

LLOYD'S

Market Bulletin

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UNDERWRITERS ASSOCIATION
13 JUN 1997

One Lime Street London EC3M 7HA

The Secretary
Lloyd's Aviation Underwriter's
Association
Room 662

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FROM: Chief Executive Officer
LOCATION: 86/G12
EXTENSION: 6220
DATE: 12 June 1997
REFERENCE: Y610
SUBJECT: UNSIGNED PREMIUMS FOR 1992 & PRIOR YEARS

ACTION POINTS: For information
DEADLINE: Effective immediately

The continuing presentation of unsigned original premiums relating to business incepting in 1992 and prior years has created some uncertainty in relation to the respective responsibilities of Equitas and the ongoing market for the treatment of such risks and any liabilities attaching to them.

Representatives of the Insurance Services business unit and market practitioners have worked with Equitas to clarify the contractual and operational issues relating to the Equitas Reinsurance Contract and the Completion Accounts and Co-operation Agreement. This work has been supplemented by appropriate legal advice.

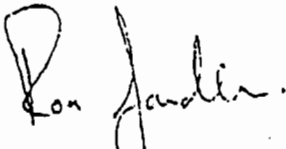
The attached statement from Equitas sets out the conclusions that have been reached. These have been endorsed by the Insurance Services Board, Lloyd's Committee of Underwriters (LOCUS) and the Equitas Market Practices Advisory Panel. The principles set out in the statement will come into effect immediately and any unsigned premiums for 1992 and prior years will in future be signed by LPSO into the 1995 year of account under Inception Date Allocation rules.

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Any underwriting issues relating to this bulletin should be referred to Jonathan Webster, Run-off Underwriting Manager, Equitas (0171-342 2325). Matters concerning LPSO processing will be handled by Rob Myers, Technical Services Manager (extn. 2501) and claims issues by Bob Moore, General Manager, LCO (extn 5660).

This bulletin has been sent to Lloyd's brokers, active underwriters, underwriting agents and recognised auditors.



Ron Sandler

Attachment

Statement of The Position of Equitas in Relation to Unsigned Premium/Premiums Signed into a Later Year of Account

Following advice received from leading counsel, Equitas has concluded that the following principles are applicable to the question of coverage for unsigned/late signed premiums:

- The Equitas Reinsurance Contract covers liabilities arising in relation to "1992 and prior business" which is defined as "all liabilities under contracts of insurance originally allocated to the 1992 year of account...". This must be taken to refer to allocation by the LPSO in accordance with its usual practice. Consequently, the Equitas Reinsurance Contract covers only those liabilities arising under contracts of insurance/reinsurance with an original LPSO signing date in 1992 or an earlier year, and not to liabilities arising under contracts of insurance/reinsurance with an original LPSO signing date after 1992 even if the inception date of the risk in question pre-dates 31/12/92.
- In relation to syndicates which had ceased to underwrite business on or before 31/12/92, the usual market practice was for risks to be allocated to the last open year of account. As this is the usual practice for the allocation of these risks, they are covered by the Equitas reinsurance.
- Although 1992 and prior years' syndicate reinsurances have been assigned to Equitas, the Equitas Reinsurance Contract makes it plain that the assignment is limited to reinsurances responding to liabilities falling within the definition of 1992 and prior business.

Consequently, syndicates with risks allocated to 1993 and post years of account retain the benefit of any recoveries properly due under syndicate reinsurance originally allocated to the 1992 or prior year of account.

This gives rise to the issues of the allocation of recoveries and reinstatement premiums where syndicates receive the benefit of these recoveries. Pursuant to Clause 7 of the Completion Accounts and Co-Operation Agreement ("COCA"), Managing Agents were required to notify Equitas of their practices and procedures in relation to the administration of outwards reinsurance contracts. This was done when Managing Agents submitted their responses to the SRQ1 to Equitas. Clause 7.2(c) of the COCA requires Managing Agents to allocate recoveries and reinstatement premiums in respect of 1992 and prior business in accordance with the notified practices and procedures. The COCA covers the situation where Equitas is making a claim on a syndicate reinsurance properly allocated to 1993 or a later year of account. It would be consistent if the same principles applied to the allocation of recoveries and contribution to reinstatement premiums, when the ongoing market makes recoveries under reinsurances allocated to 1992 or a prior year of account. Accordingly, the practices and procedures outlined by each Managing Agent in the SRQ1 will govern the allocation of recoveries and reinstatement premiums.

- In the event of reinsureds disputing ongoing market claims, Equitas will require the ongoing Lloyd's market to meet the costs incurred as a result of such a dispute and will wish to discuss with the Lloyd's syndicate(s) concerned, who should handle the litigation.

1st May 1997