

# Lloyd's Market Disclosures

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## Heritage Managing Agency Ltd (HMA) Syndicates 1200 and 3245 Appointment of Auditors

Further to the disclosure, contained in our December 2008 *Lloyd's Market Disclosures*, that Heritage Managing Agency (HMA) had applied for dispensation to appoint Ernst & Young LLP as auditors of both HMA and its managed syndicates, HMA has now, following discussions with Members' Agents, proposed certain safeguards for third party capital. The following safeguards are to address certain perceived conflicts of interest resulting from the use of a single firm of auditors for both Syndicates 1200 and 3245 and the Argo Group companies, including the managing agency:

1. HMA will continue to produce an annual policy statement regarding expense allocation, which will be made available for inspection at all reasonable times by capital providers or their representatives;
2. HMA will annually invite the views / representations of capital providers regarding the continuance of a single auditor for all Argo Group companies (including the managing agency) and the managed syndicates;
3. In the event that Argo Group Companies acquire 90% or more of Syndicate 1200's capacity, it will employ, at its own expense, an independent Lloyd's recognised auditor in order to sign off that:
  - the reserving policy and philosophy is consistent between relevant years; and
  - the expense apportionment policy between the syndicate and managing agent of the syndicate is consistent between years.
4. The audit fees will continue to be quoted separately for the syndicate, managing agency and other Argo Group companies.

For the avoidance of doubt this will apply to the reinsurance to close of all years of account which are open at the time 90% ownership is secured.

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***Comment: We welcome Heritage's acceptance of these safeguards which are consistent with those that we have negotiated with other managing agents in similar circumstances.***

Although HMA has discussed separate audit partners sign off on the group and managed syndicates' audits, they do have a separate partner for signing off the audits of all companies outside the UK. In addition, Ernst & Young's procedures involve technical reviews. As a result, they do not believe a separate partner sign off for HMA significantly adds to the safeguards above.

They have confirmed, however, that if conflicts of interest do arise in circumstances other than those set out above, Ernst & Young would appoint a separate audit partner to address these issues.

Whilst HMA is prepared to give the undertaking that these safeguards will be put in place at the appropriate time, they believe that the undertaking should not be open-ended. They therefore propose that they readdress the issue of safeguards when they are required to annually invite the views / representations of capital providers regarding the continuance of a single auditor for the group companies and the managed syndicates.

### **Cathedral Underwriting Ltd Syndicate 2010 Quota Share Reinsurance with Syndicate 3010**

Cathedral Underwriting Ltd (Cathedral) has advised that it is their intention that Syndicate 3010 should offer quota share reinsurance to Syndicate 2010. Syndicate 2010 has three existing quota share arrangements which are under consideration:

- i) a 20% Quota Share of the non-marine treaty UK account;
- ii) a 17.5% Quota Share of the non-marine treaty North East US account; and
- iii) a 29.4% Quota Share on Satec.

The 2010 Business Plan assumes these reinsurances will be purchased, so the issue is whether Syndicate 3010 is able to be the carrier of the relevant exposures. Cathedral has confirmed that they do not intend to effect any of these quota share arrangements with 3010 unless all members' agents and Lloyd's Franchise Performance Division (FPD) are in agreement that they may do so. In the event this is not the case, they will place them with unrelated carriers, as currently is the case.

In respect of i), Cathedral does not consider that Syndicate 3010 can offer any quota share reinsurance to Syndicate 2010, as Syndicate 3010's existing Realistic Disaster Scenario (RDS) exposures in the relevant areas would unduly clash. This quota share will therefore continue to be placed in 2009 with an unrelated carrier. In respect of ii), they consider that Syndicate 3010 can offer cover. Although Cathedral would ask that we give consideration on the basis it is entirely written by Syndicate 3010, in reality 3010 is most likely to offer about 5 percentage points of the existing 17.5% quota share on this account (which may become 5 percentage points of a 22.5% quota share on this area of the account).

The balance would be placed with an unrelated carrier or carriers. In respect of iii), they consider that Syndicate 3010 can fully quota share Syndicate 2010.

Following discussions between Cathedral and members' agents, the current position is that:

1. since it is the managing agency's discretion to determine the appropriate reinsurance arrangements for its managed syndicate, the onus is on the Board of Cathedral to satisfy itself that effecting quota share reinsurance on any part of the Syndicate 2010 account is appropriate and in the best interests of the Members on that syndicate;
2. assuming the decision to effect quota share reinsurance has been made on the basis described above, members' agents have no objection in principle to that quota share reinsurance being placed with Syndicate 3010, provided that it is done on terms no less favourable to Syndicate 2010 than an unrelated reinsurer of similar security might reasonably be expected to offer, and in particular should a more competitive quotation be obtained from a third party carrier of similar security, then that third party carrier should be utilised;
3. members' agents would have no objection to the annual quota share arrangements being renewed without further consultation, provided annually the Board of Cathedral satisfies itself of the continued appropriateness of the reinsurance in question and the terms on which it is written (i.e. 1. and 2. above need to be satisfied before renewal); and
4. appropriate disclosure should be made by way of the syndicate accounts of any 'related' party reinsurance.

***Comment: We have confirmed to Cathedral that we have no objection to them concluding the two quota share reinsurances as detailed on the basis proposed.***

In respect of 1. to 4. above, Cathedral has confirmed that these criteria do / will apply to any quota share reinsurance they effect between Syndicates 2010 and 3010.

They acknowledge that our agreement to the specific proposals in this disclosure creates no automatic precedent for Syndicate 3010 to write quota shares of further parts of Syndicate 2010's book (or directly write the types of underlying business which are the subject matter of 'agreed' quota share arrangements). Should Cathedral propose to place further quota shares on the 2010 account with Syndicate 3010, then any such proposal will be discussed first with members' agents and the FPD). Syndicate 3010 will be free to choose not to renew any quota share involvement or reduce participation at any renewal.

## Argenta MAPAs for the 2009 Account

This final update is provided further to the information disclosed in our *Pre-Auction 3 2008 and December 2008 Lloyd's Market Disclosures*.

For the 2009 year of account, Argenta Private Capital Limited (**APCL**) operates two MAPAs – MAPA 7006 and MAPA 7049. Members of MAPAs 7006 and 7049 will be aware that APCL did not allow increases on these MAPAs for the 2008 account. Consequently MAPA 7007 was formed for 2008 to allow MAPA purchases. However, for 2009, limited increases were allowed on MAPAs 7006 and 7049 and MAPA 7007 ceased at 31<sup>st</sup> December 2008.

Changes to the portfolios of MAPAs 7006 and 7049 resulted both from the MAPAs' activity in the auctions and the de-emptions (and one pre-emption) on the underlying MAPA syndicates, as well as the cessation of Special Purpose Syndicate (SPS) 6102. Prior to Auction 1, these underlying de-emptions resulted in overall MAPA de-emptions of 15.06% and 14.96% for MAPAs 7006 and 7049 respectively and members' MAPA participations were reduced accordingly. However, following hurricanes Gustav and Ike, along with the momentous collapse of the AIG, many syndicates revisited their 2009 business plans. The result was, in most cases, either a reduction in syndicates' proposed de-emptions or a complete reversal of the de-emption to a pre-emption. Whilst, after this, the overall position for each MAPA was still an overall de-emption, these were less than those originally applied to each MAPA and the MAPA Manager was able to offer late pre-emptions on MAPAs 7006 and 7049 of 7.52% and 6.67% respectively.

The 2008 auctions were characterised by broadly stable pricing compared with 2007. Although some prices were slightly up, others were down. The effect on the MAPAs was that the overall values would have reduced without any change to the MAPA portfolios. In the event, however, the values of the final MAPA portfolios represent a small increase over the previous year. The value of the 2009 portfolio of MAPA 7006 increased to 25.07p (based on 2008 average auction prices), compared with 24.49p for the 2008 portfolio (based on 2007 average auction prices). MAPA 7049 increased to 23.20p from 22.88p.

The overall final 2009 capacity, number of syndicates and members for each of the MAPAs are as follows:

MAPA	Capacity	Number of Syndicates	Number of Members	Average MAPA Member's Share
<b>7006</b>	£41,687,273	13	89	£468,396
<b>7049</b>	£79,118,943	13	106*	£746,405

\* Group SLPs are treated as a single member.

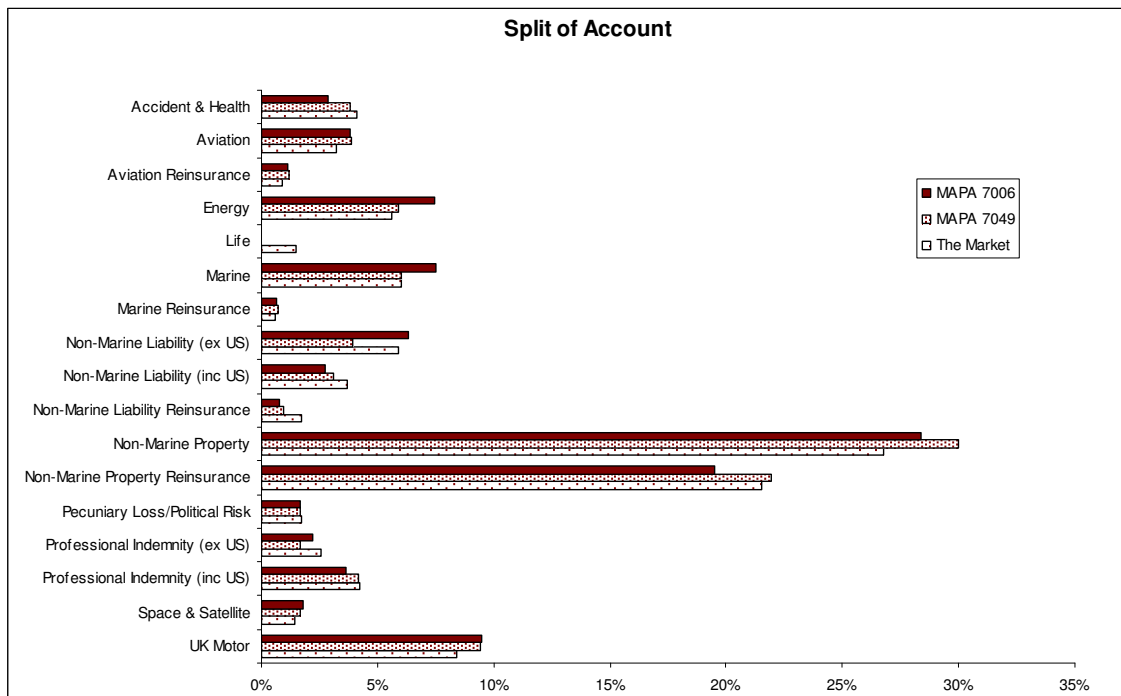
The final portfolios for each MAPA, together with their comparative RDS exposures and business splits, are shown on the following pages. The Agency's policy on capacity allocation, auction strategy and fee structure remains unchanged.

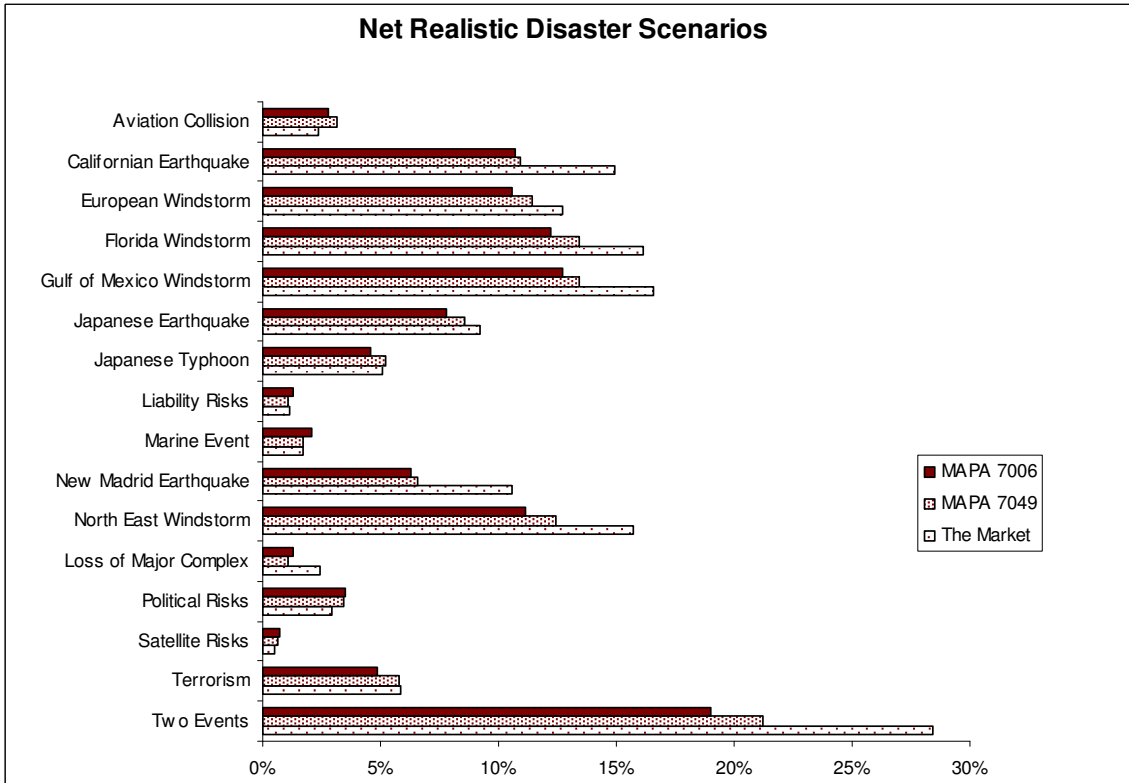
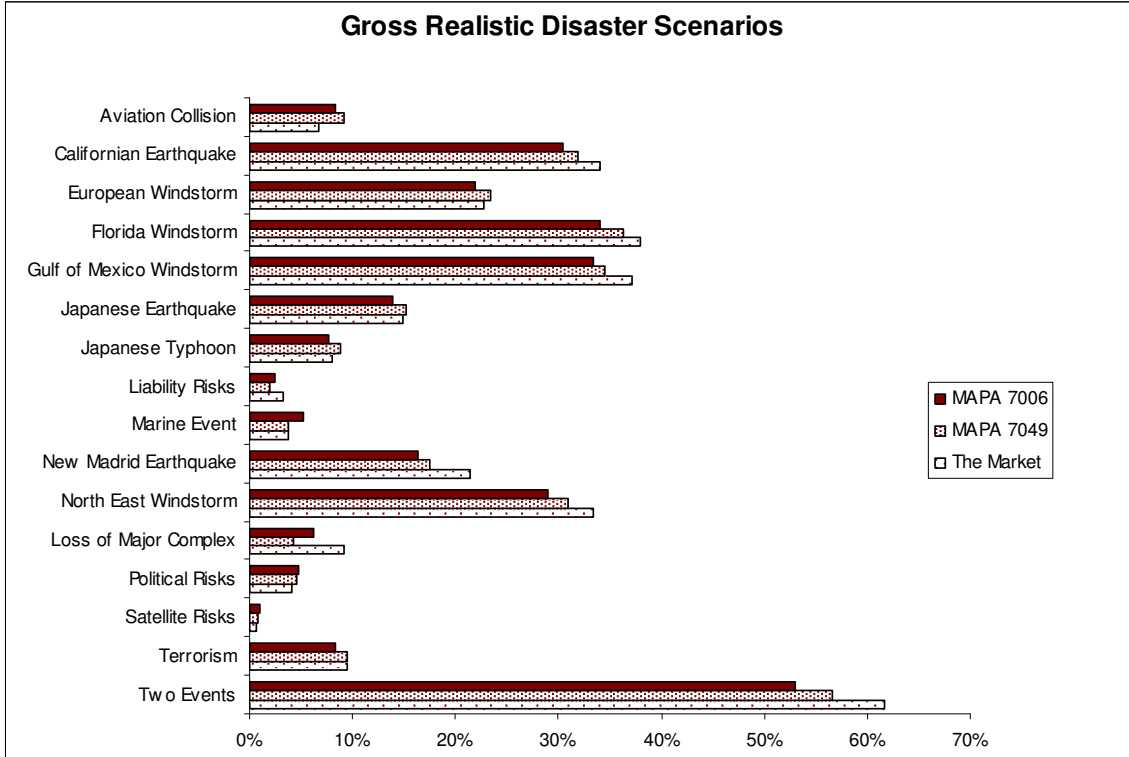
Part II Syndicate Lists, detailing the proportionate allocation of MAPA capacity to each participant, will be sent to all MAPA members in early February.

### MAPA Portfolios for 2009

Synd	Managing Agent	Underwriter	MAPA 7006 %	MAPA 7049 %
33	Hiscox	Watson	11.40	11.97
218	Equity	Josiah	10.65	10.47
318	Beaufort	Pritchard	5.76	6.92
386	QBE	Constable	7.82	4.56
510	RJ Kiln	“Kiln”	13.34	13.02
557	RJ Kiln	Huckstepp	5.23	5.80
570	Atrium	Wilkins	3.59	4.84
609	Atrium	Harries	8.14	6.99
623	Beazley	Maidment	5.86	6.84
807	RJ Kiln	Tunncliffe	-	4.23
958	Omega	Robinson	8.77	8.64
2010	Cathedral	Hamblin	8.19	8.46
2121	Argenta	Hunt	5.85	-
2791	Managing Agency Partners	Trubshaw	5.40	7.26
			100.00	100.00

Note: A detailed description of the underwriting business of each syndicate, along with the APCL rating attributed to each, is included within the APCL Syndicate Profiles Book, published in August 2008. Syndicate 2121 is managed by Argenta Syndicate Management Limited, a wholly-owned subsidiary of Argenta Holdings plc, which is also the parent company of APCL.





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