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To: All Broker Contacts
All Company Contacts
Lloyd's Managing Agents
Software Providers

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Enquiries to: Xchanging Enquire Team, Chatham
Tel: +44 (0)1634 887899 Email: enquire@xchanging.com

RE: RESERVE ACCOUNT ENTRIES – CHANGE IN PROCESS

Following a review of the processing of premium reserves through XIS and discussions with the market, the following changes are effective immediately:

Company Market Procedure

All premium reserves must be set up on a deferred basis but the broker must enter either D or R in box 15 of the LPAN.

Where a broker enters D, the instalment will be locked into settlement and will be automatically debited and paid on the deferred instalment date shown in box 30 of the LPAN. No broker intervention is required for the instalment to be paid.

When a broker enters R, the premium will not automatically move on the instalment date but will be advised to the market as a reserve. When this instalment amount has been paid to the broker, they will be required to present a separate LPAN in a new work package for the reserve amount to be paid as cash.

Where the broker elects not to complete box 15 with a D or R, XIS will process the entry as a reserve instalment entry.

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Lloyd's Market Procedure

Historically, all Lloyd's aviation premium reserves have been required to be set up as deferred settlement entries when processed through XIS. This has meant that brokers have had to use different methods of processing an aviation premium reserve entry compared to marine and non-marine premium reserve entries.

It has now been agreed that there is no longer a need for aviation premium reserves to be set up on a deferred settlement basis, unless the broker wishes to settle in this way.

With immediate effect, brokers now have two options when processing Lloyd's premium reserves through XIS for all business classes:

1. To set a reserve up as a deferred instalment - this will mean the instalment will be locked into settlement and will be automatically debited and paid on the deferred instalment date shown in box 30 of the LPAN. No broker intervention is required for the instalment to be paid.

2. To set a reserve up as a separate payment using two LPANs and processed using one of the following three methods:
   - Method A - the Reserve LPAN on a nett basis with all the brokerage deducted from the cash LPAN
   - Method B - the brokerage is deducted proportionately from both the reserve and cash LPANs
   - Method C - the brokerage due in respect of the cash amount only is deducted from the cash LPAN, the reserve LPAN remains as a nett figure and the brokerage due on the reserve is deducted when the reserve amount is paid as cash.

The example of a reserve premium is shown below, with the table illustrating the amounts that would be shown on the cash and reserve LPANs for each of the above methods.

Premium	GBP1,500.00
Reserve	40%
Brokerage	15%
Lloyd's Line	50%

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	Cash LPAN	Reserve LPAN
Method A		
Premium	GBP900.00	GBP600.00
Brokerage (15% of GBP1500)	GBP225.00	0
Nett Premium	GBP675.00	GBP600.00
Lloyd's Proportion	GBP337.50	GBP300.00
Method B		
Premium	GBP900.00	GBP600.00
Brokerage (15% of GBP1500)	GBP135.00	GBP90.00
Nett Premium	GBP765.00	GBP510.00
Lloyd's Proportion	GBP382.50	GBP255.00
Method C		
Premium	GBP900.00	GBP600.00
Brokerage (15% of GBP1500)	GBP135.00	0*
Nett Premium	GBP765.00	GBP600.00
Lloyd's Proportion	GBP382.50	GBP300.00

*The brokerage for the reserve would be deducted on the reserve AP LPAN when signed

When using any of the methods above, when the reserve amount has been paid to the broker they will be required to present two separate LPANs in a new work package. One RP LPAN is required to release the premium from the reserve account and will be the exact amount set up under the reserve entry. The other LPAN will be an AP to pay the reserve amount as cash. If there is a rate of exchange difference this would be reflected on the AP LPAN.

The following should also be noted when processing premium reserve entries:

- Reserve amounts cannot be shown on the LPAN in boxes 19, 20 or 21 as a deduction from the premium
- Reserve amounts and any associated signing are not able to be processed as a delinked entry unless the deferred method described above is used, as per the Delinking Guide March 2010 which can be found at the following link:

http://www.londonmarketgroup.co.uk/Documents/RD_Delinking/Delinking%20User%20Guide%20March%202010.pdf

ANTHONY CROYDON
HEAD OF SERVICE
XCHANGING INSURANCE SECTOR