

Lloyd's Market Disclosures

May 2009

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Managing Agent's Agreements - Amendments to Charging Structures, Minority Buy-out Applications and Syndicate Mergers

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If a Managing Agent wishes to amend its fee or profit commission structure, effect a minority buy-out, or merge syndicates for the following year, it is required to seek permission from Lloyd's to give notice to terminate the Managing Agent's Agreement. The application must be made by 30th April in the year in which notice is proposed to be given.

We have received a number of such notifications in respect of Managing Agent's fees and profit commissions, which are listed in this *Lloyd's Market Disclosures*. Few details are given in respect of changes to charging structures at this stage because Managing Agents are required to enter into discussions with representatives of capital providers prior to making a formal application. To reflect the timetable for the syndicate business planning process, the deadline for making the formal application is 19th June, unless otherwise agreed by Lloyd's. We have already started the discussion process and, before determining our view on any changes, we will wish to be satisfied that there is a commercial and business case for any changes to the charging structure. Likewise, before approving any application, Lloyd's must be satisfied that the requirements of the Agency Agreements Byelaw (**the Byelaw**) have been met. Full details of the requirements which govern the form and content of applications can be found at the following link to Market Bulletin:

<http://www.lloyds.com/NR/rdonlyres/70C609A8-9F40-4594-B9CD-A2AFE5E71DE1/0/Y4247.pdf>

On past experience, Managing Agents are often required to give further explanation or information. Previously, following discussions with ourselves and further enquiries by Lloyd's, some of the original applications were withdrawn or modified.

Whilst members have the right to make representations to Lloyd's on these initial applications, without full details of the proposals there are few grounds upon which to do so. If and when formal applications are made by the 19th June deadline, we will write to you again with our recommendation and you will have a further opportunity to make a representation at that time. Whilst we do not intend to raise any objections, should you wish to comment at this stage, please do so in writing and send it via us by the date given in each disclosure.

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Comment: This is the same application that has been made for the last two years and should be viewed as precautionary, rather than a definitive indication of an intention to make a capacity offer.

Objections by Monday 18th May 2009.

QBE Underwriting Limited (QUL) Syndicate 386 Agency Agreement Termination

In accordance with Lloyd's Market Bulletin Y4146 and the advance consent regime at Lloyd's, QUL has written to Lloyd's to seek consent under paragraph 11B of the Byelaw and Schedule 2, paragraph 2 of the Major Syndicates Transactions Byelaw (No. 18 of 1997), to apply for conditional consent to terminate the standard Managing Agent's Agreement between QUL and the members of Syndicate 386, and to exercise the right of a minority buy-out of Syndicate 386, should the appropriate circumstances arise.

Beazley Furlonge Limited (Beazley) Syndicate 623 Minority Buy-out Application

Beazley has applied, in accordance with paragraph 2 of Schedule 2 to the Major Syndicate Transactions Byelaw (No. 18 of 1997), to effect a minority buyout of capacity held by the members of Syndicate 623. This application has been made jointly with Beazley Underwriting Limited, a connected company of Beazley, which it is anticipated will be the entity which makes the relevant capacity offer.

In accordance with paragraph 11B of the Byelaw, Beazley has applied for consent (subject to completion of the minority buy-out) to terminate the Managing Agent's Agreements in force between Beazley and the members of Syndicate 623.

Reasons for, and details of, the capacity offer and minority buyout

Beazley was required to make a mandatory offer during 2006, as companies within the Beazley Group controlled 78% of the combined capacity of Syndicates 623/2623. For the 2009 year of account, Beazley now controls 81% of the combined capacity. In the event that additional capacity is acquired by Beazley (or Beazley Underwriting Limited) in the 2009 auctions so that the capacity owned by the Beazley Group exceeds 90% of the combined capacity of Syndicates 623/2623, Beazley will wish to apply to the Capacity Transfer Panel to buy out the remaining members of Syndicate 623.

Comment: Beazley made the same precautionary application for the last couple of years. It should not necessarily therefore be interpreted as an intention to make a capacity offer.

Objections by Wednesday 20th May 2009.

Comment: A similar application has been made in respect of these syndicates for the last two years but no proposals were forthcoming.

Objections by Tuesday 26th May 2009.

Comment: We have entered into discussions with SCU. However, we are minded not to object as the introduction of a profit commission element more closely aligns the interests of the managing agent with those of our members.

Objections by Monday 18th May 2009.

Max at Lloyd's Ltd (Max) Syndicates 2525 and 2526 Agency Agreement Termination

In accordance with the major Syndicate Transactions Byelaw and paragraph 11B of the Byelaw, Max has sought Lloyd's permission to give notice to terminate the standard Managing Agent's Agreement (**the Agreement**) to all the capital providers on Syndicates 1400, 2525 and 2526.

This permission has been sought as the managing agent is in the preliminary stages of formulating syndicate business plans for the 2010 year of account and wishes the flexibility to consider all possible options in relation to fees, profit commissions and syndicate mergers or minority buy-outs without being constrained by the terms of the Agreement. Any full applications that are sought will be made within the timescales set out in Market Bulletin Y4247 and would contain detailed rationales for the proposed transactions.

Sportscover Underwriting Limited (SCU) Syndicate 3334 Change in Fee and Profit Commission

SCU has given notice of termination of the Managing Agent's Agreement in order to facilitate a change to the fee structure in respect of Syndicate 3334 for the 2010 year of account.

The following changes to the fee structure are proposed:

- Reduction of the managing agent's fee from 1.50% to 0.75% of stamp capacity; and
- Introduction of a 15% profit commission.

HCC Underwriting Agency Ltd (HCCUA) Syndicate 4040 Agency Agreement Termination

HCCUA has written to Lloyd's further to Market Bulletin Y4261, entitled "2009/10 Capital Timetable", and in accordance with Paragraph 11B of the Agency Agreements Byelaw of 1988 and Paragraph 2 in Schedule 2 of the Major Syndicate Transactions Byelaw of 1997.

HCC, through its corporate vehicle NameCo (No 808) Limited, presently holds 87% of the capacity of Syndicate 4040 (£47,146,976 of £53,927,893). HCCUA is currently weighing up the relative merits of a minority buy-out of the remaining non-aligned capital on Syndicate 4040, should sufficient additional capacity be acquired in the 2009 auctions.

Comment: This notice should be viewed as precautionary at this stage, rather than an indication of a definite intention to effect a minority buy-out.

Objections by Monday 11th May 2009.

Comment: We will be in discussion with NSL to ensure that the safeguards agreed previously for similar situations are put in place here. Assuming this to be the case, we have no objection to NSL's proposals. However, should you wish to object, please let us know in writing by no later than Friday 29th May 2009.

HCCUA is cognisant of the 30th April deadline which represents the last date for managing agents to submit applications to Lloyd's to terminate the standard Managing Agent's Agreement and provide notice to members.

Consequently, in accordance with the governance surrounding capacity markets, HCCUA has made an application under the above byelaws requesting the permission of the Council for notice to terminate the Syndicate 4040 standard Managing Agent's Agreement.

It is envisaged that further disclosures will be made once a decision has been taken on whether to proceed with a minority buy-out.

Other Disclosures

Novae Syndicates Limited (NSL) Syndicates 1007, 1241 and 2007 Appointment of Agency/Syndicate Auditors

Littlejohn LLP (**Littlejohn**) currently act as auditors of NSL, and KPMG Audit Plc (**KPMG**) perform the audit of Syndicates 1007, 1241 and 2007.

NSL has written to advise that it wishes to rationalise its audit arrangements and deal with a single audit firm for both managing agency and syndicate audits, commencing with the financial statements for the year ending 31 December 2009.

Lloyd's current requirements, under the Audit Arrangements Byelaw, prohibit syndicate auditors also acting as agency auditors without the prior consent of Lloyd's. Lloyd's will only consider consent once the views of all relevant members have been canvassed. NSL are, therefore, seeking members' non-objection to the appointment of KPMG as NSL's auditors.

In considering such a proposal, the NSL board is mindful of its duty to ensure the ongoing fair treatment of all syndicate members and that any potential conflicts of interest that may arise between members and NSL, especially in relation to the allocation of expenses, are properly managed

The following table shows that, for those members remaining on Syndicate 1007 and 1241 for the 2002 year of account, NSL's basis of remuneration was on a flat fee methodology, and so there is no further scope to allocate NSL costs onto those members. For those members who participated on the 2007 and 2008 years of account on Syndicate 2007, who in aggregate form a small proportion of total syndicate capacity, there would be almost no financial benefit to the Novae Group were an undue proportion of NSL's costs to be allocated to these years of account. Notwithstanding this fact, the allocation of syndicate expenses will continue to be subject to regular scrutiny by Novae's Group Finance Committee. This committee, which includes representation from NSL's

non-executive directors, is responsible for ensuring the proper allocation of all such costs across all entities within the Novae Group, including expense allocations between NSL and its managed syndicates. The basis of these allocations, which were previously reviewed by KPMG as part of its audit of the Novae Group and by Littlejohn in respect of NSL, will continue to be reviewed by KPMG as part of the proposed audit of NSL.

Syndicate	Year of Account	Proportion of 3 rd Party Capacity	Basis of Remuneration
1007	2002	45%	Flat Fee (excluding Lloyd's charges)
1241	2002	<1%	Flat Fee (excluding Lloyd's charges)
2007	2007	<1%*	0.75% of capacity
2007	2008	<1%*	0.75% of capacity

* excludes capacity provided by Scor Underwriting Limited.

NSL has discussed this proposal with Littlejohn who will resign as NSL's auditors should Lloyd's consent to appoint KPMG be forthcoming.

NSL understands that there are also precedents elsewhere in the market where agents managing syndicates with third party members have received agreement to the appointment of audit firms as both agency and syndicate auditors.

RJ Kiln & Co. Ltd. (Kiln) Syndicate 510 Reinsurance with Syndicate 1880

In order to take advantage of the opportunities that currently exist in the reinsurance market, Kiln intend to write additional reinsurance business within its 100% corporate Syndicate (**1880**). This business will be written as a quota share of Syndicate 510 (**510**) and will be in addition to business written by 510. The sharing mechanism for the Reinsurance Account will essentially mirror the arrangement that 510 has with Syndicate 557 (**557**). That is, 510 will write a gross line, inclusive of both 510's and 1880's shares, which will then be reinsured into those syndicates by means of a Quota Share contract.

510 (including the share written for 557) will attempt to double its gross line in peak catastrophe areas such as the US and UK. The business plan, however, acknowledges that 510 may not be successful in achieving this increase in every case (for the US, for example, a 60% success rate has been assumed).

When such a Quota Share arrangement was put in place for 557, it was possible to apply a fixed percentage of 510's gross line for each cession to 557 because 557 had an existing book of business; in the case of 1880, where a new book of business is being taken on, the sharing mechanism described below is designed specifically to ensure that failure of 510 to double its gross line will not result in its existing Reinsurance Account being diluted or otherwise impaired.

Comment: It should be noted that under this arrangement no business is removed from Syndicate 510. The 'net' 2009 business plan remains the same. Were Syndicate 510 to retain any of the additional business, there would be an increased capital requirement. The ability to write a larger gross line should create further opportunities for Syndicate 510 in the reinsurance market. The arrangement is subject to annual review by the board of R J Kiln, which will include consideration of its fiduciary obligations to its principals, in particular whether the arrangement remains appropriate and in the interests of participants on Syndicate 510.

1. On each relevant renewal, 510 will aim to double its gross line, with 50% ceded to 1880. The amount of the cession will be indicated by having two references appearing on each slip against 510's total gross line, with the percentage split between the two references written onto the slip.
2. Where the broker or client indicates at the time of writing that only a smaller increase in line will be permitted, the percentage split will be adjusted accordingly to ensure that 510 maintains its expiring signed line for the coming year. So, when an expiring 10% line can only be increased to 15%, the percentage split will be shown as 66.67% / 33.33% in favour of 510.
3. Where the exact gross signed line allocated to 510 is only fixed at a later date (but prior to inception), the provisional 50% / 50% split indicated on the slip will be adjusted at that point. If no increase is achieved, then no share will be allocated to 1880.
4. In the normal course of writing a Reinsurance Account, 510 would wish to adjust its line upwards or downwards on individual programmes or contracts. Where 510 wishes to adjust its retained line downwards, then 510 will aim to offer double the reduced retained line. So, when 510 wishes to reduce a 10% expiring line to 8%, it will aim to offer a 16% gross line. Thereafter, points 2 – 3 above will apply in the same way.
5. Similarly, where 510 wishes to adjust its retained line upwards, then 510 will aim to offer double the increased retained line. So, when 510 wishes to increase a 5% expiring line to 10%, it will aim to offer a 20% gross line. Where such an increase cannot be obtained, the final allocation of lines between 510 and 1880 will work as follows: the first 5% part of the gross written line will remain with 510, then any increase will be split 50% / 50% up to the point where 510 achieves its desired 10% retained line (i.e. up to 15% in this example) and only thereafter will the balance of any increase go to 1880.
6. 1880 will only participate where 510 retains a share (except in the most exceptional circumstances where 510 is constrained by factors such as capital and / or exposure limitations).
7. Any new risk written will be split 50% / 50% (unless 510's participation is constrained as in point 6).

These points will apply as general principles; exceptions may occur in individual cases if, in the opinion of the Active Underwriter, this is necessary to maintain equity for the existing 510 members.

Argenta Syndicate Management Limited (ASML) Syndicate 2121 Argenta Underwriting Asia PTE (AUA)

ASML has advised that they have recently established AUA, a Singapore based service company, to operate under the Lloyd's Asia Scheme. The primary purpose of setting up AUA was to provide Syndicate 2121 with a platform to attract new, good quality business that would not normally be seen in London.

ASML believe that AUA will provide Syndicate 2121 with a good opportunity to grow its business in a developing market. Scott Sykes, the Cargo and Specie underwriter for Syndicate 2121, has relocated to Singapore as the syndicate's principal underwriter in the region. ASML believes that a presence in Singapore will enable the syndicate to diversify and expand its underwriting portfolio, both geographically and in terms of the classes of business underwritten. At the outset, forecast premium income is likely to be less than £5 million and will only be allowed to grow if it remains in the best interests of capital providers.

Comment: The formation of AUA in Singapore represents an important step in developing new business and securing distribution channels for Syndicate 2121.

In addition, AUA has assumed, by way of a binding authority agreement, responsibility for underwriting business on behalf of Syndicate 1965. This syndicate, which is also managed by ASML, was established in late 2004 with Richard Yeo as the Active Underwriter to underwrite marine and energy related risks emanating from the Asia-Pacific region. More recently the syndicate has introduced a small treaty account focusing on property and casualty reinsurance to be written alongside the direct marine and energy classes.

Consent has been granted under the Multiple Syndicates Byelaw, for a period of six months, for Paul Hunt to act concurrently as the Active Underwriter for both Syndicates 2121 and 1965. Paul replaces Richard Yeo who has resigned.

Lloyd's has also granted permission for those marine and energy underwriters currently authorised to underwrite such business on behalf of Syndicate 2121, to also underwrite marine and energy business for the account of Syndicate 1965. The underwriters' authority to bind risks in respect of Syndicate 1965 in this way, however, is restricted to the renewal of risks previously underwritten by Syndicate 1965 and, in relation to new contracts, only to business which Syndicate 2121 cannot underwrite by reason of it exceeding its maximum permitted line size.

The capital providers of Syndicate 1965 are currently conducting a strategic review of the syndicate. It is possible that it might, at some

stage, be in the interests of both syndicates to effect a merger. Such a transaction, however, would be subject to approval by both sets of capital providers and could not, in any event, take place prior to the inception of the 2010 year of account. Should a transaction of this nature become a possibility, ASML will contact us again.

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