,850	
<i>(Additional Subscriber NameCo (Conversion Schemes))</i>	£420	
New Money Nameco / SLP / LLP		
- Base Charge		£5,000
- per Member / Controller / Limited Partner for 5 or more members / Controllers		£155
<i>(New Money LLP)</i>	£5,200	
<i>(New Money NameCo)</i>	£4,700	
New Money vehicle where private individual is / was previously a member of Lloyd's		£2,000
<i>(New Money NameCo where the shareholders were formerly individual members of Lloyd's)</i>	£1,850	
New Member not covered by any other category		
- Base Charge		£5,000
- per connected entity		£155
<i>(Member not falling into any of the above categories)</i>	£4,700	
SLP Conversion to LLP		
- Base Charge		£2,000
- Interavailability Fee		£1,500
- per Member for 5 or more members (excluding designated members)		£155
Recommencement of Underwriting		
- Individual member with Open Participation		£155
- Corporate member with Open Participation with no change of Director / Controller		£155
- Corporate member with change of Control / Structure		
- Base Charge		£5,000
- per Connected Entity		£155

	2009	2010
<i>Interavailable Fee</i>	<i>£150</i>	N/A
Approval of Controller / Director / SLP / LLP Changes		£155
<i>(Change in Controller (Corporate member))</i>	<i>£150</i>	
<i>(Change in Director (Corporate member))</i>	<i>£150</i>	
Underwriting Agent / Syndicate Application fees		
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