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**Comment: The announced auction offer is being made only in auction 1.**

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### Canopus Managing Agents Ltd (CMA) Syndicate 260 Various

Flectat Limited (“**Flectat**”), a wholly-owned subsidiary of Canopus Group Limited and an associate of CMA is to make an announced auction offer in auction 1 to acquire all of the prospective participations (other than those to which it is already entitled) on Syndicate 260 (the “**Syndicate**”) for the 2012 and each subsequent year of account at a price of 0.1 p per £1 of capacity.

The proposed announced auction offer will fulfil the obligation under the Mandatory Offer Byelaw (No. 5 of 1999) for a mandatory offer to be made to all other persons who, at the time the offer is made, are entitled to make a participation nomination and/or second nomination in respect of the Syndicate.

Details of the proposed announced auction offer are set out in a circular (the “**Circular**”) which was issued, in accordance with the Capacity Offer Rules, on 12 August 2011.

#### Change of Active Underwriter and associated matters

It was announced on 22 June 2011 that Colin Hart, the chief executive of KGM Motor Insurance and the Active Underwriter of the Syndicate, would be leaving Canopus and that (subject to Lloyd's approval) Neil Manvell would become the Syndicate's Active Underwriter. Lloyd's approval to the appointment of Mr Manvell as the Syndicate's Active Underwriter was given on 29 June 2011 and his appointment took effect on that date.

At the same time there was also announced (i) the creation within Canopus of a new 'UK Retail Insurance' business division (under which administrative and strategic management umbrella

the business of the Syndicate will in future be conducted, alongside various other lines of UK personal lines and commercial business underwritten by Syndicate 4444, the other syndicate managed by the Managing Agent) and (ii) the appointment of Tim Rolfe as Chief Executive of the new division, reporting to Jim Giordano, Group Chief Underwriting Officer at Canopus.

#### **Change of Claims Management**

The management of claims is being reorganised under the leadership of Michael East, the Head of Operations (including claims) of CMA. As part of this reorganisation the current position of the Syndicate's Claims 'Director' is redundant and the responsibilities of this role have been absorbed by Mr East.

#### **Syndicate allocated capacity**

On 21 June 2011, the Managing Agent notified Lloyd's of a proposed decrease in the syndicate allocated capacity of the Syndicate for the 2012 year of account to £55,000,000, representing a proposed de-emption of 21.264% (not 21.218% as stated in the Circular). The Managing Agent now proposes to maintain the syndicate allocated capacity of the Syndicate for the 2012 year of account at its current (2011 year of account) level of £69,853,687 but has indicated that it may, in view of the planned level of capacity utilisation, waive at its discretion its right to collect part of the Managing Agent's fee of 1.0% of Syndicate capacity. The Managing Agent will announce to Lloyd's, by 31 August 2011, if any discretionary reduction of the Managing Agent's fee will be made. A copy of the announcement will be available under the Capacity Auctions, Disclosure section of the Lloyd's website.

*Comment: The proposed de-emption for 2012 has been withdrawn.*

#### **ICA movement**

Lloyd's has confirmed that the Syndicate ICA for the 2012 year of account will be £28.4m, which represents 63.79% of anticipated gross premiums written. This compares with £27.7m for 2011, which represented 55.37% of planned gross premiums written.

The consequences of this increase will vary from one member to another depending on the allocation of their overall premium limit.

#### **Investment managers of the Syndicate**

On 15 July 2011, the Managing Agent changed the investment managers of the Syndicate. Approximately 80% of investment funds are invested in UK bonds (both government and corporate), managed by Schroders Investment Management



Limited. Approximately 20% of investment funds are invested in the Oceano Sterling Absolute Return Fund, which invests in cash, bonds and equities with an aim of making a return of LIBOR plus 200 basis points. The fund is managed by Banque Syz & Co SA.

**Result at forty two months (30 June 2011) for the 2008 run-off year**

The Managing Agent's calculation of the result of the Syndicate for the 2008 run-off year at forty two months (30 June 2011) is a loss of £21.333 million (per the unaudited QMA, submitted to Lloyd's on 11 August 2011).

This equates to a loss of 39.82% when expressed as a percentage of syndicate allocated capacity for an illustrative share of £10,000 for the 2008 year of account after the deduction of illustrative personal expenses (adjusted, when calculated, to reflect the normal amount of personal expenses incurred by a bespoke member writing the illustrative share, disregarding any minimum charge applicable or the impact of deficit clauses) comprising Lloyd's charges (including Central Fund contributions) and managing agent's fees but excluding members' agents charges.

**Forecasts of 2009 and 2010 open year results**

The Managing Agent currently forecasts (based upon the unaudited figures reported in the Syndicate's quarterly monitoring return as at 30 June 2011 projected to 31 December 2011 and 31 December 2012 respectively) that the results for the 2009 and 2010 years of account of the Syndicate, after deduction of illustrative standard personal expenses (comprising Lloyd's charges, managing agent's fee and estimated profit commission) and before deduction of members' agents fees, for an illustrative £10,000 share and expressed as a percentage of syndicate allocated capacity, will fall within the ranges set out in the table below:

**Year of Account (forecast loss as a percentage of syndicate allocated capacity)**

<b>2009</b>	<b>2010</b>
(30.63)% (best case expectation)	(14.86)% (best case expectation)
(35.63)% (worst case expectation)	(19.86)% (worst case expectation)

***Comment: The result for the open 2008 year of account has deteriorated slightly from a loss of 38.58% of capacity at 31 December 2010 to 39.82% at 30 June 2011.***

***Comment: Forecast result for 2009 unchanged. 2010 slightly improved.***

***Comment: 2011 projected loss now 7.0% of capacity.***

***Comment: 2012 business plan projects a loss of 4.3% of capacity, but a revised business forecast will be issued on 9 September.***

#### **2011 year of account**

The first forecast of the result for the 2011 year of account is not due until 2012. However, at the presentation to members of the Syndicate on 18 July 2011, the Managing Agent disclosed that the first quarter projection was a loss of £3.2m for the 2011 year of account, representing a loss of 4.5% of the Syndicate's allocated capacity. The projected ultimate loss was further increased to £4.9m at the end of the second quarter, amounting to 7.0% of the Syndicate's allocated capacity. This change reflected actual investment experience for the first six months and a more cautious future outlook, increased expenses due to redundancy costs, and a more prudential view of reserves. Significant uncertainty remains regarding the ultimate development of the year of account. Earned premium at 30 June 2011 is only 10% of the ultimate projection, and there may be a shortfall against gross premium projections if sufficient suitable business cannot be sourced.

#### **2012 year of account syndicate business forecast**

On 8 July 2011 the Managing Agent submitted to Lloyd's an initial syndicate business forecast for the 2012 year of account with a forecast ultimate loss of £3.0m, representing 5.5% of the planned allocated capacity of £55,000,000 (reflecting the proposed de-emption) and 4.3% of the revised planned allocated capacity of £69,853,687 (reflecting the maintained level). The SBF has not been approved by Lloyd's and will be superseded by a revised 2012 business forecast which is due on 9 September 2011.

#### **Atrium Underwriters Limited Syndicates 570 & 609 Syndicate Merger**

On 28 April, Atrium Underwriters Limited wrote to the Council of Lloyd's providing written notice of their intention to merge Syndicate 570 and Syndicate 609 with effect from the commencement of the 2012 year of account. Copies of the notification and application were sent to Members' Agents and Direct Capital, and as required, a ballot of members of both syndicates was conducted.

The ballot resulted in excess of 99% of the votes (by capacity) being recorded in support of the merger for each syndicate. There were no representations received by Lloyd's. The Capacity Transfer Panel reviewed the application on 19 July and granted consent to Atrium Underwriters Limited under



the Major Syndicate Transactions Byelaw to merge syndicates 570 and 609 with effect from the 2012 underwriting year of account.

***Comment: Members of these syndicates will already be aware of the terms of the Atrium merger which has now been given formal approval by Lloyd's.***

As per the Merger Application, a Name with capacity of £10,000 on Syndicate 570 for the 2011 underwriting year of account will be allocated a £10,000 share on the merged Syndicate 609 for the 2012 underwriting year of account. Should a Name already support Syndicate 609, the allocation from Syndicate 570 will be in addition.

The Active Underwriter of the merged Syndicate 609 will be Richard Harries.

For the purposes of auction, subscription and tender bids relate to the following year's prospective participation and therefore all bids should be for the merged Syndicate 609.

This announcement is issued and approved by AUL for the purposes of section 21 of FSMA and the announcement has not been approved by Lloyd's.

### **Beazley Furlonge Ltd (Beazley) Syndicate 623 Staff Pre-emption**

The Syndicate Pre-emption Byelaw ("the Byelaw") permits the allocation of syndicate managed capacity to "agency staff". Beazley is seeking Lloyd's and Members' consent to increase the capacity of their staff corporate member for the 2012 Year of account.

***Comment: Similar consent has been sought and given in previous years. We support the alignment of the management's interests with that of our members.***

Beazley Staff Underwriting Ltd ("BSUL") exists for the sole purpose of being the staff underwriting vehicle to allow Beazley staff to underwrite on a limited liability basis on Syndicate 623 since the 2004 Year of Account. It replicates the past process of sponsoring key individuals as Names at Lloyd's. The objectives of BSUL is to align the interest of employees with those of the capital providers, is in the best interest of other members of syndicates and, based on a successful future, the interest of those individuals.

Employees who are an integral part of the success of the syndicates are invited to take direct risk on a limited liability basis on the underwriting of the syndicates. They will have a proportion of their annual cash bonuses automatically deferred and paid into the corporate vehicle thus building a stake of 'personal money at risk' over a period of time. Declared profits or losses for each year of account for the corporate member will be allocated to individuals based on a

fixed percentage allocation of the capital of BSUL. The vehicle has provided additional incentive to staff but is also a control mechanism in that it focuses the mind of employees on the down as well as the upside.

The planned increase is aimed to further enhance the alignment of interest and extend the plan to an enlarged population with bigger exposure to liability of loss on the syndicate from underwriting.

No general increase in the pre-emption level of capacity on Syndicates 623/2623 is being sought for 2012. Beazley would wish to have the additional staff capacity granted within the 2% allowed limit according to the Byelaw.

It is expected that the increase would be no more than £3m on the conditions that (1) the staff capacity carries no voting rights (2) has no value, i.e. are not able to be sold in auction, and (3) in the event of a reduction of capacity due to the resignation of staff, capacity is dropped and cancelled or re-allocated within BSUL. The cancellation will prevent such capacity being reallocated to the aligned corporate member.

### **Managing Agency Partners Ltd (MAP) Syndicate 2791 Staff Pre-emption**

Members will be aware that many of the staff of MAP underwrite on managed Syndicate 2791 via MAP Capital Limited. A number of staff further support Syndicate 2791 and Syndicate 6103 via an LLP.

MAP would like staff who will be participating on Syndicate 6103 for 2012 to be able to achieve some additional diversification relief by having the opportunity to underwrite further capacity on Syndicate 2791. MAP are therefore seeking consent to enable them to take advantage of the ability to allocate up to 2% of capacity on Syndicate 2791 to the staff in accordance with the terms of the Syndicate Pre-emption Byelaw ('the Byelaw'). MAP are unable to determine, at this stage, the amount of the staff pre-emption they will be seeking. However, in the context of Syndicate 2791's overall capacity, it is likely to be de minimis.

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***Comment: Similar consent has been sought and given in previous years. We support the alignment of the management's interests with that of our members.***