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The ExGL Lloyd's Market Accounting Survey Results 2007



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The ExGL Lloyd's Market Accounting Survey Results - 2007

ExGL.co.uk Lloyd's Accounting survey gives an excellent insight into current market practices and methodologies in place within this sector of insurance. The results demonstrate that a common approach is taken to many aspects of work, however, other findings show variation in the treatment of certain items, that is perhaps worth some consideration.

The following agents took part in the survey, representing 69% of Lloyd's managing agents.

Advent Underwriting Limited
Argenta Syndicate Management Ltd
Ascot Underwriting Limited
Atrium Underwriters Limited
Beaufort Underwriting Agency Limited
Beazley Furlonge Limited
Brit Syndicates Limited
Canopus Managing Agents Limited
Cathedral Underwriting Limited
Catlin Underwriting Agencies Limited
Chaucer Syndicates Limited
Equity Syndicate Management Limited
Faraday Underwriting Limited
Heritage Managing Agency Limited
Illium Managing Agency Ltd
Liberty Syndicate Management Limited
Limit Underwriting Ltd
Marketform Managing Agency Limited
Marlborough Underwriting Agency Limited
Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited
Munich Re Underwriting Limited
Navigators Underwriting Agency Ltd
Newline Underwriting Management Limited
Omega Underwriting Agents Ltd
Sagikor at Lloyd's Limited
St Paul Travelers Syndicate Management Limited
SVB Syndicates Ltd.
Talbot Underwriting Ltd
XL London Market Ltd

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Findings

Q. What is the main accounting basis used by your organisation for group accounts?

Lloyd's 3 year basis	0	0%
UK GAAP annual accounting	12	41%
US GAAP annual accounting	8	28%
IFRS	8	28%
Other, please specify	1	3%
Total	29	100%

100% of respondents prepare Group accounts using annual accounting methods. The basis used varies between.

UK GAAP - 41%
IFRS - 28%
US GAAP - 28%

Other: A variety of consolidation packages including various UK/US GAAP adjustments supplied to US parent

Q. What is the main accounting basis used by your organisation for corporate member accounts?

Lloyd's 3 year basis	2	7%
UK GAAP annual accounting	26	90%
US GAAP annual accounting	1	3%
IFRS	0	0%
Other	0	0%
Total	29	100%

90% of respondents prepare corporate member accounts using annual accounting.

Q. Gross earned premium is calculated separately for?

Open market risks	29	100%
Binders & covers	29	100%
Each reserving group	20	69%
Each currency	19	66%
Seasonal risks	7	24%
Anomalous risks	7	24%

All respondents calculate earned premium separately for open market risks and binders & covers.

The majority of respondents earn premium separately by reserving group and currency

Only around a quarter of respondents calculate earned premium separately for seasonal and anomalous risks.

Q. The methods used for calculating earned premium are?

	Open market risks	Binders & covers
Case by case 365ths	77%	21%
Statistical (e.g. 24ths)	17%	65%
Individual case assessment	3%	14%
Best estimates	3%	0%
Total	100%	100%

77% of respondents use the individual "case by case 365ths" method for open markets risks.

Statistical methods are mostly used for binders & covers - 65%.

	Seasonal exposure	Anomalous risks
Case by case 365ths	38%	14%
Statistical (e.g. 24ths)	0%	0%
Individual case assessment	49%	86%
Best estimates	13%	0%
Total	100%	100%

Those adjusting for seasonal and anomalous risks mainly use individual case assessments.

Q. For binders & covers is written premium adjusted to reflect the inception dates on the declarations?

Yes	21	72%
No	8	28%
Total	29	100%

72% of respondents adjust written premium for binders & covers to reflect the inception dates on the underlying declarations.

Q. Brokerage is calculated using?

Individual case records	17	59%
Statistical sampling	4	14%
Best estimates	2	7%
A combination of methods	6	21%
Total	29	100%

The majority of respondents 59% use individual case records to calculate brokerage. 21% indicated that a combination of methods were used.

Q. Pipeline premiums are calculated using?

Statistical projections	1	3%
Underwriters written estimates	13	45%
Best estimates	1	3%
A combination of methods	14	48%
Total	29	100%

48% of respondents use a combination of statistical and estimation techniques to calculate pipeline premiums. In 45% cases only Underwriter's estimates are taken.

Q. Reinsurance earned premium is calculated separately for?

Losses occurring during policies	24	73%
Risks attaching policies	23	70%
Facultative	17	52%
Treaty	17	52%
Excess of loss	17	52%

Only around 70% of respondents calculate reinsurance earned premium separately for "losses occurring during" and "risk attaching" policies.

Q. Reinsurance earned premium is calculated using?

The underlying risk exposures	5	17%
Statistical methods (e.g. 24ths)	2	7%
The reinsurance policy period	5	17%
Best estimates	0	0%
A combination of methods	17	59%
Total	29	100%

59% of respondents use a combination of methods to earn reinsurance premium.

Q. Losses occurring during (LOD) reinsurance is allocated to the underwriting years that benefit?

Yes	13	45%
No	16	55%
Total	29	100%

Only 45% of respondents re-allocate the costs of "losses occurring during policies" over the underwriting years that benefit from the policies.

Q. Acquisition costs include?

	100%	< 100%	Nil %
All brokerage & commissions	100%	0%	0%
Underwriting salary & related costs	56%	30%	15%
Overhead attributable to underwriting	26%	55%	19%
Non underwriting activities	0%	16%	84%

All respondents treat 100% of brokerage & commission as acquisition costs. 86% include underwriters remuneration and 81% underwriting overhead. Only 16% include an element of non-underwriting activities.

Q. IBNR and other claims reserves are calculated?

Separately for both incident years and underwriting years.	4	14%
Attributing underwriting year reserves to incident years using exposure profiles	25	86%
Total	29	100%

86% respondents use exposure profiles to attribute underwriting year's reserves to incident years.

Q. Are large losses specifically allocated to incident years?

Yes	27	93%
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93% of respondents adjust for large losses.

Q. The system used in producing UK GAAP accounting is?

	In-house	3rd party package	3rd party developm't	Total
A fully integrated database type solution	1	-	1	1
A combination of databases and spreadsheets	13	8		21
All spreadsheet based	5	-	1	6
Total	18	8	2	28

Only 2 cases of a fully integrated database solution were reported. 72% use a combination of databases and spreadsheets and 21% of respondents still use an all spreadsheet based solution.

Q. The overall methodology used in producing annual accounted figures would best be described as?

A separate exercise to the underwriting year results.	5	17%
A conversion of underwriting year results/forecasts using exposure patterns.	12	41%
Somewhere in between the two.	11	38%
Other	1	3%
Total	29	100%

17% of respondents reported that annual accounting was a separate exercise to underwriting year results. 41% reported a conversion of underwriting year results to annual accounting figures using exposure profiles. 38% indicated the exercise was somewhere in between the two.

Other: Using Underwriting Years as a basis.

Q. Profit related pay is based upon?

Underwriting year profits	11	38%
Annually accounted profits	13	45%
A combination of the above	2	7%
Other	3	10%
Total	29	100%

The majority of respondents base profit related pay on annually accounted profits 45%. 38% still however use underwriting year profits as a basis.

Q. Management accounts are prepared?

On an underwriting year basis only	5	17%
On an annually accounted basis	6	21%
Both basis	18	62%
Total	29	100%

83% of respondents prepare management accounts on an annually accounted basis.

Q. How frequently are management accounts prepared, at least?

Monthly	13	45%
Quarterly	16	55%
Total	29	100%

45% of respondents prepare monthly management accounts.

Q. At what level are annually accounted management accounts prepared?

Group level	23	79%
Corporate member level	11	38%
Account/profit centre level	13	45%
Syndicate level	1	3%

Nearly half, 45% of respondents prepare management accounts at an account/profit centre level.